



DeBoer Financial Group
Retirement and Estate Specialists

Financial *focus*

Third Quarter, 2011



Message from Jeffrey DeBoer

I hope you are enjoying one of the coolest starts to a summer that we've seen in awhile! Although the weather might be cooler than normal, conversations are hotter than ever relating to the federal budget deficit, the future of income taxes, and the economic turmoil surrounding us in the U.S. and abroad.

During times like this, it is more important than ever to implement and monitor a solid plan to help you achieve your personal goals and objectives.

Thank you for allowing us to assist you with your planning during these "interesting times"!

In this quarterly report, we will review some recent economic and market updates, including some potential effects of the federal deficit and debt ceiling.

You can also read my answers to some recent reader questions in the Sacramento Bee Business Section.

There is a great article on page 4 with a checklist of questions to ask aging parents. This might even be helpful information to provide to your own children.

We hope you can join us at some of our upcoming client events! Watch your mail for more information on the two events referenced below.

Have a wonderful second half of the summer! I look forward to seeing you soon.



SAVE THE



Client Appreciation Event!

Concert at the Fountains

Wednesday, August 17

- Food and drinks from 5 to 7 PM
- Concert begins at 7 PM
- Bring friends & family

Upcoming Client Education Events

"KNOW YOUR ELDER CARE AND LONG TERM CARE OPTIONS"

In the Lodge at Sun City Lincoln
965 Orchard Creek Lane, Lincoln, CA
Tuesday, October 11, 2011
9:00 AM

or

In the Lodge at Sun City Roseville
7050 Del Webb Blvd., Roseville, CA
Thursday, October 13, 2011
9:00 AM

Fountains at Roseville | 1013 Galleria Blvd., Suite 205 | Roseville, CA 95678
Tel (916) 797-1888 | Fax (916) 797-4986 | info@deboerfg.com | www.deboerfg.com

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ASK THE EXPERTS

Jeffrey DeBoer was asked to join a new trio of local experts to answer Sacramento Bee reader questions on personal finances, investing and wills/trusts. In this column, we will share excerpts of our advice.

Published: Wednesday, April 27, 2011

Question: *I will be 70 years old in October. In my IRA I have a \$115,000 cash account, plus a \$65,000 bond with Citigroup. I also have \$84,000 in a savings account. The monies were in mutual funds until early 2010. I began not trusting anyone's advice after Citigroup filed for Chapter 11 just before my bond was to mature. I'd been in the market since 1996 but asked my broker to sell everything. I need to do something but don't know what. My broker advises buying an annuity with the \$115,000. What's your advice?*

DeBoer: I certainly understand how you must be feeling. With all that has happened in the economy over the last several years, it feels challenging to know what to do with your money.

With any investment decision, I recommend never doing anything you are not completely comfortable with. It is also very important that your overall investment strategy takes into account your age, income needs, risk tolerance and other objectives.

It sounds like you have a large portion of your IRA sitting in cash, as well as a fairly significant amount in one bond. This concerns me because there can be too much risk in holding just one bond. Also, money market rates are currently below 1 percent. I would recommend a more conservative allocation strategy, with a portion allocated to high-quality, short-term bonds and high-quality dividend-paying stocks.

You mentioned that your broker recommended an annuity for your IRA. In certain cases, some types of annuities make sense for a portion of a portfolio. Without knowing your overall situation, I can't say if it is right for you or not.

I recommend meeting with an adviser who takes the time to understand your personal objectives and who can make recommendations that you feel are in your best interests.

Published: Wednesday, July 6, 2011

Question: *I've got a friend who's intrigued by penny stocks. He's invested in a number of tiny companies whose shares sell for next-to-nothing. As for returns, he's had some big winners and some losers. What's your take on penny stocks? Are they risky?*

DeBoer: Penny stocks are stocks of public companies that trade for less than \$1 per share. Typically when you purchase a penny stock, you are gambling, not investing. To answer your question: Yes, penny stocks are risky, for a number of reasons.

Penny stocks trade on a market exchange that is mostly unregulated by the Securities and Exchange Commission. The chances of finding a legitimate penny stock are very low. Most penny stocks are shell companies whose value goes up and down rapidly because of the individuals trading them. They can be up 200 percent one day and down 80 percent the next, though nothing occurred in the company.

