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## October 2011 Newsletter

**Disappointed?** The failure of Congress to address this country's debt issues in July was not just disappointing, it was an embarrassment. The folks at Standard and Poor's apparently agreed because soon thereafter they downgraded US debt to AA+ from AAA for the first time ever.

The financial markets then fell into a swoon and gyrated wildly in early August. Coincidentally I happened to be on Wall Street the day after the market hit its low August 8<sup>th</sup>. While in New York I visited with some of the best minds on Wall Street including several money managers and Art Cashin. Art is UBS's man of the floor of the NYSE and regular commentator on CNBC and Bloomberg and a Governor of the Exchange for over 50 years. I also was privileged to be able to "bang the gavel" at the NYSE on the 9<sup>th</sup> (after hours).



On the train back north I wrote an e-mail with my thoughts and observations that many of you received the next morning. To reiterate:

*"The prevailing viewpoint is that the recent sell-off in the markets was triggered by (1) a self-made budget ceiling crises and Congress just "kicking the can down the road", (2) the resultant downgrade of US government bonds from AAA to AA+ by S&P, and (3) concern that the monetary union in Europe would not have the political fortitude to address their debt issues in the Euro-zone. Add a soft patch of economic data and you have the makings of a perfect storm.*

*No one likes this kind of volatility, but every professional I spoke with felt that this market volatility will continue for a while. Each stressed, however, that investors should be careful not to over-react to these market moves. Ultimately these sell offs will create buying opportunities but until things settle down it is important not to be too aggressive.*

*Additionally they felt there are actually some positives coming out of all of this: (1) With the political fallout from the credit downgrade, Congress may finally begin addressing the structural debt problems in this country, (2) The Federal Reserve Tuesday indicated they will not raise short term interest rates before 2013 – great for corporate borrowing or re-financing your own mortgage, and (3) with the recent drop in crude oil prices the price of gasoline will start coming down again and might approach \$3.25 a gallon, indirectly a kind of tax reduction for consumers which alone could increase GDP by .3%.*

*We have experienced times like these before. They are never fun. But this too will pass. With patience and faith, together we can weather this storm as well."*

I continue to hope our elected officials display some leadership and do what is necessary to get this country's financial house in order again. After much too much politicking, I think they will eventually get it done. As Winston Churchill wryly commented in 1945, "Americans always do the right thing...after they exhaust all the other possibilities."

**And the Markets?:** The volatility in the market triggered by the actions in early August continues. There is an old adage on Wall Street that you do not try to catch a falling knife. Better to let it stick in the ground and stop vibrating before you pick it up. That is where we are today.

Although unsure of what would cause it, we have been anticipating a 10% correction (refer to our newsletter of April 2011). The market had gained over 82% the prior 18 months; a correction was to be expected and is necessary for the long term health of the markets.

Based on several market valuation formulas, the selloff created a cheap market. Using the relationship between the dividend yield on the S&P 500 and the yield of the 10 year treasury, the stock market was the cheapest it has been in 37 years. Based on price-to-earnings ratios, the market's valuation is now cheaper than it was in March 2009 when the Dow was only 6600 (5,000 points ago...).

The most recent sell off gave cash-rich investors still one more opportunity to get invested. Being a long term bull on the markets and the USA, I think 6 months from now we will realize what a buying opportunity we have seen. Historically these past 20 years, the market has gained more in the 4<sup>th</sup> quarter (Oct, Nov, Dec) than it has during the first 3 quarters combined. This happened last year. I expect it to happen again this year. That said, I fear I must "throw in the towel" regarding my 50/50 conviction that we will hit a new record high this year. Although I do anticipate a strong rally by year end, that target for the markets now appears too optimistic given what we have all just been through.

**How are your family and friends coping with this volatility?** Are they still looking forward to a bright future where they achieve their financial goals or are they apprehensive? An important service we offer is to act as a sounding board to the family and friends of our clients. These people do not have to become clients to take advantage of this service. We just ask that they mention your name when they call.

**I would be remiss** if I did not add that, we very much value the trust you have placed in us and your friendship, but never more so than during turbulent times such as these.

