



Falcon Financial Management, Inc.

November 2, 2011

Dear Friends,

I began this quarter's letter on Halloween ... so in that spirit, would you like a trick or a treat?

The trick: The US can't pay their bills and we are going to default on our obligations to our bondholders and those waiting for checks from the government for everything from Social Security payments to doctors waiting on their Medicare payments.

When someone is perceived as a bad risk the creditors usually ask for a higher interest to compensate them for the additional risk. As the worry over the debt ceiling and the potential default by the US consumed the world in August fear of another meltdown like we experienced in 2008 drove the stock market to it's low point for the year.

This Quarterly Report, as well your individual statements from the various companies that we use to oversee your investments reflect your balances as of September 30th; the low point for the year.

One last point before I leave the trick ... I, along with many thought that the downgrade from Standard and Poor's would cause the interest rates the US pays on new bonds to go higher. That didn't happen. In fact, the downgrade has triggered a drop in the interest we pay for borrowing money (which is what bonds are, a loan) to historically low rates; the opposite of what you would expect if we were a bad risk. The truth of the matter is, the US dollar is still the safest place to invest, in stocks or bonds. The interest we currently pay on a 10-year Treasury bill is 2%, near the lowest rate ever. This begs the question, if that downgrade brought us historically low interest rates, should we be hoping for another downgrade of the US? What we have discovered is that there are not enough A's in the Scrabble box to define the strength of the US economy when comparing it to the rest of the world. We print our own money! We may have to pay our creditors back with dollars that buy less and less but we will always have the dollars to pay what we owe.

Now the treat: As I write today, the Dow Jones and S&P are having a bad day, but it still appears that we have again broken into the black for the year.

For most of our clients we have maintained a conservative approach to overseeing your investments. We have tried to reduce the potential volatility that we are experiencing. That said, we should all become used to the volatility we are now experiencing.

The whole process of investing has changed over the last 25 years and parallels the development of the microchip. Thomas Moore, one of the men credited with developing the microchip, postulated that the power and speed of the microchip would double every 18 months and that the price would fall by half.

This is known as Moore's law and in my experience has been more true than false. It has contributed to the ability of the markets to trade faster and faster. It has allowed the speed of news, anywhere in the world, to affect people's ideas of whether the market is going up or down; not necessarily whether individual stocks are more or less valuable, but whether the "market" is going up or down.

The microchip and the access it provides for us to gather information and make decisions has allowed us all to react in less time than we could have ever imagined. The result has been more volatility and unless the rules of the market change you can expect that as the speed of the microchip increases the volatility of our investments will increase.

That said, we use the power of the computers to oversee our investments. The managers we have partnered with are employing cutting edge technology to keep us at the forefront edge of this power.

You will be getting your next monthly statements in the days ahead. In them you will see how much the markets have recovered since your balances on September 30. If you are still concerned about how your portfolio is doing please give us a call and we would be glad to answer your questions.

I am optimistic that the rest of the quarter will see a continued recovery from the September lows. The wild card is the unsettling news that continues to come from Europe. The world continues to worry about defaults in the Euro Zone, most critically Greece. News from Europe will continue to add volatility to the markets.

Domestically we just saw that that the September ISM Index, which we continue to believe is the best indicator of an expanding or contracting economy, came out at 50.8. A number above 50 indicates an expanding economy. This is the 27th consecutive month that the Index has indicated an expanding economy. The expansion or growth of the economy is modest and we would all like to see growth improve. The point is, even if we have modest growth, we still have growth. I do not personally see a double dip recession at this time.

To provide some perspective on the quarters' returns we present our Quarterly Scoreboard. This will give you an idea of how the market indexes we use as benchmarks did in the last quarter.

The Scoreboard
(www.investmentadvisor.com)

	2009	1stQ 2010	2ndQ 2010	3rdQ 2010	4thQ 2010	2010	1stQ 2011	2ndQ 2011	3rdQ 2011
DJIA	18.8%	4.1%	-10.0%	10.4%	7.3%	11.0%	7.1%	-1.1%	-5.9%
S&P 500	23.5%	4.9%	-11.9%	10.8%	10.2%	12.8%	5.9%	-1.7%	-7.0%
NASDAQ	43.9%	5.7%	-12.0%	12.3%	12.0%	16.9%	5.0%	-2.1%	-6.3%
LBAB	5.9%	1.8%	3.5%	2.5%	-1.3%	6.5%	0.4%	-2.1%	-7.6%

(Investors cannot invest directly in indexes)

The volatility and the news have been, and are, scary. There are many companies that profit from the fear that the news spreads. Many of our clients who own REITS have been contacted by companies that want to buy your REITS for deep discounts. We believe that the investments we have made in the REITS continue to be strong investments with dividends that have met our expectations. (As you know

past performance is not a guarantee of future performance with these investments as well as any other investments you have). We would not recommend that you sell your REITS to these “bottom fishers”; they are looking for folks who are in trouble and who need to sell their REITS. If, in fact, you had an emergency and we needed to liquidate your REIT we have found better prices in the secondary market.

Again, if you have questions or concerns about your REITS please call us and we will discuss it with you.

I know that these are trying times for all of us. This is one of our countries most challenging economic situations, the Great Recession. The challenges remain and I have no doubt that the current challenges will be replaced by other challenges. We have built most of our portfolios for these challenges, to protect the downside.

I am not recommending changes at this time.

We are here to solve problems. It’s what we do. Even though on whole I am not recommending changes, your individual situations may change and as they do we may need to make individual changes for you.


Do not hesitate to let Darla or me know if there is anything you need from us. When we can assist, we will.

I also want to invite all of you to join Chris and me on Saturday mornings at 8:30, where we will continue to be hosting Dollars and Sense on 97.3 FM. If you are not in Gainesville, our show is also available via the Internet. So check us out on Saturday mornings. If you have questions or topics that you would like us to be discussing then please give Chris a phone call or drop him a line at Chris@ffmonline.com.

I also want to take this opportunity to ask you to remember us when friends and family are struggling with these same questions going forward. Many folks are in retirement plans that don’t offer them the kind of investment and planning advice that we provided for you. We have built this business on referrals, on the idea of working with a lot of people just like you. We appreciate you and would like to help those around you.

Thank you for your continued friendship and support.

Best wishes,



Jeff Davis, CFP®
President

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