INVESTMENT MANAGEMENT AND FINANCIAL PLANNING

William Baker & ASSOCIATES, INC.

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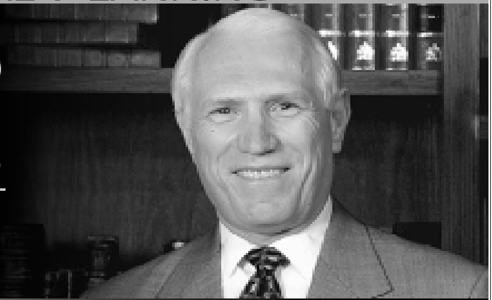

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Investment Insights

September/October 2011

LOBSTERS AND LIGHTHOUSES

Once upon a time, our family decided it would be fun to head north to Maine to get some relief from the summer heat. Our destination was Acadia National Park most of which is located on Mount Desert Island where the beautiful little town of Bar Harbor is also located. We try to now make it an annual visit as our schedule allows.

Acadia is a national treasure of Nature's beauty, and a haven for hikers, bikers, photographers, kayakers, rock climbers, and outdoor lovers. Blueberries abound in July and August. A typical summer morning at 55 degrees also prompts us to turn the heat on for a few minutes in our recreational vehicle, and count our blessings for a too -short reprieve from Hotlanta temperatures.

Two hallmarks of Maine and Acadia National Park are its lobsters and its lighthouses. You might wonder, how in the world do lobsters and lighthouses have anything to do with investing and your portfolio? Well let's take a look.

Maine has been very successful in maintaining a healthy lobster industry. It turns out that the very large female lobsters are what they call super breeders. A nine pound super breeder female carries about one hundred thousand eggs compared to a one pounder that carries about eight thousand eggs. The eggs are carried in berry-like clumps in the folds under their tails. The super breeders keep the lobster population from dwindling. Maine therefore wisely enacted strict laws requiring that these large females when trapped be released back. This in turn results in lots of lobsters and a thriving Maine lobster industry. Other places, not having these regulations, have found that their lobster populations and industries have suffered. Why? Bad policy, inadequate regulation, and in some cases lack of enforcement.

As I became educated about the Maine lobster industry, my thoughts were that we also have super breeder equivalents in the stock market with regard to creating and expanding wealth. These market equivalents are those companies that continually, year after year, declare

and grow dividends for their shareholders. The companies that are continually growing revenues and profits, generating dividends, and declaring stock splits are great wealth maintainers and producers in our capital markets. Those companies are somewhat equivalent to Maine's super breeder female lobsters and hopefully as the financial industry is reformed there will be incentives to produce more of these super breeder public companies that share their growth and profits with their shareholders. Although there are some great super breeder companies now, more needs to be done to create super breeder companies for public shareholders. Yes, we do need wise regulations and adequate enforcement to renew a thriving economy and capital market system.

Lighthouses are another hallmark of Maine. There are about sixty lighthouses that dot the coastline of Maine. Lighthouses were originally built as navigational aids. Ships depended on them to navigate safely to their destination. The light houses helped them steer clear of treacherous rocks and shoals. The bright light was a special Godsend when sailing at night and in foggy weather. Mostly retired tourist attractions now, lighthouses have largely been replaced with modern electronics, including satellite, navigation equipment. (*continued*)

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S&P 500 Look back

2000	-9.11%
2001	-11.89%
2002	-22.10%
2003	+26.68%
2004	+10.87%
2005	+ 3.00%
2006	+13.62%
2007	+ 3.52%
2008	-38.5%
2009	+18.9%
2010	-11.33%

NASDAQ Look back

2000	-39.18%
2001	-20.78%
2002	-31.25%
2003	+50.76%
2004	+9.14%
2005	-1.4%
2006	+7.87%
2007	+ 9.27%
2008	-40.5%
2009	+30.5%
2010	+14.46%
YTD thru 8/31/11	
S&P500	-3.16%
NASDAQ	-2.76%
10/11/2007 HI thru 8/31/11	
S&P500	-21.56%
Mar 2000 HI thru 8/31/11	
NASDAQ	-48.92%

