Bay City Financial Services, Inc.
Registered Investment Advisor

Mailing Address: PO Box 31550
Bellingham, WA 98228

Physical Address: 1255 Barkley Blvd. #102
Bellingham, WA 98226

Phone: 360-647-0649 Fax: 360-647-0068
Toll Free: 1-888-311-BCFS (2237)
Email: bcfs@baycityfinancial.com

www.baycityfinancial.com

2009 Major Stock Market Index Performance

	2009	4th Qtr
S&P 500	**26.5%**	**6.0%**
DJIA (Dow Jones Industrial Avg.)	**22.7%**	**8.1%**
Nasdaq Composite	**43.9%**	**6.9%**
MSCI EAFE (International)	**31.8%**	**2.2%**

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

Fourth Quarter 2009 Newsletter

A tumultuous decade comes to a close with an economy climbing out of the cellar and financial markets emerging from the darkness into a hopeful light of recovery.

Market Commentary

This decade began with an economy on the cusp of a recession and ends with an economy on a slow march to recovery. Financial markets staged a mammoth relief rally in 2009 as world governments scrambled to support the global financial system and stimulate the economy. Economic conditions remain tight, but employment and economic growth are showing signs of a slow recovery from what many feared was a downward spiral into another Great Depression. Markets began their rally in March when the Dow Jones Industrial Average bottomed at 6547 and ended the year at 10428, a 59% recovery from the low! The stock market recovery is built on three principles: a stabilized financial system, an easy monetary policy and strong growth in corporate earnings. The challenge to sustain our recovery will depend on several factors including stimulus money that creates jobs, corporations that begin to spend their multi-trillion dollar cash hoard, and continued low interest rates that allow for economic expansion without inflationary pressures. **2010 should continue our market rally, but not without volatility and uncertainty** as the Federal Reserve contemplates tightening interest rates in response to a healing economy. **You should expect market corrections during the year as economic data are released and investors react in expectation of the Federal Reserve Bank removing stimulus.** When the Federal Reserve raises rates, it is a sign that our economy is gaining strength and is a long term positive for stocks.

This decade was the worst on record for stocks and an investor in long term government bonds would have outperformed a stock investor during the last 10 years and would be just above stocks over 20 years! We now enter a decade where this trend will reverse. Bond prices are peaking and stocks are in the midst of a recovery from a drastic sell-off. **While we don't expect above average returns the next 10 years, we do expect good performance in the U.S. and better performance overseas in economies with less debt and more growth.**

Your Portfolio

The Multiple Manager Portfolios (MMPs) ended the year up substantially and included significant gains in small company funds such as the William Blair Small Cap Growth which finished up over 70% and the Loomis Sayles Bond fund which was up close to 37% and was named Morningstar's Fixed Income Fund of the year. We made tactical changes in June which included adding back an Emerging Markets fund to growth portfolios. We were rewarded with a gain of 33% in six months. Another addition to many portfolios was a large growth stock fund which climbed 32% in six months and up over 70% for the year. Our tactical changes to the portfolios and active investment managers allowed for significant outperformance in 2009…a welcome relief from the losses of 2008. We are rebalancing most portfolios and removing the Allianz Small Cap Value fund due to new restrictions on investments. It is being replaced by the Perkins Small Cap Value fund. We are looking at other tactical changes as market and economic trends change throughout the year.

2010 Limits

2010 Contribution limits for IRAs are unchanged from 2009. Maximum Roth/Traditional IRA contributions remain at $5,000 with a $1,000 catchup contribution if over age 50. Simple IRA limits remain at $11,500 with a $2,500 catchup and 401k contributions remain at $16,500 with a $5,500 catchup if over age 50. Don't forget to make your Roth and Traditional IRA contributions for 2009 before April 15th.

401k Corner

Plan Participants, you ***may*** be able to take advantage of the Saver's Tax Credit. This tax credit is aimed at low to moderate-income earners to encourage saving towards retirement. Contact BCFS or talk to your tax advisor for more information.

Now is a good time to revisit your 401k deferrals. You should aim for 10-15% of your pay in order to build up a retirement nest egg that will last in your retirement years.

Housekeeping:

1. Remember, it is important that BCFS stays current with changes in your financial profile and goals. Please contact us if you need to update this information.
2. If you have a taxable account, you can expect a Gain/Loss report and 1099 in the mail in February/March with your tax information.
3. If you would like an updated ADV disclosure stmt., please contact us.
4. Please find our Privacy Policy on the reverse side of the newsletter.

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.