

Contact Us:

4128 Crosshaven Drive
P.O. Box 43828
Birmingham, AL 35243

(205) 298-8480
Birmingham

(256) 237-0000
Anniston

(800) 791-4087

Email Us:**Brooks Clark-**

Brooks@
ClarkFinancialAdvisors.com

Elizabeth Levant-

Elizabeth@
ClarkFinancialAdvisors.com

Jennifer Gibbs-

Jennifer@
ClarkFinancialAdvisors.com

Beth Cosker-

Beth@
ClarkFinancialAdvisors.com

Sheena Patton-

Sheena@
ClarkFinancialAdvisors.com

To Our Valued Clients & Friends:

A lot can happen in a year's quarter. Our last letter reported that the first quarter ended with market indexes up over 4%.

Within a short period, the Dow added another 4%, climbing to 11,258, before investors realized that the party's punch bowl had been stolen.

A growing awareness that things are not getting any better has contributed to a quick 12% decline from the levels achieved in late April. Market whiplash, discouraging news from Europe, and the unfolding Gulf disaster have left us all as exhausted as a couple of marathon-match Wimbledon tennis players.

While it is tempting to disconnect from this stream of discouraging news and head for Alabama's beautiful lakes,

**America The Exhausted**

I am afraid that we cannot stick our heads in the sand and hope that it all goes away.

As I once again position myself to be labeled as a curmudgeon, I need to mention a few concerns that have resulted in our taking more of our client's portfolios and dragging them from Moderate and Growth models into a more conservative approach.

Employment

Washington was hopeful that its economic stimulus package would lead to an improvement in employment figures, yet as stimulus funds begin to run dry, the country is still facing a near 10% unemployment rate. Further, the Gulf oil catastrophe has not begun to be included in these unemployment numbers. Even worse is the reality that many of the



"The bottom line is that it may be years before unemployment drops below 7 or 8%, and the number of underemployed may only continue to rise."

8 million jobs that have been lost during this recession are not going to return. Jobs in the home building sector and the automobile industry are adjusting to a country with a surplus of real estate and perhaps a 25-30% permanent decline in yearly auto demand.

While the government may be able to create temporary jobs with census workers, the bottom line is that it may be years before unemployment drops below 7 or 8%, and the number of underemployed may only continue to rise as the permanent loss of building and auto manufacturing jobs are being replaced with more modest service positions.

Housing Problems

The loss of jobs takes us to the foreclosure problem, which I believe is about to explode beyond past levels. A month ago, a *New York Times* article pointed out that a number of distressed homeowners have simply stopped

making their mortgage payments. A second decline in home prices, combined with the previously mentioned employment problems, has led disheartened homeowners to simply give up on making their mortgage payments – while staying their homes. A recent increase in consumer spending has been partially attributed to the growing number of homeowners who are experiencing improved cash flow because they are not making mortgage payments while still living in their homes. The *Times* article suggests that because of bank's reluctance to reclassify mortgage loans from non-performing to "real estate-owned" (REO), the classification for repossessed property, homeowners are able to stay in their homes for as long as two years without making a mortgage payment. I thought this had to be an aberration until I recently heard that a foreclosed property owner in our own Liberty Park

was able to occupy his property without making a mortgage payment for 19 months before foreclosure proceedings began on their home.

I fear that this is a trend that will both continue and expand as home prices continue to fall for a second time and the reluctance of borrowers to seize property becomes more apparent to troubled homeowners. The bottom line here is that there is a rotting block of home collateral that will need to be dealt with by the already beleaguered regional and community banks.

Federal and State Governments

Before we consider the long term effect that a second government stimulus package could have on both the dollar's strength, interest rates, and the ever-increasing national debt, the simmering problem of Fannie Mae and Freddie Mac will have to be addressed. As a reminder,

Fannie and Freddie are “government agencies” that purchase mortgages from banks to provide liquidity to the mortgage banking system. An estimated 10% of all mortgages that have been packaged or securitized and sold into the investment markets by Fannie and Freddie are subprime loans. The general consensus is that these are government agencies and the securitization of mortgage paper is actually “government paper” and will need to be backed by our already overextended government resources. The estimated cost of this potential bailout is now approaching \$1 trillion.

