



Solutions Centered Wealth Management

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David L. Kaiser, ChFC®, AIF®, President Pinnacor Financial Group, Inc.
4101 East Wesley Avenue Suite 7 Denver, Colorado 80222



Visit the [Pinnacor Financial Group, Inc. website](http://www.pinnacorfinancial.com)

info@pinnacorfinancial.com



THE MARKETS

Global stocks tumbled last week in response to evidence that global growth is decelerating and increasing fears of a Greek debt default. As investors dumped all things considered risky, the yield on the 10-year U.S. Treasury note fell to a record low, and oil dipped below \$80 per barrel. Fresh data, showing a decline in manufacturing activity in both China and Europe, added to the worries, and World Bank President Robert Zoellick warned that the global economy is in a "danger zone." Vows by G20 officials to preserve banking stability and markets and new efforts by the U.S. Federal Reserve Board to reduce borrowing costs failed to significantly buoy sentiment as banks across the euro-zone and the United States were downgraded and data everywhere showed a downturn.

Returns through 9/23/2011	1 Week	YTD	1-Year	3-Year	5-Year
Dow Jones Industrials	- 6.41	- 5.16	3.69	2.68	1.40
NASDAQ Composite	- 5.30	- 6.39	6.71	4.87	2.28
Russell 2000	- 8.64	- 16.01	1.81	- 1.35	- 0.57
S & P 500	- 6.53	- 8.30	3.07	0.75	- 0.78
MSCI EAFE NR USD	- 6.80	- 17.31	- 10.78	- 4.87	- 3.77

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.

Two bank failures last week – There were two bank failures last week according to information available on the FDIC website. Citizens Bank of Northern California, Nevada City, CA with approximately \$288.8 million in total assets and \$253.1 million in total deposits was closed. Tri Counties Bank, Chico, CA has agreed to assume all deposits. Bank of the Commonwealth, Norfolk, VA with approximately \$985.1 million in total assets and \$901.8 million in total deposits was closed. Southern Bank and Trust Company, Mount Olive, NC has agreed to assume all deposits. 70 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.

Fed debuts "Operation Twist" to push interest rates lower – The U.S. Fed said Wednesday that in a move to further reduce borrowing costs to keep the economy from falling into recession, it will replace much of the short-term debt in its portfolio with longer-term Treasuries. In what economists have dubbed "Operation Twist," the Fed will actively sell Treasuries with maturities of three years and less and buy Treasuries with maturities of six- to 30-years. The Fed will spend \$400 billion on the program that is intended to put downward pressure on longer-term interest rates to make it cheaper for consumers to finance long-term purchases.

Tyco to break up— Tyco International said it will break up into three companies, another sign that the era of the conglomerate is drawing to a close.

Oracle's profit jumps 36% – Oracle's first-quarter profit climbed 36% on strong sales in its core software business. Sales of the company's hardware systems dropped, however.

U.S. housing starts fall to three-month low – U.S. housing starts dropped 5% to a 571,000 annual rate, a three-month low. Residential construction has been constrained by foreclosures, declining prices, and a lack of employment. Still building permits, which are proxies for future construction, climbed 3.2% to a 620,000 annual rate in August. That was the highest level this year.

Moody's downgrades U.S. and Greek banks – Moody's Investor's Service cut the long-term credit ratings of Bank of America and Wells Fargo. Moody's cited a decreasing possibility that the United States would support the lenders in an emergency. Citigroup's short-term rating was also cut. Bank of America's ratings were cut to Baa1 from A2 for long-term debt and to Prime 2 from Prime 1 for short-term debt. The outlook on long-term senior ratings remains negative. Wells Fargo's senior debt was downgraded to A2 from A1; the outlook remains negative on the senior long-term ratings. The ratings agency also downgraded eight Greek banks by two notches Friday, citing expected losses from the banks' holdings of Greek government bonds. National Bank of Greece, EFG Eurobank Ergasias, Alpha Bank, Piraeus Bank, Agricultural Bank of Greece, and Attica Bank were downgraded by Moody's to Caa2 from B3. Emporiki Bank of Greece and General Bank of Greece were downgraded to B3 from B1.

IMF cuts global growth forecast – The International Monetary Fund cut its forecast for global growth to 4% and warned that severe repercussions to the global economy can be avoided only if euro-zone nations strengthen their banking system and the United States gets its fiscal house in order. The IMF said the U.S. and European economies face recession and a lost decade of growth similar to what happened in Japan if they fail to take concerted action to revamp their economic policies.

