

October 25, 2010

Enclosed are your 3rd quarter statements for your review. The US equity markets rallied strongly in the third quarter, reversing the dismal performance of the second quarter. The broad US market gained over 11% in the quarter, with most asset classes delivering double-digit returns.

Performance in the international markets was even better with returns in excess of 17%. The emerging markets were the top performing asset class with returns over 20%. Again, this is why we stress a globally diversified portfolio where returns will be captured in different asset classes as well as different parts of the world.

The excellent 3rd quarter returns put year-to-date equity returns over 7% for the US markets and over 6% for the international markets. Despite all the noise and negative emotions created through the media, September delivered its best returns since 1939.

Yes, the market was volatile again this quarter, but of course everyone loves volatility when it's on the upside. Keep this in perspective the next time there is a down quarter. The premium returns from equities are only available at the cost of such volatility as they are two sides of the same coin.

The greatest anxiety investors have right now is how the market continues to climb when there appears to be so many reasons it should be going down. There is concern about the magnitude of debt created by the governments in the US and other developed countries, concern about the new health care system, the social security system, unemployment, the housing market and the list goes on and on. As significant as the economic uncertainties are, this is an excellent example of the inability to predict market direction.

We encourage you to meet with us whenever you have any questions, concerns or life event changes that necessitate revisiting your asset allocation. We also thank you for the many referrals you have sent our way.

Best regards,

The Pacific Asset Management Team

Don, Gary, Brian, and Christina