(For those who say we should simply let Fannie Mae and Freddie Mac fail, I want to remind you of the holders of this government paper – pension plans, foreign entities, charities, and both local and state governments. Few of these entities could withstand the impact of a “write down” of this paper

in their portfolios. As a result, it will be inevitable that this paper will have to be backed in full by the resources of the government.)

In our last quarter’s letter, we mentioned growing concerns about the anemic financial positions of most state governments. The first federal stimulus package kept a lot of teachers, policemen, and firemen employed, and I am afraid that without a second package, the unemployment rate on the state level will begin to accelerate. (Last night, NBC News reported that a city close to Oakland, Calif., had to lay off all 80 of its policemen in hopes of trying to balance their budget.)

The problems on the local and state level are enormous, yet there is hope, as the state of New Jersey, this week, cut \$9 billion from its 2011 budget. This was a step in the right direction and included the requirement

that state workers and teachers are to pay up to 1.5% of their annual salary to support their healthcare and pension cost – imagine that. (The longest journey begins with the first small step.)

I have found it discouraging to note the reaction of the city of Birmingham workers to pending reductions in compensation in an attempt to balance the city’s budget. The sense of entitlement that city and state workers seem to have regarding their salaries, healthcare, and pensions is both distasteful and frightening.

From fear of running out of room and also losing your attention, let me end by saying that many of our problems are foreshadowed in a weakened European economy and mounting tension due to the sense of entitlement demonstrated by both government workers and citizens, which may lead to pressure to create a



“The first federal stimulus package kept a lot of teachers, policemen, and firemen employed, and I am afraid that without a second package, the unemployment rate on the state level will begin to accelerate.”

"So, for now, both Principal preservation and Conservative investments will be the mainstay of our portfolios."

second European stimulus package. Nevertheless, news from this weekend's G20 conference suggests that the Europeans seem more reluctant to generate a second stimulus package than the current American administration. I sincerely hope that the Europeans initiative to have governments reduce their deficits by half by the year 2013 is a step in the right direction and will be followed by our own country.

A risk adverse trade has already settled in on investment markets with the ten-year treasury, which approached a 4% yield in mid April, then fell to near 3%. There is now talk of a sub-3% 10-year treasury yield. Imagine being content to settle for less than a 3% return for 10 years just to be assured that you will receive your money back in 10 years.

in the curmudgeon camp, but I see little leadership in either the investment markets or in Washington that will address effectively the concerns I have mentioned in this letter. So, for now, both Principal preservation and Conservative investments will be the mainstay of our portfolios.

Warmest Regards,

M. Brooks Clark

I am sorry to be so firmly

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 Beth Cosker at Beth@ClarkFinancialAdvisors.com, and she will provide you with an up-to-the-moment evaluation of all your accounts.

The Numbers

	Dec. 31, 2009 Index	June 30, 2010 Year-To-Date	2nd Quarter Change %	YTD % Change
Dow Jones Industrial	10,428	9,774	(9.9)	(6.3)
S&P 500	1,115	1,030	(11.9)	(7.6)
NASDAQ	2,269	2,109	(12)	(7)
Russell Value	566	531	(11.6)	(6.2)
Russell Growth	500	458	(12)	(8.4)
Treasury Index	90	101.7	14.2	13
Real Estate Index	46	47.9	(4.2)	4.1

Clark Financial Advisors is registered with the Securities and Exchange Commission (SEC) as a registered investment advisor and annually files an ADV with the SEC as required. The ADV II form provides background on the firm and its principals. If you would like to receive a free copy of this form, please contact Jennifer Gibbs via email at Jennifer@ClarkFinancialAdvisors.com. You may also return this page of the newsletter with a note signifying your request for a copy of the ADV II filings for Clark Financial Advisors.