

Special Update: U.S. Debt Downgrade & Stock Market Rout

Friday evening, the Standard and Poors' rating service announced it was downgrading the U.S. sovereign credit rating from AAA to AA+. This is the first downgrade in our history, although two other major rating services have not moved to downgrade. This move adds uncertainty and concern to stock market action that was already acting poorly the prior two weeks.

We did not anticipate either the sharp market correction or S&P downgrade when we published our optimistic June 17 interim newsletter. Stocks rallied strongly for several weeks after publication and then started a wild roller coaster ride down. **So what now?**

What A Downgrade Means?

A review of prior sovereign debt downgrades shows little cause for panic. For example, Canada and Japan have in recent years experienced downgrades and yet today their debt instruments are in high demand by investors worldwide. In fact, Japan's interest rates are the lowest of the major industrial nations.

S&P's downgrade of U.S. bonds adds to near term market weakness but does not signal doom and gloom for the American economy or financial markets. History shows markets recover fairly quickly from a rating shock like this. Similar to last summer, widespread forecasts of a return to recession are pre-mature based on our forward looking business cycle research.

What is Pring Turner Going to Do?

First, we recommend you turn down the volume on financial news programs. It is difficult to stay calm and objective when media reporting is intensely negative. Second, keep in mind Pring Turner has experienced **many** such declines of this degree. We do not have confirming evidence yet that this is the start of a major bear market. More likely it is a serious correction that has quickly returned investor psychology back to the fearful days of the Great Recession. We are confident today's fear and concerns are not a replay of 2008 and this uncertainty will quickly fade. Your portfolio is well diversified, has high quality, high income and features strong investment characteristics that will weather this financial squall. All crises create opportunity and we will be diligently seeking those low risk situations that will help take your portfolio to new high levels when the stock market rebounds....and the market will have another upswing!

Emotional, panic sell-offs tend to mark **capitulation** or the ending phase of a stock market decline, not the beginning. The stock market is **extremely oversold** by many technical and fundamental measures. It may take a while for markets to settle, but we believe the decline is largely behind us. **As investor emotions calm we expect another significant market advance.**

"Keep Calm, and Carry On"

British WWII Poster



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