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2010 Major Stock Market Index Performance

	1 st Qtr
S&P 500	4.9%
Dow Jones Industrial Average	4.1%
Nasdaq Composite	5.7%
MSCI EAFE (International)	0.2%

Source: Wall Street Journal. These indices are unmanaged and gross of all fees. Your individual performance is not represented by these indices.

First Quarter 2010 Newsletter

Stocks make a slow and steady climb upwards and end the quarter with healthy gains. Congress passes a landmark Health Care Reform bill and continues the debate about financial reforms.

Market Commentary

After stumbling out of the gate, stocks continued their climb up through March and are poised for further gains. Stocks and bonds benefited from strong corporate earnings and signs that our economy is turning the corner. After a year of cost cutting, corporations have built up record profit margins and a massive cash hoard that they are beginning to spend. Inflation remains tame and monetary stimulus at full strength helping to fuel the stock market recovery. These conditions should persist for several months, but headwinds are building as debt levels increase here and in Europe while inflation pressures build in emerging markets.

Perhaps the greatest but most overlooked variable in favor of stocks is the lack of individual investor participation in market gains. Individual investors have missed much of 2009 and continue to avoid US stocks. This lack of participation is actually good for stocks because it keeps the fast and manic money on the sidelines while slow and sane investors like us benefit from persistent stock market gains. **Bay City Financial Services continues to be cautiously optimistic for higher stock prices, but not without some volatility** as investors cope with rising interest rate expectations and parse the endless stream of economic data.

Health Care Reform

The 2,409 page Patient Protection and Affordable Care Act passed with 153 pages of amendments. This Bill has garnered a lot of attention, much of it negative, but our comments are based on the investment implications. Taxes will increase for upper income Americans starting in 2013 including a new Medicare tax on investment income of 3.8%. While increased taxes on investments are bad for stocks, the actual effect should be fairly small as most investments are held in tax qualified accounts and/or with Americans below the income limits. This bill expands coverage to millions of Americans and the pharmaceutical industry should benefit with a

large increase in customers and little if any control on prescription drug costs. In fact, with all these new customers, the health care industry will expand and create more high paying jobs for Americans. On the flip side, this Bill does little to control health care costs and our national debt may continue to rise, increasing the strain on our economy. In short, the Bill should have minimal affect on stocks in the near future, but could hurt stocks and bonds if it doesn't result in reduced health care costs. The financial reforms bill being debated in Congress right now is more crucial to investors as it will determine how the financial industry is regulated. However, Senator Dodd's bill has much of the important risk control measures removed. Stay tuned...

Your Portfolio

The Multiple Manager Portfolios were paced by healthy gains in small company stocks. Our best performer was the William Blair Small Cap Growth Fund...up over 8% for the quarter. Our international positions including emerging markets were laggards as Europe struggles with debt problems and China takes steps to slow their overheated economy, pushing commodity prices down during the quarter. **The last 10 years have been better for bonds than stocks. That trend will likely reverse as we enter a rising interest rate environment.** Rising interest rates cause bond prices to go down and we aim to protect the portfolios by diversifying into foreign bonds, short maturity bonds and higher yielding bonds which will retain their value as rates go up.

401(k) Corner

Company Plan Participants, now is the time to review your deferral amounts to make sure you are putting enough away for your future retirement. Pensions and Social Security may help fund our current retirees, but you will most likely depend on your own saving discipline. You may live 20-30 years in retirement and you will continue to need a large portion in stocks to fund your living expenses and rising medical costs. It is never too late to start.

The **BCFS Wealth Management Program** takes **comprehensive** research, **independent** advice and **professional** management to formulate an investment strategy that builds wealth in accordance to **Your Financial Plan**.