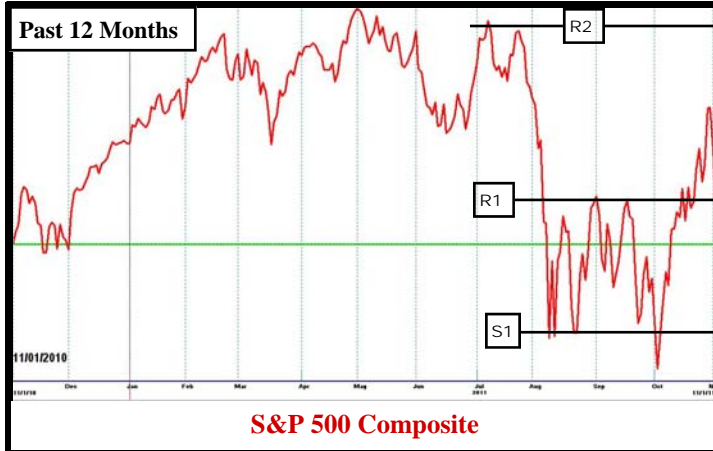


MARKET COMMENTARY



Last month we looked at the same picture of the market, but it had broken below the support line for the trading range marked by S1. I commented that there was an opportunity building and we needed to focus on capital preservation and recognize when the markets change.

Well we got the change we were looking for in a big way. The S&P 500 shown at left advanced 16.9% from its low on October 3 thru October 31. It did so in a very strong manner with higher highs and higher lows defining a new trend. The down legs were significantly smaller than the up legs thus adding to the strength of

the advance. It is also significant to note that the drawdown we saw in yesterday's market stopped just above the resistance line R1 will now serve as support for the future.

There is no way to know what the market will do going forward, but if we apply simple rules regarding the support and resistance levels, we can ascertain when the character of the market has changed and we can make the necessary changes to portfolios to avoid getting caught in a down trend and having significant losses. This is just one of the thought process we go thru on a daily basis when monitoring each clients account.

We also look for sectors that are providing an above average return with below average risks. Right now that sector is the High Yield Bonds otherwise known as Junk Bonds. One of the funds we moved back into (SSHYX) increased for 18 consecutive trading days from October 4 thru 28. Junk Bonds tend to trend the same direction as the market with much less volatility. While the market pulled back 5.2% in the last two trading sessions, the junk bond funds only gave up 1.12%. If the situation changes, we will move back to cash, but in the mean time lets enjoy the opportunity that has developed.

PRIME NUMBERS — Current Facts from Around the World

9.1% The growth rate of China's gross domestic product in the third quarter, down from 9.5% in the previous quarter.

\$241,000 Sum of the pension checks meant for a long-dead woman that were cashed over the past decade by a New York pastor who allegedly forged affidavits to her pension plan.

7B Estimated world population October 31. Global population growth is fastest in the cities of sub-Saharan Africa.

\$2.8B The combined net worth of the 10 richest members of Congress, where the median net worth is \$912,000.

\$13.5B Sum that Microsoft Corp. and Adobe Systems Inc. lost to piracy and counterfeiters in Europe last year. France, Germany, Italy and the United Kingdom rank among the top 10 countries worldwide in the prevalence of piracy.

52% The number of employers who are having trouble filling critical positions due to a dearth of skilled workers, up from 14% last year.

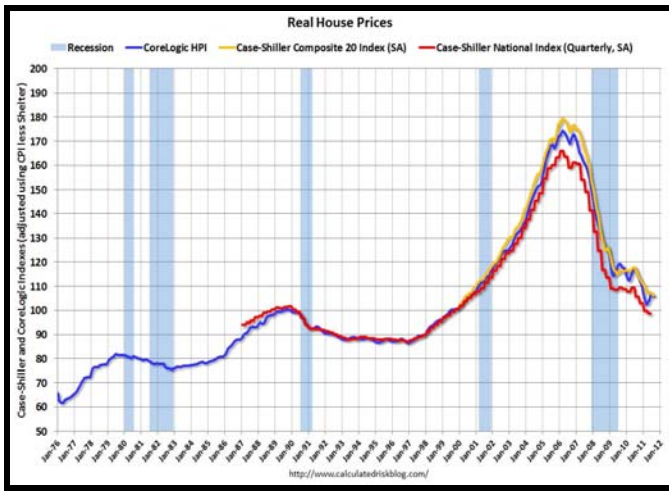
Reprinted from InvestmentNews

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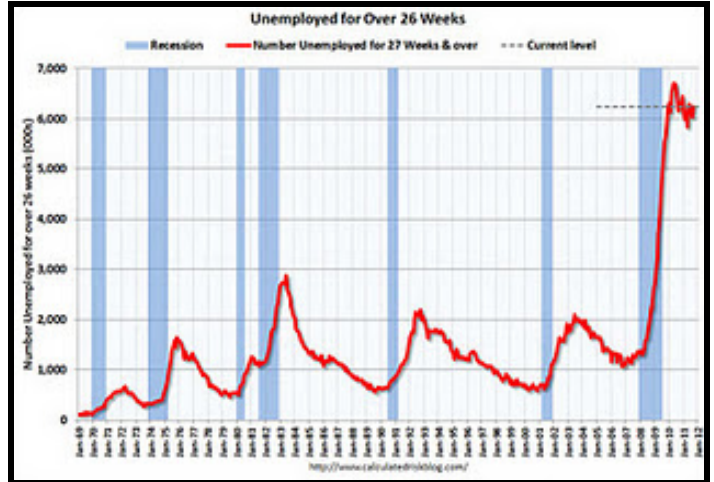
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THE ECONOMY