**From Adam**

**Fall always seems to be a time of tying up loose ends and preparing for winter.** There are a few things financially that may be worth taking a look at if you haven't this year:

- 1) **Have you run your free credit report?** We recommend you run a report from one of the agencies several times a year to watch for identity theft. You can receive one from each agency each year for free – if you run a report from one of them every 4 months it is an easy way to help watch for identity theft that will not cost you anything other than a little time. All the items listed you should be familiar with – if you are not it is worth investigating further. You can run one free report each year from each of the three credit agencies – visit [annualcreditreport.com](http://annualcreditreport.com) or call 1-877-322-822 for more information. If you have a concern, or would like to learn more about watching for and protecting yourself from identity theft the New York State Attorney General has an excellent web site: [http://www.ag.ny.gov/bureaus/consumer\\_frauds/identity\\_theft.html](http://www.ag.ny.gov/bureaus/consumer_frauds/identity_theft.html)
- 2) **Confused by all the Medicare options that are available?** Visit <http://www.Eldercare.gov> for information or to locate your closest Medicare counselor. Be sure to scroll down the page to see all of the available services.
- 3) **Have you reviewed your Will lately?** We recommend at a minimum taking a look at it once every few years making sure it states your current wishes. If you have a more complex situation such as a will that creates a trust it is advisable to review it with a lawyer – even if your situation has not changed, the law may have.
- 4) **When is the last time you reviewed your insurance policies?** It is important to review the health of the policy – not all policies are guaranteed for life, and make sure the insurance will take care of the need(s) you have should something happen to you, be it paying off a mortgage, supporting a spouse, leaving your beneficiaries an amount, or other desire. Many of you who have gone through the Financial Goal Analysis with us have had an in depth insurance review completed, and in many cases we've been able to improve the situation due to changes in life expectancy tables about a decade ago. If your policy is older than 2003 it is definitely worth reviewing as there may be financial benefits to you as well as checking to make sure the policy will help you achieve your goals.

**From Melissa**

**New Direct Dial Phone #:** As a way to increase our service to you we are pleased to announce a new direct Pearsall Financial Group phone number:

**518-743-2073**

This new phone number rings directly to my desk. If I am on the phone or away from my desk after three rings the phone will ring to Lisa or Sue.

Don't worry, until you get used to it you can still call 745-5500 and Lisa, Sue, or I will always answer during business hours.

To help you remember this special direct dial phone number you will find a magnet with our picture and phone number on it. Place it on your refrigerator or on a metal object near your phone to further assist you in using it.

**Pearsall Financial Group Website:**

We have recently updated the Pearsall Financial Group website. Go to

[www.ubs.com/team/pearsallfinancialgroup](http://www.ubs.com/team/pearsallfinancialgroup)

Consider adding it as a favorite or bookmark. On this page you can also login to our online services. You may wish to consider this as it is a great way to monitor dividends paid, account balances, cleared checks, security values and market news. You can also view the past 12 months of our newsletters under "Our Perspective".

Do we have your email address? On the site you will find all three of our email addresses too. While we don't like to inundate you with emails, we like to periodically email you our thoughts and timely market information.

As always please feel free to share the link with family and friends.



**Social Security: Are you ready for direct deposit?**

Currently entitled beneficiaries and recipients receiving payment by check will have until March 1, 2013 to switch to direct deposit or the Direct Express® debit card. As of March 2011, 85% of all Social Security and SSI beneficiaries received their benefits by direct deposit.

Do you have a Resource Management Account (RMA®) and are you interested in updating your Social Security Direct Deposit to UBS?

Gathering this information in advance of the call will save lots of time and make things go smoothly. If you want to change your Social Security direct deposit to your UBS account: Call 1-800-772-1213 for the automated system. You will need to know the answers to these questions and have them ready.

1. Are you receiving SSI (supplemental social security) benefits?
2. Are you receiving Social Security retirement benefits?
3. Exact dollar amount of last benefit payment
4. Social Security number
5. Date of birth
6. Mother's maiden name
7. City and State of birth
8. Routing number at UBS-044000804
9. Checking account number at UBS- *usually starts with 810 or 830...*
10. When you do want direct deposit to change? (As soon as possible, or you can choose a future date).

