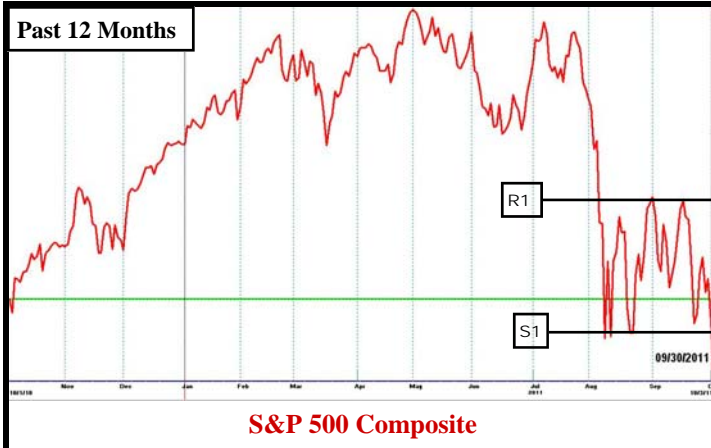


MARKET COMMENTARY



The market began the fourth quarter much like it ended the third, with a big down day. Today's drop of 258 points on the Dow and 32 points on the S&P 500 or nearly 3% decisively completes that break out of the trading range that we have been in for nearly two months now. This break to the down side of the trading range as marked by support and resistance lines S1 and R1 at the left puts us clearly in bear market territory. The only question remaining is how far down will we go.

The US markets have fared better than most of the rest of the global markets in the recent draw downs with only a 17% decrease from its high. The box at the bottom right shows the effect on the major global markets. While we

hear almost daily news of the problems in Europe it is really not necessary to understand whether the economic malaise of Greece or the rest of Europe is causing this steady meltdown, it is only important to recognize that this is a high risk market. One newsletter I read compared investing in this market to with trying to pick up pennies in a busy street.

The flip side of all of this is that there is tremendous opportunity building. It is much like a spring that is being wound tighter with each drop in the market. We simply have to focus on preserving capital and recognize when the markets reverse. The steep declines we are experiencing now will provide us with an opportunity for low volatility gains that we have not seen in nearly a decade. The key to remain patient and vigilant

We are currently 70% in money market or cash and have actually seen small but steady growth in all accounts this past month. When the market conditions change we want to be ready to take action quickly. However, if they reverse, we will also be quick to move back to a cash position.

Country	Index	From High
UK	FTSE 100	-15.81%
US	S&P500	-17.03%
Japan	Nikkei 225	-22.96%
Germany	DAX	-26.91%
France	CAC 40	-28.27%
Hong Kong	Hang Seng	-29.53%
China	Shanghai	-32.04%

PRIME NUMBERS — Current Facts from Around the World

30 years The age at which Bill Gates told his Harvard professors he would be a millionaire by age 30. He became a billionaire at 31.

Warren Buffet bought a 40 acre farm at age 14 with \$1200 in savings from delivering newspapers.

ON January 1, 1791, the U.S. national debt was \$75 million. Today, the U.S. national debt increases by approximately \$75 million each hour

The first text message ("Merry Christmas") was sent in 1992. By 2009, 4.1 billion text messages were sent daily in the United States alone.

The Peter G. Peterson Foundation estimates the total amount of all U.S. Government liabilities explicit and implicit (Social Security, Medicare, etc) at \$62.3 trillion. That is around \$200,000 owed by every man, woman and child in the U.S.

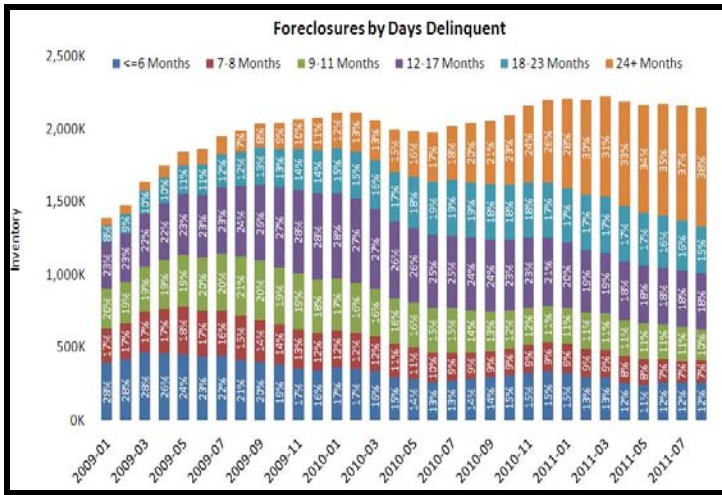
24.8% The percent of the world GDP produced by the US with only 4.5% of the world's population.

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As many of you know, I have long held that the economy can not begin its recovery until the housing market stabilizes and that can not happen until unemployment improves.

