

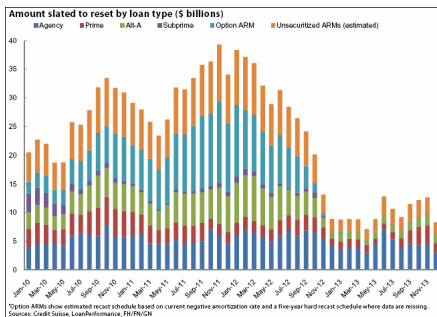
Observations

- Can we all finally acknowledge that TARP, the stimulus, and all the other “bail-outs” have turned out to be a waste of money. There was no monster in the closet that “the system would have collapsed” in 2008 or 2009. There was a blue print in place from the Resolution Trust Corporation that was established to clean-up the savings and loan mess 20 years ago. Banks that failed could have been funded the Federal Reserve, while they were liquidated and sold-off. The Federal Government would have saved a tremendous amount of money by simply insuring bank deposits up to \$250,000 per account holder rather than “bailing out” insolvent companies. Plenty of smaller firms survived and would have grown to fill the gaps created by institutions that went bankrupt. The pain should be in the rearview mirror.
- It is healthy to see a third and hopefully one day a fourth political party with credibility offering more choices for the American voter. The two party system has been unsuccessful for quite some time.

Facts & Figures of Importance

Economic

Over \$1 trillion of adjustable rate mortgages are to reset between 2010 and 2012. Starting this fall, the numbers accelerate right through the summer of 2012. Peak adjustments are still one-year off. Carefully evaluate government housing, mortgage, and foreclosure data. Political agendas sometimes lead to fudgy figures. Expect more housing uncertainty even if mortgage rates remain low.



Economic Outlook

- The de-leveraging of the economy, especially the consumer, will keep demand soft. The business spending spigot may turn up a tad, but expect budgets to be strict.
- An international currency war will slow the global recovery as countries attempt to increase exports. Cooler heads should prevail although it could be a rough ride.

Financial

	Treasury Yields		Equity Markets	
	5 Year	10 Year	S&P 500	DJWilshire 5000
2005	4.35%	4.39%	1,248	12,518
2006	4.70%	4.71%	1,336	14,257
2007	3.45%	4.04%	1,468	14,819
2008	1.94%	2.96%	896	9,087
2009	2.69%	3.85%	1,115	11,562
9/30/10	1.27%	2.53%	1,141	12,021
YTD Return			2.34%	3.97%

Do Not Overestimate Returns on Bonds

Bond holders need to crunch the numbers to understand the true return from a bond portfolio. Straight from Investing 101, when interest rates fall, the value of bonds rise. However that increase is not permanent in bonds held until maturity where the investor receives the face or par value of a bond. If the bond is sold and gains are realized when rates are at a bottom, investors must then decide where to invest the fixed income portion of the portfolio in a lower rate environment. Those holding long-term bonds have seen paper increases in bond investments, however when rates rise, those gains will be given back. Even if rates remain unchanged as the bond approaches maturity, the price will move towards par. Focus more on bond yield and understand the risks when purchasing new fixed income vehicles.

Investment Outlook

- Be wary of new currency funds being marketed by Wall Street. Currency trading is risky and can be expensive, especially considering that the game includes politicians.
- Pay attention to the tax talk in Washington, even after the election. Portfolio allocation is as important as ever especially with attempts to squeeze additional return.

Insightful Thoughts of Others

I stopped voting when I stopped taking drugs. I believe both of those acts are closely related to delusional behavior.

- George Carlin

All people are born alike - except Republicans and Democrats.

- Groucho Marx

Politics: "poli" a Latin word meaning "many"; and "tics" meaning "bloodsucking creatures".

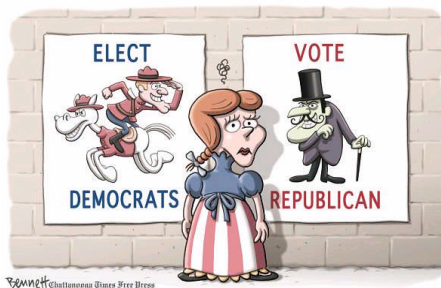
- Robin Williams

I get no respect. The way my luck is running, if I was a politician I would be honest.

- Rodney Dangerfield

Hell, I never vote for anybody, I always vote against.

- W. C. Fields



A Few More Things

- Having proven in the past two years what can be learned in a first year economic textbook, when there is a spending deficit, more spending will only lead to larger deficits. Now, certain politicians will fly in the face of economic fact that increased tax rates will increase revenue thereby lowering deficits. When economic times are good, governments may consider raising tax rates to avoid an economy that may overheat. In recessionary times, lowering tax rates leads to more tax revenue as people have incentive to earn and spend. Better yet, a stable tax policy (sans special interests) combined with spending restraint will allow an economy to adjust and limit ebbs and flows.
- Just because Congress has taken no action to amend the current tax law, does not mean something could not happen before year-end. A lame duck Congress could still take action. The alternative minimum tax (AMT) is hiding in the weeds for many tax payers unless Congress "patches" it as they did last year. If no action is taken, million of middle class are in for a surprise when they file their 2010 income tax next year.
- The federal budget for the fiscal year that begins October 1 is still not in place. Seems it was more important for our representatives to hit the campaign trail and brag about their accomplishments for us workin' folk. Yes, Social Security is now projected to pay out more than it takes in, but that is the way the federal government works. It spends more than it collects. So why worry about complicated silly things like the budget and deficits as the government can always print more money. Remember vote early; vote often.
- When considering giving to a charity, please be prudent with your money. Several websites that may assist you include charitynavigator.org, charitywatch.org, and guidestar.org. These sites can provide information on the mission and financial status of a charity. It is important that donors understand how their money is being used and if it is being spent wisely.
- **Happy Halloween.** Beware of the scary politicians who want to steal candy and money from your basket.