



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

	YTD	3 rd Qtr
S&P 500	17%	15%
DJIA (Dow Jones Industrial Avg.)	10.7%	15%
Nasdaq Composite	34.6%	16%
MSCI EAFE (International)	25.5%	18.8%

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

Third Quarter 2009 Newsletter

Stocks had their strongest quarter since 1998 as the global economy staggers toward a recovery. Can it continue in the face of high unemployment and a mountain of debt?

Market Commentary

The summer months brought sunny days and soaring stock prices. Even September which is historically the worst month for stocks was **up 4%**! The market is about where it was 12 months ago, right after Lehman Brothers went bankrupt. You may remember the first week of October in 2008 when the market was down 20% and the last week of September where headlines included "Dow falls 777 points today"...well, we are beginning to chip away at those losses and may soon be back at pre-financial crisis levels! Then, the hard part begins. How can the market go much further with an economy surviving on a temporary stimulus program and a dismal job picture? Can we reign in the stimulus and government support programs without short-circuiting the economy or causing hyper-inflation?

Our recession likely ended in June and stocks skyrocketed off their lows on March 9th, but as time goes on the pace of these gains should slow as the recovery matures. The upcoming corporate earnings reports will illuminate the health and sustainability of our recovery as we look for sales growth and a more positive outlook for the coming year. During the recession, companies kept inventories and costs at a bare minimum, but as we come out of this recession, demand will rise and inventories will build back up even as costs remain low...giving a boost to our economy. With a weak dollar, American products look cheaper to foreigners...a boost to the bottom line of our exporters. While this will help in the short-term, it may not last or be enough to support long-term economic growth on par with the last 20 years and there remains significant risks to our recovery including large fiscal deficits, continued unemployment, a risk of high inflation and a government that is increasingly involved in our corporate and private affairs.

Experts generally fall into one of two camps...#1) we will revert to our historical average economic growth and continue as before (which seems unlikely) or #2) we enter a "New Normal" where growth remains subdued for several years with tighter government controls and a transition toward building products instead of financial instruments. Bill Gross of PIMCO described our challenge as follows: "[The U.S is] in a poor position to compete in a global economy where capitalism is

morphing from its decades-long emphasis on finance and leveraged risk taking to a more conservative, regulated, production-oriented system advantaged by countries focusing on thrift and deferred gratification." I am optimistic that we will position ourselves to benefit in this new global economy, but it will take some time and discipline and will rely on the irreplaceable American ingenuity and innovation.

Many of you are concerned about a "double dip" back down to previous low levels. While this is unlikely, it is a possibility. Remember, this recovery will not feel like much of a recovery because unemployment remains high and our home prices remain depressed. This will likely be the case for several months even as our economy grows. In the mean time, the market is up over 55% since the low on March 9th, but is still off over 20% from that dark Monday at the end of September in 2008 when Lehman Brothers went bankrupt and Merrill Lynch was forcibly sold to Bank of America and just after Fannie Mae and Freddie Mac were taken over by the government. **If all we do is just recover to this pre-financial crisis level, there is a lot more room for appreciation.**

Your Portfolio

The BCFS Multiple Manager Portfolios had their second best quarter ever and are positioned for a continued market recovery through this fourth quarter. We added to large growing companies in June and were rewarded with 20% gains in the Touchstone Sands Growth Fund in just over three months. The addition of Emerging Markets back into the portfolios also helped with 20%+ gains even as China was down 20% in August! Bonds have also done well as our TIPs (Inflation protected securities) are up over 15% this year and corporate bonds up over 20%. Areas of emphasis include the technology sector, emerging markets, basic materials (commodities), multi-national companies and companies that pay dividends. We have a minor inflation hedge in the portfolios, but will not likely see inflation for a few years. Stay tuned as we look at more changes to position you for 2010.

401k Corner

As the market continues to recover, now is the time to start or to increase your salary deferral. Make your money work for you by dollar cost averaging back into stocks and bonds.

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.**