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July 27, 2011

TO	**:**	**CLIENTS AND FRIENDS**
FROM	**:**	**RDM CAPITAL ASSOCIATES**
RE	**:**	**COMMENTARY ON U.S. DEBT LIMIT AND BUDGET DEFICIT**

Our summary assessment is that the debt crisis talks going on in the nation's capital are nothing more than "Washington noise" and that no rational investor should pay more than just a glancing, passing attention to the political posturing. When the dust settles, the debt limit will be raised and government spending will be cut. Eventually, a balanced budget amendment may also be approved.

The opposing parties' positions are currently as follows:

<u>Republicans</u>

1. No tax or revenue increases of any kind
2. Increase in debt limit must be less than cut in government expenditures
3. Cuts to Medicare, Medicaid and restructuring of other entitlement programs

<u>Democrats</u>

1. Tax increases on the wealthy and corporations
2. Limited entitlement cuts
3. No major cuts to entitlements programs with substantial cuts to defense

<u>What happens on August 2nd if no agreement is reached?</u>

1. The United States has the resources to pay its bills on time as it is not an insolvent nation. However a technical default would occur if it delays an interest payment even by a single day.

2. For a short period of a few weeks, the Treasury will be able to prioritize and redirect payments to meet debt obligations before contributions are made to government pension plans, military etc.

3. The U.S. AAA credit rating will likely be downgraded unless a credible deficit reduction plan accompanies the raising of the debt ceiling. In our opinion the downgrade will not take place until later in the year, if at all, when the rating agencies have truly had the time to analyze the deficit/budget plans. However, even an AA credit rating implies an extremely minimal chance of default.

4. A downgrade will in all likelihood lead to a reassessment of the valuation of U.S debt, with increases in interest rates all along the yield curve/spectrum. Consumer loans, mortgages, and corporate credits that are tied to Treasuries would all experience upward adjustments. Unemployment would shoot up past 9.5%.

5. Municipal bonds would be impacted by a disruption of transfers from the Federal government to states and municipalities for such things as education, unemployment and Medicaid.

6. Both bond and stock markets may experience a 3% to 5% correction, which we would view, contrarian as we are, as a buying opportunity.

Conclusion:

We believe there is only a 50% chance that the deficit/budget deal will be completed by August 2nd. More likely the issue will be resolved and a deal reached by August 8th, when the pressure from constituents will be unbearable for both parties. At this point the rating agencies will probably wait to review the U.S. credit downgrade until the battle for the 2012 budget is joined on October 1, 2011. We believe that something major needs to happen to get an agreement: for example, social securities checks do not go out on August 2nd and the market corrects by 3%-5% mentioned above. We expect any default to last no more than a day or two.

As usual, all comments are welcome.

Sincerely,

RDM CAPITAL ASSOCIATES
WEALTH MANAGEMENT

- *Bruno LaRocca, President*