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Registered Investment Advisor

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2008 Major Stock Market Index Performance	YTD	4th Qtr
S&P 500	**-37.0%**	**-21.9%**
DJIA (Dow Jones Industrial Avg.)	**-31.9%**	**-18.4%**
Nasdaq Composite	**-40.5%**	**-24.6%**
MSCI EAFE (International)	**-45.1%**	**-20.3%**

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

Fourth Quarter 2008 Newsletter

Goodbye 2008 and don't come back next year!

Market Commentary

2008 was one for the record books! It was the third worst year in a century and full of painful job losses, investment losses and lost confidence in our financial system. By one estimate, there was over $17 trillion lost in stock markets around the world. Loose regulations allowed greed and excess and even outright fraud, which were exposed when our major assets--our homes--plummeted in value bringing most all other assets down with it. This led to bank failures and bankruptcies and our government scrambling to plug the holes.

2008 was painful, but investors are hoping that a new President will usher in a period of optimism and refocused attention on the needs of the average American. The Federal Reserve, Treasury Department, FDIC, and executive and legislative branches are joining forces with their global counterparts to formulate an economic recovery and restore confidence in our markets. The US plan is to take advantage of historically low interest rates to issue cheap debt and invest in our transportation and energy infrastructure as well as offering billions in tax cuts for businesses and individual tax payers. In order for this plan to work, this money must build a sustainable foundation for innovation and job growth. It will require an investment in worker health, worker education and continued freedom to pursue an American Dream based on quality of life, not quantity of stuff. An economy based on borrowed money will not sustain itself and our next administration has a monumental task to rebuild our financial future in the face of a difficult and long recession.

This multi-pronged plan will take years to execute, but one example of an immediate return on tax payer's dollars is the $200 billion TARP investment in banks and other companies. According to NH Sen. Judd Gregg, this program has a "gain of about $8 billion" in the last three months. That 4% return annualized is 16%! Taxpayer's should get their money back and then some, but our financial system is still in the beginning stages unthawing.

There were few winners in 2008 as both stocks and bonds experienced steep losses. Oil prices are down over 70% and commodities and real estate were no safe haven…even gold dropped 30% before a slight recovery. Perhaps the only strategy that worked this year was to sell everything and buy Treasury Bills, the most defensive position possible, but few followed this extreme strategy.

Bay City Financial Services' Investment Philosophy includes multi-asset type investing which diversifies across a wide variety of asset classes and styles. Finance 101 teaches that certain risks cannot be diversified away. These so-called Systematic Risks are fundamental problems in our economy and the way our financial system works. This was the undoing of our best laid plans for 2008, but Bay City reduced risk during the year by cutting our exposure to commodities and international investments before the market meltdown.

2009 and beyond

Investors have cautious optimism for a market recovery in 2009. We expect the market rally that started at the end of November to continue up to the inauguration, but another market correction is a strong possibility as continued negative economic data rolls in. A sustainable market rally may not materialize until the end of the year as we work through our deep recession.

Perhaps the greatest catalyst for a market recovery is the incredibly cheap prices that companies are selling for in our market. Retailers are offering steep discounts on their inventory and stock/bond markets are offering even *steeper* discounts on investments around the world. The BCFS strategy is to position you in high-quality, inexpensive and resilient companies that will outlast our recession.

Taxes

With markets at historically low levels, now is a great time to maximize your IRA contributions for 2008 and even contribute for 2009. Limits stay at $5,000 for 2009 plus a $1,000 catch up if over age 50.

1099s will be mailed out on February 15th this year as the IRS is allowing for more time to calculate your interest and dividends. BCFS will be mailing you Gain/Loss reports in late Feb. or early March for taxable accounts. You may be able to deduct investment fees, which can be found at the bottom of your Financial Statement.

Please see our enclosed Privacy Policy.

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**.

The Bay City Financial Services, Inc. (BCFS) Privacy Policy

The BCFS privacy policy applies to all current and former clients. It also applies to any individual or entity where BCFS has collected personal information for the purpose of determining the appropriateness of establishing a client relationship.

1. **We do not sell your personal information to anyone.**
2. **We do not disclose personal information to third parties, unless one of the following limited exceptions applies,**
   - We disclose personal information to companies that help us process or service your transactions or provide custodial services for your portfolio.
   - We may disclose or report personal information in limited circumstances where we believe in good faith that disclosure is required or permitted under law, for example, to cooperate with regulators or law enforcement authorities or resolve client disputes.

Outside of these exceptions, we will not share your personal information with third parties unless you have specifically asked us to do so.

3. **We do collect personal information in the normal course of business in order to administer our relationship with you and serve you better.**
   - New account application, phone conversations, annual meetings and other means. We collect information that you provide to us when you open an account; discuss your personal and financial information by phone or e-mail and during periodic meetings. The information we collect may include name, address, phone number, e-mail address, social security number, and information about your financial situation such as assets and liabilities, income, insurance issues and more.
   - Transaction information. Once you have a relationship with us, to administer your relationship and better serve you, we collect and maintain personal information about your transactions, including balances, positions, and history, and may include your name or other data in various databases.
4. **We use your personal information to fulfill our regulatory obligations and to help us deliver the best possible service to you.**
   - For an example, we may use your personal information to provide data for the purpose of determining other services you may need.
5. **We protect the confidentiality and security of your personal information.**
   - Companies we work with or are allied with to provide support services are not allowed to use your personal information for their own purposes and are contractually obligated to maintain strict confidentially. We limit their use or your personal information to the performance of the specific service we have requested.
   - We restrict access to personal information to our employees and agents for business purposes only. All employees are trained and required to safeguard such information and sign a confidentiality statement.
   - We maintain physical, electronic and procedural safeguards to guard your personal information.
6. **We continue to evaluate our efforts to protect personal information and make every effort to keep your personal information accurate and up to date.**
   - If you identify any inaccuracy in your personal information, or you need to make a change to that information, please contact us so that we may promptly update our records.
7. **We will provide notice of changes in our information-sharing practices.**
   - If, at anytime in the future, it is necessary to disclose any of your personal information in a way that is not consistent with this policy, we will give you advance notice of the proposed change so that you will have the opportunity to opt out of such disclosure.