

Financial Confidence is On the Horizon...

THE VAUGHN / MCLAUGHLIN TEAM

QUARTERLY NEWSLETTER FOR FRIENDS & CLIENTS

Third Quarter 2011

Our mission...

To build a partnership that will help our clients meet their financial goals and enjoy a more secure future. Our goal is your 100% satisfaction with the advice and service you receive – and the **confidence** that this can bring.

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NOTES FROM JIM'S DESK:

July 19, 2011

I want to lead off with some services/resources we provide that you may not be aware of. Many people know us as an investment firm (we'll be tooting our horn about recent investment-based awards elsewhere in this newsletter). As a matter of fact we do a number of other financial planning services our clients are sometimes surprised to learn (to view a comprehensive list of all of these, see Page 3 of this newsletter). I would just like to list several that seem to surprise people the most;

- ◆ We do life insurance, disability insurance and long term health care insurance (both premium pay and/or asset-based coverage).
- ◆ We utilize Raymond James Trust Company to provide everything from basic bill paying to full professional trust services!
- ◆ We utilize Raymond James bank for mortgages, home equity loans, bridge loans etc.
- ◆ We have access to FDIC-insured CD's from banks all around the country, as well as through Raymond James Bank.
- ◆ Identity theft prevention.
- ◆ College planning & funding vehicles
- ◆ Pension/Profit Sharing Plans.

These are but a few as I mentioned, but we thought you ought to know.

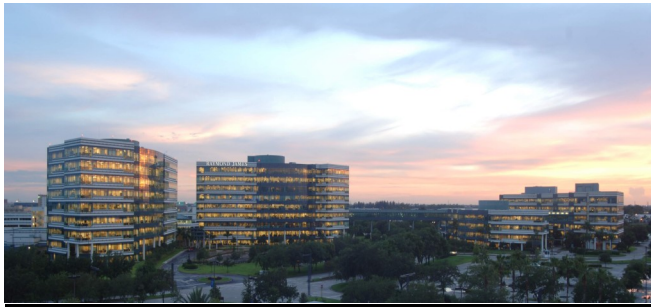
On to the markets: in May and the first half of June, the equity markets took a breather after a tremendous run-up from the 3/9/09 12-year low (Note– even with this breather, the Dow Jones Industrial Average is still up 92% on 7/19/11 from that March 9th low). Despite this meteoric rise in the stock market, consumer confidence is out-of-sync (as measured by the Bloomberg Consumer Comfort Index). Historically, this is quite unusual. Coming out of other recessions, as stock markets improved this has been a tight correlation with consumer confidence rising commensurately. At this point, consumer confidence is closer to where it was at the worse part of the financial crisis back in 2008.

So which is right? If we attempt to get away from macro geo-political events and look at good old basic fundamental reasons stocks tend to respond to over time (earnings/profits), then we would likely conclude that the markets are right. Of course we can't remove ourselves from things like the Eurozone difficulties, the tragedy in Japan, the Chinese tamping down their astounding growth, the deficit, unemployment and so on. The facts are that there are always some headwinds, and as Sir John Templeton famously said– the four most dangerous words in investing are “This time it's different.” Ultimately stock prices reflect earnings/profits and these have been getting better and better over the last two years– first by lots of cost cutting (including labor) but now we are seeing increasing revenue at many companies.

I'll spare the reader the entire list of things that may account for the divergence between stock prices and consumer confidence so far by simply saying, it was very rough in 2008, but it wasn't the second Great Depression by a long shot and we recovered from that. I conclude the stock market probably has it right because of the earnings. At the same time, one must come to grips with the newest operative word I hear used by many pundits: clarity, or rather the lack thereof. Jeff Saut, our Chief Investment Strategist, often likes to say: “sometimes I sit and think and sometimes I just sit.” I believe when Jeff does the latter, it is likely the lack of clarity that prompts this behavior. I agree with this sentiment and can hardly fault the consumer for having honkered down, even as the stock market has rallied big time. It is my opinion that Sir John Templeton will once again be extolled. When, you ask? If I knew, I'd tell every one of our clients; but of course, I can't. Perhaps the earnings season commencing in July will supply a catalyst? I feel certain consumer confidence will return, clearly it's going to probably return slowly. As always, patience, the rarest investor attribute, should be rewarded!

