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## 2010 Major Stock Market Index Performance

	YTD	2 <sup>nd</sup> Qtr
S&P 500	-6.65%	-11.43%
DJIA (Dow Jones Industrial Avg.)	-5.00%	-9.36%
Nasdaq Composite	-7.05%	-12.04%
MSCI EAFE (International)	-13.23%	-13.97%

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

# Second Quarter 2010 Newsletter

## Market Commentary

The second quarter started out strong, but economic headwinds and continued worries over debt levels in Europe pushed stocks lower in May and June, which wiped out the gains of the first quarter. Investors are jittery as volatility (an indicator of investor fear) jumped in May as unusual trading made headlines. International stocks were punished as Europe struggles with debt, austerity measures, anemic growth and high unemployment. While stocks were down during the quarter, July has begun with a market rally.

## Market Challenges

**Taxes:** In 2011, the Bush era tax cuts are set to expire. The 10% tax bracket goes away and the upper bracket increases to 39.6%. The capital gains tax rate increases from 15% to 20%. Increasing taxes is bad for stocks, but due to economic conditions, Congress is talking about extending these tax cuts, which could be a boost for stocks and more money in your pocket.

**Economy:** The economy is growing at a paltry 2.7% with an unemployment rate around 10% and an "underemployed" rate of 17%. Housing sales have yet to turn around and the consumer is saving more and spending less. But the economy is growing and it is doing it with little help from key areas like home and vehicle sales. Stock prices already reflect our anemic growth rates, but continued poor job numbers could hurt stocks down the road.

**Debt:** Our national debt is over \$13 trillion and that doesn't count our Social Security and Medicare liabilities. Debt levels in Europe and Japan are even higher on a relative basis. Confidence is key as investors don't want to invest in something that is at risk of insolvency. The U.S. has little risk because of our unique financial situation, but it will cost the taxpayer as local and federal governments try to close the budget deficit. Stocks can go up despite our debt, but only if we have a plan to contain it and maintain good economic growth.

**Regulations:** With healthcare and financial system overhauls, the government is becoming more involved in free markets. One has to wonder how affective they will be in lowering health care costs and protecting our financial system given the political gridlock in Congress.

**The silver lining is that U.S. companies continue to report strong earnings and have a significant cash reserve.** Over the long term, the value of stocks are determined by the earnings they make for shareholders.

Stocks are trading at historically very low levels compared to their earning power, but their real value may not be completely realized until the economic horizon begins to clear.

## Outlook

The summer is typically a slow time for stocks and September and October are historically the worst months of the year for stock market performance. We are in the second year of the recovery with stocks up over 50% since March 9<sup>th</sup> of 2009.

**Typically, the second year of a recovery is flat for stocks and prices may be rangebound for the next several months, but stocks are poised for a rally if we can just see a reduction in bad news** (BP oil spill, new regulations, European debt crisis, poor economic numbers, slower growth in China...to name a few).

## The Portfolios

The Multiple Manager Portfolios held up well during the year due to our exposure to small companies and emerging markets. While China has performed poorly this year, Brazil and India are booming. Small companies with little exposure overseas have been great performers and are acquisition targets as big companies look to spend their cash. A year ago, we added some risk back into the portfolios, which has paid off handsomely, but we are still cautious and continue to underweight Europe and the volatile small company sector. Our Treasury Inflation Protected Bonds fund and the Pimco Total Return fund are both up close to 5% for the year as conservative bonds have performed well.

## 401(k) Corner

The 2010 Employee Benefit Research Institute survey shows that 67% of retirees (age 65 or older) have less than \$50,000 saved for retirement. 27% have less than a \$1,000! 39% of retirees are not confident about having enough money for retirement. 44% of workers just guess how much they need for retirement! Some basic math... \$500,000 at age 65 will get you 25 years at \$35,000 in income per year assuming a 5% average rate of return. When you add in social security, you are even better off. But remember, inflation, medical and other unplanned expenses can eat this up in a hurry. Fidelity Investments just released a study that shows that the average couple will need to save over \$250,000 just to cover medical expenses in retirement. This is in addition to medicare covered expenses and doesn't include any nursing home stay. **It is crucial that you take ownership of your future and save towards your retirement. The longer you wait, the tougher it will be. Time, Discipline and a healthy dose of stocks over the long term will go a long way towards a successful retirement. Contact us for Help.**

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.**