



PINNACOR FINANCIAL GROUP, INC.®

Solutions Centered Wealth Management

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THE MARKETS

Stocks rose for the third week despite a rash of downgrades that put financial shares under pressure. Investor sentiment got a boost as Group of 20 policymakers began talks on ways to tame the European debt crisis and amid optimism about plans to recapitalize euro-zone banks. Solid earnings from Google also gave markets a lift late in the week.

Returns through 10/14/11	1 Week	YTD	1-Year	3-Year	5-Year
Dow Jones Industrials	4.88	2.65	7.75	10.92	2.21
NASDAQ Composite	7.60	0.56	9.55	14.46	2.51
Russell 2000	8.59	- 8.17	2.39	10.26	0.00
S & P 500	6.01	- 1.05	6.47	9.48	- 0.04
MSCI EAFE NR USD	4.50	- 9.37	- 8.12	5.13	- 2.50

Source: Morningstar.com. * Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three and five-year returns are annualized. The S&P, excluding "1 Week" returns, is a reflection of return to an investor, by reinvesting dividends after the deduction of withholding tax.

Four bank failures last week – There were four bank failures last week according to information available on the FDIC website. Country Bank, Aledo, IL with approximately \$190.6 million in total assets and \$167.5 million in total deposits was closed. Blackhawk Bank & Trust, Milan, IL has agreed to assume all deposits. First State Bank, Cranford, NJ with approximately \$204.4 million in total assets and \$201.2 million in total deposits was closed. Northfield Bank, Staten Island, NY has agreed to assume all deposits. Blue Ridge Savings Bank, Inc., Asheville, NC with approximately \$161.0 million in total assets and \$158.7 million in total deposits was closed. Bank of North Carolina, Thomasville, NC has agreed to assume all deposits. Piedmont Community Bank, Gray, GA with approximately \$201.7 million in total assets and \$181.4 million in total deposits was closed. State Bank and Trust Company, Macon, GA has agreed to assume all deposits. 80 banks have failed so far in 2011. The FDIC website listed 157 bank failures in 2010, 140 in 2009, 26 in 2008, 3 in 2007, zero in 2006 and 2005.

Harrisburg, Pennsylvania files for bankruptcy – Pennsylvania's capital city, Harrisburg, filed for bankruptcy protection from creditors after a faction of the city council repeatedly rejected a state-backed plan that called for selling or leasing assets to pay down debt. The case is being closely watched by other cities and towns looking for ways out of financial troubles. Harrisburg is the second city to file for such Chapter 9 protection this year. In August, Central Falls, Rhode Island filed for bankruptcy protection after retired city workers refused to accept an offer to cut their pensions.

Apple's iPhone 4S hits stores – Apple's iPhone 4S hit stores on Friday and sold out for preorder at AT&T, Verizon Wireless, and Sprint Nextel on Thursday. Apple said that it had received more than 1 million iPhone pre-orders — a record for the company — on October 7, the first day of preorders.

Google's profits jump 26% – Google's profits rose a better-than-expected 26% in the third quarter, and revenue jumped 33% amid record spending on online advertising.

JPMorgan's profits fall 33% – JPMorgan Chase reported its profits fell 33% because of weak results in its investment-banking operations, which were not offset by strong lending and revenue gains. JPMorgan Chase is the first of the big banks to report results and is watched as a barometer.

Bank of America to cut 324 New York jobs – B of A plans to cut 324 jobs in New York beginning next month. The reduction will include investment bankers and equity traders and comes as the lender seeks to reduce expenses after losing half its market value. The cuts are part of plans to eliminate 3,500 jobs that were announced in August.

U.S. retail sales rise more than expected – U.S. retail sales rose a more-than-expected 1.1% in September as consumers spent more on cars, clothing, and fuel. The gains were broad based and also seen in restaurants, furniture, and department stores. The increase eased some concern that slumping consumer confidence will hurt spending.

U.S. trade gap with China hits record – The U.S. trade gap with China, the fastest growing major market, widened 7.4% to a new record in August — \$28.96 billion. Globally, the U.S. trade deficit narrowed to \$45.61 billion.

G 20 starts talks on euro-zone rescue plan – The Group of 20 nations began talks to contain Europe's debt woes. Policymakers are discussing an expansion of the International Monetary Fund's role as they seek to come up with rescue measures for the region. Some officials are considering boosting the IMF's lending capacity. On Wednesday the European Commission set out its plan to shore up European banks.

S&P downgrades Spain to AA- – Standard & Poor's Ratings Services downgraded Spain for the third time in three years as slowing growth and rising defaults threaten banks and undermine efforts to contain Europe's sovereign debt crisis. Its rating was lowered one level to AA-.



