



Investment Message from Russ-

Well it was “on the road again” from May 2nd until May 27th. I started in Chicago where I attended the JP Morgan meeting at the University of Chicago Gleacher Center to listen to economists David Hale, George Friedman and David Kelly; Harvard professor Daniel Gilbert on behavioral economics; David Gergen, advisor to four Presidents on the political environment; and several speakers on investments. I met with three of our managers in the Sierra Nevada Multi-Strategy Fund (SNMSF), our accounting firm, Liccar, and our audit firm, McGladery, for SNMSF. I also had a meeting with the Chief Economist for Grubb & Ellis as they are headquartered in Chicago and we have had a long term business relationship. Then it was on to Dallas where I met with a new manager regarding a low-risk options strategy we are reviewing. From there I headed to New York City for meetings with new and existing managers and my Gateway Group meeting, which included presentations from two economists and a currency manager. The following week I was in Las Vegas for the Skybridge Alternatives Investment Conference. There I met a couple new managers and listened to a great line up of speakers – Michael Milken, Mitt Romney, former President Bill Clinton, Nouriel Roubini, Jeremy Siegel, General Peter Pace and other investment managers. Finally, it was on to Southern California to meet with two new managers in San Diego and attend the Kayne Anderson Investment meeting in LA.

One thing that was clear from this trip is that everybody has an opinion about economics, politics and investments. The consensus was that inflation is not an issue in the near term and deflation is more of a concern. The expectation is for slow US economic annual growth in the 1-2% range going forward, barring any economic shock e.g. another banking crisis, Israel strikes Iran, oil disruption, cyber attack, terrorist attack, etc., which could disrupt the recovery and markets. The slow economic growth and the high unemployment will seem like a recession even though the data currently describes a slow recovery. We still have the headwinds of housing, consumer spending, bank lending and government regulations. Since it is a global economy we need world growth to continue to grow albeit slow. The deleveraging process is still continuing around the world and will take several years to unwind. Since debt bubbles take several years to deleverage, it could be several years from start to finish before the US economy gets to a 4-5% annual GDP growth and unemployment of 5-6%. Unfortunately, the unemployment picture will lag for a while behind the economic recovery until businesses have more certainty on the economic recovery and the production of goods and services increases to where more people are needed.

The idea of a double dip recession was low on the concern list. The uncertainty of government policies and how the US will get its fiscal house in order are of a definite concern over time. The economists think the bond market is giving the government time to work out a plan for the fiscal debt, but in two to three years if no plan and action, then the bond vigilantes could take over and drive 10-year Treasury rates to between 7-10% which could be devastating to the economy. The four-star general who spoke said the one thing that keeps him up at night is not the hotspots throughout the world which he outlined and believed we could take care of militarily; it is cyberspace warfare which we are not adequately prepared for. Since the world is run more

on ones and zeros, a cyber attack could disrupt our financial system, infrastructure, military, air traffic control, etc. During this trip, the point to have a certain amount of old-fashioned cash at home was brought up a few times. At this time we are staying with our base case scenario of slow growth and recovery with a few bumps in the road, but not discounting the possibility of an unknown shock which could derail the US and world recovery.

Staying with the premise from which SFG started years ago, which is to “Buy Brains,” is more important now than ever. The world has changed over the last 30 years in global trade, currencies, economies, investments, financial systems, human behavior, etc. which has influenced the growth and change of human capital. Looking at various investment strategies, finding the human capital to execute the strategy and providing the risk management to minimize the capital loss during economic shocks, is as important now as it was 30 years ago; however, due to technology, there are many more strategies and more complexity. The next economic cycle/shock and reactions will be different from the last one. The key is to develop an investment portfolio to meet your comfort level during this rollercoaster ride, while still meeting your long term goals and objectives.

Uncertainty and volatility are going to be with us for awhile as we go through the deleveraging process, both private and now public. We will be discussing this with you over the next few months and will be providing in our mid-year report a review of asset classes and investment strategies for discussion. People say the only certainties in life are death and taxes, but I would like to add that change is just as certain. And the rate of change keeps getting faster. The only question is what the changes will be. Below are some brief highlights of the NYSE events over time. You can see how progress and change has occurred and speeds up in the last 15 years. As another 4th of July has passed, the US is still the greatest country to live in and be part of. The American people have always recovered from shocks and we should recover from this one over time. Our political system is built so if we move too far in one direction, we always seem to move back in the other direction. I believe this time is no different. As the political changes are building for November, several speakers on the trip said the next Presidential election will be about “Red Ink.”

