



March 8, 2011

We hope you are doing well and enjoying these longer hours of daylight. Although March is upon us, the cold and wet weather of winter is still present and spring appears to be further down the road this year.

The events in the Middle East over the last month remind us how quickly and dramatically events of huge geopolitical significance can occur. What started as an isolated protest in Tunisia, precipitated by social media technology, has developed into a regional phenomenon that has toppled regimes and is threatening others. While the world's attention is still on Libya, the slow-simmering situation in the Persian Gulf countries is far more important. Instability in this part of the world has huge economic and security implications for the world. Over 40 percent of global energy output travels by sea through the Persian Gulf. As we write this, oil prices have risen to \$105 a barrel. However, it is not only about oil. Most of these Persian Gulf countries, from Oman up to Kuwait, house U.S. military installations. These military bases are vital to NATO operations in this part of the world. Should unrest destabilize the Persian Gulf states, Iran may have further room to maneuver, flex its muscle and project power. That is, unless unrest returns to the streets of Tehran.

These recent events have been portrayed in the international media as a mix of religious warfare and a cry for political freedom. However, it is also the result of rapidly rising food prices for the world's poor. The average age of the population in the Middle East and Northern Africa is young and youth unemployment is extraordinarily high. We believe the distribution of political power within the region is, now, suddenly in play. As expected, we are also seeing concerns regarding the potential for a sovereign debt default in the "Club Med" countries of Europe making headlines again. The result of all the above is instability and financial markets rarely like the ensuing uncertainty.

On the home front, the U.S. economic recovery does continue to progress and slowly pick up strength. The pace of this economic growth remains tepid but corporate profits are improving. This slow rate of growth makes the American economy vulnerable to a shock, like a rapid rise in energy prices.

Pacific Wealth Management's focus remains, first and foremost, on wealth preservation. We continue to manage your portfolio using prudent risk management principles. The recent instability in the Middle East and resulting volatility in the financial markets underscores the importance of our philosophy.



Pacific Wealth Management has just launched our new website, www.pacwealth.com, and we encourage you to take a look. We value your feedback on the new site and also encourage you to let us know if you have any questions about your investments or the news you hear in the media. We are looking forward to speaking with you again soon.

Best regards,

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