S&P cuts Italy's debt rating and some of its banks – Standard & Poor's Ratings Services cut Italy's sovereign debt rating one notch, saying the nation's weak economic growth and fragile government coalition will make it harder to head off the crisis sweeping the euro-zone. The agency went so far as to say that paralysis in Prime Minister Silvio Berlusconi's governing coalition has become an obstacle to overhauling the country's stagnant economy. In the wake of the sovereign downgrade, S&P also cut the ratings of several Italian lenders. The ratings agency cut the long-term ratings of Italian banking giant Intesa Sanpaolo SpA and investment bank Mediobanca SpA to single-A from A-plus to bring the lenders' credit rating in line with the host country. S&P also cut its rating of the Italian subsidiaries of French bank BNP Paribas. The long-



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term rating of BNP's Findomestic Banca was cut to A from A+, while the long- and short-term rating on the French lender's Banca Nazionale del Lavoro subsidiary was lowered to A+/A-1 from AA-/A-1+.

Euro-zone data shows slowdown – Business activity in the euro-zone contracted in September for the first time in more than two years. The contraction is seen as the strongest evidence to date that the global slowdown and European debt crisis are pushing the euro-zone to the brink of recession. The euro-zone PMI (Purchasing Managers' Index) for September dropped 1.5 points to 49.2, according to data provider Markit. A drop below 50 signals contraction.

German investor confidence drops to lowest in two-and-a-half years – German investor confidence fell to the lowest level in more than two-and-a-half years in September as Europe's debt crisis and global slowdown damped the outlook for growth. The ZEW Centre for European Economic Research said its index of investor and analyst expectations, which aims to predict developments six months in advance, fell to minus 43.3 from minus 37.6 in August.

The week ahead

- The U.S. Census Bureau new home sales Monday, September 26, and on durable goods orders Wednesday, September 28.
- The Standard & Poor's/Case-Shiller Home Price Indices Tuesday, September 27.
- Japan's Ministry of Economics, Trade and Industry industrial production figures Thursday, September 29.
- Japan's Ministry of Internal Affairs and Communications consumer price index Thursday, September 29.
- U.S. Bureau of Economic Analysis personal income and spending Friday, September 30.

WEEKLY FOCUS

The Fed's Operation Twist. The Federal Reserve announced "Operation Twist" last Wednesday, a widely expected stimulus move reviving a policy from the 1960s. The policy involves selling \$400 billion in short-term Treasuries in exchange for the same amount of longer-term bonds, starting in October and ending in June 2012.

While the move does not mean the Fed will pump additional money into the economy, it is designed to lower yields on long-term bonds, while keeping short-term rates little changed. The intent is to thereby push down interest rates on everything from mortgages to business loans, giving consumers and companies an additional incentive to borrow and spend money.

"This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative" the Fed said in its official statement.

It's controversial to say the least, especially following a high-profile letter from Republicans earlier this week, urging the central bank not to intervene in the economy more than it already has. And even within the Fed, three regional bank presidents, Richard Fisher of Dallas, Narayana Kocherlakota of Minneapolis and Charles Plosser of Philadelphia, dissented against the decision. Those same three previously dissented in August.

While the launch of Operation Twist was widely expected, many experts still question its effectiveness. Interest rates have already been at record lows since 2008, and that has yet to entice consumers to take out loans. Perhaps it's all of the other uncertainty that is preventing consumers and businesses from taking on new debt.

Should a high inflationary period follow, the Fed could lose money on longer-term Treasuries because inflation could outpace the interest rate over time, cutting into the returns on the bonds. Totalling \$8.8 billion, the original Operation Twist was roughly equal to 1.7% of the total U.S. economy in the early 1960's. But many economists today view the policy as a failure, arguing that it may have been too small to have a significant impact. It changed rates by 0.1% to 0.2% at the time, but that wasn't enough to change the economy. The second rendition, at \$400 billion, is equivalent to roughly 2.7% of today's gross domestic product.

The launch of Operation Twist follows the Fed's sixth policymaking meeting of the year, which due to weakness in the economy, was rescheduled to last two days instead of the original one day meeting. At the Fed's last official meeting in August, the policymaking committee decided to keep interest rates low until 2013 -- a move that was widely interpreted as a sign that the central bank is not expecting the economy to improve much for at least another two years. The Fed also reiterated its gloomy outlook, saying "economic growth remains slow."

If you are wondering how this approach of transferring money from the left to the right pant pockets makes a difference, you've already found the reason for the post FOMC-announcement meltdown. Wall Street considered the proposal half-hearted and the stated goal of lowering long-term interests unnecessary, especially considering that the yield on the 10-Year T-Note is already at a multi-decade low.

Give your advisor a call to discuss any concerns or to schedule a complimentary portfolio review.

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.