



DeBoer Financial Group
Retirement and Estate Specialists

Financial *focus*

Fourth Quarter, 2011



Message from Jeffrey DeBoer

Happy Autumn! It's hard to believe that summer is over and the holidays are just around the corner. We hope that you and your family have a wonderful upcoming holiday season.

Doesn't it seem like we have been surrounded by more "negative" type news lately?! I prefer to be optimistic, so I thought I'd start this newsletter with three pieces of good news!

1. How would you like an extra hour of sleep? I know I could use it! Don't forget to "Fall Back" one hour on Sunday, November 6 for Daylight Savings.
2. For those of you earning a Social Security check, you are getting a raise! Social Security announced a 3.6% benefit increase effective January, 2012.
3. What a better way to start the holiday season, than by watching a holiday movie? You will want to join us in early December for our exclusive viewing of Arthur Christmas. Watch your mail for your invitation!

In this issue of Financial Focus, I've focused most of the attention to the monumental challenges that have been facing the world economy over the last several months. I encourage you to take the time to read through the details, as I think it will provide you some valuable insight on our current views of the markets and economy.

You will also find information on two recent client events that we hosted. We truly enjoy these events and are glad that so many of you were able to join us!

As always, thank you for allowing us to assist you with your finances. We will always strive to provide you the very best advice and service that you deserve.

MARK YOUR CALENDAR!!

2011 Client Appreciation Christmas Movie Event

**Saturday, December 3, 2011
9:00 a.m.**

**Regal Olympus Pointe 12
520 North Sunrise Avenue
Roseville, CA**

**Watch your mail for your
invitation to our special client event.
We will show an exclusive viewing
of the new Christmas film:**



**We look forward to celebrating the
upcoming holiday season with you!**

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Client Appreciation Event Concert at the Fountains August 17, 2011



Over 200 clients and guests joined us for a great evening of barbeque and country music. We teamed up with **Operation Mom** in support of our troops overseas. The event featured a catered Back Forty barbeque dinner followed by the great music from the Buck Ford Pure Country Band.



Donations were accepted at the event to create care packages for our troops abroad. With your generous support, we received enough contributions to assemble over **50 care packages** for our troops!



Operation Mom is a local non-profit group that wishes to show support for our active military personnel by hand packing "A Little Touch of Home" care packages which are shipped to our troops serving abroad. In a small way, these packages help boost the morale of our deployed men and women as they struggle daily to keep out of harm's way.

DeBoer Financial Group would like to thank all of you who showed your support for our active military members. This event would not be possible without your generous gifts. Your thoughtfulness will truly make a difference in the lives of our troops. You can learn more about **Operation Mom** at www.operationmom.org or by calling Pat at (530) 908-0751.





Client Educational Workshops

Know Your Elder Care and Long Term Care Options

One of our goals as a financial planning firm is to constantly raise the bar for providing financial services to our clients. In line with that, we offer educational events such as the workshops held on October 11 and 12 in Roseville and Lincoln.

Some of the top concerns facing retirees today are medical expenses and outliving their savings. In these two workshops, we covered an overview of extended healthcare essentials, reviewed the various types of housing and care options, and explored different strategies that are available to pay for potential extended healthcare.

The average life expectancy in the U.S. is now 78. Paying for an unexpected healthcare event that you haven't planned for can have a very negative impact on even the most well-structured retirement strategy.

Two out of three people 65 and older today will require extended care at some point in their life. The average length of that care is almost four years, and the average life expectancy after an Alzheimer's diagnosis after age 70 is four to seven years.

Anyone who has gone through something like this with a loved one knows how draining it can be – financially and emotionally.

A question that I hear quite often is what options are available for housing and care? The good news is that you don't have to go about this alone if you ever need assistance. We had a special guest speaker join us, Jerry Schreck, President of About Elder Care, located in Roseville. About Elder Care assists retirees and their families by providing advice and counsel with a goal of finding the best option available that fits your housing and care needs, and budget.

Jerry reviewed many of the various programs and options that are available in the event you or a loved one ever need care. Please let us know if you would like to learn more about the information that Jerry reviewed and some of the available options.



Another question that you need to consider is, "How would I pay for care if I ever need it?" The cost of healthcare is rising rapidly. For example, in Sacramento the current cost of *in-home care* averages over \$48,000 a year and the cost of a private room in a *nursing home* is almost \$95,000 a year. These costs are expected to more than double over the next 15 years! There are various options to transfer some of the risk of paying for the high cost of potential extended healthcare.

