

OCTOBER HIGHLIGHTS

- The U.S. unemployment rate hit 10.2% in October, exceeding the 10% mark for the first time in 26 years
- Obama Administration "pay czar", Ken Feinburg demands big executive pay cuts from 7 largest TARP borrowers
- Auto sales drop dramatically after Cash for Clunkers expires
- S&P 500 Index crosses the 1,100 threshold & the DJIA 10,000, though both later retreat
- Oil reaches \$80 per barrel, more than doubling February 2009 level of \$35
- GM abandons Saturn sale effort, division to be discontinued in 2010
- Galleon's Rajaratnam charged in huge insider trading case

OCTOBER STOCK MARKET BAROMETER and KEY RATES



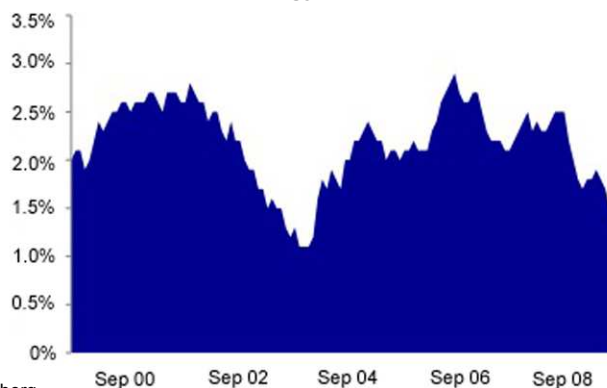
US Unemployment	10.20%
MI Unemployment	15.30%
3 Month T-Bill	0.04%
10 Year Treasury Note	3.38%
Prime	3.25%
Avg. 30 Yr Fixed Mortgage	5.15%
Avg. 1 Yr Jumbo CD	1.56%

INFLATION, DEFLATION OR NEITHER?

A hotly debated topic amongst investment professionals is over which threat looms larger over our economy presently - inflation or deflation. Surely this is not dinner table discussion for most people, but regardless of the outcome the effect will be widely noticeable. Deflation is a prolonged period of falling prices that is generally witnessed during times of economic distress, as buyers anticipate price declines and postpone purchases. Inflation, on the other hand, is characterized as rapidly increasing prices primarily seen in periods of high demand and growth.

Many people are concerned, and rightfully so, about the government's attitude regarding our ballooning budget deficit and national debt. One concern is that the flood of government intervention via Federal liquidity creation will keep demand artificially high and dilute the value of the US Dollar, which in turn pressures prices higher. The deflation argument is based on a continuing consumer deleveraging period, which keeps demand for products low and pressures prices to fall. A key measure of inflation is the Consumer Price Index, excluding energy and food because of volatility, which tracks the prices of a basket of goods.

Consumer Price Index (Ex Energy & Food) Year over Year Change



Source: Bloomberg

We believe that the economy has been revived to the point where we see a lower threat of deflation. Furthermore, we do not foresee a high risk of inflation in the near term. Instead we believe that in the near term high unemployment, lower industrial capacity utilization, high commercial real-estate vacancies and pressures on wage growth will act as counter-balances to the increased money supply and other inflationary pressures.

Though thankfully rare, there is some risk of stagflation, which was last seen in the late 1970s. Stagflation is a period of high inflation and high unemployment, both of which were around 7% in 1977. As a result of the weak dollar, domestic providers of goods were able to raise prices because imports were more expensive. This coupled with the surge in energy prices due to the OPEC oil conflict created inflation during a time of economic malaise. The stagflation scenario could appear if economic trends deteriorate sufficiently.

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ABOUT US

MBT Wealth Management Group is the Asset Management division of MBT Financial Corp., a \$1.4 Billion bank based in Monroe, Michigan. We primarily engage clients in fee-based, highly service-oriented investment accounts tailored to their specific needs. We also offer commission-based and insurance services through MBT Investments, our local brokerage option. We appreciate the support our clients have given us since 1942 in allowing us to serve their financial needs with sophisticated products and proactive service.

RETHINK A ROTH

Planning with retirement accounts is anything but exciting, but starting in 2010 many higher-income individuals will be given a window of opportunity to use a planning option whose benefits can really add up.

Under tax law passed in 2005, owners of traditional pre-tax IRA's can convert all or part to a Roth IRA regardless of their earnings beginning January 1, 2010. Roth IRA's basically allow the owner to pre-pay taxes and grow and pass the remainder assets tax-free going forward. The only catch is you have to pay income tax up front at the time of conversion. This may seem unattractive, but the actual tax paid is potentially much less than if later withdrawals are taken from the regular IRA after growth of the assets has occurred.

Further, for those converting IRA's in 2010, the tax can be paid in installments on the owner's 2011 and 2012 tax returns, thus cushioning the blow.

IRA owners that seek to minimize future taxes, create a sizable tax-free financial resource, and who think tax rates are on the way up are good candidates to consider a Roth IRA conversion in 2010. If you'd like to know more about how this strategy might be your best opportunity for tax savings in years, call us for a no-obligation assessment.

CONTACT US

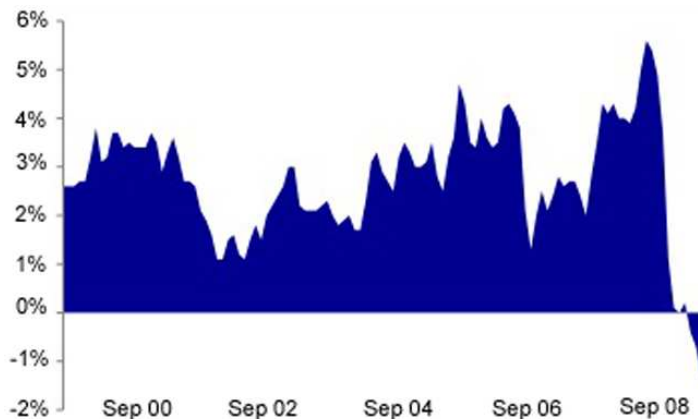
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INFLATION, DEFLATION OR NEITHER? (cont'd)

With all that said, how does one position a portfolio to survive and even thrive? As always, we recommend having a well diversified portfolio to lessen the potential impact of inflation or deflation. Investments that have historically performed well in periods of high inflation are commodities (such as gold), inflation linked government bonds, and stocks. Conversely, investments that have historically performed well during deflationary periods are bonds (because interest payments become more valuable) and, interestingly enough, gold.

Consumer Price Index (Inc Energy & Food) Year over Year Change



Source: Bloomberg

The chart above illustrates the effect that volatile energy prices have on the Consumer Price Index and why economists exclude it from their calculations. While in the past two years energy prices boomed and subsequently busted, the prices from a broader base of products showed modest increases. However, many consumers may differ as to the correct way to measure inflation given the amount they were paying for gasoline in the summer of 2008.

WMG STRATEGY CORNER

Entering November 2009 we are cautiously optimistic, and have adjusted our tactical portfolio allocations accordingly. We have decreased our cash allocation and increased our exposure to equities. In particular, our positions in emerging markets and developed markets have been increased to reflect our bias towards long-term international outperformance. Our sector strategy remains unchanged with overweights in energy, technology and industrials and underweights in consumer stocks, financials, telecom and utilities. We continue to maintain significant asset allocations to small caps and alternatives.

Our allocation to fixed income has also been increased as we feel compelled to keep cash working. A position to emerging markets debt has been added, while our allocations to high yield and inflation protected bonds have been lightened. We favor ultra-short investment grade bond alternatives as a money-market substitute for larger reserve balances.

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