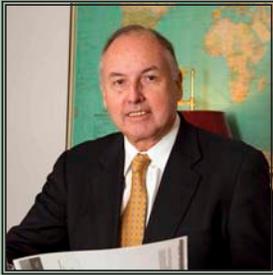




VIEWPOINTS

JULY 1, 2011 • NEWPORT, RI

This Economic Commentary is designed to present the Firm's current views on timely topics that we feel may be of interest to our clients. Viewpoints is also available electronically on our website: slocumgordon.com.



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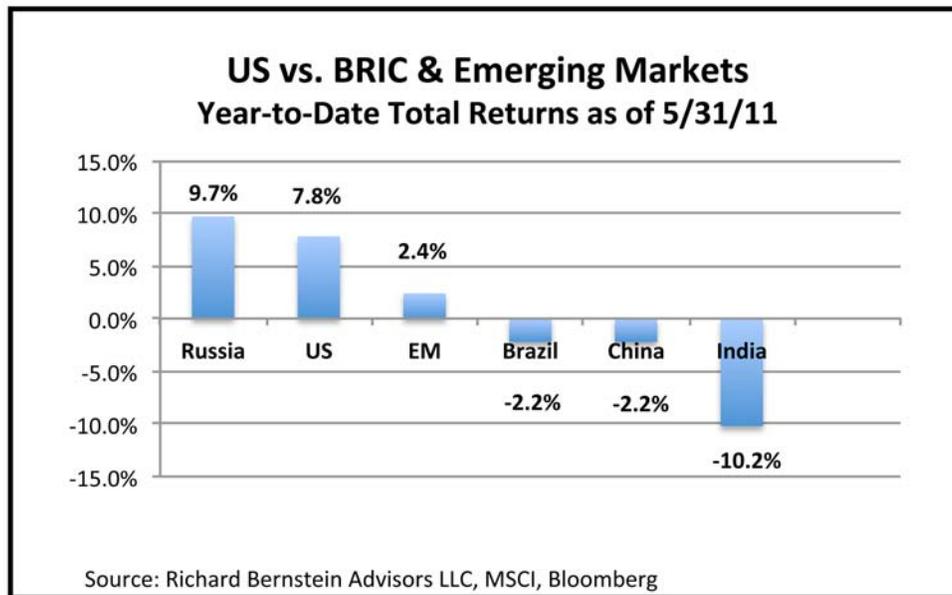
KENNETH M. P. LINDH

For what now seems like a generation or more, opinion makers in the United States have looked elsewhere for examples of economic growth, political rectitude, and social standards to contrast with our “dismal” prospects here at home. How often have we heard that our best days are so far behind us that most of us can’t even remember them? Forecasters would suggest that the economic engine of China and the emerging countries held out endless opportunity for investment; the European Union and its member countries finally seemed to have worked out their differences and would come together as one united group of nations; and there were numerous examples of how living standards were seemingly rising everywhere except in the United States. Using the US stock market as a barometer of this sentiment, that case could surely have been made over the last decade, and now with the lingering effects of the Great Recession, it may seem that brighter days will never return. However, it is always darkest before the dawn!

In fact, some of those assumptions of greener grass overseas may have been exaggerated and possibly wrong. China, while still growing, has serious issues within their controlled economy that will take the bloom off that rose for a while. China is clearly an enormous country, but it will take years to see significant improvement in per capita living standards, particularly in



the vast areas outside of the main cities. The European Union seems to be anything but a union at the moment. The Teutonic north is very much at odds with the “Club Med” south, and the European economic model that some politicians in our country seem to want to emulate has begun to show some deep cracks in its already tenuous foundation.



While we have certainly chronicled these sobering economic hurdles in our recent editions of *Viewpoints*, we have also tried to point out that markets price in bad news well ahead of time so that when it occurs, for investors it is already old news. We mentioned in our last edition what should be an investor’s constant beacon: “The motivation for investors must be the future, not the present, and certainly not the past.”