We discussed the pros and cons of traditional long term care insurance, using a percentage of your portfolio to pay for premiums. We also reviewed the California Partnership Program, which can provide some asset protection for Medi-Cal.

We reviewed Linked Benefit Products, which can be a viable solution for many people. With this option, a portion of your portfolio is reallocated to provide leverage of approximately 4 to 6 times the investment for potential care expenses, while providing an income tax-free benefit to beneficiaries of 1.5 to 2 times the investment if you *never* need care.

If you were unable to attend the workshop, please contact us and we will be happy to review this important information with you in our next meeting.



4th Quarter Economic Update

Presented by Jeffrey W. DeBoer

Third Quarter Review

Stock markets had a turbulent quarter amid investors' growing despair about political efforts to deal with the monumental challenges facing the world economy. The Dow Jones Industrial Average ended the quarter down 12%. The Standard and Poor's 500 Index suffered an even larger 14% decline. The damage was much worse in Europe, where the French and German stock indexes lost more than 25% of their value. Asian stocks also took a pounding, suffering losses into the double digits as well. Hong Kong's index, for example, lost about 21%. (*Source: WSJ, October 3, 2011 – Spooked Investors*)

This was caused primarily by investor anxiety. Europe is in a debt crisis, the U.S. is flirting with a double-dip recession, and fast-growing economies around the world, such as China, are slowing down.

Many investments, from U.S. stocks to crude oil to even some emerging market currencies, had the worst quarter since the collapse of Lehman Brothers in 2008. Like 2008, many investors are worried about the health of banks (this time primarily in Europe) and have lost confidence in the system.

The difficulties lasted throughout the quarter. When the market might have wanted to go higher, something always seemed to come along and knock it down. This onslaught of bad news, along with occasional flashes of optimism, led to one of the most volatile periods ever for stocks. The Dow moved by more than 200 points 18 times during the quarter. In August, it swung more than 400 points in four consecutive days!

Unfortunately, there are many signs globally that do not appear very favorable. Leading indicators for the world economy—such as China's stock market, copper prices and crude oil, have tumbled.

Here at home, economic data in July showed the U.S. recovery was slowing, and policymakers in Washington took the country to the brink of default in early August due to the debt ceiling problem. Standard and Poor's downgraded the U.S. credit rating, sparking a rush out of U.S. stocks, while Europe's debt troubles deepened. Many investors felt that the fate of the markets was in the hands of the politicians, making risk management very difficult.

Although nothing really specifically stated the U.S. economy was going into a recession, there weren't any clear signs that the economy was returning to robust growth either. Many economists believe that we remain stuck in neutral. Job growth is anemic, the housing market remains stuck, and the stock market still needs to recover. On the other hand, consumer spending continued to remain at the same pace, and corporations continued their record profits.

There are many indicators that are causing many investors to be nervous:

- Uncertainty about the economy's slow spending.
- Corporations have the cash, but are afraid to spend it.
- Regulation is stifling the economy.
- Europe is responsible for 27% of our exports. (*Source: BTN, October 3, 2011*)
- Europe's problems could cause significant negative consequences to the U.S.

For years, many investors have been trained that they need to invest in equities for growth. However, the magnitude of the market swings over the last three years is likely to have a lasting impact on investor psychology, especially those who may have sold out at the wrong time and missed some or all of the rebound.

A recent post-recession survey found that protecting assets is now five times more important to Americans aged 55 and older than achieving higher returns. These investors realize that their portfolios may miss sizable growth opportunities from big market gains because they are not invested, but feel that they cannot afford to lose any more of their retirement savings.

Unfortunately, many people only had one thing in mind—safety! Many investors sold and raced for the exits and it is still unknown whether or not this was a wise thing to do.

Stampede into Bonds

U.S. Treasury debt had its best quarter since the first quarter of 2008. Treasuries maturing in ten years or more returned 23% during the quarter, according to Barclay's Capital Index data. Not since 1995 have investors done so well owning longer-dated U.S. government debt.



However, according to the Fed economists, expectations for interest rates, growth and inflation indicates 10-year notes are the most overvalued on record. (*Source: WSJ, October 1, 2011 – Stocks Log Worst Quarter*) Yields on U.S. Treasury 10-year note fell to 1.71%, the lowest yield since the 1940s. With overall inflation running around 3.6%, that indicates that many investors were effectively accepting a loss.

