



December 13, 2010

We hope you and your family are doing well and looking forward to a fun and enjoyable holiday season. As 2010 moves quickly to a close, *Pacific Wealth Management*® continues to see an economy and the stock market on tenuous footing.

Toward the end of the summer, there were signs the economic recovery in the U.S. was slowing. In August, Ben Bernanke and the Federal Reserve announced plans for "Quantitative Easing II". This program, where the government actively purchases their own U.S. Treasury bonds, is designed to stimulate more growth, in an anemic economy, by artificially manipulating the bond market to keep interest rates low. Since that announcement, U.S. stocks have rallied with optimistic anticipation the nascent recovery will gain more traction.

As your wealth managers, we are continually evaluating risk in the financial markets and remain concerned about the uncertainties present around the world. The U.S. economy continues to disappoint, as most recoveries are more robust at this point following a deep recession. The overall economy is growing slowly, but not fast enough to lower persistently high unemployment. The weak spot continues to be in the housing sector, and unfortunately for United States, this is a very important contributor to the equation. The distressed real estate sector will continue to put a significant damper on the level of total business activity well into 2011 and possibly beyond, despite other industries doing better than expected.

Meanwhile, Europe is still grappling with the challenges of a debt crisis that began in Greece, recently moved to Ireland and will soon consume Portugal. The big worry however is Spain. Most politicians continue to act as if they are dealing with a liquidity crisis, not a solvency crisis. It is remarkable how the Icelandic economy has recovered following its demise in 2008-09. Iceland did what no other European country has been prepared to do- they let their banking system go bust. Germany and France are propping up their fellow European Union members with an unending supply of loan guarantees. Spain, though, is potentially the most problematic. The Spanish economy is five times larger than Greece or Ireland and has €200 Billion of financing needs for 2011, or 18% of their GDP. The risk is that Europe, which purchases over 20% of all U.S. exports, slides into recession because of the these sovereign debt issues and, in turn, compromises the U.S. recovery. The global stock market gave a resounding sigh of relief when the Irish bailout was announced. Incredibly, the politicians continue trying to solve the debt crisis by enabling already over-burdened countries to take on more debt. *"How did you go bankrupt? Two ways. Gradually, then suddenly."* – Earnest Hemingway, *The Sun Also Rises*.



The world's central bankers remain convinced that deflation presents significantly more risk than inflation and will continue to do whatever it takes to inflate their way out of this economic downturn. The consequences of this strategy will likely precipitate even higher levels of financial market volatility in the years ahead.

As you know, we are committed to preserving your wealth. Your investment portfolio remains conservatively invested as we navigate through a very delicate time in the history of the global economy. We encourage you to call us if you have any questions or comments. Again, your team at *Pacific Wealth Management* wishes you a wonderful holiday and a happy, healthy and prosperous 2011.

Best regards,

Mark C. Hill, CFP®, CDFA™  
Managing Director

James C. Kuntz, CIMA®  
Managing Director

Justin A. Reckers, CFP®, CDFA™, AIF®  
Financial Planner