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Mortgage Meltdown Mania

Over the past three months, many historical events have transpired that will forever change the way our country's financial system operates. We have seen massive institutions change hands, fold up, and accept government intervention. Normally we would spend time further exploring and explaining what has occurred, but the news media and presidential candidates have done that to such an extent that it seems more prudent to focus on where we go from here and how we, as investors, should respond to these events.

To recap the markets from the last quarter, we faced large dips and subsequent recoveries in both July and mid-September, culminating in dramatic moves during the quarter's final days. In response to the defeat of the government bail-out plan, the market suffered one of its largest one-day drops in years, but rebounded strongly the next day. As it stands today, the market sits above its low-point for the year, anxiously awaiting the decisions to be made in Washington.

As the fourth quarter begins, we are encouraged by historical trends. The month of October has a reputation as a "bear killer" – it has marked the low-point and turned the tide in half of the bear markets since 1950. November, December, and January have tended to build on that momentum, and since 1950, they have been the best performing months based on the average monthly performance of the S&P 500.

One question we are asked in times like these is, "Should I sell out of the market?" While we can't know for certain that there will not be further downswings, we do know that at this time we are far below the previous peak. During the last bull/bear cycle, the greatest flow of money into mutual funds occurred right as the market was peaking in early 2000, and the highest outflows happened as the market hit bottom in the fall of 2002* – arguably the worst time to sell. Of course, hindsight is 20/20, but this illustrates that when we allow emotions to drive our investment behavior, we risk buying high and selling low.

Recent media concerns, and even account statements, can weigh heavily on our emotional psyche. The constant barrage of negative headlines and images can cause us to lose hope. In these situations, it is especially important to remain objective and let our investing decisions be guided by rational thought and not emotional reaction. Regardless of what tomorrow's headlines bring, our focus remains on ensuring that portfolios are well constructed and in position to cushion losses and capture future gains.

We wish you the best as the holiday season approaches and encourage everyone to take part in the upcoming election. Feel free to contact us if you have any questions, comments, or concerns.

Regards,

The PKA Team

Market Update

A quick glimpse at the market for the third quarter and year-to-date:

	Q3	YTD
DOW:	-4.40%	-18.20%
NASDAQ:	-9.19%	-21.49%
S & P 500:	-9.00%	-20.68%

Tax-Free Gains

From 2008-2010, those in the 10% and 15% tax brackets have zero tax on long-term capital gains. If you decide to sell assets to take advantage of this, please consult your tax advisor to make sure the additional income does not push you into a higher tax bracket.

I Approve this Message

This October brings some good news... we have just one month remaining of political advertisements! Remember to vote on November 4th!

Yahoo! Finance is the source for any reference to the performance of an index between two specific points. *Source: Capital Bank & Trust