In the case of U.S. Treasury bills, investors at times throughout the quarter bought securities that offered no yield at all. Essentially, investors were parking money with the U.S. Treasury, expecting to get back the same amount in three months. For many investors, all that mattered was certainty. (*Source: WSJ, October 3, 2011 – Spooked Investors*)

The Federal Reserve has promised to keep short-term rates low for another two years and it keeps the rate on 10-year bonds down by printing money and using that to buy the bonds. Artificially low interest rates may stimulate people to buy homes and use their credit cards, but they have the opposite effect on people with money in the bank.

For example, widows used to live off the interest on their bank deposits. How can you do that when the yield is only about 0%? Many investors have their money in Treasury bonds because they are considered “safe.” They are safe only in the sense that you know what is going to happen. You know they’re going to make you slightly poorer.

Bullish Opinion

Now for a bit of good news...corporate earnings have held up well throughout these problems and we are hoping for more of the same. Earnings are close to all-time highs, and more important, stocks overall are trading at the lowest prices since prior to the great bull market in August 1982.

Even amid double-dip fears, many analysts predict that earnings are likely to be higher this year and again in 2012. It appears that the stock market is hardly sailing off the end of the world!

Many American companies, which have been accumulating cash while they wait for signs of a solid rebound, have some of the largest cash positions in their history, which should allow them to weather almost any storm. The Federal Reserve said that there was \$2.05 trillion in cash and other liquid assets as of the end of June, the most since 1963, primarily due to better earnings and record profits in some recent quarters.

Recessions typically catch companies that are not as flush with cash. Tighter credit and declining revenues often deplete a company’s operating funds and prompt layoffs, which compound the economy’s pain and cause more uncertainty. That makes it even harder to get credit, further tightens cash availability and discourages companies from investing to take advantage of an eventual recovery. However, this time, “The cash should act as a shock absorber,” says John Lonski, chief economist at Moody’s Investors Service. “With more cash, companies would be less inclined to cut...capital expenditures and staff.” (*Source: WSJ, October 5, 2011 – Companies \$2 Trillion*)

The U.S. economy is a highly complex and multifaceted mechanism. It is extremely difficult, if not impossible, to predict accurately, despite the fact that many economists make their predictions with great confidence.

While third quarter earnings could potentially boost share prices, timing such a rally, if it does happen, is difficult indeed. Studies have shown over the years that investors typically pick the wrong time to sell and buy shares, especially when markets are so volatile. And another major problem is you have to get three things right: when to get out, when to get back in, and where to invest that money in the meantime.

When a recession occurs, it is because of a slowdown in economic activity. Mr. Yamarone of Bloomberg Publications equates this to someone riding a bicycle. “If you pedal too slowly, the bike will tip over,” he says. Although they share many similarities, no two recessions are exactly alike.

The magnitude of a recession is also influenced by the degree of the prior expansion. For example, the 2008 Great Recession followed the greatest credit bubble of all time. In fact, the bursting of the bubble was so severe that we lost over 8 million jobs and are still more than 6 million jobs short of fully recovering.

As economic activity slows, businesses begin to reduce their labor force in order to become profitable. This decline may be sparked by a decrease in consumer spending, which comprises about two-thirds of the GDP. As demand slows, layoffs increase and unemployment rises. As the unemployment rate rises, there are fewer wage earners to support the economy and spending falls. As spending falls, businesses reduce their labor force . . . and the self perpetuation begins.

Before the economy can recover, confidence must be restored.



The National Deficit

American national debt held steady in the \$2-3 trillion range for three decades until the early 1980s. It began to rise rapidly at that point, reached the \$7 trillion mark in the late 1990s, and then took off again after 2000.

In recent years, public debt growth has accelerated further, climbing up to \$14.3 trillion by the spring of 2011. We are now dealing with the third greatest deficit in U.S. history, after the deficits in 2009 and 2010. This staggering amount:

- is nearly equal to our current dollar GDP
- represents about 25% of all goods and services produced annually by the entire world
- increased from around \$20,000 per head (every man, woman and child in America) to \$46,000 (while the median household income is around \$50,000 before taxes)
- reflects \$0.56 in federal government borrowing for every dollar Americans paid in federal taxes
- is projected to equal 71.2% of the size of our economy in 2012 (Source: BTN, October 3, 2011)

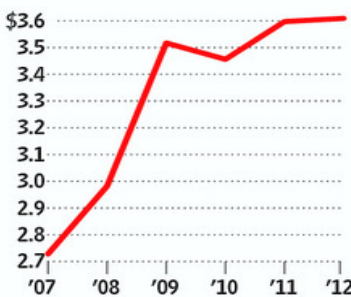
During the last quarter one of the major debates was about raising our debt ceiling. Many Americans were strongly opposed to the idea and didn't want to pass the debt burden down to their children. (Source: Advisorone.com – Deferred Liability)

