



AN INDEPENDENT FIRM

ECONOMIC UPDATE

*Individual Solutions
From Independent Advisors*

SUMMER 2011

We were a day or two away from mailing our original mid-year letter when the record US stock market volatility occurred following the Standard and Poors decision to downgrade the US credit rating to AA+ from AAA. We normally do not comment beyond the end of a calendar quarter, but events in the past few weeks have caused us to alter that policy for the purpose of this letter. Also enclosed is the most recent monthly commentary from Dr. David Kelly, Chief Market Strategist from JP Morgan Funds. His commentary provides additional insight as to the events of the past several months along with his interpretation of how fear is a factor in driving investment performance. The update is not long (just over 2 pages) and we encourage you to read it.

The second quarter of the year ended on an up note even though the six weeks from the middle of April until the end of June appeared to be a repeat of last year, when investment markets declined sharply before recovering in the second half of the year.

The debt ceiling issue, after much hysterics, has been resolved for now--with further Congressional action being expected by November 23rd when a "super committee" of six senators and six members of the House of Representatives are scheduled to issue a report to provide additional measures to cut the budget deficit. It is obvious, however, that we can no longer continue kicking our financial problems down the road. Similar to a number of European countries, we are discovering that the road may actually be a cul de sac.

As mentioned in our last quarterly letter, we are going "live" with our semi-annual economic report. You will be able to view it on our website, www.eaglewealthstrategies.com, by the end of August. For those of you who do not have or use a computer, we are working on a hard copy that can be mailed out in the near future.

Since we will cover the economy and investment climate outside the scope of this letter, we will take the opportunity to address some related issues.



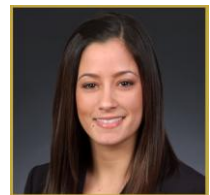
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The first issue is the general lack of confidence we are seeing among many people. It is different than the fear we experienced in the Summer and Fall of 2008-- and in some ways, though less intense, it is actually worse. We say that because as the slow economy has a corrosive effect on consumer confidence (particularly as the real estate and unemployment statistics drag on), this reverberates throughout our lives in the form of less spending, less investing, and less hiring. As a result, the economy stagnates into somewhat of a self-fulfilling prophecy. We do not expect this to continue, but it does exacerbate the weak economy we already have, with second quarter growth a very anemic 1.3%. An instance in a recent Chamber of Commerce survey of small businesses found that 64% did not plan to hire in the next 12 months and 79% said that taxation, regulation, and legislation made hiring more difficult. A second survey from CNBC found that 63% of the population is pessimistic; 26% of those making over \$75,000 per year think the economy will improve over the next year and 15%, think their home value will increase in that time.

Second, we do see better times ahead as the impact of the disruption from Japan and the political catcalling subsides. Corporate earnings and balance sheets are in very good shape. General Motors (\$22.06 per share as of August 23rd) reported earnings up 89% and Exxon's (\$73.66 per share as of August 23rd) were up 41%, both in the quarter ending June 30. Also, the continued decline in the US dollar makes our products cheaper around the globe. This helps both our trade balance and US multinational companies. With the Fed's announcement earlier this month that interest rates will remain at current levels until 2013, we see an accommodative environment for steady growth.

Third, the theme we would like to expand on in this letter is one that will impact our lives for decades to come as well as the futures of your children and grandchildren. That issue is the role of what are called the "emerging market" countries. Often, people just think of China and India in that regard, but it really is much broader-- encompassing virtually all of Southeast Asia (except Japan), South America, Latin America, Africa and Eastern Europe.

Here are some examples of statistics that illustrate the potential impact:

- ✧ There are 20 cities in the world that have populations of more than 10 million. Only four of those cities are from developed economies and only two of those are in the US. New York is in the top 10 (# 3) and is roughly half the size of Tokyo and about the same size as Sao Paulo, Brazil and Mumbai, India. None of the top 20 is from Europe (Source: World Atlas).
- ✧ In terms of land mass, three developed countries (US, Canada, Australia) are in the top 20. Emerging market countries account for over 75% of the world's land (Source: CIA World Factbook).
- ✧ By population, again only three countries (US, Japan, Germany) are in the world's top 20. Emerging markets account for 80% of the world's population (Source: CIA World Factbook).

