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### 2011 Major Stock Market Index Performance

	3 <sup>rd</sup> Qtr	YTD
S&P 500	-13.87%	-8.68%
DJIA (Dow Jones Industrial Avg.)	-11.50%	-3.90%
Nasdaq Composite	-12.91%	-8.95%
MSCI EAFE (International)	-19.01%	-14.98%

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

## Third Quarter 2011 Newsletter

Two steps forward, one step back. The economy and stock market recovered from 2008's recession, only to take a step back as governments try to orchestrate instead of facilitate the recovery.

### Market Commentary

The third quarter of 2011 began with a Standard & Poors rating downgrade of U.S. government debt, but was marked by a contentious debt-ceiling debate that went to the final hour. Investors lack confidence in our government's decision making ability and pushed stocks downward during the quarter, which ended with the worst performing since the last three months of 2008. Weaker economic data, fears of another recession and an ineffective response by European countries to their festering debt problems added an exclamation point to the already gloomy quarter.

The stock market reacts immediately to any news that may affect corporate profits, but stocks have been unusually volatile and even a stray comment by a bureaucrat in Europe can cause the U.S. stock market to drop precipitously. **This new global market has made investing more challenging and will require even more patience from long-term investors, but also provides new opportunities to build wealth over time.** While scary, these market pullbacks are great time to buy stocks at a discount. A 20% discount can turn into a 30% discount and caution is in order, but these discounts can become premiums quickly once confidence is restored.

**There are several catalysts that could lift the stock market. Cheap valuations are the fuel, but a spark of confidence is necessary to build the sustained rally that we are all hoping for.** The crisis in Europe is one of the reasons for our market decline, but would also be a catalyst for a market recovery. If European leaders announce a comprehensive plan to stabilize their banks and take care of Greece, investor confidence will improve dramatically. The indecision and half measures have proven ineffective, but they will eventually realize that Greece doesn't need new loans, they need a gift and some way to drastically reduce their debts (most likely a default or significant restructuring). Another catalyst for a recovery would be legislation including job producing measures, renewed tax cuts and a housing bill which would provide confidence in a sustained recovery and a functioning Government. While Congress has been paralyzed, they may be forced to act in order to position themselves for re-election, especially given the increasing pressure from the Occupy Wall Street movement. The

public wants action, not more "exchanging of views" and it will take increasing pressure from voters to force lawmakers to work together on a plan for the people. Other catalysts include better economic data, healthy corporate revenues/profits and even just a lack of bad news. It doesn't take much to stimulate the stock market. Last year saw a 14% decline, but one announcement by the Federal Reserve Bank sparked a 32% rise in stock prices through April of this year. Momentum is a powerful force!

**For those of you in or close to retirement, it makes sense to be cautious. For those of you who have years of investing ahead of you, having a healthy dose of stocks is a necessity and a market decline is your opportunity to buy low.**

### Multiple Manager Portfolios

The more growth oriented portfolios started the year off strong with our emphasis on small and mid-sized companies leading the way, but these proved to be the biggest losers during the third quarter, dragging down the performance of the MMPs. While these companies are poised for a recovery, we are looking at any adjustments to the allocation that improves the risk/return profile. The more conservative portfolios held up well during the quarter with exposure to Inflation Protected Bonds posting big gains. Our allocation to high quality bonds helped stabilize these portfolios despite high stock market volatility. Remember, the MMPs are not designed to copy what the stock market does. The growth oriented portfolios may underperform in short time periods, but should outperform over longer time periods (>5 Yrs).

### 401k Corner

**Keep Saving.** A good rule of thumb is to save about 9%-12% of your income each year, but given the current stock market environment and the state of future retirement income, you will likely need to save even more (12%-15%). **If you are concerned about the market, you can dial down the risk and increase your savings.** Money you contribute now is buying stocks at a discount, which will help you when retirement comes. **Take advantage of the tax benefits, the savings benefits and any free money offered by your employer.**

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.**