The fiscal year of 2012 (10/1/11-9/30/12) and the most recent projection (released on 8/24/11) for the fiscal year by the government estimates about \$2.6 trillion of revenue, \$3.6 trillion of spending and a record deficit of \$973 billion, a shortfall of 38%. (Source: BTN, October 3, 2011)

As the chart on the right shows, 2011 will reflect almost \$900 billion more spending than in 2007. Total federal outlays will have increased by roughly one-third in only four years. This hasn't happened since World War II. The government is trying to spend their way out of a recession, but where is the promised economic growth?(Source: WSJ, August 25, 2011 – What Austerity)

The Spending Boom

Total federal outlays, in trillions of dollars, 2007-2012



Note: 2011 and 2012 estimates
Sources: Office of Management and Budget, Congressional Budget Office

This is the real cause of our current deficit and debt woes. The 2011 deficit did not come from extraordinary spending to fight the recession; these expenses are due to increases in business-as-usual spending, mostly on Medicare, Medicaid and defense, as well as a variety of entitlements. (Source: Barron's, October 3, 2011 – The Books Are Closed)

The main problem is that consumers aren't spending, and consumer spending makes up about 70% of GDP in the U.S. Why aren't they spending? Answers include:

- They're unemployed, or are worried about it.
- They've lost access to their "home equity ATM" (household equity is down about \$8 trillion since 2006).
- They feel less wealthy, less secure, due to the poor performance of the stock market over the past decade.

Recovery from these economic conditions is estimated to take a very long time. Many economists believe that real spending cuts, not small reductions and proposed increases, are needed to solve this national crisis.

China

The disappointment many investors felt with emerging market stocks intensified in the third quarter due to mounting fears of slowing global growth. The MSCI Emerging Markets Index lost 23% over the quarter, compared with 17% for all global stocks. This shows that, despite their low debt levels and steady economic growth, these emerging markets haven't lost their reputation for risk.

Changes in Chinese demand can affect commodity prices significantly. With just about two weeks left in the third quarter, the DJ-UBS Commodity Index was in positive territory for the period despite all of the other problems throughout the world.

However, hit by the prospect of a slowdown in China and other fast-growing emerging markets, the index of 19 widely consumed commodities ended the quarter down 11.3%. For example, copper—which China consumes more of than any other country—was down 8% for the period between June 30th and September 15th, and down a whopping 26% as of September 30th.

In recent years, sellers of commodities have counted on China's expanding appetite. Now that China is simply maintaining the status quo, the lower demand forecast has caused investors to take notice. Some investors still worry that China's problems could worsen.



For years, many investors put money in the broader China growth and gave U.S.-listed Chinese companies the benefit of the doubt on governance and regulatory issues. Unfortunately, the latest news to investors was a report as of September 27th, quoting the U.S. Securities and Exchange Commission director saying the Department of Justice is investigating “accounting irregularities” at certain Chinese firms. This has triggered a sharp shift in sentiment among many investors, who are now worried about hidden business risks or financial problems.

Gold

Even gold, which is often a favorite in times of turmoil, suffered a loss of 12% in one week in September, which was its worst week since 1983. It appears that the primary destination for nervous investors was cash and government bonds, despite yields below the rate of inflation. However, gold is still up 14% for the year.

No one, not even an expert, can definitively tell whether the gold run is over, undervalued, in a bubble or in a slump. Therefore, the fourth quarter opened on a cliffhanger: will gold regain its demand as a conservative investment and resume its climb or has its significant run come to an end?

In periods of economic growth, investors often ignore gold and its returns are usually outperformed by other investments such as stocks and mortgage-backed securities. However, as economic gloom spreads and recession fears continue around the world, gold often stages a significant comeback as a hedge against chaos.

The worrying part about gold’s plunge in September was that it occurred as stocks and other assets were also falling. Some skeptics are now questioning its credentials as one of the few shelters from financial storms and some investors have begun to wonder whether this is the beginning of the end for gold’s spectacular surge. Please remember that gold is considered an extremely risky investment, so you shouldn’t put a significant percentage of your total assets in this volatile commodity.

Europe

European investors endured a rollercoaster of volatility in the third quarter; stocks soared, and then sank due to almost every pronouncement from a Central Banker, finance minister or rating firm. But, unfortunately, the market’s broader direction was downward, as Europe’s debt problems flowed into the “core” countries of Germany and France.

