



September 12, 2011

We hope you enjoyed your Labor Day holiday and were able to find time for some rest and relaxation with family and friends.

As we expected, the financial markets are experiencing another summer of dramatic volatility amidst signs the U.S. economy is slowing and, presently, very close to stall speed. Disconcertingly, this follows a full dose of quantitative easing, which Federal Reserve Chairman, Ben Bernanke, initiated last fall. Unfortunately, the \$600 Billion of U.S. bond purchases did little to stimulate economic growth. The circus, that was the congressional debt ceiling debate, resulted in a less than inspiring band-aid resolution and prompted Standard & Poor's to cut the AAA rating of U.S. Government bonds down to AA+. This drama threw the financial markets around the world into a boil and, ironically, most of the money exiting stocks landed in those newly rated AA+ U.S. Government bonds.

At his annual Jackson Hole meeting, Bernanke acknowledged "most of the economic policies that support economic growth in the long run are outside the province of the central bank". Although he did hint the "Fed" may embark on another round of bond purchases, it is clear the Chairman of the Federal Reserve is running out of arrows in his quiver.

Meanwhile, Europe continues to deteriorate. We believe for the European Union to survive, Germany, France, The Netherlands and Finland must choose to either back the concept of a Eurobond or, alternatively, let the Greece's of the world default and write down large amounts of their weaker insolvent brethren's debt. This will require another recapitalization of the European banks by their respective countries, many of which will be taking massive losses. Unfortunately, German voters are opposed to the Eurobond concept by a margin of 5-1. We believe it will only be a matter of time before Europe has a crisis.

Although most of Wall Street places the odds of another U. S. recession at 30%, *Pacific Wealth Management* believes that likelihood is now over 50%. Your investment portfolio is productively positioned to weather the current volatility and the continuing roller coaster we expect in the months ahead. As the global economy works its way through excessive amounts of debt, we expect to find ample opportunities for growth while remaining focused on preserving your wealth.



As always, please call us if you have any questions about your investments or the financial markets in general. We are looking forward to speaking with you soon.

Best regards,

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