Typically, penny stocks have very low daily volume. This means you could buy and own shares, but, in some cases, have no one to sell them to. You need good liquidity in a stock, especially where the stock price can tank quickly.

Penny stocks differ from most stocks in that they have little or no following by analysts. You will rarely see a stock analyst, wire house or investment bank initiate coverage on a penny stock. Unfortunately, most of the penny stock information on blogs and websites is from individuals whose opinions are based on manipulation or touting a particular stock, vs. factual analysis.

One of my greatest concerns about penny stocks is that their price is easily manipulated. Since they have such a low share price and/or very few outstanding shares, people can easily manipulate the price by placing large buy or sell orders.

A common tactic by scam artists is called a "pump and dump." They buy many shares of a penny stock at a low price and then pump up the price by sending emails and advertisements to unsuspecting investors about this "hot stock." The victims buy into the hype, purchasing the shares and driving up the price significantly. The scam artists then sell their shares for a large profit, leaving the victims with large losses as the stock price heads south.

With penny stocks, you risk failure most of the time. Once in a while, you might get a large return if the company goes big. But over time, the losers outnumber the winners. You're much better off investing in regulated companies with a proven track record. My advice is to stay far away, unless you are completely fine with losing most of your money.

Question: *Can you tell me how many gallons of crude oil are in a barrel, as seen in the commodity market price quotes?*

DeBoer: This is a great trivia question for your next dinner party. There are 42 gallons in one barrel of crude oil. That amount produces about 20 gallons of gasoline, 9 gallons of fuel oil, 4 gallons of jet fuel, and 11 gallons of other products, such as propane and plastics. Refining increases the volume by about 2 gallons.

The price of crude oil is about \$96 per barrel; as the price rises and falls, the cost of byproducts such as gasoline fluctuate accordingly. To find the least expensive gas in your neighborhood, try these websites: gasbuddy.com, gaspricewatch.com and fuelmeup.com.

Published: Wednesday, July 13, 2011

Question: *If Congress and the president cannot agree on a solution to the debt ceiling issue by the (Aug. 2) deadline, what's likely to happen to the U.S. stock market? Would it be smart to liquidate my IRAs into IRA money markets and/or liquidate our mutual fund portfolio?*

DeBoer: The "debt ceiling" is the maximum amount of debt that the U.S. government can take on. For instance, the United States currently has a debt ceiling of just under \$14.3 trillion. Yes, that's right...the U.S. debt is \$14,293,975,000,000. In order to spend past this ceiling, Congress must agree to raise the debt ceiling by August 2.

Believe it or not, roughly 37 percent of last year's budget was financed through borrowing, so the ability to issue debt is essential to keep the government running. Default is unlikely, but the situation could lead to a partial shutdown of nonessential government services and benefit payments.

Nearly all market observers agree that Congress will raise the debt ceiling; it has done so 78 times. However, as we've seen recently, there will be a lot of partisan bickering over how to reduce the deficit. Most Americans agree that we cannot continue to spend at the current level. Some economists say if there is not an agreement, we will face a catastrophe in the financial markets. Others believe it will be a non-event. I don't know who might be right; however, as with most uncertain outcomes, we could see heightened market volatility over the short term.

I do not feel it would be prudent to try to "time the market" and move everything to cash. However, in order to reduce your risk as much as possible, it is important to review your asset allocation and have a solid plan that meets your individual objectives.

Most financial advisers recommend that investors maintain a well-diversified investment portfolio consisting of bonds, stocks and cash in varying percentages, depending on your individual circumstances and objectives. But even with a diversified portfolio, it is important to be aware of the risks.

For example, with a rising national deficit, there is now a greater risk of rising interest rates, which could affect various parts of your portfolio, especially bonds. As interest rates rise, the value of longer-term bonds will typically decrease, so you might consider adding inflation protected bonds to your allocation.

If you are concerned about severe market shocks, I recommend adding investment alternatives to your portfolio mix that can provide protection in case of severe market downturns, while also giving you a reasonable probability of inflation-protected returns. Some examples of alternative investments that might make sense are managed futures, tactical allocation funds, hard assets, precious metals and commodities.