COMPANY SPOTLIGHT: *Raymond James Earns High Praise for Performance, Service*

Recently, Raymond James has earned praise from prominent industry media syndicated globally, as well as local publications. Raymond James has been recognized for its success, but the firm's steadfast commitment to clients is what we find noteworthy. Raymond James was founded in 1962 as a different kind of financial services firm, focused on each client's unique financial needs and goals. Other organizations were simply selling stocks or mutual funds, but Raymond James focused on financial planning for the individual. That commitment holds true today and has resulted in client satisfaction, as well as award-winning equity research and industry recognition. For example:

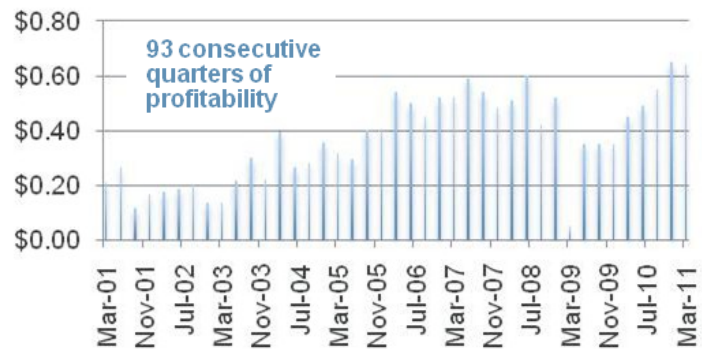


**Raymond James international headquarters
in St. Petersburg, FL**

◆ *SmartMoney* named Raymond James the best full-service broker in its 2011 Annual Broker Survey, for the third time in four years. The results were based on many factors, including strong stock picking. In fact, Raymond James was one of only two full-service brokers in the survey whose model portfolios beat the broad-market S&P 500.

- ◆ In June 2011, your local Raymond James branch was voted the Best of the Best winner among Investment Firms for the 12th time in the last 14 years in the *Citrus County Chronicle*.
- ◆ In May 2011, nine Raymond James analysts received 12 awards for stock selection and estimate accuracy in the *Financial Times* Star-Mine awards.
- ◆ In April 2011, *The Wall Street Journal* ranked seven Raymond James analysts as Master Stock Pickers for 2010 in its 19th annual "Best on the Street" survey with the firm tying for second overall among 196 research firms qualifying for the study.
- ◆ Also in April, Raymond James Brasil was named the top stock-picking team by Brazil's leading news agency.
- ◆ In February 2011, Raymond James' Chief Economist, Scott J. Brown, Ph.D. was named top forecaster for unemployment by *Bloomberg Markets* for the 24-month period ending September 20, 2010 (See Page 3 for a recent economic piece by Dr. Brown)
- ◆ In January 2011, for the second time in three years, *Greenwich Associates'* gave Raymond James top marks in its Small/Mid Cap Portfolio Manager Study.
- ◆ In December 2010, Raymond James' client brokerage statement was rated "Excellent" for the fourth year in a row by independent measurement expert *DALBAR*, positioning the firm above the industry average and such competitors as Edward Jones, Wells Fargo Advisors, UBS, LPL, and Fidelity.
- ◆ Also in December, Raymond James topped *Registered Rep.'s* Annual Broker Report Card with advisors rating the firm 9 out of 10 for: Overall Ethics, Risk Management, Training & Resources, and Products & Research.

Earnings Per Share – Trailing 10 Years



We are very proud of the accolades Raymond James continues to receive. For us, they underscore the advantage of working with a firm that remains faithful to its founding values of putting clients first. Raymond James CEO Paul Reilly recently reaffirmed that mandate, saying, "If we take care of our clients and their well being, they will take care of us and we will prosper."