NYSE Historic Timeline

1835 - **Average daily volume reaches 8,500 shares**

1857 - **Panic of 1857**

The Ohio Life Insurance & Trust Company collapses. Prices drop eight to ten percent in the course of a single trading session, the culmination of a 45% decline in market value since the beginning of the year.

1867 - **The First Stock Ticker**

Invented by Edward A. Calahan, the stock ticker revolutionizes the stock market by bringing current prices to investors everywhere.

1869 - **Gold Speculation Tanks Market**

On September 24, gold speculation resulted in "Black Friday."

1873 - **NYSE Closes for 10 Days**

Jay Cooke & Company, a prestigious Philadelphia banking firm, fails on September 19 due to over speculation in railroad stocks. The NYSE closes for ten days as a severe financial panic grips the nation.

1907 - **Panic of 1907**

Rumors of financial problems at Knickerbocker Trust, a leading NY bank, triggers a run on banks throughout the city. This begins the Panic of 1907, regarded as America's most severe financial crisis to date. J.P. Morgan, Sr., who orchestrates a massive operation to infuse cash into banks and shore up the stock market, stems the panic almost single-handedly.

1914 - **WW1 Causes Longest Exchange Shutdown**

As armed conflict engulfs Europe, securities exchanges around the world suspend operations to arrest plunging prices. The NYSE closes its doors on July 31, and does not fully reopen for 4 1/2 months

1923 - **Start of Historic Bull Market**

An historic bull market causes stock prices to surge ahead.

1929 - **Central Quote System**

To meet volume growth, the Exchange builds large new trading posts and establishes a central quote system that provides instantaneous bid-ask prices by phone.

Black Thursday

Stock prices fall sharply on October 24, Black Thursday, with record volume of nearly 13 million shares. Five days later, the market crashes on volume of over 16 million shares -- a level not to be surpassed for 39 years. In popular imagery, the crash has come to mark the beginning of the Great Depression.

Black Tuesday

On September 3, the Dow Jones Industrial Average reaches its 1929 peak of 381.17.

On October 29, "Black Tuesday," prices fall sharply and the stock market "crashes." This "crash" produces a record volume of nearly 16 million shares. The Dow Jones Industrial Average falls more than 11 percent.

1930 - **"Black Box" Ticker**

The 500-character per minute black box ticker, nearly twice as fast as previous tickers, is introduced.

1932 - **Dow Hits Bottom**

The Dow finally reaches bottom in July, down 89 percent from its 1929 high.

1949 - **Longest Bull Run Begins**

The longest bull run market on record begins. Stock prices will rise, without significant interruption, for the next eight years.

1953 - **Last Daily Volume Under 1 Million**

Volume of 900,000 shares on October 10 marks the last daily volume under 1 million shares.

1961 - **Exceeds 4 Million**

Average daily volume on the NYSE exceeds 4 million shares, nearly triple the level immediately following the war.

1966 - Floor Data Fully Automated

Transmission of trade and quote data from the floor is fully automated on December 20.

1978 - ITS

The Intermarket Trading System (ITS) is inaugurated. ITS provides an electronic link between the NYSE and competing exchanges, enabling brokers to access all markets nation-wide to find the best purchase or sale price for a security.

1979 - Major Upgrade

The Exchange begins a major upgrading and modernization of its trading floor to increase the use of technology.

New York Futures Exchange

Expanding into futures trading, the NYSE forms the New York Futures Exchange (NYFE).

1982 - First 100 Million Share Day

The NYSE experiences its first 100 million share day
Schultz Financial Group was formed

1987 - Largest One-Day Percentage Drop

On October 19, the Dow Jones Industrial Average experiences its largest one-day percentage drop in history, 508 points or 22.61 percent. This drop causes volume to surge to an unprecedented 604 million shares. The next day, volume reaches 608 million shares.

1988 - Circuit Breakers

The SEC approves a series of actions by the NYSE and the Chicago Mercantile Exchange to coordinate procedures between the equities and futures markets, including coordinated circuit breakers to control extreme price movements and the sharing of market surveillance data.

1990 - Industry Wide Test

An industry wide test demonstrates the ability to handle volume in excess of 800 million shares a day.

1992 - Average Daily Volume Surpasses 200 Million

The average daily volume surpasses 200 million shares.

1993 - Integrated Technology Plan

The Integrated Technology Plan is begun to upgrade trading floor networks, hardware and software, in order to enhance the quality, capacity, efficiency and productivity of virtually every aspect of trading floor operations.

