



Quarterly

NEWS & UPDATES FROM GRANT'S DESK

3Q : 2011

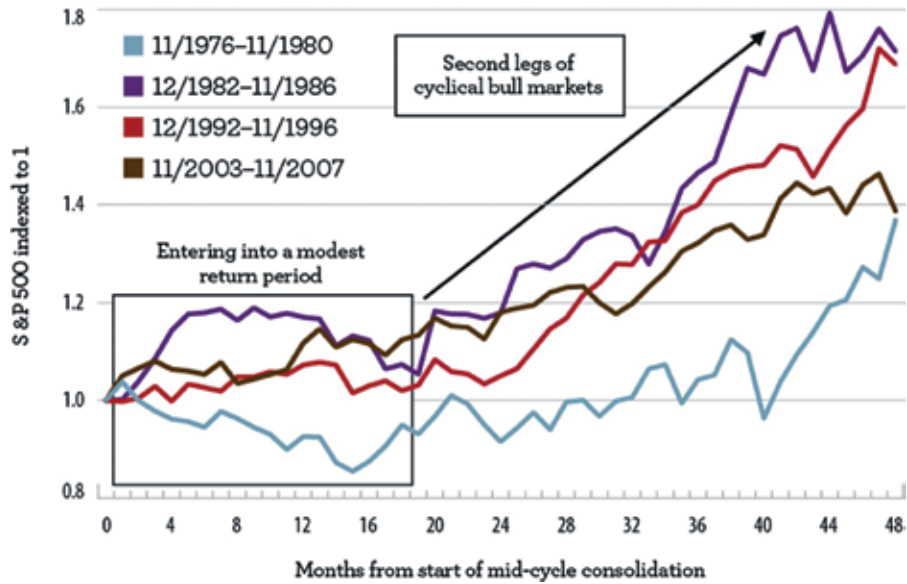
"Looking back at the last bull market from March 2003 until November 2007, we can see how the stock market can behave during a post-recession recovery."

While we were holding our breath on whether Congress was going to raise the debt limit, stocks took a breather, retracing over half of the market gains made over the past year.

With the 2008-2009 recession still fresh in many investors' minds, any market decline can be unnerving. We anticipate further volatility as the market consolidates between Dow 13,000-11,000, backfilling the gains over the past year. However, the recent volatility should be viewed as a healthy market correction in a bull market.

In a post-recession recovery, I believe economic expansion can be broken down into three phases. The early-cycle phase of the recovery is marked by potential gains typically resulting from low interest rates, fiscal stimulus and quantitative easing. At this point in the recovery, the U.S. economy transitions into the mid-cycle phase where policy makers wind down early-cycle stimulus causing economic

growth to slow. The late-cycle phase, estimated twelve to fifteen months from now, will likely entail rising interest rates, reduction in the unemployment rate and increased demand. Trends in the stock market track the economic phases—rising sharply during the early-cycle, consolidating in the mid-cycle and peaking in the late cycle.



While past performance doesn't guarantee future results, it does provide a valuable backdrop to what the future may hold. Looking back at the last bull market from March 2003 until November 2007, we can see how the stock market can behave during a post-recession recovery. In the second half of 2003, The Federal Funds target interest rate reached a 46 year low of one percent, initiating a fifty percent gain in the stock market over the next twelve months. From March 2004 until November 2005, the stock market traded in a range, consolidating between Dow 11,000-9,500—similar in scope to the current stock market. Twenty months later, in July 2007, the stock market peaked with impressive gains of nearly 35 percent. Extrapolating these gains to the current bull market would take the Dow to a potential 15,000 by the first quarter of 2013.

Negative sentiment for the U.S. Dollar is at extreme levels. In this type of environment, good news matters more than bad news and may explain the recent strength in the face of a potential government default and slowing economic growth. If, as we predict, U.S. economic growth improves next year and interest rates rise, then we could see continued strength in the dollar. For this reason, we recommend investors limit their exposure to bonds, which perform poorly in a rising interest rate environment, and increase their holdings in commodities and stocks (both domestic and international).

~Mark Buser, Executive VP, CFP®



Welcome a New Member to our Team

Johnstone Financial added a new CERTIFIED FINANCIAL PLANNER™ to the team. Mark Buser joined the firm in May 2009 as a Financial Advisor, bringing an impressive record and experience to our office.

Mark's role has been expanded to providing investment planning and investment recom-

mendations to all of our Johnstone Financial clients.

If you haven't already met Mark, please ask for him the next time you call, and say "hello."

Just for fun: Mark Buser finishes an "Olympic" Triathlon (1 mile swim, 24 mile bike, 6 mile run)



Check out the back panel for more Johnstone 'family' summer fun!



We have completed most Summer reviews by now, so if you have not checked in recently, please call to schedule a time to visit about your accounts and catch up.

We appreciate you and your many referrals and support. In turbulent times like these, you may know others who would appreciate having a chance to talk to an advisor like yours. We are always happy to help—even if it is to simply provide a second opinion or a few pointers.

Top: Amy Johnstone hauls in a large salmon on the Johnstone Financial annual fishing trip.

Left: Nathalie and Tess Christensen find the sun during summer vacation in Barcelona, Spain. (In the NW, we suspected the sun had to be somewhere!)

Bottom: Congratulations to Eddie and Katie LaPlante on buying their first home!



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Buying commodities, gold, silver, platinum or palladium allows for a source of diversification for those sophisticated persons who wish to add commodities to their portfolios and who are prepared to assume the risks inherent in the bullion and/or commodities market. Any purchase of commodities, bullion or coin represents a transaction in a non-income-producing commodity and is highly speculative. Therefore, commodities and/or precious metals should not represent a significant portion of an individual's portfolio.

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