



# Baker Financial Quarterly

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Baker Financial Services

## Baker Financial Newsletter

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In our ongoing effort to provide helpful information and quality customer service for each of our clients, we here at Baker Financial Services are implementing a quarterly newsletter, which we hope you will find informative and relevant to today's changing economic and financial landscape.

In each issue, we will do our best to provide timely articles on subjects such as asset allocation, estate planning and investment selection as well as try and touch on current macroeconomic themes. Also, any news pertaining to Baker Financial Services will be included, especially upcoming client events. Finally, each issue will be saved and catalogued on our website ([bakerfinancial.net](http://bakerfinancial.net)) for easy retrieval.

As we move forward with each issue, please feel free to let us know what you think. We plan on these newsletters being a work in progress and your input is certainly welcomed.

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FINANCIAL SERVICES

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## June 30th Market Update

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Although the first four months of 2010 were positive for the stock market, May and June have erased all gains and pushed us lower year to date. Through June 30th, both major indices were down with the Dow moving lower by 7.5% and the S&P 500 not far behind giving up 6.5%. Even though we haven't reached bear market territory (a decline of 20%), it sure feels like we have!

Almost every article in the paper or on the internet is unbelievably negative as well as most financial broadcasts on TV. While there are certainly strong headwinds for our economy and the stock market, it is important to remember that the S&P 500 is still up 50% from the March 2009 low point and that every recovery has bumps in the road. In a recent interview with CNBC, Alan Greenspan had this to say about our current recovery, "What we're looking at is an invisible wall, which we've run into here. Which, essentially, as far as I can see, is a typical pause that occurs in every economic recovery". He went on to say, "This recent decline is more international than it is a domestic affair with an inherent instability in the euro system".

Every pullback can be tough to deal with and scary to live through. However, in terms of historical stock market advances following a nasty bear market (2007 / 2008), this one has been fairly textbook so far. Before our recent correction, the S&P 500 had experienced an exceptionally strong rally coming off of the March 2009 low point and many analysts were looking for some type of 'breather' for the markets. While this economic recovery may not be typical due to the financial crisis that we experienced in 2008, the stock market has behaved in typical historic fashion. And – again proved why it can be so hard to 'time' the market. While everything we read 15 months ago was extremely negative and some 'experts' even called for Dow 5,000, the market shot higher in spite of the news, which hurt investors who had moved to the sidelines.

We admit that the challenges for the economy and stock market are many; weak housing data, high unemployment, uncertainty about recent legislative actions, the European fiscal

crisis.....and the list goes on. However, our cash and bond positions have remained strong even while the equity markets have moved lower, which has helped cushion the blow of the current correction. As always, we are watching things closely and will continue to make tactical allocation changes based on market conditions while keeping your long term goals in mind.

# Prepare Your Spouse for Financial Independence

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In households throughout the world, it is often common that one spouse is more “financially attuned” than the other. Rather than both taking the lead on financial matters, one spouse usually drives that ship for the most part. This can lead to a sticky situation if the aforementioned “captain” were to pass away (or if both were to pass away). The reality is that you need to prepare your partner to manage his or her own financial affairs. Let’s go over some guidelines to get you started.

**How to Locate Financial Documents.** Needless to say, someone should know where things are located. Always keep an updated list outlining where you keep financial documents and other matters. This should be left with a trusted individual, such as your attorney or financial advisor.

Your list should include all financial accounts, account numbers, passwords, institutions and contact information. Include the location of your safe deposit box and its key and the combination to your home safe. Include the locations of important papers for annuities, appraisals, birth certificates, cemetery deeds, credit cards, property deeds, marriage certificates, divorce decrees, insurance policies, mortgages, income tax returns, retirement accounts, prenuptial agreements, titles for cars and estate documents. You should also include any hiding places of other items.

**What to Keep and Where.** If you have yet to properly store important documents, it is recommended that you do so, following these guidelines.

**Bank Safe or Deposit Box.** This is where you will want to put car titles, property deeds, business agreements and partnerships and a detailed home inventory of all valuables—including pictures, videos and appraisals.

**Fire-Resistant Home Safe.** In a fire-resistant home safe, keep a copy of your will and trusts, insurance policies, investment account numbers,

passwords, original powers of attorney for health care and property (copies should be given to those people who are named as your agents) and a letter of instruction explaining your final wishes.

**Home Filing System.** In your home filing system keep three years of statements for insurance payments, bank accounts, investment and retirement accounts. Also be sure to maintain credit card and mortgage statements for the past year. In addition, it is highly recommended to maintain at least three years of tax returns (if not more).

**Attorney’s Office.** At your attorney’s office, you’ll want signed and witnessed will and trust documents and copies of powers of attorney.

**Who to Call, Who to Trust.** Make sure your loved ones know where to find detailed contact information for your accountant, attorney, banker, financial advisor, life insurance and other agents, doctors (if you have children) and veterinarian (if pets need temporary care).

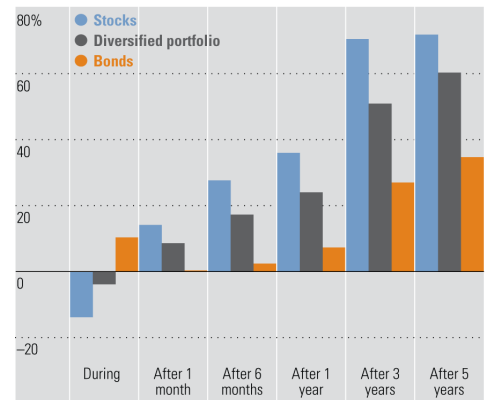
**Share Financial Responsibility Now.** You can help ensure a smooth transition by introducing your spouse to trusted advisors during your lifetime. You can also get your spouse slowly involved in the family’s finances in general, eventually bringing him or her completely up to speed. This should bring comfort and reassurance for everyone involved.

## After the Storm

Severe market declines can scare investors into selling at the worst possible time: when prices are at their lowest. Sticking with your investment strategy through tough times requires careful planning and discipline, but it is more likely to pay off in the long run.

The image illustrates the average performance of stocks, bonds, and a diversified portfolio during and after four U.S. recessions. During recessions, stocks performed the worst and bonds the best, while the diversified portfolio offered a middle ground. However, after the recessions and in the long run, stocks provided the highest returns, followed by the diversified portfolio; bonds did not measure up. There are two lessons here: 1) Since you cannot know for certain when the market will bottom out, if you are invested, stay invested, and 2) Diversify in order to reduce downside risk.

Performance During and After Recessions



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Recession data is from National Bureau of Economic Research (NBER). The average cumulative returns are calculated from the end of each of the longest four recessions in U.S. history (1929–2008). The four recession periods considered herein as defined by the NBER are as follows: Aug. '29 – Mar. '33; May '37 – June '38; Nov. '73 – Mar. '75; and July '81 – Nov. '82. The recession that began in December 2007 is still occurring and is not included in the analysis. The diversified portfolio consists of 60% stocks and 40% bonds, and is always rebalanced. Please keep in mind that diversification does not eliminate the risk of experiencing investment losses.

Source: Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general, and bonds by the 20-year U.S. government bond. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than bonds. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

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