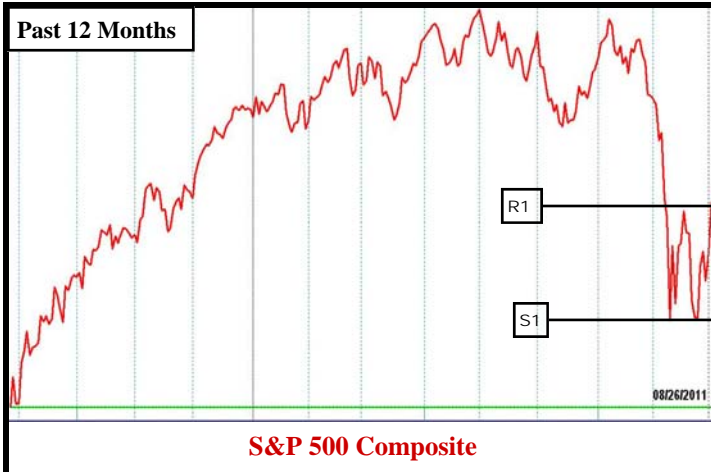


MARKET COMMENTARY



It is easy to feel left out when we see the market have really big up days as it did on Monday. The Dow was up 254 points on Monday and the S&P was up 33 points. But when we step back and look at the big picture, we see that after the 16.7% drop that the S&P posted from July 22 thru August 8, the markets have been in a wide trading range with support at S1 and resistance at R1 on the chart to the left.

Today, the market appears to be trying to move to the upside, but it should be noted that all of the up legs in this trading range have been on decreasing volume and the down legs have been on higher volume. This is significant in that it calls into question any move outside the range to the upside until it has been confirmed by a series of higher highs

and higher lows. At that point we will be able to say that a new trend has been established. Conversely if it breaks to the downside it may well be considered a continuation of the down trend that started in July. Either way, this is a period of above normal risk.

Once a new trend is established, we can then think about what sector is leading and how to take advantage of the move. One area we will be watching closely is high yield bonds. The current spread between junk bonds and the US Treasuries is widening and this typically indicates an opportunity for low volatility gains when the spread begins to close. The more the spread widens, the greater the potential gain when it reverses. How long we have to wait is dependent on what is driving junk bond prices down. If it is fear, a recovery could start at any time. If it is the possibility of a double dip recession, we may see much lower bond prices before the recovery begins. Either way, we will be watching diligently.

We will also be looking for other opportunities that may be developing. One thing we want to be careful of though is jumping in because we think we are missing some big uptrend that really does not exist yet.

PRIME NUMBERS — Current Facts from Around the World

\$200 The amount spent per child on back to school shopping by 46% of parents, about half of which say they will spend more this year than in 2010.

7.6M The number of employees in the US financial industry workforce, down 9% from the industry peak of 8.35 million in 2006. That is the lowest head count since January 1999.

\$173B The value of the 8.1 billion hours that more than 60 million Americans volunteered last year.

20.7% Percentage of 16- and 17-year olds in the US labor force, down from 29.9% in December 2007. Labor force participants for 18- and 19-year olds is also down at 46.2%, compared with 54.7% when the recession officially began

45M The number of people in the US who manipulated their identities in credit applications by falsifying a Social Security number, name or date of birth.

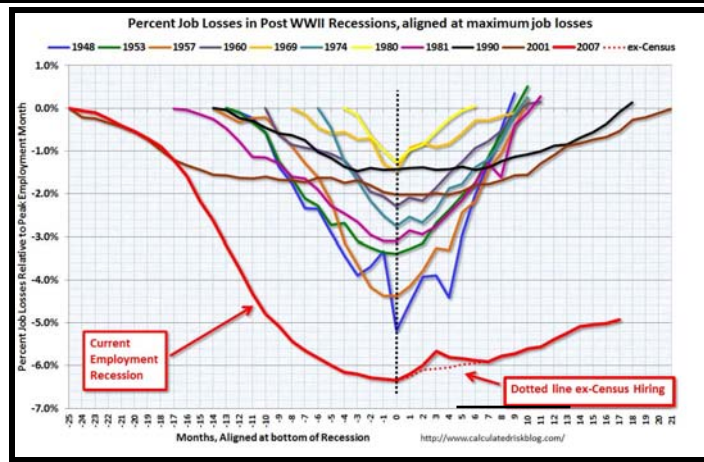
173,531 Tons of cheese exported by US producers in 2010—a record. Cheese exports rose another 68% in the first four months of 2011 as pizza and cheeseburgers became more popular in Asia.