Although these alternatives can help reduce volatility, it is equally important to be very well allocated and never put too many eggs in one basket.

Important Questions to Ask Aging Parents *(or even yourself!)*

Remember "the talk" your parents initiated (maybe) with you many years ago? Well, now it's your turn to sit on the opposite side of the table. If you're the adult child of aging parents, it's important to open up a conversation about their future needs and wishes. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.



The reality, though, is that many adult children would rather avoid such a discussion, because it can create feelings of fear and loss on both sides, and adult children want to avoid getting too personal by asking about financial or other matters. Here are some questions in the areas of finances, health, living situation, and memorial wishes that can help you start a conversation.

Finances

- What institutions hold your assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers and online user names and passwords, if applicable. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you currently work with any financial, legal, or tax advisors? If so, get a list of names with contact information.
- How often do you meet with your financial advisor? Do you think it would be helpful to do so soon? Would you like me to come?
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills?
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if he or she becomes disabled or incompetent.
- Do you have a will? If so, find out where it's located and who is named as executor. If it's more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now (e.g., Aunt Agnes should get the china set).
- Are your beneficiary designations up-to-date? Designated beneficiaries on insurance policies, pensions, IRAs, and investments trump any instructions in your parents' wills. Are the IRAs established properly to allow for stretching of distributions by the beneficiaries?
- Do you have an overall estate plan? A trust? A living trust can help manage an estate while your parents are still living.

Health

- What doctors do you currently see? Do they have experience treating seniors? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking?
- What health insurance do you have? In addition to Medicare, find out if your parents have or should consider Medigap insurance--a private policy that covers many costs and services not covered by Medicare--and long-term care insurance, which covers the need for extended medical care.
- Do you have an advanced medical directive? This document includes your parents' wishes regarding life-support measures and the name of the person who will communicate on their behalf with health-care professionals. If your parents do not want heroic life-saving measures to be taken on their behalf, this document is a must. Is their health directive coordinated with the new POLST document in California.

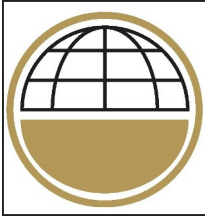
Living situation

- Do you plan to stay in your current home, or have you thought about downsizing to a condominium or townhouse?
- Is there anything I can do now to make your home more comfortable? This might include smaller projects like installing hand rails and night lights in the bathroom to bigger projects like moving the washing machine out of the basement, installing a stair climber, or moving a bedroom to the first floor.
- Do you employ certain people or companies for home maintenance projects (i.e., heating contractor, plumber, electrician, cleaner)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific music or reading requests, or other wishes for your memorial service?

The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis--without a road map.



3rd Quarter Economic Update

Presented by Jeffrey W. DeBoer

Second Quarter Review

At first glance, the market results of the second quarter didn't appear to be too bad. Despite the significant volatility and stock market fluctuations, the Dow still finished the quarter up 0.8% (up 7.7% YTD)—its fourth quarterly gain in a row, making it eight out of the past nine. Unfortunately, the larger indexes didn't do as well. For example, the Standard & Poor's 500 Index increased by 0.1% (up 6.0% YTD) and the NASDAQ Composite decreased by .3% (up 4.6% YTD) during the second quarter.

“Risk on, risk off” is a common saying on Wall Street and describes how the stock market is rising and falling as investors become alternately optimistic and then despondent about global economic growth, such as Europe's debt woes and the impact of Japan's earthquake and tsunami.

There were a number of negative events that occurred throughout the quarter. For example, while personal income increased slightly during the second quarter, many consumers didn't spend it. That meant that the National Savings Rate inched up from about 4.9% in April to 5% in May—good for individuals, but not good for an economy where consumer spending represents 70% of GDP. (Source: *Bob LeClair's Newsletter, July 2, 2011*)

There are a number of reasons why consumers are not spending, including:

- *Low consumer confidence*
- *High gasoline prices*
- *Falling stock prices*
- *Falling house prices*
- *Continued high unemployment*

This quarter, the credit rating firm Standard and Poor's had to deal with a number of countries with debt problems. It reduced Portugal's credit rating to “junk” status.

