



November 28, 2011

With the holidays upon us and 2012 right around the corner we hope you are doing well and able to share this special time of the year with family and friends and create memories that make us thankful.

The volatility that began over the summer is continuing as stocks around the world remain held hostage to the news of the day coming out of Europe and Washington D.C. The European Debt Crisis has been at the forefront over the last few months. These problems are not new and, unfortunately, are getting worse. We, at *Pacific Wealth Management*, remain concerned the entire Eurozone may experience a financial crisis similar to the Lehman Brothers bankruptcy-induced banking crisis of 2008. What's ultimately at stake, is the integrity of the Euro Banking system and the issue of liquidity versus solvency for a growing number of countries throughout Europe. At a minimum, we believe the EU will not look the same a year or two from now, as it does today.

The European leadership, and especially Germany's Angela Merkel, is not willing to give the European Common Bank (ECB) the authority to print money and create a backstop for, not only the Greece, Portugal and Ireland's of the world, but now Italy and Spain too. The estimated size of the fund needed to provide that much-needed backstop range from €2 Trillion to €6 Trillion. Germany continues to have nightmares of the uber-inflation their country experienced in the 1920's, which ultimately brought Hitler to power and is adamantly opposed to the ECB printing an endless supply of Euros to support their weaker brethren. Regardless of Germany's decision, Europe is likely to deteriorate further before it gets better. European bond investors are now driving yields on Italian and Spanish bonds higher and by doing so, creating more challenges to an already fragile European economy. The essential question remains whether the debt problems and upcoming recession in Europe will torpedo a very tepid and tenuous U.S. economic recovery.

The U.S. economy has recently picked up a little strength over the last couple of months. Unfortunately, our politicians are not inspiring investors' confidence either. The failure of the Super Committee, once again, clearly illustrates the dysfunction among our political leadership in Washington. We do not expect much to be accomplished on the deficit reduction front before the seating of the 2013 congress.



Our *Pacific Wealth Management* portfolios remain conservatively invested and consistently focused on wealth preservation. We Americans are an optimistic group. This time of the calendar is usually conducive to better than average stock market returns as we look forward to another new year. We believe stocks have a reasonable likelihood of experiencing an end of the year “Santa Claus” rally. Unfortunately the uncertain outlook existing today on the economic and political front will soon reemerge as we head further into 2012 and with it, more roller coaster rides in our future.

Please feel free to give us a call if you have any question or comments.

Warm regards,

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