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*“Few things are brought to a successful issue  
by impetuous desire, but most by calm and prudent forethought.”*  
**Thucydides**

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## **STAY CALM AND CARRY ON - Perspective and Strategy in Our time**

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We have described the volatility of the U.S. and global economies as the ‘new normal’. For the last few years it is a familiar scene to see **punctuated events** – whether the enduring European debt crisis, monetary policy announcements by the Federal Reserve, the recent U.S. credit rating downgrade, ongoing revolutions in the Middle East, to the approaching American presidential election. All of these political issues show their force upon domestic and global economies as well as markets. In fact, politics always impacts economics just as economics shape politics. Below we offer **perspective** and **strategy** to help navigate intelligently through this ‘normal’ cycle of the economy.

### **Perspective: S&P’s U.S. Credit Rating Downgrade – So What?**

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On Friday, August 5, 2011, the credit rating agency Standard & Poor’s (S&P) downgraded the U.S. government’s credit rating from the highest rating of AAA to AA+. From S&P’s official report, the ratings agency stated that the downgrade reflects S&P’s opinion that the fiscal consolidation plan voted by Congress and signed by the President

“...falls short of what would be necessary to stabilize the government’s medium-term debt dynamics. More broadly, the downgrade reflects the view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than envisioned when S&P assigned a negative outlook to the rating on April 18, 2011.”

On Monday, August 8, 2011, the Dow Jones Industrial Average closed at 10,809 having lost 635 points in response to the downgrade announced on the previous Friday, August 5. **Perspective** is essential in making sense of the volatility now familiar with the economy. So, **what does this downgrade mean?**

- Essentially, this punctuated event is a political correction more than an economic correction
- The U.S. has no problems paying its debts and AA+ still represents very strong capacity to repay debt

- Moody's and Fitch Ratings have kept their highest rating on U.S. debt
- S&P's credibility is often challenged having played key roles in the U.S. housing collapse
- The Fed pledged to keep its interest rate at its record low of nearly zero through the middle of 2013
- U.S. Treasuries remain among the world's safest investments
- The U.S. dollar is still the world's reserve currency
- U.S. short-term debt still rated AAA by **all agencies**

### **Moving Forward: Panic is Not a Strategy - Now What?**

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At Banta Asset Management, we recognize the natural fears and frustrations over current economic volatility. We aggressively study the economy and believe that providing candid perspective on economic, policy and market developments enables the investor to bring **clarity** to their goals and **prudence** to their strategy.

#### **So, how do we navigate through downgrades and volatility?**

- **Stay calm** – corporations are still extremely profitable and profits drive markets
- Banta buys companies with pristine balance sheets, are globally diversified and benefit from growth outside of the U.S. especially in emerging markets
- Stay connected – communicate regularly with Banta to understand your portfolio allocation and to minimize uncertainty
- Adopt a disciplined approach to your portfolio and stick with it
- Get your personal income and spending in order
- Remain diversified to maximize risk opportunities while sheltering from market shocks
- **Carry on** – be vigilant, be informed and be strategic

As we move toward 2012, we can expect this 'normal' economy to continue to push along with continued volatility in Washington and on Wall Street. We can also expect competition among corporations to continue to fuel the quest for **creating long-lasting value** for customers around the world by providing **the very best products**, and **the very best prices**, driven by **the very best entrepreneurs** and led by **the very best management teams**. These assurances make punctuated events like credit downgrades and market volatility not only able to endure, but more importantly, able to prevail.

**With continued confidence,**

**Banta Asset Management**