Inaugural Issue, 2011

Potomac Financial Observer

www.PotomacFinancialGroup.com

WHAT'S INSIDE

What you can expect from the Observer

We continue to look for ways to increase the communication and education that we provide to our clients and that has led us to develop the Potomac Financial Observer newsletter. Our goal is to provide you with relevant content in each issue without all of the financial jargon.

There's too much information and news available to us on a daily basis, and we think our clients want more than just the news. In this publication, we'll offer our thoughts on the news and let you know how it may affect your investment portfolio. We will also provide you with important reminders and updates from the Raymond James home office throughout the year.

If you have any suggestions or if there are particular subjects that you would like to see in a future issue, please send us an email or give us a call. We always love to hear from you.

The Seven-Handed Advisor

President Truman once said that he wanted a one-armed economist on his staff as he became tired of his advisors wavering back and forth, "On the one hand…but on the other hand…."

As we reflect on the difficult third quarter that we just experienced, Truman's joke immediately comes to mind. We have been pulled back and forth in a game of economic tug-of-war for most of 2011.

While discussing the markets and our outlook on the global economy, we often feel like the six or even seven-handed advisor as the "bulls" and the "bears" have rather compelling arguments to make on either side.

On the one hand…the possibility of a Greek debt default has cast a very dark shadow over the global stock markets as investors are unsure how far or how fast a Greek default would spread through other parts of Europe and into the U.S.

The S&P 500 index experienced the biggest quarterly drop since the 4th quarter of 2008, dropping more than 14%

On the other hand… not all economic news here at home has been negative. While the news has not given us reason to cheer, 14 of the 18 recent weekly economic releases have been better than expected.

On the other hand….the stock market (the S&P 500) has experienced more than nine swings of 5% (or more) from intra-day highs to lows over the last two months. Clearly, the markets have been extremely volatile on a day-to-day basis.

On the other hand….bond investments have generally performed better than stocks over the last quarter and have provided some much-needed "cushion" in diversified portfolios. TIPS bonds (Treasury Inflation Protected Securities) actually posted positive performance over the last 3 months.

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Todd's Tidbits

- The number of federal government workers has decreased by 223,000 over the last 25 years, but the number of state and local workers (excluding teachers) has increased by 2.9 million over the same time period (source: Department of Labor).
- The S&P 500 has experienced 5 consecutive down months only 3 times since 1990, which includes the negative stretch that ended on 9/30/2011.
- According to the Consumer Price Index data, $400,000 of taxable income in 1953 is equivalent to $3.4 million in today's dollars.
- The symbol on the pound key (#) is called the octothorpe.

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Changes to Medicare's Open Enrollment Period

The Medicare open enrollment period is the time during which Medicare recipients can make new choices and pick plans to better suit their medical needs. From year to year, the Medicare plans that you have may change what they cost as well as what they will cover. In addition, your health care needs may have changed from the past year resulting in your need for a different health and/or prescription drug plan.

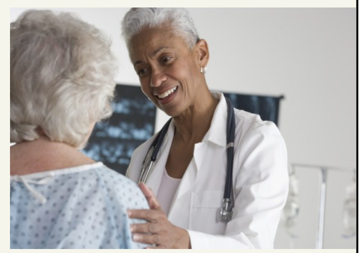
This year, the Medicare open enrollment period begins earlier than in prior years. Open enrollment started on October 15th and runs through December 7th. Any changes made during open enrollment will be effective as of January 1, 2012.

Just as we do with your investment plan, it is a good idea for you to review your current Medicare plan to see if any changes are needed. Are you satisfied with the coverage and level of care you're getting with your current plan? Are you able to see the medical professionals of your choice, or are you restricted as to the staff and facilities that you are able to use?

Are your premium costs or out-of-pocket expenses too high? For example, Medicare Part B, and Part D premiums can increase if your income exceeds a certain level. If you have a Medigap or Medicare Supplement plan, you may find that your out-of-pocket costs are increasing due to co-payments and deductibles.

Has your health changed, or do you anticipate needing medical care or treatment? Now is a good time to determine if your current plan will cover your treatment and what your potential out-of-pocket costs may be. If your current plan doesn't meet your health-care needs or fit within your budget, you can switch to a plan that may work better for you.

For help sorting out the details, call 1-800-MEDICARE or go to www.medicare.gov



Medicare Open Enrollment began on October 15th.

"Today, there are three types of people in this world: the haves, the have-nots, and the have-not-paid-for-what-they haves."

-Earl Wilson

One Estate Planning Tool just got cheaper

As of October 1st, clients will no longer be charged a $75 fee to establish a Transfer on Death (TOD) agreement on their regular brokerage accounts (personal or joint accounts) held at Raymond James.