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European inflation accelerates – European inflation accelerated to 3% in September, the fastest pace in almost three years, amid rising energy costs. The inflation complicates the job of the European Central Bank as it seeks to keep interest rates low to combat the region's debt woes.

Fitch downgrades UBS, RBS, and Lloyds – Fitch Ratings downgraded Swiss banking giant UBS and foreshadowed possible ratings cuts for other European banks as the lenders continued to grapple with the debt problems. UBS' long-term issuer default rating was cut to A from A+ as the bank struggles to recover from a multi-billion-dollar trading scandal that has already triggered a slew of management changes. Fitch said it was concerned about waning government support for the bank. This week, Fitch also cut ratings on Royal Bank of Scotland and Lloyds Banking Group after determining they are also less likely to receive government support in the future. RBS and Lloyds are 83% and 41% state-held, respectively. Both were downgraded two notches to A from AA-. Barclays, which has never taken direct state support and is rated AA-, was put on Ratings Watch Negative.

The week ahead

- U.S. Federal Reserve Board reports on industrial production Monday, October 17.
- Japan's Ministry of Economics, Trade, and Industry distributes its industrial production Monday, October 17.
- ZEW research group publishes expectations of economic growth Tuesday, October 18.
- U.S. Bureau of Labor Statistics releases Producer Price Index Tuesday, October 18
- U.S. Bureau of Labor Statistics releases Consumer Price Index Wednesday, October 19.

WEEKLY FOCUS

The G20 Meeting in Paris, France. As the G20 finance ministers and central bankers met in Paris, over the weekend, small groups of anti-capitalist protesters took to the streets around the world, shouting their rage against bankers and politicians accused of ruining economies and condemning millions to hardship through greed and bad government. The world's leading economies kept pressure firmly on Europe to sort out its debt crisis with a sense of urgency in a communique at the end of a finance chiefs' meeting in Paris.

The two-year-old crisis that has spread far beyond the Greece starting point, could come at a head at the summit of EU leaders on October 23. Germany and France have promised to set out a plan to stop the contagion in order to protect Europe's banks and the wider world economy.

The draft communique, "looks forward to further work to maximize the impact of the EFSF (bailout fund) in order to address contagion and to the outcome of the European Council on October 23" -- unusually direct language for G20 diplomats. The draft further stated that the G20 would "ensure that banks are adequately capitalized and have sufficient access to funding. Central banks have recently taken decisive actions to this end and will continue to stand ready to provide liquidity to banks as required."

Efforts by some countries to increase the IMF's war chest to fight the crisis ran into resistance from the United States and others last Friday, burying the idea for now and putting the onus firmly back on Europe. The United States is among countries keen on keeping pressure on the Europeans to act more decisively to end the crisis that began in Greece and has since spread to Ireland and Portugal and is lapping at Spain and Italy. The EU Leader's plan is to recapitalize banks, make Greek's debt mountain more sustainable and ramp up the firepower of the bloc's rescue fund. For once in the long-running crisis, the timetable is ambitious.

There are growing signs that Greece's creditor banks would fight any attempt to make them shoulder a bigger burden in restructuring Greece's debts. The lead negotiator of the banking lobby representing private bondholders said there were no grounds to impose bigger "voluntary" losses on their debt than the 21 percent agreed in July, which now looks insufficient.

The plan will also set a framework for recapitalizing banks and for leveraging the euro zone's 440 billion euros European Financial Stability Facility in an effort to stabilize bond markets. While the EFSF has the resources to cope with bailouts for Greece, Portugal and Ireland, it would be overwhelmed by the need to rescue a bigger economy such as Italy or Spain. The most likely option will be to offer partial loss insurance on new sovereign bond issues. If the EFSF covered the first 20 percent of losses a bank could suffer in case of a default -- it could multiply its firepower fivefold to over 2 trillion euros.

Fears about the damage a default by Greece -- and possibly others -- could inflict on the financial system have driven a confidence-sapping bout of market volatility since late July, with global stocks falling 17 percent from their 2011 high in May. But the market has improved some since the leaders of France and Germany set an end-October deadline for action. It's a tentative crisis situation in Europe indeed.

Give us a call to set a complimentary review of your portfolio today.

Sources: *The Wall Street Journal*; The Associated Press Newswire, The Wall Street Journal Online; Bloomberg News; *Financial Times*, *Investor's Business Daily*. This material does not constitute tax, legal or accounting advice and neither Pinnacor Financial Group, Inc. nor Cambridge offers such specific tax advice. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Diversification does not guarantee against market declines or portfolio losses. You cannot invest directly in an index.