*There is no risk-free investment! Investment portfolio values fluctuate and past performance is never a guarantee of future results. "Do no harm" translates into structuring and managing an investment portfolio to conform to a client's risk tolerance and time horizon. Proactive asset allocation, diversification within asset classes, and continual monitoring and risk management of each position are methods we use in structuring and managing portfolios. Our approach includes corroborating fundamental research, with capital markets supply-and-demand research, also called technical research. At times we will use conservative hedging techniques to limit downside risk.

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When I think about the purpose of those lighthouses, to help provide safe passage they remind me of the fundamental and the supply-and-demand research tools that we employ daily to help navigate our portfolios safely through treacherous markets. Sometimes ships would disregard the safety margins they needed, or sometimes mother nature would overpower a passing ship, and they would be dashed against the rocks and shoals and destroyed. But for the most part the lighthouses served their purpose, just as our research and methodology serves its purpose, to help ensure a safe passage in what can sometimes be very dangerous waters. And just as lighthouses were replaced with newer and better navigational aids, we find ourselves continually improving our research and methodology to help us ***"First, do no harm, and Make money"**** (please read the sidebar) These investment management equivalents to the mariners' lighthouses are integral to our investment work and success.

Understanding that our investment modern equivalent to the early mariner's lighthouses is our fundamental and technical research, let's take a look at our current investment thoughts.

Your last newsletter written on August 5th stated that my guess was there'd be more downside ahead. In just a few days by August 9th the S&P had dropped to a low of 1102, so far, its low for this year. After August 10th, the S&P and other indices began ratcheting their way up (although with big up and down swings) and in fact moved us from a wealth preservation situation to a wealth accumulation posture. During the past week however, that situation has reversed back to a wealth preservation posture.

As I write this newsletter on September 12th, 2011 we've been witnessing markets and portfolios behaving like Mexican jumping beans. Supply-and-demand indicators are extremely important to us but they can always be trumped by fundamentals or what I call micro- and macro-economic issues. In this case I'm primarily referring to the European sovereign debt mess, and our continuing U.S. economic woes that are signaling some strong signs of recession. To reiterate, today's market performance, in spite of the indices being up, has reversed us from a wealth accumulation mode back to a wealth preservation mode. In other words even though the indices were up today, there were many more stocks on a net basis that gave new sell signals than buy signals.

I mentioned last month that our figure for a fair market value of the S&P is 1050 to 1100. Well the S&P dropped in value to 1102 right after the last newsletter was promulgated. That does not mean it can't go a lot lower than our estimate of fair value. Today we are back on defense, supply (lower prices) is in control and so we expect to make portfolio adjustments. We just have to deal with what is, do our best to err on the side of caution, and make prudent adjustments along the way.

We are pleased to be employing our new Insider Trading research data base now as a new and additional tool in our tool box. When we see insiders buying their own stock at market prices because they believe that their stock is basically on sale, they do so with a one to two year time horizon in mind. Even if the market brings the stock price down further than the price for which they purchased it, they have confidence that it was on sale at their buy point. If they have more money, they may continue to buy more as the price falls further. In some cases we have seen that happening, and we have also seen a trend of continual insider buying outpacing insider selling. That's good news for those individual stocks looking out a year or two but not necessarily a great market predictor unless there is a heavy concentration of insider buying. For example, the heaviest insider buying in 2009 was in March and that did coincide with the low for that Bear Market.

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Whereas most research is predicated on past and current metrics, our Insider Buying research can also provide us an intelligent glimpse into future expectations of a company's business prospects. It gives us a future-oriented judgment call, backed up with their own dollars, from officers, directors, and large shareholders who should have the industry and business experience to make such calls. Again though, ***their calls usually come with a one to two year outlook*** and as always, there is no guarantee. We do believe though that this added research tool will over time add value to all of our clients.