Greece was a significant subject throughout the quarter, as fears of European contagion reached critical levels.

In addition, Standard and Poor's has warned the U.S. that they may decide to reduce our credit rating if we do not handle our deficit problems and get our financial affairs in order.

Another cause of anxiety and uncertainty was the end of the Federal Reserve's \$6 billion bond buy-back program, referred to as Quantitative Easing 2 (commonly called QE2), on June 30. (Source: *WSJ July 1, 2011*) The long-term effects of this are unknown, but many investors predict it could also cause interest rates to rise.

Even with such a grim experience of worries, many investors largely expected (and continue to expect) the economy to ride out the troubles, paving the way for stock gains, even though it might be a long and winding road to get there. “In the past, some of these events would have been a detour for the markets; now they are just a speed bump,” said Mathew Lloyd, chief investment strategist at Advisors Asset Management. (Source: *WSJ, July 1, 2011*)

Despite the downbeat economic news, the major indicators were up every day as we ended the second quarter and headed into the holiday shortened week.

This is another great example of the difficulty in trying to time the market. Many investors were very concerned with the market dropping about 7% in May and decided to sit on the sidelines. Then the stock market bounced right back at the end of June and many of these investors did not participate in the rise.

We suggest making sure that we revisit your Asset Allocation and keep invested, at least to the degree that you should be, based on your long-term plan. (Source: *Bob LeClair's Newsletter, July 2, 2011*)



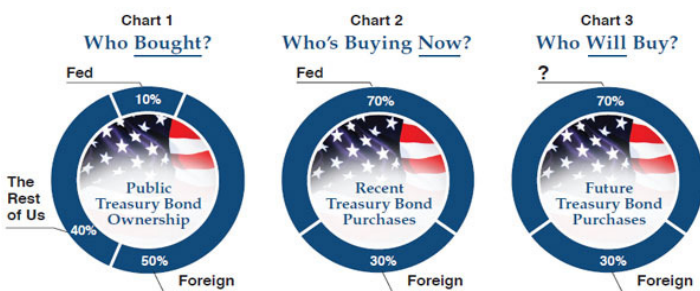
Quantitative Easing

The Fed’s controversial \$600 billion bond-buying program known as Quantitative Easing, or QE2, ended on June 30, with mixed opinions about its success. Quantitative Easing pumped money into the banking system through the purchase of approximately \$1 trillion in Treasury securities, which in turn gave banks abundant funds to lend out to businesses and consumers. The Fed officials hoped it would prevent very low inflation from giving way to a Japan-style bout of deflation; this occurs when the overall consumer price level decreases, dragging the economy down with it. The Fed also sought to stir the economy by holding down long-term interest rates, which in turn would hopefully boost prices for stocks, corporate bonds and other financial assets.

Although the Fed succeeded in putting deflation worries to rest, economic growth is slower now than what it was when the program was enacted last year. Stock prices are higher and corporate bond yields lower, prices for oil, grains, and other commodities have surged, pinching consumers.

The question still remains, who will replace the Fed as a new buyer now that QE2 is over? (Source: *WSJ April 25, 2011*) If the demand for government Treasuries is not enough to replace the Fed, it is very likely that interest rates will go up, which in turn could cause even more problems for the real estate market and additional costs for everyone.

To visualize the hole that the Fed’s void might have, PIMCO produced a set of three pie charts that illustrate (1) who owns what percentage of the existing stock of Treasuries, (2) who has been buying the annual supply (which closely parallels the Federal deficit) and (3) who might step up to the plate when the Fed and its QE bat are retired.



Source: Federal Reserve, PIMCO estimates

Unemployment

Many have expressed shock at the recent employment data. About 14 million Americans are unemployed, which is about a 9.2% unemployment rate. That figure does not include those who have simply given up on trying to find jobs, or those who are underemployed. Taking that into account, the underemployment rate stands at a stunning 19.1%, according to Galuth Organization. It doesn’t help that we currently export many of our jobs to lower-wage nations like India and China.