If you have the answers to these questions written down in front of you and ready to go, the call only takes about 5 minutes.

**Form ADV:** Beginning in early September and through the next few weeks, many of you may have or will receive a cover letter and Form ADV Brochure Supplement. Beginning in the third quarter, a new Securities and Exchange Commission rule for Form ADV: Part 2B will require investment adviser firms to furnish clients with detailed, resume-like information about Financial Advisors and other individuals who provide investment advice.

For those of you who have elected E-delivery of shareholder communication, you will receive this notice by email. For those of you who like paper based communications you should receive this in the mail.

If you have any questions on the content or the biographical information on Glenn or Adam, please call us or our Branch Manager, Bob Lane.

**SEC Playback:** In 2003, the Securities and Exchange Commission (SEC) required all brokerage firms to provide clients with written confirmation of certain client and account information on a regular basis. UBS issues confirmations of this information when:

- When a new account is opened.
- When changes are made to investment objectives and/or financial information.
- UBS and SEC regulations require this be sent at a minimum every 36 months.

You will receive a confirmation of pertinent account information in your September statements. Please take a minute to review it. If any of the information is incorrect or needs to be updated please call, write, or email our office. It is very important to have the most up-to-date information about you, so that we may have a clear picture of your financial situation and make appropriate recommendations

**Annual Relationship Building- Annual Account fees- \*\*\*\*\* December 6<sup>th</sup> 2011\*\*\*\*\***

Over the past few years UBS has made several important enhancements to accounts and fee structures. As we want to ensure that your account is set up as cost efficiently as possible, we have reviewed all accounts to make sure you have the lowest fee structure possible. We will contact you if we see any reason to make adjustments to your accounts.

UBS is also sending out with the September statements an insert titled "Important updates regarding your relationship with UBS". Changes are being made to certain account terms and fee agreements that you have with UBS. Even though the changes may not directly affect your relationship with us, we are required to notify everyone when changes are being made.

The big change for this year is that if the sale of your largest mutual fund position does not result in sufficient funds to satisfy your debit balance, UBS will sell shares from the eligible equity positions held in your account on the third Monday in March. Of course as always you may deposit additional funds in your account to cover the fee balance.

It very important to Glenn, Adam and I that we provide full disclosure and you understand any costs to do business with us and UBS, so please review the insert and contact us if you have questions on it.

### **Pearsall Financial Group Charity Challenge**

We are pleased to announce that we have matched \$2,000 in gifts/donations raised by St James Episcopal Church at their second annual Lake George Hot Rod Happening that was held July 22<sup>nd</sup> and July 23<sup>rd</sup>.

Past recipients of the Pearsall Financial Group Charity Challenge have been the Regional Food Bank of Northeastern New York, The Glens Falls Lions Club, The Saratoga Center for the Family, Caritas Inc. of Glens Falls, North Country Hardship Fund, Empire State TAPPI/NY Canadian Scholarship Fund, Ronald McDonald House Charities, and now the St James Episcopal Church in Lake George.

We did not have any applications for events for the fourth quarter.

As a reminder, we're accepting applications until Thursday December 1<sup>st</sup> 2011 for our first quarter 2012 charity match. We will continue matching the profits raised up to \$2,000 from the charitable events we select until the Dow Jones Industrial Average reaches a new high. The last record high on the Dow was 14,087.55 set October 1, 2007. Our challenge to you is to get involved in a not-for-profit and its fundraising. Submit your fundraising event to us. On a quarterly basis we will select one event. For this upcoming quarter, to be eligible, the event you wish to get involved in must be held between *January 1 2012 and March 31 2012*. For this event we will help publicize the event by mailing a flyer to all of our other clients. For the event we designate each quarter, the Pearsall Financial Group will also match the first \$2,000 raised. An application is enclosed. That donation brings our cumulative charity group challenge match to \$13,000. Please call us with any questions

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