Those two markets, which had managed to defy debt concerns for much of the year, joined the sell-off as fresh growth worries and fears of contagion from these problems persuaded many investors to dump even the less risky, most liquid stocks.

One of the things that got the market extremely nervous was the migration of the debt crisis beyond Greece and Spain to Italy. Many investors worried about a Greek default rippling across the balance sheets of European lenders.

Many investors are also concerned that the political solution to the problem is still unknown at this time. Many are working under the assumption that the Euro stays in place, but that cannot be guaranteed. For example, if Greece decides they are not going to pay, or a member nation exits the Euro, then there could be a problem of global proportions.

Moody’s Investors Service recently downgraded Italy’s debt rating by three notches to A2 and indicated it might lower it again soon. The Italian government said that it would balance its budget by 2013. Unfortunately, this illustrates how Europe’s interlocking sovereign debt and banking crises are feeding into one another.

There are worries that the Greek government, whose financial troubles started its turmoil last year, won’t fully repay its debts. These worries have triggered concern that the region’s other weak economies may also eventually default. This in turn heightens concerns about the region’s banks, many of which are loaded up with sovereign bonds.

Banks can often only escape their troubles by looking for financing from governments, some of which are already struggling with heavy debts themselves.

This vicious cycle is undermining confidence in Europe’s financial system and its economy, further threatening the shaky economic recovery in the U.S. and around the world. (*Source: WSJ, October 5, 2011 – Europe Races*)

Most of the different plans that attempted to solve Europe’s debt crisis failed to sooth investors. However, the Central Bank and promises from leaders that they’re willing to act to avoid a recession or credit crunch calmed markets at least somewhat toward the end of the quarter.

Economic indicators recently have offered fresh signs that Europe’s risks of sliding into another recession have been dampened. That’s no guarantee, but at least it is a start.



Inflation

Consumer prices in the Euro Zone rose by 3% in the twelve months through September, up from 2.5% in August and well above the target of just below 2%. It was the fastest rise in prices since October 2008, and under normal circumstances the European Central Bank's response would be an immediate increase in its key interest rate. (Source: WSJ, October 1, 2011- Inflation Surges)

These aren't normal times and other data indicated the European economy is already slowing sharply as confidence evaporates in this deepening fiscal crisis. Many investors are expecting growth to slow even further in the third quarter, which is consistent with other timely measures of activity and leading indicators. Taken together, they suggest that the European Union's Central Bank may soon have to reverse its April and July interest rate increases. With their reduced interest rates, this could cause inflation to increase. Indeed, this will be a very tough call and its long-term effect is still unknown. (Source: WSJ, October 1, 2011 – Inflation Surges)

Inflation is usually good for stocks as earnings adjust for rising prices fairly quickly. It's true that Bernanke has declared inflation all but dead, but producer and consumer prices have risen sharply this year. The CPI is up 4% and is a clear indicator of rising inflation. Forget about deflation. (Source: Forbes, September 26, 2011 – Stocks for Inflationary)

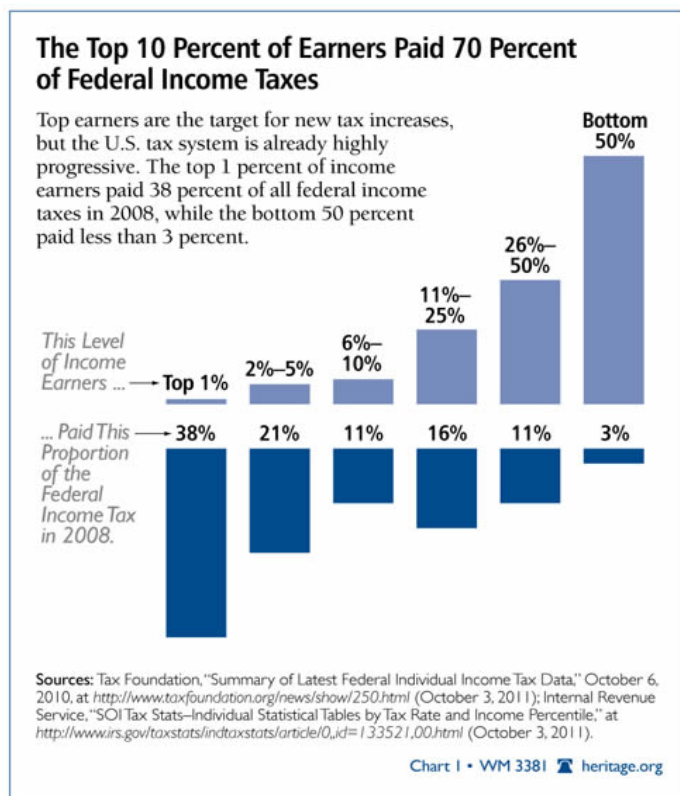
Many retirees today are concerned about building a portfolio that can provide higher current income and inflation protection while sustaining capital. Investors should consider embracing strategies designed to preserve and protect capital in an effort to avoid large losses during negative market cycles.

