KLS PROFESSIONAL ADVISORS GROUP, LLC
Complete Financial Management

REALITY CHECK

The last two weeks have been a time of unprecedented events and resultant volatility in global markets. Many equity indices have experienced inter- and intra-day swings of more than 5%, upward and downward, and yields on "safe haven" U.S. Treasuries have declined to historically low levels. Gold has reached all-time highs.

The triggering event of the downgrade of the U.S. credit rating from AAA to AA+ by Standard and Poors ("S&P") crystalized for investors:

- the reality that the U.S. and the Euro Zone have not resolved their respective economic structural issues,

- the reality of the magnitude and interconnectivity of European banks and their collective exposure to weakened sovereign debtors,

- the reality of slowing U.S. and European economies and stubbornly high unemployment, and

- the reality of deeply divided governments and policymakers who inspire little in the way of confidence.

While the downgrade by S&P is of historic note and the timing of the announcement (but certainly not the possibility) was unexpected, the bond market's reaction has been widely characterized as "ironic" as yields on U.S. Treasuries have declined. This reflects the unique nature of the Treasury bond's global liquidity and reserve currency status . (We note, however, that notwithstanding the extreme pressure facing the Euro Zone, its arguably "endangered" currency still hovers at $1.40.)

As you know, we have been focused upon these very issues and risks for several years and their current manifestation comes as no surprise to us. We have structured client portfolios to address and respond to these concerns. The addition of tactical asset allocation managers has significantly diversified asset class exposure, geographic exposure and investment strategies. Most client portfolios now participate in municipal bonds issued across many states, non-U.S. equity and fixed-income investments, active fixed-income management, active equity hedging, non-U.S. currencies and precious metals and commodities such as gold. These changes in portfolio construction reflect our view of the fundamental changes in the global investing environment and client portfolios are a reflection of that reality.

Our goal in portfolio construction is to balance risk and reward and to maintain flexibility that allows for material participation in equity market gains while meaningfully mitigating losses when markets decline. During this volatile time, client portfolios are performing as expected. Should circumstances change, we will act accordingly.

As you are aware, each client portfolio is managed separately. Please discuss your individual account with your KLS Advisor.

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