

MaxOut Savings Report

With Ted Geoca

www.maxoutsavings.com

MaxOut Savings Advisors, LLC

8/6/2011

SAVE AGGRESSIVELY AND INVEST CONSERVATIVELY!!!

Credit Downgrade

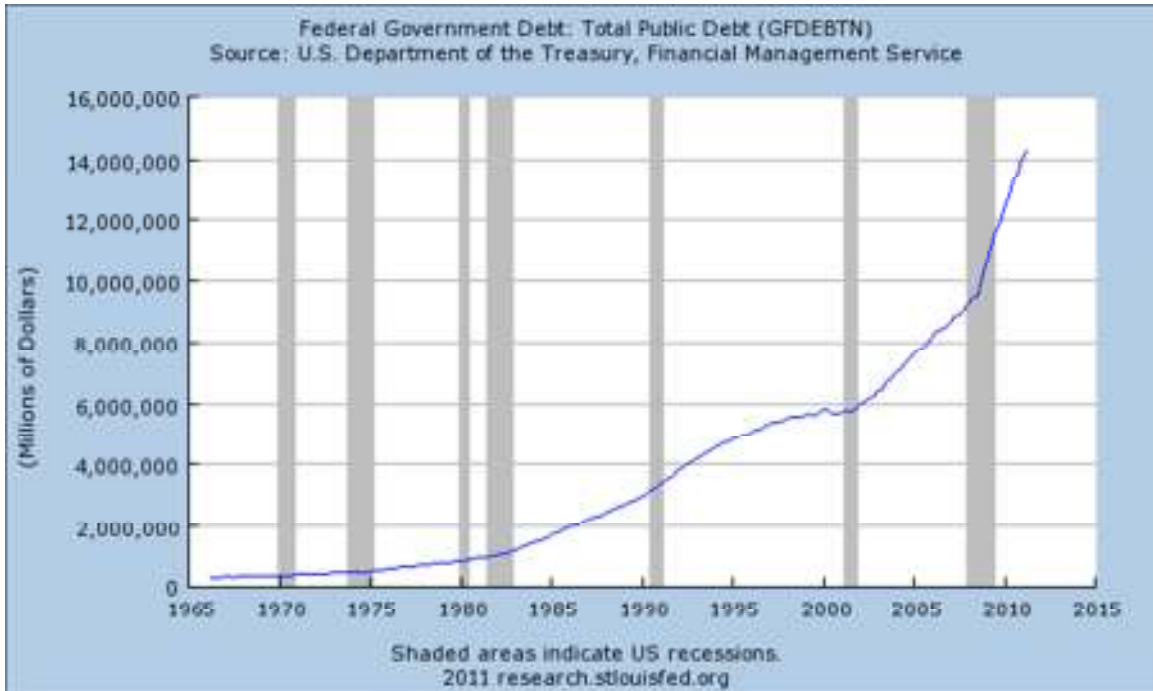
United States Ratings Downgrade
Stock Market Selloff
European Bank Funding Problems
US Positives
Outlook

Downgrade

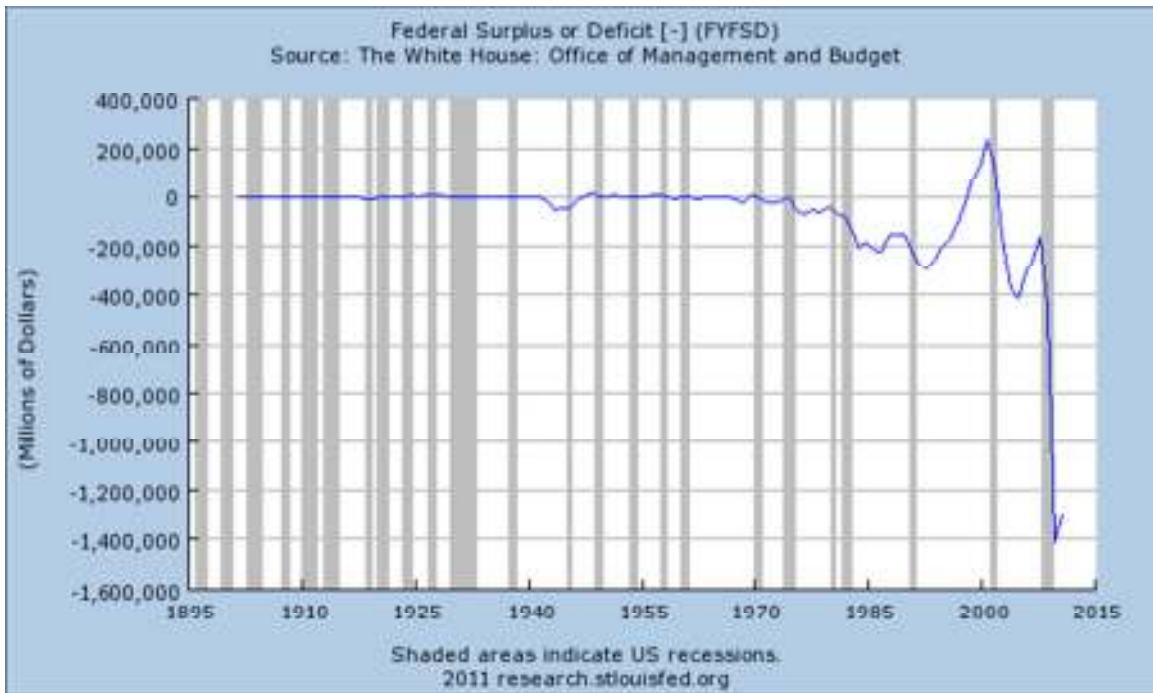
Late Friday night Standard & Poor's downgraded the United States for the first time in history from AAA to AA+. We have maintained the highest credit since Alexander Hamilton convinced Americans we should honor our Revolutionary War debts at the founding of the United States of America.