Many big public companies are likely to report strong second quarter profits, but that isn’t the story on Main Street, where many small business are grappling with jittery customers, rising costs and tight credit.

The owners of many small businesses say economic uncertainty and inflationary pressures have led them to delay hiring and capital expenditures. 70% have no plans to expand their staffs over the next twelve months, according to a recent U.S. Bankcorp survey. (Source: *WSJ, July 6, 2011*)

The Bond Market

Many investors continue to prefer bonds, even with interest rates at historically low levels. Although bond yields are low, many think that prices of Treasury securities could keep climbing (at the same time their yields are falling) as long as the economy continues to show signs of sputtering and the threat of financial chaos in Europe continues.

One of the major concerns of bond investors at this time is the possibility of rising interest rates, which can translate into losses for bond investors.

As you probably know, interest rates and bond prices work opposite of each other. As interest rates go up, the value of bonds goes down. In a recent presentation, Daniel O’Neil, president and chief investment officer of Direxion Shares, said, “A 1% rate hike could drop the value of a 30-year U.S. Treasury Bond by 14.5%”. (Source: *Financial Advisor Magazine, July 2011*)



The Economic Rebound

Although the U.S. economic recovery began in June 2009, many investors and business owners still don't feel the full rebound from the recession, and a range of indicators show that the economic recovery has been the worst, or one of the worst, since the government began tracking such data after World War II:

- The only time unemployment was higher than May's 9.2% rate at this point in a recovery was two years after the 1980 recovery during the 1982 recession.
- The inflation-adjusted after-tax incomes of America are up only 2% since June 2009 and haven't grown so meagerly in the early stages of any other post-WWII upturn.
- The nation's annual inflation-adjusted economic output is up 5.5% from where it stood at the recession's end and has advanced by less than one time in the first two years of a recovery—the 1980 recovery.
- Home prices were down 8.8% 18 months into the recovery, adjusting for inflation, and are much worse than they were during the 1991 recovery.
- Bank lending to businesses and households is down 4% since the recovery started, which is also the worst on record.

Another problem is that, for the first time in decades, America is losing and not attracting net growth capital. That may be the single most important explanation for our persistently high unemployment and stagnant wages.

In addition to this, many Americans are taking their investment dollars abroad at a faster pace than foreigners are bringing capital to the U.S. In 2010, for example, U.S. investment abroad was \$351 billion—\$115 billion higher than foreign investment here. (Source: *WSJ July 5, 2011*)

One of the other reasons that we have had a lack of economic recovery is due to our U.S. tax system, with its high rates and global reach.

Many savvy investors and entrepreneurs constantly search for ways to minimize the impact of U.S. taxes, and some private-equity firms have relocated U.S. companies or divisions to tax-friendly countries. Some U.S. start-ups are even beginning life offshore.

As other countries have reduced corporate taxes, the U.S. has one of the world's highest tax rates, at 35%. The U.S. is also one of the few developed countries that still seeks to tax their companies' global earnings; most countries tax only profits earned inside their borders. (Source: *WSJ, June 24, 2011*)

However, as I mentioned earlier in this report, the news isn't all bad. Corporate profits, manufacturing employment and exports are performing at least as well as they have in several other recoveries.

Profits, for example, were up 47% over the first 21 months of the recovery. On average, since WWII they have risen about 35% over that stretch. (Source: *WSJ July 5, 2011*.)

Many corporations around the world responded aggressively to the global recession, clamping down on spending and hoarding massive piles of cash.

In the United States, where cost-cutting was especially dramatic, non-financial firms hold close to \$2 trillion in cash, equal to a record 7% of total assets. (Source: *WSJ July 5, 2011*)

Much of this excess cash will be used to increase dividends or be channeled into acquisitions and other capital investments aimed at improving competitiveness and productivity.

There is also a good possibility that they may rehire some of the employees that were laid off during the recession. Many investors believe these corporate actions could be a major catalyst driving stock prices higher.



