

Client Update
July 14, 2006

The Middle East Crisis

Dear Client:

According to our sources, the Middle East crisis involving Israel and Lebanon is very likely to escalate, and could involve Syria. With oil interests at stake in the Middle East, it's not hard to understand why the price of oil has reached new highs in the past two days. And while the situation is important and heart-wrenching from the human perspective, it's also critical to consider the possible impact on financial markets around the world.

As we've written before, financial markets hate uncertainty. In the tinder box of the Middle East, we've seen how quickly events can escalate, and we know that many players can be drawn into the fray. Right now, there's no way to tell how widespread fighting may become, or the extent of the disruptions that may ensue, not to mention how the political landscape may shift in the coming days as players maneuver for survival and advantage.

The bottom line is that we can expect lower stock prices in the coming days, and perhaps weeks, as things heat up. We don't plan to take any action to avoid a downturn, however, as we can't act fast enough to stay ahead of the situation. It would be unfortunate if we sold stocks now, only to have them rebound suddenly if an unexpected diplomatic solution is reached, for example.

If there is any silver lining to the current outbreak of violence, it's that lower stock prices may present a buying opportunity for clients who are in the process of buying, or who have ready cash to invest. We will closely monitor the situation and watch securities prices, and do our best to take advantage of bargains for clients with cash.

We're pleased that we have commodities exposure at this point, too, as we've seen gold and oil rising this week. U.S. Treasury notes and bonds also tend to perform well when uncertainty prevails.

At this point, we expect the conflict to be somewhat contained, and to be limited in duration. Israel has a history of acting quickly and decisively, and we hope to see a resolution within weeks. At that point, securities prices should regain their footing.

We hope and pray that you and your loved ones are not affected by the current outbreak of fighting, and indeed, that the whole world may come to realize our interdependence and connectedness.

All our best,

Peter & Jason
PWJohnson Wealth Management