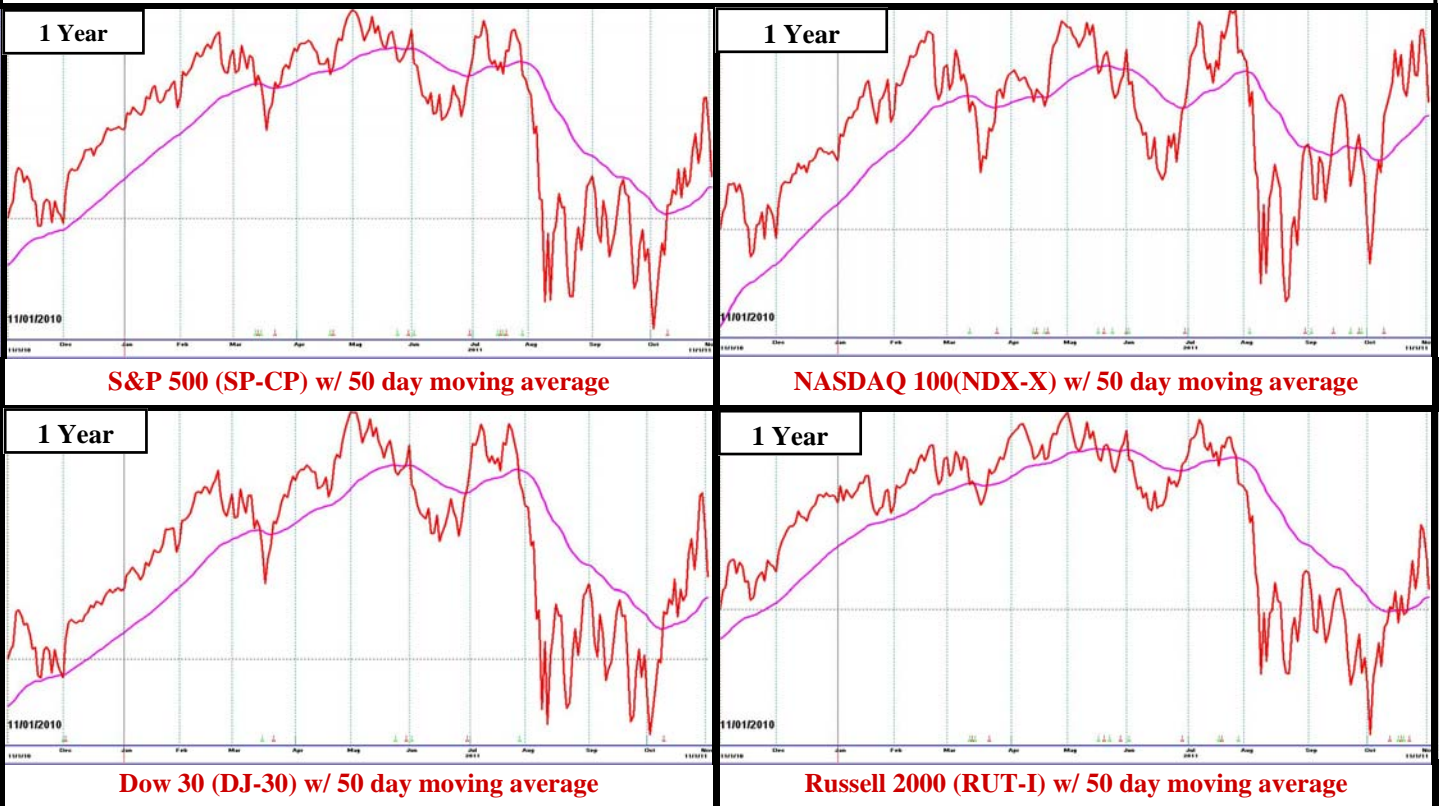


At left is a chart from www.calculatedriskblog.com showing the value of Real Housing Prices beginning in 1976 and the continuation of decline in the value of housing. The vertical blue stripes are previous recessionary periods. It is clear that in spite of the various measures the government has taken, housing is still declining.

At right is a chart from the same site showing the number of people that have been unemployed for more than 26 weeks. As you can see, on a relative basis, there has been very little improvement in the employment picture, especially when compared to previous recessions. Until we fix the employment picture, housing cannot possibly recover. This is simple. If people do not have jobs, they cannot keep their existing homes and cannot buy new ones. When will Washington figure it out.



MARKET SNAPSHOT



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