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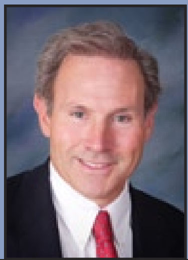

Trusted Advisor

By Gary E. Miller, CFP™

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Quarter End Report and Financial Outlook

The third quarter was a strong one for equities and bond markets, as enough investors apparently overcame their fears to bring money back in to publicly traded markets. I have heard anecdotal evidence that less expensive residential properties are selling fast and that cash buyers are able to purchase higher end properties at tremendous bargains to their prices of three years ago. Last year I told people we were in the midst of one of the greatest buying opportunities for stocks and bonds in a lifetime. I only wish I'd believed my own words with even more conviction. Now I feel the same is true for residential real estate.The results of our efforts on behalf of out investors are summarized below, with comparisons to key financial indices: (see table on next page).

Meridith Whitney, the financial analyst who gained fame for exposing the crisis at Citibank in 2007, before it was apparent to others, is currently pointing out that small businesses are being starved for credit by banks. Federal efforts to encourage credit have stabilized the flow

WHO WE ARE
Certified Financial Planner™ with 35 years direct experience advising investors

WHAT WE OFFER
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WHY YOU CAN TRUST US
We are retained as direct consultants to you. Since we act as fiduciaries, we do not offer any products, insurance, or investments for sale.
We are your trusted advisor.

HOW WE ARE COMPENSATED
We are paid by you for rendering advice for your benefit. We may make a one time review or provide ongoing financial and investment advice. Our fees are very competitive and fully disclosed.

Certified Financial Planner™

Gary Miller is in his 35rd year of providing financial guidance to individuals and pension plans. He is a Registered Investment Advisor and a Certified Financial Planner ™ Practitioner. Gary holds a Certificate in Personal Financial Planning from the University of California, Irvine and has served as a Board member of the Financial Planning Association, Orange County Chapter.

Index	Quarter	Year to Date	12 Months	5 Years
Dow Jones Industrials	2.43%	13.49%	-7.38%	1.85%
Standard & Poors 500	3.73%	19.26%	-6.91%	1.02%
NASDAQ	5.64%	34.58%	1.46%	2.27%
International (EAFE Ex US)	3.83%	28.97%	19.47%	6.07%
BarCap Aggregate Bond	1.05%	5.72%	10.56%	5.13%
Trusted Financial Balanced	**7.14%**	**11.20%**	**4.48%**	**5.88%**

between banks and from banks to the largest, most credit worthy customers, but have been of little help to small business, she says.[1] Since small business is where jobs are created and innovation flourishes, this news is quite worrisome. Recall that Apple and Starbucks were once small businesses. As we roll into October, the imminent bankruptcy of CIT Financial, a significant lender to small business, underscores the plight of this important sector. Recall too that most of the nation's commercial properties rely on rent from smaller businesses and many banks, especially regional banks, have a lot of money tied up in commercial property. Perhaps, as the IMF flatly stated last week, big banks have turned the corner and their losses are unlikely to provide further gut-wrenching surprises. But there remains a lot of bad news with many businesses teetering on the edge of extinction. I suspect the IMF's optimism is premature.

Big money center banks helped precipitate the mess we are in by sneaking around Federal guidelines, and taking on far more leverage than was prudent. As with virtually every previous financial collapse in U.S. history, most of the bad lending was secured by real estate, an asset that can't be sold when you most need to raise cash. Every important nation has efforts under way to more carefully regulate credit creation so as to prevent another orgy of gambling by the banks. But bankers are already dropping their guise of contrition and fighting to stymie responsible regulatory reform.[2]

Having worked for brokerage firms with significant investment banking operations, I have never been comfortable with the ethics or greedy mind set of most of these people. In the 1980's and 1990's the rock-n-roll investment banking mentality caught on within more traditional banks. With money costing so little, they were able to place loans to the least worthy customers, taking big fees in the process. The banks then sold these loans as complex packages of bonds to investors who did not fully understand the risks associated. Most of these loan originators were American financial institutions. One of America's strongest industries, finance, has seen its reputation tarnished in the eyes of world investors, something that may linger for years. I'm not crazy about bankers, but we need a smoothly running pipeline of money to keep our economy functioning. After the ill fated collapse of both Bear Stearns and Lehman Brothers in 2008, the government saw that the all important circle of trust between lenders had been broken. Both the Bush and Obama administrations have done everything in their power to backstop important banks and investment banks and to right the ship of finance. The success of their efforts became apparent in March, when certain modifications to rules for valuing impaired assets were permitted. At that point, bank common stock prices stabilized and began to rise, pulling up much of the rest of the world equity markets. There were, of course, many other factors at work, but restoring confidence in lenders was a key to the apparent turn around we have seen.