The TOD agreement allows for the transfer of assets to designated beneficiaries in a timely manner without having to go through the costly probate process. While it does not change anything regarding possible estate-tax implications, we think it may make the estate settlement process a bit easier for the beneficiaries involved*. In many ways, a TOD agreement is very similar to the beneficiary designations that you may have on your IRA accounts or 401k accounts.

Fees will still apply if any changes are needed in the future to the these documents. Please give us a call if you are interested in adding the TOD agreement to your accounts. We can certainly answer any questions that you may have about this program.

As we approach the holiday season, it is a great time of year to review all of your beneficiary designations and make sure that your will and/or living trust documents are current. You're not alone if you've been putting off the phone call to your attorney, Be sure to make these changes before it's too late.

**Please consult your tax advisor or estate planning attorney.*

Pam Cleffi-Rabadi joined our office in July as a Client Care Associate. Now you can put a smiling face to her name!

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But, on the other hand…. when stock prices fall as quickly and drastically as they did in August and September, inevitably there are some good companies whose stock prices were unfairly punished. "The baby is thrown out with the bath water," as they say. Think back to March of 2009…we were still waking up to some very scary headlines, and investors, for the most part, were too afraid to invest new money in the stock market. Only with the benefit of hindsight are we able to look back and see that the stock market hit the "bottom" on March 9, 2009, and we experienced almost two years of recovery from there.

On the other hand….this latest downturn has been coined "The Crisis of Confidence" due to the global nature of these worries coupled with the political dysfunction we have experienced here in the U.S. This was magnified by the debt ceiling debate that seemed to last most of the summer. Even though the outlook for U.S. corporations looks much better than it did in 2008, investors are still very hesitant to believe in it as there are too many outside factors that are overshadowing any glimpse of optimism.

But, on the other hand… Warren Buffet recently reminded us of the old investing adage, "Be fearful when others are greedy and greedy when others are fearful" when he invested $5 billion in Bank of America. Talk about practicing what you preach!

Closing Thoughts

While it doesn't appear to us that the U.S. is headed into another recession, the probability of a recession is perhaps greater now than it was in June. The recent economic data seems to be consistent with a period of slow growth for the U.S. economy, but it is still growing and not contracting. We think the recent volatility in the stock market is yet another sign that this recovery may not be as strong or as fast as prior recoveries, which underscores the need for investments with a low correlation to the stock market, such as bonds (corporates, convertibles, TIPS, floating rate, global), real estate, commodities, etc. The trick, of course, is finding the right mix of these investments for your financial goals and risk tolerances. Be sure to give us a call if you'd like to discuss this further.

Introducing…

Charles Samuel Wike!!

On Friday, October 21st, Todd and his wife, Chrissy, were blessed with a beautiful baby boy, Charles Samuel Wike. Little Charlie is perfectly healthy and weighed in at

8 pounds and 12 ounces and measured 21 inches at birth.

As a new proud father, Todd couldn't resist sharing a few pictures of his new bundle of joy!

Dear Larry,

If you have a question for our "Dear Larry" column, please send it to todd.wike@raymondjames.com We'd love to hear from you!

Dear Larry,

Just when it feels like we are recovering from the last market downturn, we're hit with another one! What can I do to help stabilize myself? I don't want to work until I'm 95!

- Worried in Rockville, MD.

Dear Worried,

It does seem like there is always something to worry about….even if everything is calm and we are wondering what will happen in the future to make us worry later. Such is the emotion…WORRY… that often accompanies dramatic market gyrations. "Stock market plunges", the talking heads on TV tell us, and it makes me wonder what we would do if elevators said "soar" and "plunge" instead of the more familiar "up" and "down". Would we be more likely take the stairs instead?

During times of market fluctuation, when you return to the nervousness of opening your monthly account statement, it is important to take a step back and look at things from a wider perspective. What was my account worth at the beginning of the year? What was it worth three years ago? Have I "lost" principal?....or have I given back some profit made in earlier months?

At times like this it is also important to remember that looking at recent events can truly distort the bigger picture. A very good example is our United States Senate back in the 1880's. With one technological marvel after another after another having arrived, Congress began seriously debating the issue of whether the U.S. Patent Office should be abolished. Their reasoning was "since everything that could be invented has now been invented, what further need is there for the Patent Office?" That is the type of short-term thinking that we must avoid.