The financial turmoil of the past few years proved too much for many other firms which have either been acquired or failed, but Raymond James remains a pillar of stability with **93 consecutive quarters of profitability**. The goal is to be the premier alternative to Wall Street with all the capabilities, and with that client orientation / family feel. These industry honors reinforce our reputation as a respected, client-focused firm that values conservatism, independence and integrity – some of the reasons we're proud to be affiliated with Raymond James.

We are happy to address any questions you might have about Raymond James or our services. Feel free to contact us at your convenience.

OUR SERVICES *include:*

401k/403b Services
Annuities
Asset Allocation
Asset Management
Banking Services thru RJ Bank
Bonds

Cash / Debt Management
Charitable Planning
College Planning
Disability Insurance
Estate Planning
Executive Solutions

Financial Planning
Investment Banking
IRAs
Life Insurance
Long-Term Care
Money Markets

Mortgage Center
Mutual Funds & UITs
Pension / Profit Sharing Plans
Research
Retirement Planning
Stocks / Stock Options

ECONOMIC RESEARCH: *The Debt Ceiling Crisis*

Scott J. Brown, Ph.D., Raymond James' Chief Economist

Weekly Market Monitor, July 18-29, 2011: The debt ceiling crisis heated up last week, as Moody's and Standard & Poor's threatened to lower the credit rating on U.S. debt. The financial markets appeared not to notice or to care, but may simply be expressing a confidence that the debt ceiling will be raised in time. After all, we've been here before. As dysfunctional as Washington is, lawmakers aren't foolish enough to cause a self-inflicted financial calamity. Or are they?

The government budget is made up of spending and revenues, and if revenues fall short of spending, as is usually the case, we have a deficit. The national debt is the total of past deficits. The debt ceiling is something of a historical artifact, designed originally to limit the debt build-up during World War I. It doesn't make much sense to have a debt limit. After all, lawmakers have some control over the annual budgets. They could limit the size of the debt by limiting the size of the annual deficits. Normally, the debt ceiling is raised without much fanfare. Occasionally, there is a sharp political battle.

Note that Senator Obama voted against raising the debt ceiling in 2006, while the current Republican leadership (McConnell, Boehner, Ryan) seemed to have no problem voting for debt ceiling increases totaling more than \$5.3 trillion during the previous administration. That's politics.

The current debt ceiling crisis is a manufactured crisis. There are two issues here. One is the long-term budget outlook. The other is the debt ceiling itself. These two issues have been merged together to create the current crisis.

The U.S. has run very large deficits in the last couple of years. That's because the recession reduced tax revenues and boosted spending (extended unemployment insurance benefits, food stamps, etc.). The budget deficit will improve as the economy recovers. In the first nine months of the current fiscal year (which ends in September), Treasury reported an 8.6% increase in revenues relative to the same period in FY10. That's despite a 2-percentage-point reduction in payroll taxes this year. Obviously, stronger economic growth would lead to even better improvement in tax receipts.

The problem with the budget outlook is long term. As the baby-boom generation retires, there will be more strains on entitlements, especially Medicare. Note that Congress can't do much about interest payments, but if it left Medicare, Social Security, and defense untouched, and cut all other spending to zero, we would still have a budget deficit this year. So the choices are cut spending (including some portion of entitlements), raise taxes, borrow more, or some combination.

Currently, the U.S. has had no problem borrowing. The 10-year Treasury yield is below 3%. The Fed's asset purchase program, now ended, was only a small part of that. In a severe recession, there's typically a huge demand for safe assets. Over time, as the economy improves, demand for safe assets will decrease. That means that there should be no concern with running large budget deficits now, but it's absolutely critical that the deficit be reduced in the years ahead.

The debt ceiling crisis could be eliminated simply by raising the debt ceiling. However, Washington will still have to generate a credible plan to reduce the deficit in the years ahead. The problem is using the debt ceiling as a bargaining tool. Some people think that this is the only way for the two parties to come to an agreement on a long-term budget plan. However, it's not worth risking the credit of the U.S. government.