Income Tax Increases

A very real risk is the Obama tax hike he proposes in 2013, which could result in subpar economic growth for many years to come. Even worse, it could cause the economy to enter into a double-dip recession at a time that we need desperately to rev up growth to put 20 million unemployed Americans back to work.

Obama's increases are steeper than many past tax increases, but more importantly we are living in a world where tax rates around the world are much lower than they were 20 years ago. If the rest of the world is cutting tax rates to attract capital and jobs while the U.S. is raising them, it is hard to see how that story has a happy ending

for many American workers. The major impact of the rate hikes is expected to reduce the return on investment in the U.S. relative to other places such as China, India, etc. (Source: American Spectator, June 2011 – Redistributors in Chief)



Unemployment

There are many reasons U.S. companies give for not rehiring employees, from weak consumer spending to uncertainty about the direction of government policies on debt and spending. But a closer look at hiring provides a different picture.

Some industries have significantly boosted employment over the past year while others continue to shed workers. Many companies have improved their technology, and many of these companies only need one machine doing the work of three employees. (Source: WSJ, July 12, 2011 – Where Have America's...)

U.S. businesses hired more workers in September than August, according to a recent report, but the growth remains far too slow to bring down the high unemployment rate of 9.1%. Unfortunately, this report showed that layoffs surged in September and service businesses were not hiring more workers despite this sector's relatively strong growth.



Real Estate

Many economists, builders and mortgage analysts are predicting the weakened economy will depress housing prices for a number of years, restraining consumer spending, pushing more homeowners into foreclosure and clouding prospects for a sustained recovery. Home prices are expected to drop 2.5% in 2011 and rise just 1.1% annually through 2015, according to a recent survey of more than 100 economists just released in September. Prices have already fallen 31.6% from their 2005 peak, as measured by the Standard and Poor's Case-Shiller 20-City Index. (Source: September 21, 2011 – Home Forecast)

If the forecast is accurate, this means housing faces a lost decade in which home prices recover just a fraction of what was lost between 2005 and 2015, leaving millions of homeowners with little, if any, equity in their homes. In fact, one in five Americans with a mortgage owes more than their house is worth and \$7 trillion of homeowner's equity has been lost during this bust. Homeowner's equity as a share of home values has fallen from 59% in 2005 to 38% today. (Source: September 21, 2011 – Home Forecast) The housing bust has also reduced consumer spending, the largest single driver of the U.S. economy. Eroding home equity contributes to the so-called reverse wealth effect that prompts people to spend cautiously because they feel poorer.

While home prices aren't falling at anywhere near the pace of 2008, one of the major worries is that even modest declines become self-reinforcing, pushing more homeowners underwater and exaggerating the downward attitude caused by more foreclosures. That, in turn, could prompt more credit tightening by lenders, further shrinking the pool of homebuyers when more are needed to purchase bank-owned foreclosures.

While mortgage rates have fallen to their lowest levels in decades, applications for home-purchase mortgages are near 15-year lows, according to The Mortgage Bankers Association. Applicants today face a mountain of paperwork and never ending re-verifications.

Over the past decade, the housing market has been a powerful engine: it helped the U.S. economy out of a recession and created jobs as construction firms took on workers and new homeowners hired contractors to decorate rooms and maintain the lawns or purchased new furniture for indoors and outdoors. However, today as the sector endures a prolonged slump, many of the jobs it created are gone, and housing has now become part of what many economists see as a vicious cycle that has left the wider economy struggling to gain altitude.

Many Americans are not spending because their home values are declining and employment prospects are diminishing, while housing and employment are struggling because Americans won't spend. Many people don't want to get anything done to their houses anymore and unfortunately, many do it themselves just to save money. In addition, many people are losing their jobs and never getting equivalent jobs and therefore many people aren't in the mood to expand.

The loss of housing-related jobs and business has led to high foreclosure rates across the U.S.; according to the National Association of Realtors, 31% of August sales were distressed sales. Meanwhile, credit is tight, and banks are reluctant to lend in certain areas with home prices still falling. There is no obvious fix to this economic problem. It appears that "the only solution is jobs," according to Anirban Basu, chairman and chief executive of Sage Policy Group and an expert on Maryland's economy. (Source: WSJ, October 5, 2011 – Housing's Job) Unfortunately, it's difficult to guess when jobs will come back.