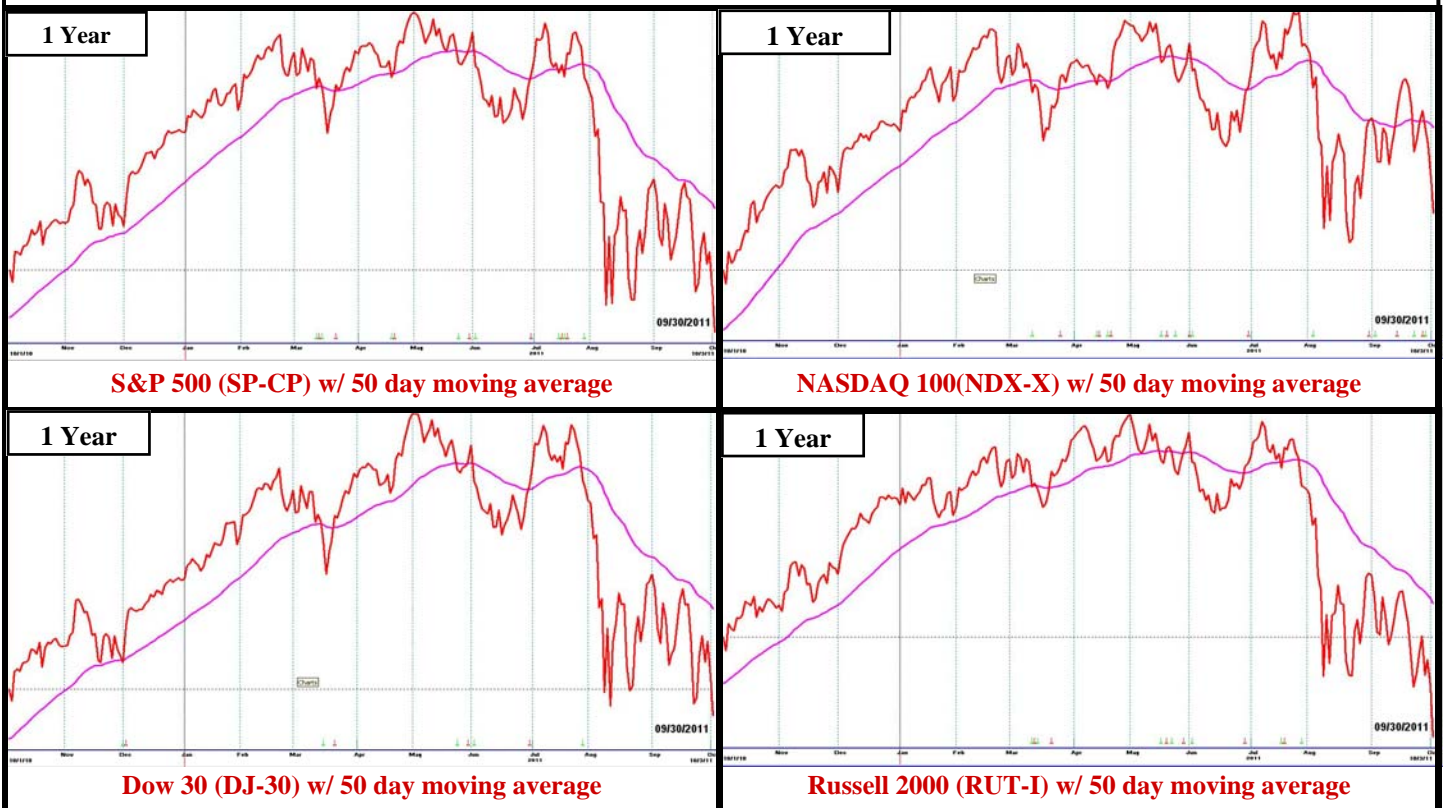
At left is a chart from www.calculatedriskblog.com showing the continuation of the foreclosure problems and the continued increase in the number of months that homeowners facing foreclosure are delinquent. One problem contributing to this situation is that banks are not clearing foreclosure inventory.

“The August Mortgage Monitor report released by Lender Processing Services, Inc. shows that **foreclosure starts were up in August by nearly 20 percent compared to July 2011 results**, with first-time foreclosure starts reaching 2011 highs. Overall, foreclosure starts remained down more than 12 percent from this time last year. At the same time, of the approximately 4 million loans that are either 90 or more days delinquent or in foreclosure, the number in the 90 or more days category has shrunk to levels not seen since 2008.

The August data also showed that, of loans that were current six months prior, 1.4 percent had become seriously delinquent, a rate of less than half of the peak of 2.9 percent in 2009. ...

August results showed an all-time high in the number of loans shifting from foreclosure back into delinquent status, suggesting that process reviews and potential loss mitigation activity are continuing. As a result, foreclosure timelines continue to increase, with **the average loan in foreclosure having been delinquent for a record 611 days.**”

MARKET SNAPSHOT



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