- ✧ Since 2000, US patents issued to Chinese inventors have risen from 161 in 2000 to 3,303 in 2010. According to the US Patent Office, in India, they have gone from 131 patents to 1,137 over that same time period.
- ✧ In 2004, General Motors (\$22.06 per share as of August 23rd) sold ten cars in the US for every one car sold in China. The ratio in 2011? Almost 1 to 1: truly remarkable growth (Source: General Motors Corp.).
- ✧ Nokia (\$6.11 per share as of August 23rd), the world's leading cell phone manufacturer, sells almost 3 times the number of phones in China as they do in the US (Source: Nokia).
- ✧ In the 14 years since the first Wal-Mart (\$53.21 per share as of August 23rd) was opened in China, they have added 266 more stores.
- ✧ The Brookings Institution estimates that by 2015, there will be as many middle class citizens in China alone as there are in the US and all of Europe combined. By 2021, there could be as many as 2 billion middle class Asians, 670 million of whom will be Chinese.
- ✧ In 1990, 27% of the world's initial public offerings of stock came from the US. In 2010, it was 9% while 32% of all initial public offerings were from China (Source: Dealogic).
- ✧ In the 10 years ending July 22th, 2011, the S&P 500 has produced an average annual return of 2.72%. At the same time, the MSCI Emerging Markets Index has averaged 16.1% per year (Source: Barron's).

These are some of the reasons that we recommend investments that have exposure to emerging equity markets for suitable investors. In many cases that exposure, at least in part, can be obtained through large US companies that have a strong international business presence.

In addition to the previously mentioned population and land mass statistics, many emerging countries, though they have dramatically smaller economies than do we in the US, have relatively little personal, corporate or government debt. As we all know, it was the impact of our debt in both the real estate and government areas that was largely responsible for our current economic doldrums. Unencumbered by debt, those economies and their savings-oriented citizens are poised for sustainable growth, much like we were following World War II.

NEWS AT EWS

Jessica Hauser, who many of you already know, will be transitioning into a new role that is more focused on research-- both in the areas of our planning and investments for all of our clients. Jess has been with EWS since 2005 and has a degree in Finance from Rowan University as well as her Series 7 Securities license.

We are pleased to welcome Dana DeLoach to our firm, effective July 1. Dana will be in a new role for us, leading our efforts in enhancing both our client communications as well as our role in the community and in business development. She is a graduate of Stockton College with a degree in Marketing and worked for a large bank while in college. She is a long time resident of Washington Township.

As many of you know, we are now the proud owners of the most eligible bachelor in Gloucester County. Chris won the vote over the 11 other contestants, getting a little over 30% of the total votes tallied. It was a fun event which raised over \$18,000 (the target was only \$2,500) for a local based charity, People for People. He thanks everyone for their votes and promises not to do anything noteworthy during his year that will cause him to forfeit his “crown.” There is actually a calendar featuring all 12 bachelors (Chris is Mr. November) if anyone would like a copy!

Steffanie is now in the sixth month of her pregnancy, with a due date in late November. Steff and her husband Mike recently found out that they will be having a boy.

We will have some additional communication coming out right after Labor Day.

As always, we thank you for your continued trust, confidence and friendship.

Best regards,

Paul J. Tully
CERTIFIED FINANCIAL PLANNER™

Steffanie A. Lerch
CERTIFIED FINANCIAL PLANNER™

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Please visit our website
www.jpmorganfunds.com/mi
for more information on the
Market Insights program,
including weekly insights from
Dr. David Kelly.

Fear Factor

In late July and early August, a downgrade of U.S. government debt, weaker U.S. economic data, and a revival of stress in European government bond markets led to a sharp fall in stock prices around the world. While central banks responded quickly, fears of a “repeat of 2008” led many individual investors to sell stocks and other risky assets. This fear has become central to the economic and market outlook, given its potential to slow economic activity and push markets lower. However, for investors, there are two critical points to consider. First, it is a close call as to whether this fear is actually enough to trigger another U.S. recession, and second, big declines in stock prices and interest rates have resulted in bonds looking expensive and stocks looking cheap. In other words, while fear is clearly a major factor, fear has also been factored into markets in a major way, pointing to the need for a balanced approach to investing going forward.

Why markets took a dive

Three main themes have undermined financial markets in recent weeks, the first being the U.S. budget and the debt ceiling debate. After the debt ceiling was raised in December 2009, it was clear that it would need to be raised again in 2011. However, with Republicans gaining the majority in the House of Representatives in November 2010, it became clear that the next debt-limit increase would involve a fight due to concerns about growth in government spending.

