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To Our Valued Clients & Good Friends:

The end of my last letter to you suggested that the country and the investment markets were at a crossroads, and depending upon the fortitude of the politicians in Washington and the strength of the country's economic recovery, we could find ourselves on one of two very different roads.

Well, not much has happened since then.

Unless you consider these incidents important:

- The Middle East has exploded, with at least one major government being forced out of power – Egypt.

- The US has intervened



“When you come to a fork in the road, take it!”
- Yogi Berra

in Libya, thus placing US forces in harm's way on three military fronts. The intervention, which is reported to be limited, is costing taxpayers over \$100 million a day. *

- Japan experienced the worst earthquake in 140 years, resulting in the deaths of more than 20,000 people, 250,000 people being housed in temporary shelters, and property damages

estimated at more than \$300 billion...oh, and a nuclear power plant is leaking radiation, causing contamination problems in northern Japan.**

- State workers and teachers in Wisconsin have protested attempts by the state's legislature to reign in spending in that state and are now challenging legislation that was passed to contain the cost of



Wall Street keeps making reference to "Black Swan events" - or once in a lifetime events - that affect the market. I believe a flock of these things landed in the first quarter.

pension and medical benefits.

- Gasoline prices have jumped from an average of \$3.01/gallon to \$3.53/gallon, a jump of just more than 17% in the first quarter of 2011 (and a jump of 28% over the past year).***

- And, finally, while all this was happening during the first quarter, the Dow Jones industrial average rose 6%.

And my point is? Well, my point may be summed up by a quote by one of my favorite philosophers, Yogi Berra: "If you come to a fork in the road, take it!"

I believe we are watching the investment markets and Washington beginning to take two distinctively different journeys down separate roads with the investment markets displaying

surprising underlying strength (which has been brought about by companies enjoying low interest rates, recapitalized balance sheets, and a weakening dollar).

In sharp contrast, Washington has yet to reel in its spending and apparently does not have the fortitude to address entitlements and military spending, which are the adult topics of conversation that must be addressed to make any headway in addressing the nation's debt.

On the state level, there is some progress being made in addressing the underfunded pension liabilities and medical cost of teachers and public workers. Nevertheless, the unions have sworn to fight attempts to roll back benefits at every turn. This is discouraging, as states will, in all

likelihood, run out of both time and money before these issues can be addressed properly.

Now, the ironic thing about this parting of the ways or choice of divergent roads by the government and the markets is that one may function quite nicely while the other self-destructs. Because of the depth and liquidity provided by the US investment markets, they will be able to function quite nicely, thank you, and if the government attempts to raise corporate taxes (they are already the highest in the world), US companies will continue to hold their profits in foreign locations and refuse to repatriate their earnings back to the US. The government, unless it addresses its spending addiction, will reach the point where no one will want to hold its debt at

such low interest rates. This will result in interest rates on government debt rising, allowing investors, who might be oblivious to the ongoing loss of the buying power of the dollar, benefitting from higher interest rates offered by government debt.

So, where does this leave us?

I believe our suggestion from the end-of-the-year letter – that the markets will climb this year – is still very much on track. Our increased equity exposure, provided late in 2010, has served us well. While there will surely be some soft spots along the way, the market has been given opportunities to correct by the events of the first quarter, yet the largest drop has been contained at a 2 ½% decline.

Gas prices could be a problem this summer, and

prices could easily hit \$4/gallon for regular. Nevertheless, since 19 barrels out of every 40 are currently tied to futures contracts for delivery owned by commodity funds, I believe you will see the previous gas spike scenario repeated as these funds will not be able to take delivery of the oil, sending gas prices down sharply by this fall.

The real joke, and a sad one at that, is Washington. No one seems to have the guts to address the problems brought about by deficit spending, or at least those who do are not in the majority quite yet. We will have to listen to endless debates on how \$30 billion to \$60 billion of discretionary spending will be addressed – remember we have a \$1.6 trillion deficit – while Social Security, Medicare, Medicaid and defense spending will be “off the table.” Prediction: Train wreck, with a

substantial increase in interest rates within 3 to 5 years. We will not own bonds with maturities beyond 5 to 7 years.

I do not want to be relabeled as the “curmudgeon in residence,” but I fear that our country will need a major restructuring to remain as a world political leader.

Two Thoughts

1) How about restricting federal spending to defense and basic services while dramatically reducing the funds sent to Washington? At the same time, dramatically increase both state and local taxes so that services can be provided at the state and local level in hopes that these services may be more closely monitored and delivered more efficiently. Bring the dollars closer to home so that citizens can choose and direct which services



Pictured:

*The Tennants and
The Weldens.*

*If you work hard,
invest wisely and eat
your vegetables, you
will grow up strong,
marry pretty women,
and enjoy a grand
retirement.*

“It would appear to me that there are far too many citizens of this country who are more concerned about what the country can do for them than those who ask what they can do for their country.”

will be provided in each state and at what cost.)

2) How can you not help but be impressed by the dignity and the efficiencies of the Japanese people and the manner in which they have handled the earthquake disaster?

Whether it is watching 3,000 people lined up at a soon-to-be reopened

grocery store in an orderly manner or watching survivors forming a line to assist the unloading of relief supplies, these sights stand in sharp contrast to our country’s response to Katrina.

Closing

I didn’t mean to sound quite so political this quarter, but this country is due a real and honest gut

check. With acknowledgement to President Kennedy’s famous quote, it would appear to me that there are far too many citizens of this country who are more concerned about what the country can do for them than those who ask what they can do for their country.

M. Brooks Clark

*U.S. News, 3/22/2011, “Military Involvement in Libya Costs Taxpayers Millions”
 **Reuters, 4/4/2011, “Japan Nuclear Crisis to Trigger Huge Civil Damages Claims”
 ***U.S. Energy Information Administration, www.eia.doe.gov

The Numbers

	Dec. 31, 2010 Index	March 31, 2011 Year-To-Date	YTD % Change
Dow Jones Industrial	11,577	12,319	6
S&P 500	1,257	1,325	5.4
NASDAQ	2,652	2,781	4.8
Russell Value	639	676	5.7
Russell Growth	574	607	5.7
Treasury Index	94.1	92.1	(2.1)
Real Estate Index	55.9	59.4	6.2

If you would like to have a copy of your consolidated statement from Clark Financial Advisors, listing all your accounts and their current values, please call or email Rusty Corley at Rusty@ClarkFinancialAdvisors.com, and he will provide you with an up-to-the-moment evaluation of all your accounts.

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