It's still widely expected that an agreement to raise the debt ceiling will soon be reached, but what if that doesn't happen? As Moody's indicated it's not just the credit rating of the U.S. government that's at stake, but also everything related to it: Fannie Mae and Freddie Mac debt, 1000s of municipal securities, even the debt of Israel and Egypt (I guess that means that markets could go "Old Testament" – or a catastrophe of biblical proportions). This is not something to mess with.

Some think that by not raising the debt ceiling the government will be prevented from spending more than it takes in. That's a failure to understand the budget process. The money has been allocated. If the debt ceiling is not raised, interest payments would likely be made, but Medicare payments, Social Security payments, and veterans' benefits may be delayed. Government workers may be sent home, but eventually paid (whether they work or not). Government contractors may not be paid on time. If this sounds like madness, well, as Forest Gump's momma said, "stupid is as stupid does."

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HAPPY 85th BIRTHDAY: *Jeanne Harris*

Our friend Jeanne Harris turned 85 this year. To celebrate, she wanted to try something she had never done: ride a Harley. Here is a picture after her trek on the streets behind the Raymond James office in Crystal River. Also in the picture is Jeanne's chauffeur for the day, Brett Roth (aka Nanci's husband). After her ride, she said: "This was the best birthday I've had in a long time." Congratulations Jeanne. Thank you for letting us be part of the experience, and we wish you many more exciting birthdays!



To view more commentary and reports, visit our website at www.raymondjames.com/citrus and click *Market View*.

Here you will also find the:



2011 MID-YEAR ECONOMIC UPDATE

RECOVERY: A WORK IN PROGRESS

Staying on course despite bumps in the road.



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*Your trusted family financial
planners of the Nature Coast
with over 100 years combined experience*

SAVE THE DATE

- ◆ **July 12-17, 2011:** Team members to attend Summer Development Conference in Orlando.
- ◆ **July 22-September 25, 2011:** *Barefoot in the Park* at Raymond James Theatre in St. Petersburg.
- ◆ **August 3, 2011:** *Wall Street Coffee Club*, 9:30am at the College of Central Florida in Lecanto.
- ◆ **August 13, 2011:** *Ovarian Cancer 5k*, 7:30am at Black Diamond Ranch in Lecanto.
- ◆ **August 13, 2011:** *So You Think You Can Dance...Like A Star* to benefit United Way, 6:00pm, Citrus Springs Community Center.
- ◆ **August 18, 2011:** Tampa Bay Buccaneers vs. New England Patriots, 7:30pm at Raymond James Stadium in Tampa.
- ◆ **August 27, 2011:** Tampa Bay Buccaneers vs. Miami Dolphins, 7:30pm at Raymond James Stadium in Tampa.
- ◆ **September 5, 2011:** The office will be closed in observance of Labor Day.
- ◆ **September 7, 2011:** *Wall Street Coffee Club*, 9:30am at the College of Central Florida in Lecanto.
- ◆ **September 8, 2011:** Golf Clinic / Tournament, World Woods Golf Club in Brooksville.
- ◆ **September 11, 2011:** *9/11 Memorial Exhibit & Freedom Walk*, 5:30-7:00pm outside city hall in Inverness.
- ◆ **September 11, 2011:** Tampa Bay Buccaneers vs. Detroit Lions, 1:00pm at Raymond James Stadium in Tampa.
- ◆ **September 17, 2011:** *Music on the Square*, 6:00-10:00pm in Historic Downtown Inverness.
- ◆ **September 21-23, 2011:** Team members to attend educational conference in St. Petersburg.
- ◆ **September 24, 2011:** *Beat the Sheriff 5k* to benefit "Jessie's Place," 7:30am in Historic Downtown Inverness.
- ◆ **September 24, 2011:** Business Women's Alliance *Health & Fitness Expo*, 9:00am-2:00pm at the armory in Crystal River.

*Call us with questions on any of the above events or if you would like to feature your organization's upcoming events in our next newsletter.
Ticket prices apply to events held at Raymond James Theatre and Raymond James Stadium.*

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