We believe that this was a profound failure by President Obama to communicate with Congress and the American people to get a debt deal that would have avoided a downgrade at least in the near term. Everyone knew that to prevent a default, a deal would have to be done. It was assumed any deal would protect the United States from default. We were downgraded four days after the deal was signed! Clearly the President signed a bill making cuts and raising the debt ceiling that he must have suspected would result in downgrade. Either that or there was a miscommunication with S&P ratings group.

We can see from the St. Louis Federal Reserve chart below of debt over the last forty years that debt growth has exploded over the last three years. Since 2008 our debt has gone from \$9 trillion to over \$14 trillion with no sign of a slowdown in our debt growth. This is one of the reasons we were downgraded.



As can be seen from the chart below, federal deficits have been running \$1.2-\$1.4 trillion over the last two years. We will have trillion-dollar deficits for several years going forward. We have never seen Federal deficits like this since World War II. Is there any wonder we have been downgraded?



The downgrade of the United States will have far reaching consequences. We believe it will shock the country into making major changes. We will see major changes in government

spending, taxes and entitlement programs. We believe this will trigger a broad-based restructuring of federal entitlements over the next couple of years. If we can make these changes, the downgrade will be a major positive.

Stock Market Selloff

For the second week in a row, the stock market has sold off. On the MaxOut Savings Show recently, we warned that the problem has not been the debt ceiling/default story but major problems in Europe and a slowdown in the US economy. We look at the debt talks and market outcome like this – there is a wreck between two cars in front of your office. It is interesting to watch, but they finally tow the cars off, you turn around to go back into the office and holy cow the office building is on fire! How did I miss that!? That is an analogy as to why this market sold off after the debt “compromise”. People looked around and saw the economy was slowing unexpectedly and Europe was in trouble. The effect on the stock market can be seen below in the chart of the S&P 500 Index. The stock market has now broken a triple bottom, which is a negative.



In our last MaxOut Savings Report about a month ago we highlighted the situation that many of the largest money market funds in the United States had over forty percent of their assets in Europe. We thought that there was more risk than was apparent and suggested assets should be moved to US Government money markets or tax-free money markets. Over the next month since then, institutions have sold out billions of dollars of money market funds to protect their client’s assets. We believe that this has inadvertently led to a liquidity crisis for European banks.

European Bank Funding Problems

European banks are now rapidly losing funding as US money markets are being forced to cut back on European exposure. We are now in the midst of a crisis similar to what the US investment banks faced in 2008; European banks are losing short term funding. The key is that, for a number of reasons, European banks are funded with very short term money. According to a report by the Peterson Institute for International Economics: “In France, Italy and Germany, the two largest banks alone need to roll over 6%, 9% and 17% of national GDP in debt, respectively, within 24 months. This compares with 1.6% of GDP for the two largest banks in the United States.” To put it another way, European banks are very dependent on short term debt, more so than the US banks. The European banks are now losing their funding in what is turning into a slow motion run on the European banks. For a long time they were using United States based money markets to help fund their operations. That game has now been cut back substantially. This and the Greek default problems are leading to funding problems.

European Bailout

We believe this will require a major bailout to finally stabilize Europe and their banks. However, we do not believe that the ECB has the capital to stabilize the situation. The European Central Bank is much smaller than the Federal Reserve. We anticipate it will require a joint effort of the ECB, Federal Reserve and the International Monetary Fund. The bailout will not be for Greece; it never has been about Greece. The bailout will be for the European banks. Only then will we get a more stable investment environment.

We continue to believe that the economies of the US, Europe and China are slowing down. We are very concerned about a slowdown in China where we believe we are seeing the first signs of that slowdown. Our theme of a fall in “China Commodities” – steel, iron ore, copper, aluminum, lead, cement, and coal – continues in place. China, with 9.4% of the world’s GDP, is accounting for over 40% of the world’s demand for the above commodities.

US Positives

Surprisingly, we believe the United States is better positioned with its economy going forward. Unlike the Europeans, and possibly the Chinese, our banks have been recapitalized and have written off a number of bad loans.

