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Economic & Market Outlook - Volume: XII, 3rd Quarter Edition

◆ U.S. Economy

Unemployment has risen to 9.8% although many believe jobless claims are peaking. The Bureau of Labor Statistics published a report indicating the real rate of unemployment (including part-time workers seeking full-time employment, those whose benefits have run out, and those who have been denied benefits) to be 16.8%. Both figures should continue to rise into and throughout 2010. We're experiencing what I believe to be temporary re-inflation (prices are rising), and GDP has improved, but I believe productivity will begin to soften again in the 4Q09 and 1Q10. A second stimulus could be launched in early 2010, but this would not likely impact the economy until early 2011 or later. Therefore deflation, not inflation will continue to be of primary concern. Make no mistake, devaluation of the dollar is coming, but I suspect it will come down the road.

◆ U.S. Deficit & National Debt

Current liabilities and unfunded promises (including but not limited to Social Security and Medicare) are an estimated \$118.6 trillion, but the combined total household net worth of all Americans is estimated to be \$51.5 trillion. Something has to give. The belief that spending money you don't have by printing additional currency will somehow create more wealth is ignorant at best. The current U.S. Deficit has risen to \$1.7 trillion increasing our national debt to \$11.8 trillion. An even bigger alarm should be sounding now that more than 50% of our debt is owned by foreigners; up from 20% in 1990. In the end creditors always make the rules. Consequently I expect China, now America's largest creditor, to continue to impose its will on the U.S. in terms of economic policy and trading agreements.

Recommendation: www.pgpf.org (Peter G. Peterson Foundation – A Fiscal Wake-Up Call for America)

Download “State of the Union’s Finances” at: http://www.pgpf.org/resources/PGPF_CitizensGuide_2009.pdf

◆ Taxes

In the near term I expect only modest “income” tax increases – the big jumps will come down the road. Over the next couple of years I expect we will begin to see a shift to consumption taxes as the government will be desperate to generate revenue to pay their expenses and interest on the debt. We can only print money for so long before our currency is deemed worthless in the global marketplace; therefore we'll need to find another way to pay for the stimulus packages and government promises being handing out. Conclusion: we won't be able to inflate our way out of this like in the past and in the end that leaves raising taxes as their only option.

◆ Investment Outlook

My short-term outlook for U.S. stocks remains bleak, as we've entered an extremely overbought condition according to most of the technical and fundamental indicators I follow. We believe the market is likely to tumble again soon. Additionally I would avoid taking risks in the bond markets. Short-term treasuries are still my only choice for liquid, yield bearing investments. The dollar continues to try to find a bottom, and I expect it is close. We're bullish on oil and gas for the long-term (next several years) but still expect oil could retest the lows of \$30-\$40 per barrel in the months ahead. Gold has risen to new highs, but we expect will sell off soon. Despite this expected volatility I still believe gold is a good disaster hedge for most investors with some allocation within their portfolios. We're looking outside the U.S. for growth opportunities. The emerging countries offer tremendous growth potential albeit at high risk. Investors should expect huge price swings in these markets, and investors should only invest money they can afford to lose in these markets. China still offers attractive potential to us although there are other more interesting stories including India and Brazil.

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2009 Year-to-Date Performance: Major Indexes & Benchmarks

+03.74%	US Aggregate Bond Index
+21.16%	US Total Market Index
+13.49%	Dow Jones Industrial Index (DJIA)
+19.26%	Standards & Poor's 500 Index (large cap)
+30.14%	Standards & Poor's 400 Index (mid cap)
+22.43%	Russell 2000 Index (small cap)
+34.58%	NASDAQ Composite Index
+19.00%	US Core (stocks)
+31.57%	US Growth (stocks)
+17.94%	US Value (stocks)
+28.97%	MSCI EAFE Index – Int'l Developed Countries
+61.20%	MSCI EM Index – Int'l Emerging Markets Countries
+14.25%	COMEX Gold Trust
-07.70%	Dollar – Deutsche Bank US Dollar Index
+02.28%	OIL – S&P GSCI Crude Oil Index

Composite Benchmark - Classic Diversified Global Asset Allocation Model Portfolio

You may use this hypothetical investment portfolio to compare your own performance to this globally diversified “buy and hold” strategy using broad based asset classes readily available to individual investors through index based exchange traded funds (ETF's).

2009 Year-to-Date Hypothetical Model Portfolio Returns:

100% Equity/0% Fixed Income	+19.88%
90% Equity/10% Fixed Income	+18.55%
80% Equity/20% Fixed Income	+16.55%
70% Equity/30% Fixed Income	+14.90%
60% Equity/40% Fixed Income	+13.72%
50% Equity/50% Fixed Income	+12.20%

We continue to believe a more active investment strategy will be necessary to successfully navigate the long-term bear market cycle we believe we've now entered, and that classic strategic asset allocation models will not be successful in the current environment. Furthermore a combination of macro and micro economic and financial analysis will be critical in making wise portfolio decisions. Protecting capital will be by far the most important objective in the coming years.

The index and benchmark returns listed above were reported by Morningstar, Inc. and are believed to be reliable, however no guaranty of their accuracy may be made.

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Background Information

- ✓ Jim Dobbs is a financial educator, consultant, and advisor who works with individuals and institutions around the country.
- ✓ Jim is a CERTIFIED FINANCIAL PLANNER™ professional who for the last eighteen years has been helping private clients achieve their financial goals and objectives.
- ✓ Jim also works with non-profit organizations such as universities and membership associations to help them achieve their organizational goals through strategic planning, curriculum development, and program delivery.
- ✓ Jim has taught or trained hundreds of financial services professionals through various universities, corporations, and associations.
- ✓ Jim has consulted, lectured, and/or directed programs at several prestigious universities including Wharton, The University of Chicago, Cal-Berkeley, The University of Texas, Southern Methodist University, and others.
- ✓ Jim received his B.B.A. from Baylor's Hankamer School of Business, earned a post-baccalaureate Award in Taxation from UCLA-Extension, and completed the Management Development for Entrepreneurs Program at UCLA's Anderson School of Management.

Dobbs Wealth Management Group, LLC

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- Dobbs Wealth's primary objectives are to protect and grow client investments.
- All managed money is held through third-party institutional custodians such as Charles Schwab & Co. Under no circumstance does Dobbs Wealth maintain custody of client funds or assets.
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