DELTA
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Economic Comments

The good news as the yearôs 1st half ends is that the world has now gone almost 3 months with no new major catastrophes! The bad news is that there remains no resolution on the U.S. budget/debt ceiling issue, China is starting to raise interest rates to combat accelerating inflation and Greece was bailed out by its EU partners for a second time within a year.

Since we last wrote, the U.S. and global economic pictures have dulled somewhat as the enthusiasm of earlier in the year has recently waned. While 1st quarter Gross Domestic Product (GDP) growth was anticipated to be 3.6% as late as February end, actual economic activity for the period was a much more tepid 1.9%. Expectations for the 2nd quarterôs economic growth have fallen similarly from a robust 3.5% to current expectations of around 2.0%.

With the slowdown in 1st half activity, estimates for full year growth have also been ratcheted down to around 3.0%. Critical to these projections are the continued belief that economic activity will accelerate in the yearôs 2nd half. Given the pivotal role of automobile production/sales, the recent post-tsunami recovery of key Japanese auto parts suppliers should provide some needed support to U.S. auto makers as parts supply constraints diminish. Supporting this view, the May reading of the index of U.S. leading indicators rose by 0.8%, more robust than the forecast of a 0.3% increase, and supporting the argument in favor of a rebound in growth.

For its part, the U.S.ôs Federal Reserve has been begging investors to pursue riskier assets by pushing down long-term interest rates with its QE2 initiative. The central bankôs aim appears to have been to stimulate the economy by inflating the financial markets so that investors feel wealthier.

Unfortunately, this measureôs benefits are largely limited to the wealthy as most consumers in the low and middle income brackets have virtually no direct financial market exposure.

With the Fedôs QE2 initiative having finished at June end and given the massive purchases of Treasury bonds that were conducted under the program, where rates will head from here is anyoneôs guess. While higher interest rates, lower stock prices and lower commodity prices would seem to be logical conclusions, past experience suggests that these type of predictions are tricky.

Having finished its most recent effort to push down longer-term rates, the Federal Reserve intends to maintain overnight interest

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rates at their current levels of effectively zero for the foreseeable future. Following its late June meeting, the central bank expressed its continued concerns about the economy remaining in low gear along with its belief that inflation expectations remained modest in the near and medium runs. The Fed can, and has, addressed the nationôs liquidity issue - only businesses or individuals can fix the problem of slack demand.

We were sorely disappointed by the Obama Administrationôs recently announced ñemergencyò release from the U.S.ôs Strategic Petroleum Reserves (SPR). As there had been no recent disruptions to supplies, we believe the oil sale was exclusively aimed to alleviate the economic pain U.S. consumers have been experiencing at the gas pump. The sale, only the fifth ever in the SPRôs 25-year life, caused an immediate 5% decline in energy prices. Interestingly, the Administrationôs action was largely ineffective as oil prices quickly returned to their pre-ñemergencyò release levels.

A slight silver lining amidst continued dark clouds for the housing industry could be found in two recent housing reports, which showed some of the first gains in almost a year. Given the heavy overhang of housing working through the foreclosure process, an immediate resolution to this continued drag does not appear imminent. Unemployment remains a key issue with it remaining largely unchanged in recent months at around 9.0%. Until this problem improves, consumer spending is likely to remain tepid.

In the near-term, the most critical economic concern is the imminent debt ceiling crisis. With both political parties refusing to budge on their positions, the clock to the August 2nd deadline continues to tick. How and when this issue is resolved could well set the tenor for the economyôs direction for a prolonged period.

Analyst Corner

Like many New Orleanians, we enjoy our food. While there can be some negatives with this food fascination, such as to our waistlines, one of the positives is that it helped lead us to John Deere and Company (*NYSE: DE*). Based out of Illinois, the 175-year old equipment manufacturer focuses on the agricultural sector but also produces forestry and construction equipment.

With its strong global dealer network, the company is leveraged to profit from continued global economic growth. Moreover, DE should handily benefit from the long term macroeconomic trend of emerging consumers in countries such as China, Brazil and India demanding more, and higher quality, foods. While its operations are cyclical in nature, the companyôs industry leading products and growing dividend pay-out should make for an attractive investment over time.

Market Comments

After climbing more than 3% through early May, Wall Street suffered a decline of almost 9% over the ensuing several weeks. The quarter closed out with a several day rally and the market basically finished unchanged. However, the stock market has rallied smartly, 25+%, since QE2 was first proposed last August. The Fedôs action appears to have firmly achieved its apparent goal of boosting the financial markets.

Looking at the underlying stock sectors and after having been a market laggard since the passing of Obamacare, the healthcare sector finally took a leading role with a 7% climb for the quarter as investors sought more stable securities. Possibly driven by concerns over the end of QE2 and the reduced economic growth prospects, financials were the quarterôs laggard as investors took a 6% haircut off the top from the still sickly sector.

For bond investors, the unanswered question is who will be purchasing Treasury securities moving forward. With the Federal Reserve having bought more than 80% of recent monthsô supply under the QE2 program, new investors and/or higher yields will likely be necessary for continued successful Treasury auctions.

The unacknowledged 800-pound gorilla on Wall Street is whether the U.S. Congress and Obama Administration will come to an agreement about the Treasuryôs debt ceiling and budget cuts prior to the immutable deadline in early August, only weeks away. At this stage, both sides continue to maintain their unwillingness to budge from their entrenched positions.

The only certainty in this drama is that if the debt ceiling is not raised in time, the long-term ramifications could be horrific. Given the situation, it is superficially surprising that U.S. Treasury yields are currently appreciably lower than their February highs of almost 3.75%. Unfortunately, bond investors have historically done a poor job in anticipating credit crises. Until shortly before its near default last year, the Greek government was able to borrow money at only a slight premium to that of Germany, its far wealthier and more fiscally prudent neighbor. While the U.S. certainly has the resources to address the current challenges, the question is whether it has the political will.

Our earlier prediction for a turbulent but rising year appears to be playing out so far. To continue the year-to-date advances, new positive news may be well needed to support ongoing advances. The only thing we remain sure of is the uncertainty of it all. This in turn, returns us to our key investing premise of identifying risks, managing risks and taking on only appropriate levels of risk prudent to a given situation.

Performance as of 6/30/11

	Close	Month	YTD	1 Year
DJIA	12414.34	-1.10%	8.58%	30.37%
S & P 500	1320.64	-1.67%	6.03%	30.70%
NASDAQ Comp.	2773.52	-2.18%	4.55%	31.49%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	3.16%	3.31%	2.95%

Planning Thoughts

As our society becomes increasingly digital, fraud protection and the prevention of identity theft has become increasingly important. For those who are less familiar with the internet and e-mail, phishing can be their downfall. Phishing is a process where scammers send emails that appear to come from a respected source but are actually an attempt to collect a userôs name, passwords and other personal information.

As devastating as identity theft can be, simple measures such as receiving paperless statements, shredding paper statements, keeping passwords private and monitoring credit reports can sharply reduce the likelihood of it occurring. Monitoring your reports from the credit bureaus can be particularly important. By going to www.annualcreditreport.com, individuals can receive one free copy of their credit report a year from each of the three major U.S. credit bureaus. If someone does become an identity theft victim, placing a ñfraud alertò on their credit file can sharply limit the damage from the crime. Another measure, a security freeze, is also effective. This action prohibits credit bureaus from reporting your credit file to third parties. Although this action must be individually taken with each of the three credit bureaus, it effectively stops any further illicit charges as potential creditors will not extend credit without viewing a proposed borrowerôs credit file.

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