



OCTOBER 2011 INVESTMENT UPDATE

Dear Friends and Clients,

Stock markets ended a turbulent third quarter on a sour note amid investors' growing despair about political efforts to deal with the monumental challenges facing the world economy. The onslaught of bad news, coupled with periodic flashes of optimism, led to one of the worst volatile periods ever for stocks since the financial crisis in 2008. Stocks are bravely trying to claw back their losses from the August rout. But it will take time for the market to find stable ground again. The Standard & Poor's 500-stock index, ended at 1131.42, putting the measure's quarterly loss at over 14%.

By almost any measure (except corporate profits), the economic recovery since 2009 has been one of the weakest on record: While businesses have done a very good job of adapting to survive this adverse climate, the employment outlook continues to be dismal. As long as that remains true, stocks will be on a shaky ground. Dazzling rallies will give way to sudden, shocking plunges similar to that of early August.

As we write this update, it is impossible to know whether the market will regain its April 2011 highs reasonably soon, or whether that peak will hold well into 2012 (or even longer). However, we do know that Europe's festering sovereign-debt problems present a serious obstacle to economic growth around the globe. The good news is that politicians around the world (even in Brazil and China!) seem to recognize the need for a concerted effort to prevent Europe's sovereign-debit woes from spinning out of control.

In today's uncertain climate, with markets careening and the trans-Atlantic powers struggling to fend off a possible double-dip recession, there's one sensible time-honored strategy investors can count on. Capture as much of your return as you can – in the form of dividends and interest. Chasing capital gains, without regard to current income, has been a largely futile quest. This long drought will end someday and hopefully, soon. First, governments on both sides of the Atlantic must face up to the fact that they have promised more retirement & healthcare and other benefits than they can pay for without destroying economic growth. Once investors feel that this is beginning to be accomplished, we feel the major stock markets will rise dramatically.

Ever since we started our wealth management services, we emphasized the importance of maintaining a well-balanced investment portfolio. Our quarterly reports are a great management tool to assist you with your investments. In addition to our market commentary, we provide a

“Combined Performance Review” of all accounts reflecting the year-to-date performance as well as a “Combined Portfolio Statement” reflecting the detail of your portfolio categorized between Equity Asset allocation and Fixed Income Asset allocation. Overall, you will notice an increase in our Fixed Income Asset allocation over Equity Asset allocation with most of the clients having at least a 50% allocation to Fixed Income securities. Our strategy remains the same, however, we have continued to take profits more frequently so that we could gradually increase our weighting in the fixed income portion of our portfolios.

As far as equities are concerned, we sold Telkom Indonesia (TLK), which we purchased in January this year. The Indonesian stock market has largely avoided the carnage that global exchanges experienced this year. We’ve got a nice gain on this position and decided to use the cash for the purchase of other compelling positions. In addition, we took advantage of the volatility by adding small positions in The Travelers Company (LMT), Lowes Corp. (L), Martin Marietta Materials (MLM), Campbell Soup (CPB), Pfizer Incorporated (PFE) and Nestle (NSRGY).

As far as bonds are concerned, we have enjoyed the most spectacular bull market for bonds over the past three decades. Interest rates in the United States and other industrialized countries have plummeted, driving bond prices up. Rates on U.S. government debt are now as low as they have ever been since the founding of the American republic. Nobody knows exactly when the pendulum will swing in the other direction. Once this happens, investors holding long-maturity bonds at low yields will be badly hurt. This is the reason we sold the Power Shares Build America Bond Portfolio (BAB), which are long – maturity taxable municipal bonds.

We used some of our cash to continue to purchase three areas of the bond market that still offer reasonable value: High-yield corporate; mortgages; and emerging markets. In recent weeks, as fears of a global economic slump have risen to a fever pitch, both stocks and bonds from emerging markets have suffered disproportionately. However, emerging markets bonds now throw off generous cash yields to compensate us for accepting that risk. This is why we continue to buy the closed-end Western Asset Emerging Markets Debt Portfolio (ESD), which currently pays 7.3% with monthly distributions.

We want to thank all of you for giving our firm the opportunity to serve you. We thank you very much for the trust and confidence you have placed in our firm as it is always appreciated. Please contact me should you have any questions or comments. Also, we want to invite you to visit our website at www.farmandcpa.com for a quick Retirement Calculator, our latest firm news, and Market Commentary archives.