Volatility

Fears of exposure and contagions in Europe, as well as traders betting against the market, have contributed to recent volatility. Volatile trading has whip-sawed investors. It appears that once any kind of good news comes out, people will chase it. But if the news is negative it is often just the opposite.

Across the country, many investors are fleeing the stock market for the general safety of cash. On Tuesday, October 4th, the S&P 500 Index lost as much as 2.2% before a rally in the last hour sent the index up 4.5% and ended up 2.3% for the session. Some investors feel that the market is manic and there is no consistency. Volatility is usually associated with market losses, and the current period is no exception.

Unfortunately, the main problem, of course, is that investors who sell now could be left stranded on the sidelines when the market begins to rise. Bull markets are often sparked by a single rally so powerful and so fast that individual investors fail to react in time. This is what happened for many of them when the market rebounded in 2009 after plummeting the year before.

Volatility is part of investing. The fact that the stock markets experienced such a decline should not have been a surprise to anyone; it was bound to happen eventually. However, it is how one deals with this uncertainty that separates those who thrive from those who languish.



Unfortunately, it is difficult for some investors right now to think positively about the long term. The stock market has never looked crazier, with the Dow regularly spiking or sinking 500 points in a day. The steady depressing news can affect American's psychology. We must remember that most people adapt, most businesses evolve, and the U.S. economy is difficult to hold down for long. For example, Microsoft, Apple and Hewlett Packard were all launched in lousy economies. Remember that people often perform best with their backs to the wall. (Source: *Financial Advisor Magazine, October 2011 – Channeling*)

In volatile markets, additional risk management techniques are required to reduce volatility and loss. The objective of most risk management plans is to participate in up-market cycles while rationally moving from a fully invested position to more conservative holdings in the stock market. Market history indicates that limiting the loss of capital is far more important for many investors than attempting to get the highest return.

Unfortunately, as many investors' survival instincts kick in, their losses can cause them to sell as they move to protect their dwindling capital. This may cause them to sit on the sidelines for several years until markets have been steadily rallying. Investing late in the game often makes investors put money into the hottest growth stocks or sectors in an effort to play catch up. Instead of buying low, they often buy high and set themselves up for additional losses, since overvalued markets can correct.

Here are a few rules of thumb to take into consideration:

- Don't panic or let your emotions drive your investment decisions. If you are taking a long-term approach, confirm your previously set goals and assess your risk tolerance in view of the market.
- Raise some cash if it will make you comfortable. You need to consider whether you have the liquid assets to weather another decline in the market.
- Consider how you will react if the market takes a big dive. In other words, create a backup plan when you are rational and not under pressure, then refer to that plan if the market should take a big drop.
- Keep an open mind and be skeptical when an analyst (or anyone else) attributes a big market move to a specific news development.
- Don't fixate on your purchase price if the market drops. Once you make a purchase, focus on whether the fund still represents one of your best ideas, not on whether it is up or down from your purchase price.
- If your portfolio allocations are off due to market volatility, rebalance by buying stocks while prices are low and taking profits when prices are high.

- Anticipate your breaking point. If another 10% - 20% drop is going to put you over the edge and force you to sell, you should probably not have as much in stocks. Set your stock market exposure at a level that allows you to ride through ups and downs without panicking. Your investments should not keep you up at night.

The first rule is the most important. Don't panic, and maintain your long-term perspective. Recently, Fidelity examined the retirement accounts of its participants during the 2008-2009 credit crisis. Those who sold all their equity positions during the downturn, whether or not they returned to stocks later, didn't fare as well as those who maintained a position in stocks. And, as stock prices go through all their fluctuations, corporations are still posting record earnings. In fact, more than 200 stocks in the S&P 500 are paying a dividend higher than the 2% you can get on a 10-year Treasury bond. And since these corporations are sitting on over \$2 trillion in cash, many are willing to continue and possibly increase those dividend payments. (Source: *Consumer Reports, October 2011 – page 10*)

Some investors have a much tamer response this time around. After the crash in 2008, many investors moved to lower risk assets that were not shaken as badly this time around. Many investors looked at what happened just three years ago and saw the rebound. Although nothing is guaranteed, many of the investors feel the same thing today. As long as they hold fast and don't make any major changes, this current market will rebound too. Although past performance is no guarantee of future results, I do believe that this recession will end sometime in the near future.

