945 Technology Blvd., Suite #102, Bozeman, MT 59718

October 10, 2011

Dear Client,

Enclosed, please find your Third quarter performance report.

First off, we hope you are doing well and enjoying your fall - it's hard to believe that the first three quarters of the year are already behind us! We encourage you to read this letter in hopes that it will at ease some of you're the "angst", created by the volatile financial markets in which we reside. Before we get there though, here is a re-cap of what was endured over the past quarter.

Market performance for 3rd Quarter 2011

This has been a year of contrasts, starting with a first quarter that saw strong increases, with the second quarter flat. The third quarter was ugly with a capital U, with extreme volatility and the sharpest decline since the first quarter of 2009, when we were in the throes of the global financial crisis. The main drivers of this decline were sovereign debt worries in Europe, a dramatic downgrading of growth forecasts for the global economy, a slowdown in China and mounting talk of a double-dip recession. Below are results for key markets for not only the most recent quarter, but for other recent time periods to provide you some perspective.

	US	International	Fixed Income
Third Qtr.	(15.15%)	(15.74%)	3.82%
1/01/2011 to 9/30/2011	(10.15%)	(15.59%)	6.65%
10/01/2010 to 9/30/2011	.32%	(10.85%)	5.26%
10/29/2011 to 10/28/2011	10.26%	Not Available	Not Available

Sources: Wilshire, MSCI, Barclay's Capital - US Dollars

The "V" word

To begin here, we want to recognize that we are fortunate to work with a client base who understand the key principles of long-term investing and who recognize the lessons gleaned from the history of the financial markets. That said, however, the volatile market conditions we are experiencing can still shake our confidence, reviving fears of the recent past and again, making us wonder if we should be doing something different, or maybe, retreating from the market altogether. While all these feelings and emotions are completely justified, acting on them is not and may very well do us more harm than good. A good example of why this is the case can be seen in the above table - note US Markets for the two rolling one year periods (bottom two lines in table). Remember, volatility can work to the upside as well – for October it moved to the upside nearly 10%! We know this can move down from here as well, however, and this is why it is best to "sit on your hands" during volatile markets – trying to time them in or out came is impossible as the market can turn up or down at any time.

We realize that economies around the world are facing difficult challenges and the markets are a clear reflection of these concerns. Debt concerns here in the US and in Europe are creating new worries about the stability of economies on the whole and raising fears of another recession, etc. similar to what we went through in 2008. It is important to note here, however, that there is a difference between what is going on now and what happened in 2008 – this time we know what the problems are and they are not hidden from view….it's about debt – flat overspending. Best of all, we know what needs to be done to fix it. The crux of the issue here, however, is are we willing to make the sacrifices needed to do so and can we as a nation, as well as the European community, compromise on solutions.

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Here is where the uncertainty lies, and being unsure of what is ahead is the very nature of risk and why we are rewarded the long-term premium that can be attained by taking some of it on. We sent out an article to you a couple of months back titled “Living with Volatility”, written by Jim Parker from DFA Funds. He makes some fantastic points that are universal truths about the markets and investing in general that are worth putting in front of you again. They are:

- Markets are unpredictable and do not always react the way the experts predict they will. The recent downgrade by Standard & Poor's of the US government's credit rating, following protracted and painful negotiations on extending its debt ceiling, actually led to a strengthening in Treasury bonds.
- Quitting the equity market at a time like this is like running away from a sale. While prices have been discounted to reflect higher risk, that's another way of saying expected returns are higher. And while the media headlines proclaim that "investors are dumping stocks," remember someone is buying them. Those people are often the long-term investors.
- Market recoveries can come just as quickly and just as violently as the prior correction. For instance, in March 2009—when market sentiment was last this bad—the S&P 500 turned and put in seven consecutive months of gains totaling almost 80%. This is not to predict that a similarly vertically shaped recovery is in the cards this time, but it is a reminder of the dangers for long-term investors of turning paper losses into real ones and paying for the risk without waiting around for the recovery.
- Never forget the power of diversification. While equity markets have had a rocky time in 2011, fixed income markets have flourished—making the overall losses to balanced fund investors a little more bearable. Diversification spreads risk and can lessen the bumps in the road.
- Markets and economies are different things. The world economy is forever changing, and new forces are replacing old ones. For example, the IMF noted in its April 2011 World Economic Outlook that while advanced economies seek to repair public and financial balance sheets, emerging market economies are thriving. A globally diversified portfolio takes account of these shifts.
- Nothing lasts forever. Just as smart investors temper their enthusiasm in booms, they keep a reserve of optimism during busts. And just as loading up on risk when prices are high can leave you exposed to a correction, dumping risk altogether when prices are low means you can miss the turn when it comes. As always in life, moderation is a good policy.

Before parting ways, there was a commentary published in the August Wall Street Journal by Burton Malkiel, the author of “A Random Walk Down Wall Street” (one of the best books ever published on the investment markets). In it, Malkiel reviews the current economic and market environment and draws the same conclusions outlined above. If you are interested in the opinion of a credible independent market scholar, let us know and we will provide you the link.

In summary, we believe in our advice that investors need to stay the course. In review of your portfolios, if there is anything we see that might need adjustment, we will contact you individually. From the outset of your relationship with us, we have emphasized the proper positioning of your short and long term assets and thus, there should be no reason to deviate from your strategy. The markets are the markets and this is what they do, so as painful as this is, better times should lie ahead. Accumulating money and making sure it lasts through your retirement years is a long-term pursuit and that requires a methodical strategy and this has been put in place for you. While we know there will have periods of rocky performance, history has shown there have been many more positive periods than negative……block out the noise and keep the end goal in mind.

As always, thank you for the opportunity to work together.

Best regards,

Doug Babcock

Bob Frey