The Current U.S. Budget Deficit

There is another dark cloud on the horizon—the ongoing political struggle concerning the federal deficit and the U.S. debt ceiling. It is important to remember not to confuse the *debt* with the *deficit*. The *deficit* is the measure of the amount of money coming in versus what goes out on each year. Last year, the U.S. tax revenues were approximately \$2.3 trillion and we spent \$3.8 trillion. Our deficit for only one year was \$1.5 trillion, which amounts to about 42% of the \$3.8 trillion in Federal outlays, which means Washington borrowed \$0.42 of each dollar it is spending.

According to a recent Congressional Budget Office (CBO) report, our current national debt is \$14 trillion. The CBO estimates that we will be \$20 trillion in debt by 2015 and \$27 trillion in debt by 2021. This means in 2021, which is only one decade from now, the interest on \$27 trillion would consume half of all Federal tax revenue!

In addition, don't confuse the debt with the unfunded liabilities for programs like Social Security, Medicare and Medicaid. Social Security alone has an unfunded liability estimated at \$19 trillion! This figure is not absolute, because we could change the programs at any time.

Many investors are also concerned whether the U.S. could *default* on its debt. Although it is possible for the U.S. to be downgraded to below a AAA status, most economists believe that there is very little likelihood that we would actually default. Think about it; in the worst case scenario, the Fed would simply run its printing presses to help the Treasury cover its debt. The debt would get paid off, but at a cost; this makes each dollar worth less, which leads to inflation. (Source: *WSJ*, April 19, 2011)

Despite all of these concerns, investors continue to keep lending money to the U.S. and assume policymakers will address and solve our fiscal problems before they lead to an actual crisis. Many take confidence in Winston Churchill's famous quote: "You can always count on Americans to do the right thing—after they have tried everything else." (Source: *Fortune Magazine*, July 2011)

The Debt Ceiling

A major concern for many Americans is the potential financial impact of the debt ceiling issue. I was asked about this specific topic recently by a Sacramento Bee reader. You can read my response on page 3 of this newsletter.

The major debate in Washington today is whether the U.S. should raise its debt ceiling so it can borrow more money to stay afloat. The statutory ceiling on our national debt—our legal borrowing limit—is \$14.3 trillion. That limit was reached on May 16,' according to the Treasury Department.

The Treasury says it can still operate until early August, when the ceiling must be raised by \$2.4 trillion.

The Republicans want to raise the limit only if it is accompanied by spending cuts and no income tax increases. Democrats, on the other hand, want to raise the debt ceiling and have agreed to a \$2 trillion package of spending cuts over the next decade, but also want to raise about \$400 billion in revenue by eliminating tax breaks and deductions from many taxpayers.

There have been significant discussions and debates about what to do and there is a slight chance that there won't be any agreement by the August deadline. (Source: *The Week*, July 15, 2011)

If no agreement is reached, many people are concerned about what happens next. Nobody knows for sure, because this has never happened before. However, some economists warn that the dollar could crash, interest rates could rise significantly and equity markets could have a major meltdown. Foreign investors could also lose confidence that America is worth risking their money and that Washington is able to face and handle this crisis.

Many investors believe that cutting expenses and reconciling our differences would illustrate to the world that we can make tough decisions in a crisis and reassure our creditors and increase faith in the United States. (Source: *WSJ*, June 4, 2011)



Inflation

Inflation is upon us, even if most reports on wholesale and retail prices downplay the immediacy of the threat. Many people forget that the inflation number quoted today is considered “core” inflation—an alternative CPI calculation that excludes most food and energy prices. Core inflation is supposed to provide a more accurate, long-term picture of price movement. Unfortunately, the dramatic rise of food and fuel costs can make core inflation figures seem widely off base. (Source: *Kiplinger's Personal Finance*)

Investors should care about inflation for a number of reasons including:

- Higher inflation often accompanies higher interest rates—bad news for bonds, as prices tend to decline when interest rates rise. Most bonds pay a fixed coupon rate, and inflation erodes the value of that payment over time.
- Rapidly rising prices boost operating costs for companies. If companies lack pricing power, those higher costs erode profits, which can lead to lower stock prices.
- Wall Street values stocks based on future growth prospects, and inflation erodes the present value of the dollar expected in the future. Higher inflation means lower P/E ratios, which could also mean lower stock prices.