Investors who remain committed to their long-term investment plans, even when it's tempting to head to the sidelines, are usually better positioned to realize their short and long-term goals. Again, emotional decisions tend to be impulsive and irrational decisions that compromise the realization of your stated goals. Before you act impulsively, make a list of your concerns, revisit your goals and review your strategy.

If your goals and/or priorities have changed, or if you believe your strategy is no longer appropriate given the economic environment, then contact us to review your particular situation. When there is fear and uncertainty in the air, and there is scary news that makes you question what you should do, that's when it's most important to talk to us as your advisor. We can provide the perspective you need to understand the situation at hand and how it relates to your individual goals and strategies.



Summary

The stock market is driven significantly by fear and greed. Continued high unemployment is one of the biggest factors in holding back stock market confidence. In fact, many economists feel we are just a little bit of confidence away from things turning around.

All investors have a unique situation regarding their finances. The solutions to your financial concerns will vary dramatically depending on your particular set of circumstances. We highly recommend meeting with us to confirm your specific strategies and hopefully reduce your concerns and worries.

So where do we go from here? Over the past few years, the government has been trying to “push the string uphill” by addressing the demand side of the equation through the expansion of the money supply. Historically, this, along with lower costs of borrowing, has helped stimulate economic expansion. Unfortunately, the consumer hasn’t yet taken the bait to any significant degree. Congress has extended the “Bush” tax cuts and other taxes, but Washington has tried to find alternate sources of revenue. Many economists believe that the government should be able to function on \$2 trillion per year. Unfortunately, there is really nothing more that the Fed can do; it’s primarily up to Congress and the President to act. *(Source: Investment Advisor, October 2011 – Recession Imminent)*

At the end of September, the Federal Reserve pulled fresh levers in the bond markets, but failed to dispel investor’s skepticism about its ability to kick-start the economy. The Fed’s new steps include boosting the share of longer-term Treasuries it owned by \$400 billion by June of 2012, dubbed “Operation Twist”. This is designed to bring interest rates down further, but did not strike investors as a good way to stimulate the economy and create jobs.

It is very possible the next three months will be filled with plenty of drama surrounding the Euro Zone and how to fix our finances—especially with the debate on income tax increases and balancing our budget.

Obviously, no one knows for sure what the final outcome of this will be, so that is why we suggest that everyone remembers to always review your investments with a careful eye on your risk tolerance.

You don’t need to have all of your investments primarily addressing a bull market or a bear market. You should diversify amongst the different areas to at least protect yourself from putting all of your eggs in one basket.

Above all, remember we are here to help you.

Note: Presented by Jeffrey W. DeBoer. The views stated in this letter are not necessarily the opinion of Commonwealth Financial Network, and should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Indexes cannot be invested in directly, are unmanaged and do not incur management fees, costs or expenses. No investment strategy, such as asset allocation, can guarantee a profit or protect against loss in periods of declining values. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. This optimism about the future does not minimize the fact that we have gone through one of the worst economic periods in market history. Remember that equity markets are volatile and an investor may lose money and there is no guarantee that securities will appreciate. This material contains forward looking statements and projections. There are no guarantees that these results will be achieved. The price of commodities is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility. In general, the bond market is volatile, bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. The investor should note that investments in lower-rated debt securities (commonly referred to as junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.

Sources: Wall Street Journal (7/12/11, 8/5/11, 8/12/11, 8/25/11, 9/6/11, 9/14/11, 9/17/11, 9/19/11, 9/21/11, 9/22/11, 9/24/11, 10/1/11, 10/3/11, 10/4/11, 10/5/11, 10/6/11, 10/7/11, 10/12/11), Barron’s (10/3/11), Time Magazine (6/6/11, 9/26/11), Bob LeClair’s Newsletter (8/13/11), Forbes (8/22/11, 9/12/11, 9/26/11), Investment News (10/3/11), Financial Advisor Magazine (October 2011), The Week (7/29/11, 9/23/11), Kiplinger’s (September 2011), Money Adviser (October 2011), Investment Advisor (June 2011, September 2011, October 2011), Fortune (9/26/11), Research Magazine (September 2011), Morningstar Advisor (9/27/11, 9/30/11), By The Numbers (9/12/11, 9/26/11, 10/3/11), Dow Theory Forecast (8/29/11, 9/19/11), Nick Murray (August 2011), Horses Mouth (9/12/11), Bottom Line (9/15/11), On Wall Street (October 2011), American Spectator (June 2011, September 2011) Copyright 2011 MDP, Inc.



Financial *focus*

Fourth Quarter, 2011



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