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## 2009 Major Stock Market Index Performance

	YTD	2 <sup>nd</sup> Qtr
S&P 500	1.8%	15.2%
DJIA (Dow Jones Industrial Avg.)	-3.8%	11.0%
Nasdaq Composite	16.0%	20.0%
MSCI EAFE (International)	5.6%	23.7%

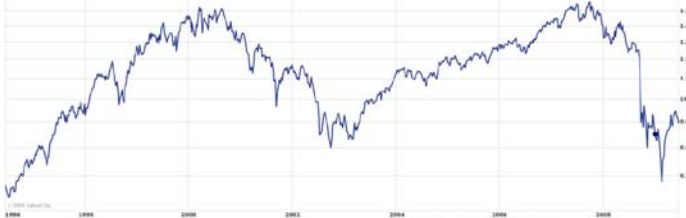
Source: The Wall Street Journal & MSCI. These indices are unmanaged and gross of all fees. Your individual performance is not represented by these indices.

## Second Quarter 2009 Newsletter

The stock market has rallied off its March lows amidst a “less bad” economic environment and a more stable financial system. The healing process is ongoing...

### Market Commentary

The stock market finished the second quarter posting four months in a row of positive performance...a welcome relief from the depressing losses of the last year. The widely followed S&P 500 Index jumped 15% for the quarter and eked out slight gains for the year. The second quarter was its best since the rally of 2003. The stock market is up 36% from its low, but is still off 40% from its all time high set back in October of 2007 (see the chart below for a look at June of 1996 through today).



**This has been a “relief rally” as our economy has shown signs of stabilization and the government has stopped the bleeding in our financial system.** Low interest rates and federal stimulus money have provided a backstop to this brutal recession, but we are a long way from a healthy economy and the rally is tenuous as investors are worried that the fundamentals don’t support rising stock prices. A “less bad” economic situation can only take us so far... We are waiting for critical corporate earnings data in late July and the ongoing jobs, manufacturing, housing and consumer data that will determine the long-term health of our economy. We are watching our government for signs that they are concerned about our hefty deficit and have a doable plan for restoring fiscal balance. When a person, company or country loads up on debt, any missteps have a much more dramatic consequence.

Industrial production continues to be weak and our unemployment rate is likely to top out over 10%. The national average work week is down to 33 hours and hourly earnings have not increased. If we don’t have income, we cut back on travel and unnecessary expenses and consequently, businesses suffer. Spending will not recover until our greatest financial asset, our homes, stop their price free-fall and those that are looking for a job, get one. Stocks trade on expectations for future economic and corporate growth. Corporate earnings are likely to

have one more quarter of negative growth, but the outlook is for positive growth in the fourth quarter. The economy is showing signs of turning and many economists expect growth in the last half of the year. This more optimistic outlook was enough to fuel the market rally as investors see light at the end of the tunnel (and it’s not a train coming at us).

We are optimistic for a continued market recovery and a return to growth in our economy, albeit at a slower pace. **In a slower growth environment, it will be even more important for you to save more, spend less and to not give up on stocks.** If your cost of living is increasing 3% and health care at 7%, you need the long term growth of stocks. If inflation jumps up like many expect, stocks are a necessity to keep up.

### The Strategy

Bay City Financial Services made tactical changes to the portfolios in late June to position for the coming months. We added back a small position to emerging markets, which we had removed entirely a year ago. This provides exposure to the growing economies in Latin America and Asia. We removed the positions in the First Eagle Global Fund because the veteran star manager retired. We added a little more to Growth and Small Company positions and reduced exposure to Western Europe as they will be much slower to recover. As we come out of this recession, the stronger economies overseas show the greatest potential for growth. As we are cutting back our spending, the Chinese are just beginning to consume more goods. The Multiple Manager Portfolios (MMPs) are positioned for continued growth overseas and in select areas in the U.S. including technology. The top three holdings in the Capital Growth MMP are Google, Microsoft and Apple, but technology is still only about 19% of the stock portfolio. As always, it is crucial to stay diversified.

### 401(k) Corner

The 2009 Employee Benefit Research Institute survey shows that half of all workers over age 55 have less than \$50,000 saved for retirement. 67% of workers are *not too* or *not at all* confident that Social Security will continue to provide benefits of at least equal value to the benefits retirees receive today. The message is clear... People don’t save nearly enough and they don’t have confidence in Social Security. How will they ever retire? **It is crucial that you take ownership of your future and save towards your retirement. The longer you wait, the tougher it will be.**

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.**