One of the ways to keep inflation in check is to raise interest rates which can affect many different financial areas, including real estate. Home prices in many parts of the country have sunk to 2002 levels, effectively wiping out a decade's worth of home equity across the U.S. and imperiling our economic recovery as many Americans confront the falling value of their biggest investment.

At least a bit of good news; home prices slowed their pace of decline in April, feeding hope that housing is near a bottom. Unfortunately, tens of thousands of foreclosures are expected to leave markets bumping near their current level for the rest of the year. (Source: *WSJ, June 29, 2011*)

The U.S. Dollar

The dollar today is lower than at any time since major currencies began floating in 1973. It is 13% lower than it was 30 years ago and 28% below its 2002 peak. So what does that actually mean? A weaker dollar makes Americans poorer. In other words, U.S. paychecks buy less of what the world sells us. By pushing up prices of imports, it drives inflation. Not necessarily a big problem today, but potentially one in the future.

The latest declines in the dollar have also contributed to the rising price of commodities such as gold. On the positive side, it gives exporting U.S. factories a boost by making their goods cheaper to foreigners at a time when the U.S. game plan is to rely more on exports. Many U.S. officials are unfazed by the dollar's steep slide, but might get more concerned if the dollar shows signs of disturbing other financial markets. (Source: *WSJ, April 29, 2011 & May 5, 2011*)

Commodities

Although the prices of many commodities fell sharply in early May, many analysts expect developing markets' demand for raw materials to keep growing.

Even with the recent declines, many commodities remain far more expensive than a year ago; corn is up 78%, crude oil is up 26%, and copper has increased 46%. In fact, over the last ten years the gains are particularly shocking. A decade ago oil cost \$26.25 per barrel, compared with \$95.42 on June 29, 2011, and corn cost about a \$1.89 a bushel, whereas on June 29, it settled at \$6.29. Gold prices have more than quintupled since 2001.

There are also valid arguments and plenty of reasons to think that we aren't at the end of the commodity rally, and this is merely a pause. For example, prices could increase from Japanese demand for commodities, as it rebuilds from the devastating March earthquake. China is still growing rapidly, even if its significant pace has slowed down a bit. Many other emerging nations, needing commodities, are getting wealthier too.



Gold and Silver

For thousands of years, gold, silver and other precious metals have been prized for their beauty and used as safe havens during times of war as well as periods of social and economic upheaval. In the past two centuries these metals also have served as hedges against the effects of inflation. More recently, a dramatic surge in the price of precious metals is again occurring amid worries about high debt levels and declining currency values. However, other factors have now been added to the mix, including the expanding demand for precious metals from emerging economies.

Through 2009, gold prices had more predictably moved with inflation. Since then, gold prices began to move up even though core inflation as tracked by the consumer price index remained low. That rise has been relatively steady ever since. What is different this time? Many economists believe that the price of gold has moved up in response to rising food and energy prices, which are not reflected in core inflation measures. In addition to that, there is also the law of supply and demand.

An investment in precious metals has the potential to deliver a hedge against inflation, long-term potential price increases and an added measure of portfolio diversification. Deciding whether or how to invest in it requires careful consideration. Gold and other commodities are subject to additional risks and substantial price fluctuation in short periods of time due to unpredictable international monetary and political policies and lack of regulation. As with any investment, past performance is no guarantee of future results. (Source: *By The Numbers, Federated*)

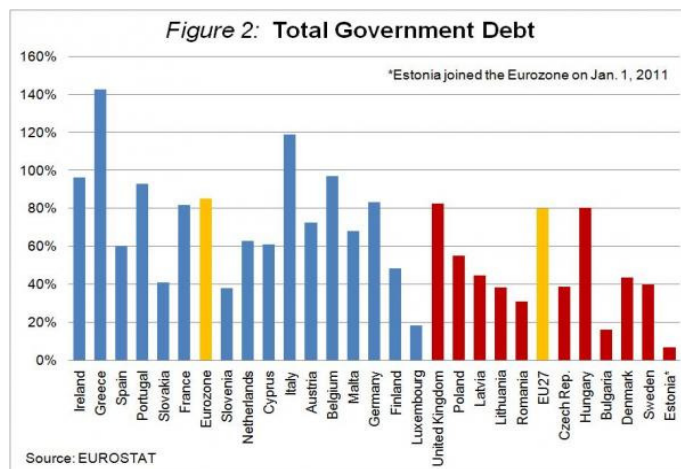
Gold could lose its increased demand if investors conclude that the world has returned to a benign investment environment, where growth is sustainable without extraordinary government support. The risk of a swift reversal is even greater because so many investors have piled into the gold market so quickly. The gold market, while popular, is relatively small compared to stocks and bonds, making it more sensitive to sentiment swings. (Source: *WSJ, April 22, 2011*)