Systems capacity to handle over 1 billion shares a day is implemented.

1997 - Wireless Data System

The Wireless Data System is inaugurated, allowing brokers to receive orders, access market information and transmit execution reports from any location on the trading floor.

Dow Plummets

On October 27, the Dow Jones Industrial Average plummets 554 points, triggering the NYSE's "circuit breaker" rule for the first time. Trading halts at 3:30 p.m.

Volume Tops 1 Billion

On October 28, volume tops 1 billion shares for the first time. More than 1.2 billion shares are traded as the Dow Jones Industrial Average soars 337.17 points, rebounding from the previous day's loss.

1998 - New "circuit breaker" rules

April 15

New "circuit breaker" rules went into effect to halt trading when the Dow Jones Industrial Average drops 10, 20 and 30 percent.

2000 - Dow's Biggest Point Jump

March 16

The DJIA experiences its largest one-day point gain - 499.19 points - to close at 10,630.60. NYSE Direct+®

October 21

The Exchange launches NYSE Direct+®, an automatic execution service, in a pilot program. NYSE Direct+ provides immediate automatic execution of limit orders up to 1,099 shares at the published NYSE quote.

2001 - Volume tops 2 billion

January 04

Volume of trading on the NYSE exceeded 2 billion shares for the first time on this day, when 2.129 billion shares changed hands. This record-volume day followed the previous day's 1/2-percentage-point interest rate cut by the Fed Reserve, which lowered the fed funds rate to 6 percent.

Terrorist Attacks on WTC

On September 11, terrorist attacks destroy the World Trade Center. The NYSE closes for four days -- its longest closure since 1933 -- and reopens on Sept. 17, setting a record volume of 2.37 billion shares.

Dow's Biggest Point Slide

September 17

The DJIA plummets 684.81 points, closing at 8,920.70 - its steepest point decline in a single day.

2003 - NYSE LiquidityQuote

NYSE LiquidityQuote launches in a 28-stock pilot, disseminating executable, sizable quotes outside of the best bid or offer. Investors and market professionals can use this product to find greater market size and depth.

2006 – NYSE Group Acquires MatchPoint Trading, Inc.

July 17

NYSE Group acquires a new crossing system, MatchPoint Trading, Inc., a financial services technology company specializing in call market trading and technologies.

NYSE Group Buys Ownership Stake in Marco Polo Network

September 18

This acquisition provides an electronic platform for global investors to trade equities and derivatives listed on emerging market exchanges.

2007 - NYSE Group Acquires TransactTools

January

The acquisition of TransactTools messaging solutions, coupled with its recently completed acquisition of the Securities Industry Automation Corporation (SIAC), gives NYSE Group a world-class platform for delivering technology and services to customers for accessing liquidity and managing transactions across markets and geographies.

NYSE and Euronext Merge

On April 4, NYSE Euronext is formed out of the merger of NYSE Group, Inc. and Euronext N.V. The merger marks a milestone for global financial markets, bringing together major marketplaces across Europe and the United States whose histories stretch back more than four centuries.

NYSE Opens Office in Beijing, China

December 11

The New York Stock Exchange opened an office in Beijing. On September 4, the NYSE had become the first foreign exchange to receive approval to open a representative office in China.

2008 - NYSE Floor Brokers Get New Tools

June

The New York Stock Exchange introduces two new technologies to give brokers on the NYSE trading floor the ability to trade algorithmically and to strengthen the brokers' ability to locate large sources of liquidity.

NYSE Euronext Introduces the SFTI Community Platform

June 10

The SFTI Community Platform enables technology providers to offer products to trading firms via a hosted environment powered by NYSE Euronext's Secure Financial Transaction Infrastructure (SFTI)®. It is the industry's first network offering customers global connectivity coupled with innovative third-party technology solutions.

Disclaimer

This report is for information purposes only. Under no circumstances is it to be construed as an offer to sell (or a solicitation to buy) any security. The information contained herein has been obtained from sources believed by Schultz Financial Group Incorporated to be reliable. However, the accuracy, completeness and veracity thereof are not and cannot be guaranteed by Schultz Financial Group Incorporated. Any opinions, estimates, predictions, projections not ascribed to a particular organization or individual constitute only the opinion(s) of Schultz Financial Group Incorporated and are not guaranteed to occur or be achieved. Schultz Financial Group Incorporated, its affiliates and subsidiaries, and/or its officers and employees, may from time to time acquire, hold or sell a position in the securities mentioned herein.