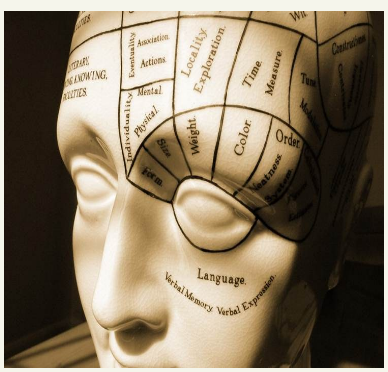
For the portfolio, it is important to take precautions ahead of time. We check and re-check the portfolio's stock and bond percentages. Check to see if investments designed to produce consistent income would be suitable, in order to make the portfolio more "pension-like". Consider rebalancing, and taking some profit "off the table". Try to have some non-correlated alternative investments in the portfolio.

None of these strategies will prevent you from experiencing the bounces and bumps of the markets, but they can help to make the peaks and valleys a little less dramatic.

The four most dangerous words in investing are, "This time, it's different".

-Sir John Templeton

Re-train Your Brain



There's no denying the fact that our emotions play a large part in our investment decisions. The problem is that we tend to treat money-related decisions much differently than most other decisions we make in our lives. A whole new science called Behavioral Finance has emerged that can help us understand how our minds work when it comes to money and the decisions we make. In this column, we'll examine the fascinating world of investor emotions and motivations.

As you read along, you may catch yourself saying, "Yes, that's me!" and that's OK. The key is to be aware of these investor "biases" so that they don't result in irrational decisions.

Biases of Fear and Regret

Nobody likes to lose money or make investment mistakes, but some investors are so worried about making a mistake that they become paralyzed and emotionally incapable of making choices. In cases like this, avoiding losses takes precedence over pursuing investment gains and it can also lead to buying or selling at the wrong time.

These investors will likely get into the markets too late and miss out on gains. They are also vulnerable to panic selling in the face of losses. These actions are the result of what's known as **Projection Bias** where we tend to overemphasize the current experience as an indicator of the future. As advisors, we notice these "conditions" much more in times like this when market volatility is higher than normal. This particular bias is the reason you see "Past performance is not an indicator of future results" in almost every email or letter you receive from us. This behavior is driven by the **Recency Effect;** we tend to think that what has happened in the past, especially the immediate past, will continue. However, we have seen over and over again that the "hot" investment one year is a poor performer the next year and vice versa.

This Recency Effect comes into play at both ends of the spectrum and is largely to blame (along with greed) for the various investment "bubbles" that have formed over the years. Think back to 1999 when the technology bubble was nearing its peak….or think back to 2007 when real estate markets were still booming. It was very difficult for participants in either situation to foresee those bubbles bursting. After the fact, it seems so apparent, doesn't it?

Perhaps if we recognize the reasons that we make the investment decisions that we do, we can all make better decisions in the future.

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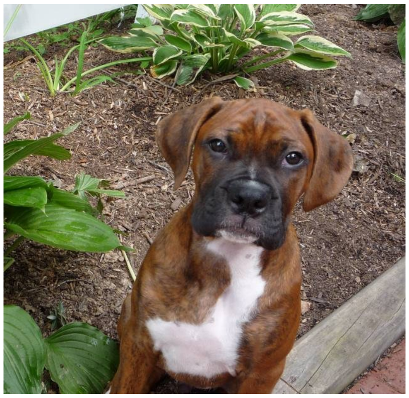
Duncan's Dilemma



"Master" Todd insisted that we take a business photo for my new column. Here I am sitting in my office.

"You wouldn't believe how much I've had to beg (literally) to get my own column in this newsletter. Sure, I don't mind shaking hands for some bacon-flavored goodies, but I had to raise the ante when he asked me to start rolling-over in front of his friends. Now it is mine, all mine, and I'll use this column to give you the real scoop on what is going on around here.

They sure do spend a lot of time talking about diversification, don't they? I find that a bit ironic considering the fact that I have eaten the same brand and amount of dry, boring dog food twice a day for the last three months! Isn't the idea to have "exposure" to all different types of kibble???

I pretend like I'm not listening, but I'm hearing more and more talk about gold as an investment. Late at night, while Todd is fast asleep, there are even TV commercials offering "cash for gold." Well, cash does me no good, but I'd be willing to listen to a "Bones for gold" presentation.

And he better be prepared to offer me a spot on the front page if he plans on parading me around the neighborhood in some embarrassing Halloween costume. I sure do pity this poor guy pictured below…not quite the "Hound Dog" I had in mind.

Be sure to check-in with me in the next issue. I have plenty more to get off of my chest…

Long live the King!

If you have an idea or suggestion to help improve our services, please tell us. If you're happy with the services that we provide, please tell a friend!

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Important Disclosures

*****COMING SOON*****

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