



Mailing Address: PO Box 31550 Bellingham, WA 98228	<u>2008 3rd Qtr</u> <u>Major Stock Market Index Performance</u>												
Physical Address: 1255 Barkley Blvd. #102 Bellingham, WA 98226	<table><thead><tr><th></th><th>YTD</th><th>2nd Qtr</th></tr></thead><tbody><tr><td>S&P 500</td><td>-19.29%</td><td>-8.37%</td></tr><tr><td>DJIA (Dow Jones Industrial Avg.)</td><td>-16.59%</td><td>-3.71%</td></tr><tr><td>Nasdaq Composite</td><td>-21.49%</td><td>-9.19%</td></tr></tbody></table>		YTD	2 nd Qtr	S&P 500	-19.29%	-8.37%	DJIA (Dow Jones Industrial Avg.)	-16.59%	-3.71%	Nasdaq Composite	-21.49%	-9.19%
	YTD	2 nd Qtr											
S&P 500	-19.29%	-8.37%											
DJIA (Dow Jones Industrial Avg.)	-16.59%	-3.71%											
Nasdaq Composite	-21.49%	-9.19%											
Phone: 360-647-0649 Toll Free: 1-888-311-BCFS (2237) Fax: 360-647-0068	Your individual performance is not represented by these indices. Source: Morningstar. These indices are unmanaged and gross of all fees.												
Email: bcfs@baycityfinancial.com													

Third Quarter 2008 Newsletter

With our financial system in jeopardy and lending at a stand still, the economic outlook looks dim and stock markets followed suit by dropping to 5-year lows. Until confidence is restored, markets will be bumpy and trend downward, but when the government plan begins to work and banks lend again, the market could rebound quickly. Panic on Wall Street creates fear on Main Street, but it also presents new investment opportunities for smart investors.

Market Commentary

As we head into the final quarter of the year, all eyes are on the Treasury Department and Federal Reserve Bank as they roll out the Congress/Treasury Plan to rescue our financial system.

The Treasury Department summarizes the plan as follows:

“The Treasury Department has submitted legislation [which has now passed] to the Congress requesting authority to purchase troubled assets from financial institutions in order to promote market stability, and help protect American families and the US economy. This program is intended to fundamentally and comprehensively address the root cause of our financial system's stresses by removing distressed assets from the financial system. When the financial system works as it should, money and capital flow to and from households and businesses to pay for home loans, school loans and investments that create jobs. As illiquid mortgage assets block the system, the clogging of our financial markets has the potential to significantly damage our financial system and our economy, undermining job creation and income growth.”

By the time you receive this newsletter, auctions of these illiquid mortgage assets will be imminent or may have even begun. Their value and cost to the taxpayer will become more clear and markets respond positively to clarity. This is a required step before the stock market can recover, and the brutal sell-off in the market could be followed by an equally large recovery when investor confidence is restored. Don't miss it.

What Should I Do?

This has been a rare period of time where stocks, bonds, real estate and commodities have all been beaten up, but the US has actually favored better than our international counterparts... Russia is down 50% in three months and even commodity focused Canada is down 25% this

quarter. Where does the safe and smart money go? Investors are worried about their FDIC insurance and the stability of their bank. Even gold was down this quarter. You need to reevaluate your risk tolerance and be mindful of your time horizon. Short-term events can hurt short-term investors, but an investor with a long-term time horizon can be patient and continue their investing discipline. Stocks may go up and down drastically, but that volatility makes them attractive for long-term investors because the reward can be huge. The key is not to react emotionally or with fear, but instead intelligently evaluate your asset allocation and goals and make any appropriate adjustments. The smart money does not make bets, it invests wisely.

The Next Step

Bay City Financial Services continues to monitor your portfolio and has made adjustments in the last several months to reduce risk and more changes may be forthcoming. Drastic swings in markets present rare opportunities and opportunistic investors like Warren Buffett have been buying blue chip companies at cheap prices. With \$4 trillion sitting on the side lines, large U.S. stocks which are at multi-year cheap valuations may be your greatest opportunity. Bay City Financial Services is optimistic for a stock market recovery, but we don't know when it will happen or in what time frame. The strategy, as always, is to prudently diversify and use asset allocation to protect from fundamental problems in certain sectors of our economy.

Our Pledge

This has been the most difficult newsletter to write given the poor performance this quarter and the year to date. Markets don't always go up, but the losses in this year have been unusually large. Our complete attention is on your financial future and we scrutinize our past investment decisions and strategize to make good future investment decisions. Our pledge is to prudently invest according to your personal needs.

Don't forget to vote!

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.**