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Kirk Zickler
P.O. Box 131646
Houston, Texas 77219

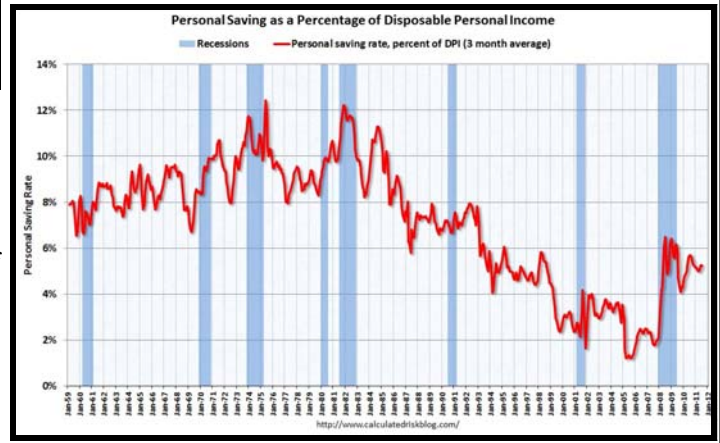
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Phone: 713-621-9898
Fax: 713-621-2007
E-mail: kirk@coastal-wealth.com

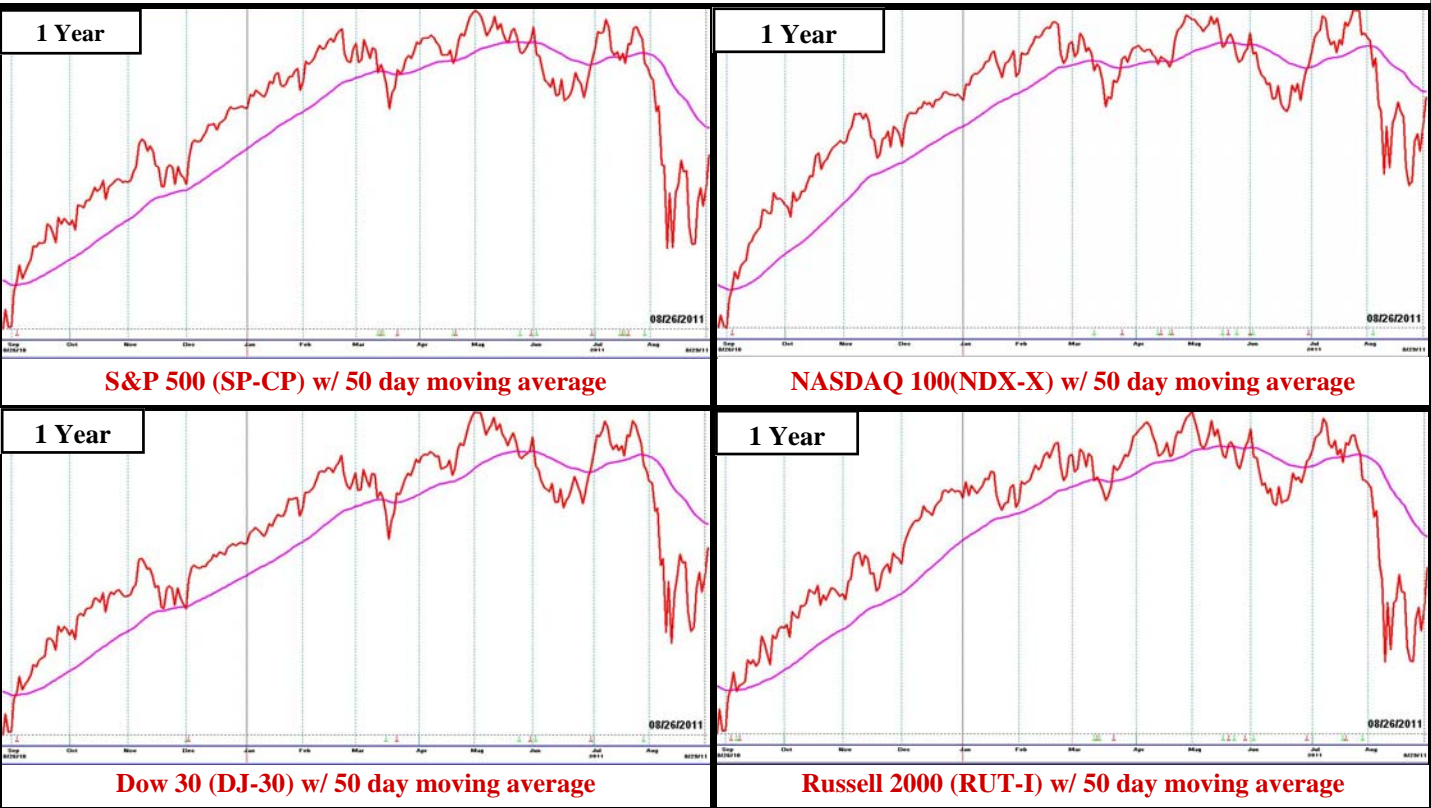


We do not have to look far to see that the recovery is not moving at a normal pace. The chart at the left shows the percent of job losses with the center at the maximum level of loss. The red line shows the current recession and recovery which is in the 17th month after the peak losses. You can see that most recoveries create a bell shaped curve. If that held true in this recovery, in the 17th month we should be back at a level of -1.5% of the total job losses as opposed the current level of -5%. What this means is simply that it is going to be a very long and slow recovery for employment and thus the economy.

At the right is a snap shot of the Personal Savings rate as a Percentage of Disposable Income. Note that savings has been in a steady decline since the early 80's when it was approximately 12% of household income. While the savings rate rebounded some in in this current recession it still only reached 6% or half of the 1982 rate and it is falling again as individuals struggle with unemployment and inflationary pressures of higher fuel and commodities.



MARKET SNAPSHOT



Kirk Zickler
P.O. Box 131646
Houston, Texas 77219

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Phone: 713-621-9898
Fax: 713-621-2007
E-mail: kirk@coastal-wealth.com