As distasteful as money center bankers are to me, my job is to take our clients' money to the best place we can find at a given moment. With this in mind, I realized that "too big to fail" meant opportunity in the banking sector. I was actually spending a good deal of time looking at some banks that were under pressure during the summer of 2008, but could not get comfortable with their common stock. After the Lehman Brothers collapse, and a tidal wave of panicked selling caused bank securities prices to implode, I began exploring the idea of owning senior securities issued by important financial institutions, the ones that Uncle Sam was going to save come hell or high water. It seems easy now, but our addition of a variety of banking company bonds and preferred stocks to many client portfolios in the midst of the recent financial panic took ... well, courage. No investment is without its uncertainties. A couple of our selections did not go well, but overall we kept the losses on those manageable, and held on to many bonds and preferred stocks that are now feeding clients a high level of healthy dividend income. It is useful to recall the environment in which these purchases were made. Here are some quotes from an article in the Financial Times on March 6, 2009:

"Investors in banks-ranging from holders of senior bonds to owners of riskier preferred securities are confused and in some cases panicking about whether they will be on the hook for banks' losses. 'It is clear that the government does not want national banking champions to fall, but exactly how it doesn't want them to fall we don't know,' says Kevin Murphy, managing director for investment grade corporate debt at Putnam Investments. 'As an investor you don't know exactly in what way parts of the capital structure will be treated'"
"'We are assuming that government support will be focused on depositors and bondholders but are skeptical that government support would accrue to holders of hybrid securities like preference shares, and we have seen that with Citigroup recently', says Scott Sprinzen, analyst at Standard & Poor's."
"Amid the uncertainty there is now a steady stream of investors who are actively trading and seeking to take advantage of historically high yields being paid on bank debt and capital".

The last quote of course referred to investors like Trusted Financial. With most of our bank holdings up 15%-70% since purchase, I wish we had invested twice as much in these instruments! Real money is made when you "buy straw hats in winter".

While fixed income instruments have become a large component of client portfolios in the past year, I still believe that equities offer the greatest path to growth, and a potential hedge against inflation. We are opportunistic value investors. This can mean long periods of inaction, while we await situations where investors are dumping good quality investment merchandise at fire sale prices. One year ago we began nibbling at the common stocks of a few companies we felt to be bullet proof. The winners from this act of faith have been National Fuel Gas, Yum Brands and IBM. But there were two that struggled, General Electric and Fastenal, both sold at a loss. Colgate Palmolive is up slightly from last September when purchased, but this represents a big recovery from the March lows.

I unloaded some good companies and mutual funds in the midst of the second down leg of the bear market in February of 2009 and was hesitant to again buy common stocks for the next few months. This explains our under performance year to date. Still, our clients managed to out perform all but the international stock indexes during the 12 months ended September 30 because of a cautionary, high cash position last year, and defensive holdings that allowed our clients to experience reduced damaged during the worst of the panic. As always, we focus on loss avoidance with no pretension that we will outperform during bullish frenzies. Our long term track record speaks to the success of this approach.

What's Next?

On everyone's mind, as we enter October, is the falling U.S. dollar. We seem to be picking up where we left off about 13 months ago. Recall that foreign currencies, oil, gold and a variety of commodities were the winning formula for the first seven or eight months of 2008. Then the Lehman Brothers collapse precipitated world wide panic and investors piled into the most liquid financial market in the world, parking money in dollar denominated, short term credit instruments, largely US T-Bills. This caused a massive dollar rally. As normalcy is returning to financial markets, money is fleeing the U.S. currency at a rapid clip.

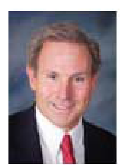
Much of this is in the form of "carry trade": People borrow at low dollar interest rates. They then use this leverage to buy bonds or similar income producing instruments denominated in a stronger currency, where interest earned is also higher than interest paid on the U.S. dollars borrowed. This activity can distort and accelerate the dollar's fall. It is, however, a speculative venture. A sudden change of heart by the US Federal Reserve, raising short term interest rates, or restricting borrowing, can hurt carry trade spreads, and has in the past lead to a rapid unwinding of positions and losses to those who arrived late to the game. This is pretty much what happened in the late spring of 2004. I have never been too enthusiastic about betting directly against the dollar. Rather, I prefer to own companies, like Pepsi, Teva, Colgate and Diageo, that sell a lot of product overseas in foreign currencies. Likewise, commodity oriented companies may hedge against a weak dollar. Nevertheless, we have this week taken some positions in foreign bonds, as it appears the dollar sell-off may have a ways to go. These markets don't give us much time to relax!

Financial Planning

As most of our clients age 70 and above know, you normally are supposed to take a portion of your IRA or pension plan (if not actively employed) out as taxable income beginning the year you turn age 70 ½. This "Required Minimum Distribution" is based on life expectancy. I've recorded a series of educational videos on the topic and they are available at our web site, www.trustedfinancial.com.

In the menu on the right side of the website's welcome page, go to **Free Financial Education**. *This year, required minimum distributions are not required*. This was a first-of-its-kind exception to the rule passed by Congress. If you have already taken a distribution and feel you do not need the money, or do not want to pay the taxes on this income, you can replace the funds, but must do so by November 30, 2009. If you need advice on your particular situation, give Gary Miller, CFP a call at the number below.

Sincerely,



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Footnotes:

1. Bloomberg.com, October 2, 2009. Whitney also predicts a further shrinkage of $1.5 trillion in credit card lines, often a source of working capital for small businesses.

2. "Bankers fight back against regulatory overkill", Financialtimes.com, October 2, 2009