



RFC FINANCIAL PLANNERS

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Planning Points

RFC Market Update

September 24, 2008

OUR THOUGHTS:

We've been able to speak to some, but not all of you, so here is our quick take on all that's happening in the markets.

These difficult and volatile times have caused a lot of anxiety for investors. No doubt these are turbulent times in which we live, given the bail out of Bear Sterns in the spring, the take-over by the Feds of Fannie Mae and Freddie Mac a few weeks ago, the collapse of one huge Wall Street investment bank (Lehman), the absorption of another (Merrill) by a large commercial bank (Bank of America), the takeover of the mammoth insurance company (AIG), and now a historic bailout of bad mortgage debt for financial institutions by the Feds.

We believe we are witnessing the unwinding of a credit crisis, a de-levering of the economy after we levered it up to the hilt with home equity loans and other types of credit. This is already an historic year economically with the probability of more to come.

We feel strongly that there is opportunity out there and that some things are beginning to look amazingly cheap. There is lots of precedence for strong investment performance following a major financial crisis, although no one can call market bottoms or tops until after they've occurred.

Having said that, we do know that during times like these, mistakes can be made, and many people become losers by selling out in the emotion of the moment. Everybody seems to know the saying, "buy low and sell high". Yet human nature seems to work in a fashion contrary to that. It is when things are most difficult that we want to leave and when they are most exciting that we want to stay. It takes a tough constitution to remember to fight these natural instincts.

Some people become wealthy capitalizing during a panic. This is, or may be, one of those times about which Warren Buffet says "you should be greedy when others are fearful [or downright panicked] and fearful when others are greedy."

Whenever the market turns, and we believe it will, it is likely to leave most people, and especially those who sold out during the panic, wondering what happened, since at that point it may be too late to get back in.

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It's easy to buy into the doom and gloom that is being flung far and wide the last several days. As a friend noted, "Pessimism is definitely on sale right now."

OR we can accept this as an unprecedented historical set of events, assess the damage, identify opportunities, and move on.

There may be securities you've wanted to sell, but held back due to tax consequences and now you may be able to reap tax benefits by selling specific holdings and buying back lower into similar or different investments. Most importantly, we may be able to help you benefit from down markets by positioning your assets for future appreciation.

We continue to believe that we will come out of this at some point and return to a rising equity market. Interest rates are low. The Federal Reserve and the Treasury appear to be competent. Oil is down and the dollar exchange rate is up. Inflation is falling again. Outside of financials, valuations look pretty good. Corporate profits are about double the previous peak in 1999, while stock prices (using the S&P 500*) are now below the previous peak. And, while some financial companies have levered up their balance sheets, in aggregate U.S. non-financial companies have decreased balance sheet leverage to record low levels with a shift from about minus \$1 trillion in net financial assets (net borrowing) to plus \$1.2 trillion currently (net lending) over the last 12 years. To us, this \$2 trillion swing in the balance sheet represents a dramatic reduction in risk. We just wish some financial institutions had been equally careful.

Whatever you do, we encourage you to think long-term, invest regularly if at all possible, and diversify broadly. Focusing on your goals as opposed to the hype of the media will likely move you closer to where you ultimately want to be.

For those of you who have funds in Fannie Mae and Freddie Mac mortgage backed bonds, you need to know that you are fine. The government intervened in the business of these two companies, electing to support their debt. Interest and principal are expected to be paid without any interruptions.

If you have an account with First Clearing, we would like you to understand both the strength of the company and the protections that are in place for you. First Clearing Corporation (FCC) is a strong, stable and profitable clearing firm. It is well capitalized, substantially in excess of requirements, and has more than appropriate liquidity. As well as being financially sound, FCC also has SIPC (Securities Investor Protection Corporation) which is the securities industry's version of FDIC. SIPC protects your investment account in the case of insolvency for up to \$500,000 of which cash is limited to \$100,000. In addition, FCC has insurance through Customer Asset Protection Company (CAPCO). This insurance covers all amounts in excess of the \$500,000. The combination of SIPC and CAPCO protect you from the firm's potential insolvency or liquidation, but not from market fluctuations. Additionally, we are taking further precautions by exchanging all of our client's evergreen money market funds to the government money market fund. You will notice this change on your September statements. If you would like to discuss other options, please let us know.

Please feel free to call us at anytime. If we are not available, leave a message, and we will call you by the end of that same business day.

* It is not possible to invest directly in an index.

RFC NEWS:

We are teaching the following community education classes at locations listed below. If you are interested in signing up, please call the numbers below to register.

Ann Arbor Rec & Ed (734) 994-2300 Ext 53203 Linda Brzezinski

- “Adding Checks and Balances to your Investments” October 1st at 6:30 PM
- “Road Map to Retirement” (2 DAY) October 29th & November 5th at 6:00 PM each day

Farmington Community Education (248) 489-3333

- “College Savings Plan Options” September 30th at 7:00 PM
- “Adding Checks and Balances to your Investments” October 21st 7:00 PM
- “Managing Your 401K and Retirement Plans” November 11th at 7:00 PM

Our business continues to be successful because of great clients like you. If you know anyone else who is looking to simplify and organize their financial lives, please let us know. With their permission, we would be happy to contact them and introduce ourselves.

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