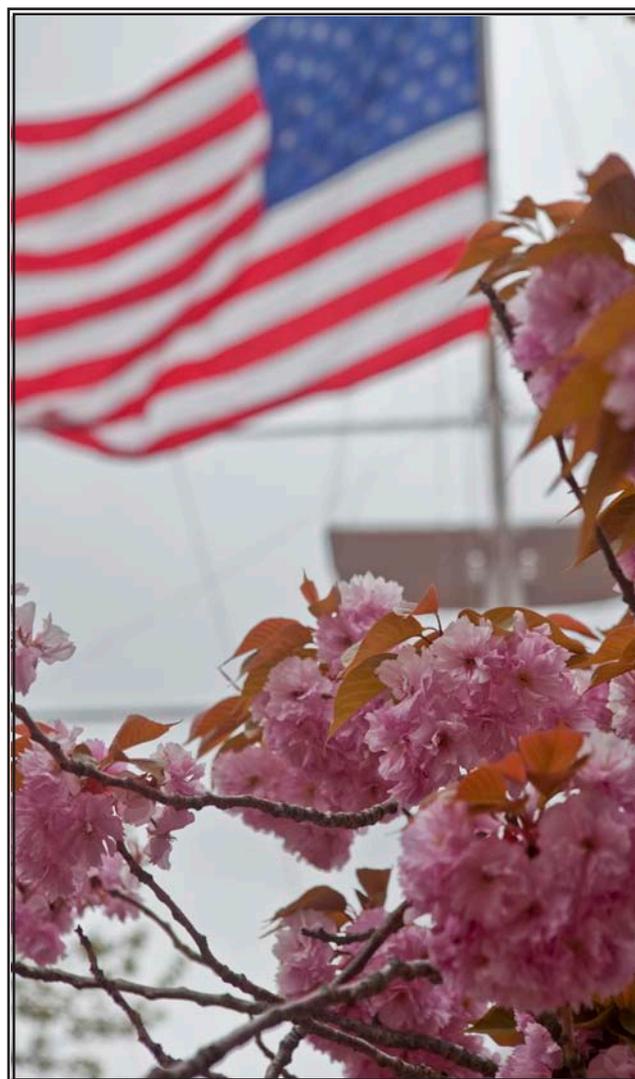
As a fellow investment professional recently said, out of all this comes the bull case for the United States. The US economy has spent four years cleansing itself. Banks have been recapitalized by recognizing over \$1 trillion in losses. Houses have been foreclosed and sold short to the tune of billions of dollars making house prices the most affordable in 60 years. Households are learning to



live within their means with Household Debt Service Ratios similar to 1982 and 1992 levels. These were the start of five-year prosperity periods where Gallup Polls showed bleak numbers like they are today. The US controls the “virtual reality” economy and features all the best companies who are paving the road between the virtual and real economy. We feed the world, keep it secure, invent a large part of the best medical science and share productivity and higher living standards with anyone who chooses to join us. In short, as Ronald Reagan would have said, our greatest days are still ahead of us.

That is why we continue to develop broader exposure in large capitalization US equities. These companies have global businesses and will certainly benefit as emerging countries grow, but they are focused on the United States where, if we are correct in our assumption, the rest of the world will increasingly want to invest as we come out of this long malaise we have been in for more than a decade now. And these companies pay meaningful dividends, a central part of our investment strategy.

We want to own American business because, despite the current doctrine in Washington, the business of America is business. That is where investment and profits create employment which can fuel a continuous cycle of economic prosperity. It is where tax receipts come from to





fund politicians' endless programs, and without profits, tax revenues dry up. It is the source of our increasing standard of living and how we can support the living standards of the rest of the globe. Business fosters international trade, and nations who enjoy prosperity are typically not belligerent.

This transformation will not occur overnight; difficult issues remain in front of us and the political reality is that this is a very divided country. Time and patience are essential ingredients to the success of any long term investment program, but we sense this may be a turning point that could create meaningful opportunities as we look beyond our View from Mill Street.



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