The oil and gas shale discoveries have been a “game changer”. We now have some of the lowest natural gas costs in the world. This is a huge positive for manufacturing costs and gives us an advantage. At the local level, thanks to balanced budget amendments at the state level, states are cutting costs. Our companies have had good earnings and have a lot of cash on the books. Although the cash is a positive, I remember this is what many European companies looked like in the 1970s. They were afraid to invest or could not find opportunities to do so and the cash just built up. This is not the first time we have seen cash-rich companies.

Market Outlook

We believe that the S&P downgrade will not materially reduce the safety of US Government money market funds, Treasury bills or notes over the mid-term. We

continue to prefer US government money markets to regular money market funds because of their European bank exposure. **To repeat, we are comfortable with the safety of US Government money markets and debt.** The downgrade could cause Fannie Mae and other housing agencies to be downgraded as well, leading to higher borrowing costs when you buy a home. There are many ancillary agencies and bonds that could be hit with a downgrade by Standard & Poor's. Over time, interest rates will move higher because of the downgrade. We must remember AA+ is still a very high rating.

What we wrote in our last MaxOut Savings Report still holds true: “When considering bonds and bond funds, they should be shorter term in nature averaging 5 years or less. As we have discussed, we would under-weight European bonds. We would avoid high-yield bonds as they are overpriced and perform poorly in an economic slowdown. Cash or money markets should be maintained at higher than normal levels; care should be taken with money funds to avoid European bank exposure in the sector. US government and tax-free money markets have less risk, as do T-Bills. Risk management should continue to be a priority when managing your retirement assets in the present investing environment. Remember when the great investing opportunities appear you want to have the cash to buy them.”

As we have seen from the chart above, the S&P 500 has broken a triple bottom; this is decisively negative. The next level of support in the S&P 500 is 1050-1100. We are very concerned that the S&P downgrade has not been factored into the markets. As we have written about, we believe you should have a risk management plan in place to protect your retirement savings.

All this uncertainty will continue to favor the precious metals and their stocks. Our next target for gold is \$2000. We would avoid the “China commodity” stocks – copper, iron ore, steel, coal, cement and aluminum. There is now the possibility that the US economy will go into a double dip recession. If the economy weakens further, defensive blue chip multinational stocks with good dividends could be bought on a selloff. Given all the uncertainties you should have a defensive plan in place.

Do you have an account at Fidelity?

Do you already have an account at Fidelity Investments? The MaxOut Savings Advisors Team can actively manage the assets for you at Fidelity. We will make the investment decisions for you and you can monitor your account from Fidelity's website. We use the same value based investment strategies we talk about on the MaxOut Savings Show. In most cases, you can sign a simple form to add us as the advisor on your account and we can use your existing Fidelity account number.

Considering an IRA Rollover?

If you are retiring soon or considering an IRA rollover, let the MaxOut Savings Advisors Team handle your IRA rollover. We can help you take advantage of the NUA tax break if you have low cost basis stock in your company plan. We will sit down with you, discuss your financial situation and needs, and develop a plan tailored specifically for you. We will show you how we manage our accounts using our value analysis strategy to grow the investments and reduce risk.

MaxOut Savings Advisors: Actively Managing Risk

In these volatile times, investing your retirement funds can be difficult and time consuming. Is your advisor looking at risk and actively managing your retirement? Hiring the MaxOut Savings Advisors team to manage your money or IRA rollover is a great first step toward a successful retirement. MaxOut Savings Advisors is an SEC registered, fee-only investment advisor based in Houston, Texas. Ted Geoca has over twenty years of investment experience managing clients' retirement assets. We invest in stocks, bonds and mutual funds for our clients using a value analysis strategy that we have developed over the last couple decades. **We look at risk as well as return to actively manage your investments and maximize your returns through today's changing markets.** We use Fidelity Investments as the custodian for our clients' assets. If you would like MaxOut Savings Advisors to manage your retirement investments using our value methodology, I would be happy to meet with you. To schedule an appointment please give us a call at [713-627-0400](tel:713-627-0400) or email me at ted@maxoutsavings.com.

Remember Save Aggressively and Invest Conservatively!

Ted K Geoca

President

MaxOut Savings Advisors, LLC

Houston, Texas

ted@maxoutsavings.com

www.maxoutsavings.com

Kellan Caldwell

Doug Saam

713-627-0400

Remember to catch:

The *MaxOut Savings Show with Ted Geoca* on Saturday at 11:00am on KNTH 1070AM!

The MaxOut Savings Show and Report does not give out financial advice. Any recommendation may not be suitable for all investors. Moreover, although information contained herein is believed to be reliable, its accuracy cannot be guaranteed. MaxOut Savings Advisors, LLC may or may not have positions mentioned herein. MaxOut Savings is a Registered Investment Advisor registered with the SEC. You should always make investment decisions based on your own financial situation.

To sign up a friend for our free MaxOut Savings Report or to remove your name off the MaxOut Savings Report list, email ted@maxoutsavings.com.