As most of you already know, in our equity investments, we are emphasizing dividend-generating stocks and funds. You continue to get paid dividends as the price of equities rise and fall, mostly fall recently. Dividends though are a real and valuable consolation for our patience in waiting for stock prices to cycle up again.

In general right now cash is faring better than commodities and also stocks, both domestic and foreign. There are some exceptions like precious metals (just one of more than 100 commodities) which is a relative strength leader. Given the precious metal parabolic move up in price though makes this a much too risky play at this level. Fixed income and in particular municipal bonds, treasury inflation protected instruments, and emerging market fixed income securities continue to provide relative stability and some return.

We monitor the markets, various asset classes, and securities within those asset classes continually and closely and make prudent adjustments based on our research and analysis. In general, right now we are navigating through especially treacherous market waters, and believe that we have some of the best research and skill sets in the world to help us do that. To the extent that we are invested in equities we will continue to emphasize dividends, and for individual stocks we'll emphasize dividends and those stocks in which their insiders are investing at these prices.

We work continually, every day, to be amongst the best in our industry in helping our clients meet their financial goals. We very much appreciate your good will and your referrals.

Ten Commandments in Preparing for your Future Years ©

William Baker & Associates, Inc.

Do unto others as you would have others do unto you

Your daily practice of this biblical commandment will go far in generating self-respect and also in developing a network of people who in turn respect you. It is one key to happiness throughout your life and applies in your personal as well as your business life.

Develop and strengthen your occupational skills

One of the most important investments in your life will be investing in your own education, experiences, and skill sets for which others have a need and are willing to pay. Improving your usefulness to, and ability to serve others, is your first and most important investment.

Place a priority on your health and fitness

Excellent health and fitness provide you with the wherewithal to work, to play, and to be a more productive member of society. Strive for a good balance in your daily lives that engenders both mental and physical health.

Avoid debt

Debt can quickly become your master. It can destroy your financial wherewithal and security. Be very wary before entering into debt, know that you can meet the terms of the debt, and understand that debt is a special trust and an obligation in cases where you do borrow money.

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Build an emergency liquid reserve

Stuff happens that requires money. Build up three to six months of your annual income, or more, in liquid cash that you can use for emergencies.

Treat money with respect and wisdom

Money is in most cases the fruit of your or someone's (e.g. your parent's) labor, time and life's efforts. Spend it, share it, and save and invest it with care and consideration and an awareness that it represents part of your or someone else's efforts.

Develop and keep up a financial plan

You will live your life over your lifetime and will have a need for an annual flow of money to get you through your lifetime. A financial plan gives you a financial roadmap and financial goal for your future in terms of building your nest egg, and in protecting your financial security throughout your life. It will typically include budgeting, college planning, retirement planning, estate or legacy planning, impact of taxes, saving and investing, and protection against catastrophes using a variety of insurance and risk management techniques.

Regularly set aside part of your income for your future security

Develop a discipline to pay yourself first out of your earned income to build a nest egg for your future. Ten or fifteen per cent of each paycheck wisely invested will see you on the road to financial security. The earlier you start the greater success you will have.

Diversify and monitor your investments

Diversification of your investments is a tried and true way of protecting your financial assets from a single investment going bad. Cash and cash equivalents (e.g. Certificates of Deposit), stocks, fixed income, commodities, currencies, real estate, and collectibles are basic asset classes that you can consider putting your money. Monitor and adjust your investments along the way to help ensure that you will reach your financial goals and get the help of a professional financial advisor to guide your efforts.

Avoid large, hard-to-recover financial losses

Accumulating wealth is not so much chasing after high returns in risky investments, as it is in avoiding large, hard-to-recover losses. When making any substantial financial decision, seek advice from a seasoned and objective professional, and go over the pros and cons. Use insurance to protect against large losses. Avoid making financial decisions based on your emotions and be sure to consider the consequences if things go right or if things go wrong. Remember there is no risk free investment, there is no perfect investment, and anytime that you make an investment decision it will entail compromise.