In July, Standard and Poor’s, one of three major U.S. credit rating agencies, warned that it might downgrade U.S. Treasury debt if on-going budget negotiations did not produce a budget deal involving roughly \$4 trillion in deficit reduction over the next decade. On Sunday, July 31st, the President and the leadership of Congress announced that they had a deal; however, this deal involved a commitment to cut spending by just \$2.1 trillion over a decade, while leaving entitlement reform and tax reform off the table. As a result, on August 5th, Standard and Poor’s followed through on their threat and downgraded Treasury debt from AAA to AA+.

A second source of worry for markets has been weaker U.S. economic numbers. In particular, the annual revision to GDP data, not only indicated an even deeper recession in 2008-2009 than earlier thought, but also showed that growth in the first half of 2011 was just 0.8% annualized, not nearly enough to generate real improvement in the job market.

Finally, the European debt crisis has flared up again, and the reality of a partial Greek default has eroded investor confidence that Europe would stand behind the debt of all other sovereign nations, leading to an increase in interest rates on both Spanish and Italian sovereign debt.

The policy response

This accumulation of bad news has clearly undermined financial markets, reviving painful memories of 2008/2009 and causing at least some investors to sell now and ask questions later. Regardless of the causes of the crisis, however, policy makers have taken steps in response, with the European Central Bank purchasing Italian and Spanish bonds in an effort to keep yields from spiking higher, and the Federal Reserve indicating that economic conditions will likely warrant exceptionally low levels for the federal funds rate at least through mid-2013. This latter policy move could have mixed results, since it could undermine confidence by suggesting that the Fed doesn't think the economy will pick up anytime soon. Further undermining any boost to confidence may be the fact that three of the ten members of the Federal Reserve's open-market committee voted against this change in language.

The fear factor

From a rational perspective, both the passage of time and the response of policymakers should neutralize the issues which have led to this financial market turmoil. With respect to the budget, the reality is that the debt-ceiling issue has been dealt with, at least until 2013 and the downgrade has not led to any significant spike in interest rates.

In Europe, at least for now, the debt crisis appears to have settled down. Europe has always had the resources and the tools necessary to deal with its debt problems, but it always seems to take a crisis for European leaders to take the appropriate action; in this case, they need to find the will to impose budget discipline on their own populations as a way to help other nations within the European Union.

As for the U.S. economy, better-than-expected July jobs and retail sales reports suggest that the economy was still growing, albeit slowly, as this crisis hit. However, surveys clearly show that confidence has fallen further as this crisis has unfolded, which may have the potential to tip the already weak U.S. economy into recession. However, there are two aspects of it that should be considered. First, the economy should be somewhat less vulnerable to recession than in the past, as the cyclical sectors of the economy - areas like autos, home-building, business equipment spending and inventories - are yet to fully recover, and it is hard to collapse when you are already in the basement. That being said, the great danger of the current situation is that consumers, investors and particularly employers act based on that memory and hunker-down for a new recession and actually "scare" us into one.

How Fear is Factored In

While the risk of recession is real, for investors it is important to recognize the degree to which fear is already factored in. Scared investors have continued to flock to fixed income, despite the fact that it is unlikely high-quality corporate bonds bought today will provide any satisfactory return over the decade ahead.

With respect to equities, corporate profits have rebounded strongly over the past few years, with S&P 500 operating earnings hitting an all-time high in the second quarter of this year. Additionally, stocks look extremely cheap relative to bonds, and this extreme in relative valuations suggests that markets may have priced in a very ugly outlook for the economy.

Given all of this, how should investors behave? A logical approach would be to recognize that while fear has increased and that fear itself increases recession risks, markets have already, to a large extent, priced in that risk. If the economy has the resilience to stay on a growth path, expect big increases in stock prices and interest rates; if it doesn't, current valuations suggest relatively limited downside for both.

This being the case, the best advice for investors is to remember their investment horizon and stick with a long-term portfolio which is appropriate for where they are in life. We may look back on these days as a market bottom, or markets may fall further before rebounding. However, while fear is the greatest factor in the investment environment today, history shows that it is those who invest based on logic rather than emotion that fare best in the wake of a financial panic.

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The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index. Indexes are unmanaged.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in emerging markets can be more volatile.

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