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To Our Valued Clients & Good Friends:

*The Greeks,
American Perspective,
and Absolute Silliness*

We approach the end of the 2nd quarter with TV producers seeking pictures of Greek protesters so that they might be plastered on our TV screens for all to see and fret over.

Today, the protesters can be counted in hundreds and considering the smallness of that number and the fact that the Greek economy represents less than 3% of the European Euro Economy, I suggest we look beyond the events in Greece today to gain perspective on the real problems we face and not the “hyped up” political and financial skirmishes abroad. I believe the real problem is here at home.

The talking heads like to stress that the Greek national debt is a bit



over \$42,000 per Greek citizen, and while that number seems large, it is actually a bit under the \$46,000 per citizen debt of the US.

Unfortunately, the current debt represented by the figure of \$46,000 is only the tip of the iceberg.*

With regard to our nation's debt, the statisticians are having a difficult time conveying a picture concise enough to allow us to fully understand the country's current debt structure. While I find it

difficult to truly grasp the concept of owing trillions of dollars to creditors, let's view the country as if it were a company approaching a bank to borrow money for ongoing operations. Please indulge me as I try to provide you with the perspective of an old banker looking at this company, USA Inc., that has come to the bank to borrow money.

To begin, let us ask that the company provide us with a complete financial statement. We know the assets on the



Considering projected unfunded federal government financial obligations that are to be paid from future tax collections, the American debt stands at \$62 trillion or \$534,000 per American household.

balance sheet are represented by the ability to collect taxes, and we further understand that the company has approximately \$15 trillion borrowed on the liability side. But, let's go beyond this well-publicized figure and ask about the company's long-term liabilities, those expenses that have to be paid because of contractual obligations.

Now remember, you're a banker, you know that the company currently has a negative cash flow of about \$1.6 trillion a year, and even the CEO (president) has confirmed that, based on the company's operating performance, it will not show a profit for at least five years. So, we know that the company has \$15 trillion in outstanding debt and will owe over \$20 trillion within five years. Now, we ask for full disclosure—what else have you obligated yourself to in the future?

Hold on to your hats as these numbers, provided by an article appearing in *USA Today* on June 7, are a bit over-

whelming. Here is a list of the projected unfunded federal government financial obligations that are to be paid from future tax collections:

Medicare:

\$24.8 trillion

Social Security:

\$21.4 trillion

Federal Debt:

\$9.4 trillion

Military Retirement and

Disability Benefits:

\$3.6 trillion

Federal Employee

Retirement Benefits:

\$2 trillion

For those of you who do not have a calculator, the sum of these figures is a bit under \$62 trillion, or \$534,000 per American household. That figure is more than five times what American families have borrowed, for everything else: mortgages, car loans and all other debt.

For full disclosure, *USA Today* made these calculations based on standard accounting rules that have been in place since 2004. The

\$9.4 trillion, which is listed as federal debt, excludes the national debt that the government owes to itself for Social Security payments to be paid. Thus, the difference between the current \$15 trillion mentioned above and the \$9.4 trillion figures.

Well, you're the banker. Would you like to take this loan to your loan committee and advocate that we advance another trillion dollars to this organization in hopes that the company will get their financial house in order in the future? Well, I believe that the phrase "Houston we have a problem" would come immediately to mind.

At some point, lenders, whether they are individuals or countries, will refuse to make America that loan. The prospects of the average household in America generating the tax revenue needed to service over \$534,000 in debt is a figment of someone's imagination. (Remember, 47% of Americans don't pay any income taxes now.)** The only way the company/country

will be able to address its debt is to implement a severe austerity program reducing spending, services and pensions.

And, since I have mentioned pensions...in hopes of putting cost into perspective, please know that the outstanding pension obligations, beyond the federal level and resting squarely on the shoulders of state and local governments, averages \$700,000 per retired civil servant, according to the aforementioned *USA Today* article. The combination of civil servants' and teachers' defined benefit plans will demand that states and local governments either raise taxes significantly or reduce pension benefits for which the cities and municipalities have been contractually obligated.

It is our country's debt and contractual obligations that are the problem, not a small country in southern Europe whose primary product is tourism and whose default will cause little more than ripples in the euro community. It is America's apparent

inability to address the need for deficit reduction that lies heavily on the world's investment markets. I fear that unless serious progress is made in the near future, America will be faced with the demand for much higher interest rates on the issuance of its bonds. While American industry can tolerate, to a degree, the ineptness of Washington, the increase in interest cost, caused by the deteriorating quality of US issued paper, will be a burden to the economy.

After discussing such a heavy subject, I would like to turn your attention to a bit of silliness. A couple of months ago, a new company was brought to the market with an Initial Public Offering (IPO). The company was LinkedIn, a social networking company that might be described as a Facebook for adult business people. My reason for bringing this to your attention is that there is a substantial amount of hype regarding the initial public offerings of social networking companies, and many

of you may be curious about the potential of "grand profits" and tempted by their allure.

Let me provide the trading details of the IPO of LinkedIn. The company was brought to the market at \$45/share, but the stock opened at \$83 and eventually rose to \$122.70 before finishing the day at \$94.25.

At that moment, Wall Street had valued this company, which made a bit over \$15 million in 2010, as having a market value of \$9 billion. If my math is correct, this suggests that this company now trades at a Price Earnings Ratio (the dollar amount that you are willing to pay for one dollar's worth of a company's earnings) at \$600. The average price earnings ratio of the S&P 500 is between \$12 and \$13. As a result, this evaluation suggests that the future prospects of this small company are 50 times greater than the average of the S&P 500.***

That, ladies and gentlemen, is silliness and is reflective of the "Dotcom Era" of the



The recent Initial Public Offering of social networking company LinkedIn and its meteoric first day of trading are reflective of the "Dotcom Era" of the 2000's.

"While we do not anticipate the market accelerating in its performance, we do feel that the prospects for a positive second half are sound."

early 2000's. We want you to be keenly aware of the potential dangers of such offerings. While the future prospects for these types of companies are indeed interesting, the rush to bring these types of companies to the market suggests a peak in this sector's stock evaluation.

By the way, LinkedIn, since its \$122.70 first day peak, has traded as

low as \$60.14, a 50% loss for any investor that purchased LinkedIn at its peak on the first day of trading. In closing, I'll remind you of our mid-June update, which suggested that the market might improve in the second half of the year. After falling approximately 7% since late April, the market has now rebounded a bit and, indeed, in our opinion, looks positive for the

remainder of the year. While we do not anticipate the market accelerating in its performance, we do feel that the prospects for a positive second half are sound. As a result, our conservative equity exposure will remain within our investment models.

We look forward to seeing you soon,

M. Brooks Clark, CFP

*CNBC, *Squawkbox*, 6/21/2011

**Yahoo! Finance, 4/7/10, "Nearly Half of U.S. Households Escape Fed Income Tax"

****The New York Times*, 6/21/2011, "Small Group Rode LinkedIn to Big Payday"

The Numbers

	Dec. 31, 2010 Index	June 30, 2011 Year-To-Date	2 nd Quarter % Change	YTD % Change
Dow Jones Industrial	11,577	12,414	.7	7.2
S&P 500	1,257	1,320	(.3)	5
NASDAQ	2,652	2,773	(.2)	4.5
Russell Value	639	666	(1.4)	4.2
Russell Growth	574	609	.3	6
Treasury Index	94.1	94.1	2.1	—
Real Estate Index	55.9	60.3	1.5	7.8

An Index is not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. All information contained herein is derived from sources deemed to be reliable but cannot be guaranteed. All economic data is historical and not indicative of future results.

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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