Potential European Defaults

Greek debt is in trouble—again. After a month of discussion, it seems likely that the International Monetary Fund (IMF) and the European Union will agree to roll over Greece's debt so bond holders will be paid in full. The reason for this is that most of the bond holders are banks. If Greece defaults, then important French and German banks will be in deep trouble.

In addition, Ireland, Portugal, Spain, and Italy may soon follow. This scenario is beyond the EU's bailout capability, and it would leave the European financial system in shambles because again, the banks are holding that debt.

In April, EUROSTAT released its 2010 data on the total government debt and deficit for the 27 member states of the European Union.



The chart above illustrates the bigger threat to the euro in the long term—total government debt. Here Greece's problems are revealed, as its debt is already more than 140 percent of GDP—i.e. the government owes more than the entire annual output of its economy. Italy also has the distinction of having a debt greater than 100 percent of GDP. (Source: *iuwest.wordpress.com April 26, 2011*)

Unfortunately, many stocks in Europe fell as concerns rose about the health of the global economy and confidence regarding a resolution to the Greek debt situation. Over the last few days, it looks like they are finally working out a solution, which might include a bailout and temporary partial default. Let's hope for the best.



Summary

A question that is on many investors' minds recently is this: "Is the market overvalued?" The answer is the subject of substantial controversy right now.

There are valid arguments indicating a positive economic outlook, but also pointing toward another recession and financial crisis. The stock market has roared back from its March 2009 lows. However, the last part of the rally, which began last summer, largely has been driven by the Federal Reserve, whose policy of buying Treasury bonds to inflate asset values across the economy ended on June 30.

Although many predictions are made, it is important to remember that it is impossible to actually predict the future. Not many people would have factored in a nuclear crisis in Japan or major developments in Libya, Egypt and Europe. Still, these events are not unlike many that have unfolded in the past: the internet bubble, the Cuban missile crisis or the inflation of the 1970s. We made it through these crises and we should be able to make it through these current problems we are faced with today.

One of the biggest challenges investors face is how to tune out the prevailing mood of the market. Sticking with a long-term investment plan often requires ignoring the news, your friends' advice and even your instincts. Too often emotion, not logic, rules our investing habits, so the first step in declaring mental independence is realizing how these influences, known as biases, affect us. While most investors understand that there will be some volatility in their investment portfolios, even the strongest of nerves can be tested when tsunamis, country-wide protests and bankrupt nations are constantly in the news.

Market fluctuations are based on emotion. Unfortunately, emotions can undo the best laid financial plans. Unfortunately, finance theory makes a basic assumption about investors: They behave rationally all the time. As you know, we work with you to develop a long-term strategy and our goal is to help our clients achieve your financial goals, especially through these difficult times. Prosperity is a process, and usually a slow one at that. Take a deep breath, stay calm and stick to your plan. And remember, we are always here to help guide you.

Someone said a long time ago: "When waters are calm, anyone can steer the ship. When waters are rocky, people want to see their captain."

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.

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Sources: Wall Street Journal (4/19/11, 4/22/11, 4/25/11, 4/26/11, 4/28/11, 5/5/11, 6/4/11, 6/24/11, 6/29/11, 7/1/11, 7/2/11, 7/5/11, 7/6/11, 7/7/11), Time Magazine, Bob LeClair's Newsletter, Forbes, Investment News, Senior Market Advisor, Fortune, Kiplinger's, Money Magazine. Copyright 2011 MDP, Inc.



Financial *focus*

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