

Capital Market Review • Third Quarter 2011

After the market's climb stalled during the second quarter of 2011, it dive-bombed in the third quarter with a 13.9% loss.

The S&P, during the third quarter of 2011, started down in July with a return of -2.0%, which was followed up by a -5.4% in August and a -7.0% in September. This is five straight months of negative returns over which time the S&P 500 has declined 16.4%. The S&P 500 index is down 8.7% for the nine months and barely positive at 1.1% for the twelve months ending September 30, 2011.

The bond market was positive for the quarter, nine months and the year. The Barclays Capital Aggregate Bond Index returned 3.8% for the quarter, 6.7% for the nine months and 5.3% for the year.

Inflation, as expressed by the Consumer Price Index, picked up steam due to stronger commodity inflation. The CPI was 0.5% for the quarter and 3.9% for the year.

STOCK MARKET

The major market averages were all negative during the third quarter. The **S&P 500** Index, an index of large company stocks, was down 13.9%. The **Russell 2000** Index, an index of small company stocks, came in with a -21.9% return for the quarter. The **MSCI EAFE** Index, an index representing international stocks, was off 19.0% in the quarter. The **Dow Jones US Select REIT** Index, an index representing real estate companies at -14.5% in the quarter. The **Dow Jones UBS Commodity** Index returned -11.3% for the three months.

The nine month returns were all negative, while the twelve months returns were mixed. The S&P 500 Index was down 8.7% and up 1.1%. The Russell 2000 Index came

in with a -17.0% return for the nine months and -3.5% for the twelve months. The MSCI EAFE Index was off 15.0% and 9.4%. The Dow Jones US Select REIT Index fared well at -5.2% and +1.9%. The Dow Jones UBS Commodity Index was mixed with a -13.6% return for the nine months, but with a 0.0% for the twelve months.

Market Returns

	3 months ended 9/30/11	12 months ended 9/30/11
T-Bills	0.0%	0.1%
Barclays Capital Aggregate Bond Index	3.8%	5.3%
S&P 500	-13.9%	1.1%
Russell 2000	-21.9%	-3.5%
EAFE	-19.0%	-9.4%
DJ US Select REIT	-14.5%	1.9%

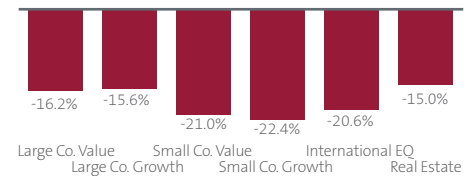
Equity Styles

The equity styles were all negative for the third quarter of 2011. **Large Value** lost 16.2% while **Large Growth** lost 15.6%. **Small Value** lost 21.0% while **Small Growth** declined 22.4%. The average **International Equity** finished the quarter with a loss of 20.6%; and **Real Estate**, being the best, lost 15.0%.

The nine and twelve month periods did not fare much better. Large value declined 11.5% for the nine months and 2.4% for the twelve. Large growth was off 10.9% and 0.5%, which outperformed the large value averages. Small value was the weakest domestic style for the nine and twelve months with a -17.4% return and a -4.7% return. Small growth returned -15.1% and -1.1%. International equity was off 17.5% and 11.5%, while real estate lost 6.7% and 0.2%.

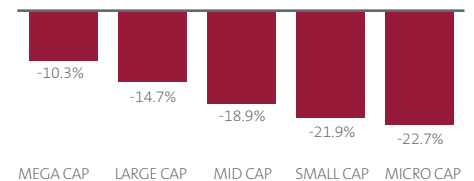
Comparison of Equity Styles

3 months ended 9/30/11



Return by Market Cap

3 months ended 9/30/11



The smaller the market cap, the weaker the performance was for the three and nine months. Large cap stock was the strongest area on a relative basis, but with all five of the areas being negative for the quarter.

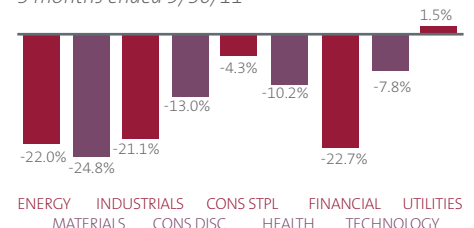
Mega Cap stocks lost 10.3% for the quarter and was the only market cap range to perform better than the overall market.

Large Cap companies were off 14.7%. **Mid Caps** lost 18.9% during the quarter. The **Small Cap**, Russell 2000 posted a loss of -21.9%, and the Russell **Micro Cap** index was down 22.7%.

For the nine months, mega caps are off -6.4%, large caps at -9.3%, mid caps at -12.3%, small caps at -17.0% and micro caps at -20.3%. The twelve months returns are +2.5% for mega caps, large caps at +0.9%, mid caps at -0.9%, small caps at -3.5% and micro caps at -4.8%.

Stocks by Sector

3 months ended 9/30/11



Only one of the nine sectors produced a positive return in the quarter and five of the nine doing better than the broad market.

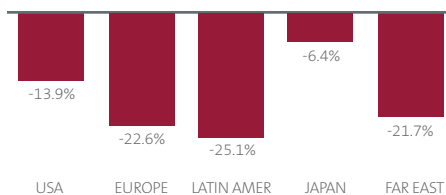
Utilities were the strongest at +1.5%, which was followed by **Consumer Staples** at -4.3%. **Technology** was the third best at -7.8% followed by **Healthcare** at -10.2%. **Consumer Discretionary** at -13.0% outpaced the broad market. **Industrials, Energy, Financials** and **Materials** all trailed the S&P 500 overall return with a -21.1%, -22.0%, -22.7% and a -24.8% versus the S&P 500 at -13.9%.

Three of the nine sectors were positive for the nine months, with five outpacing the market and four trailing the market. The Energy sector lost 13.3%. Materials posted a large loss of -22.3%, while Industrials declined 14.9%. The Consumer Discretionary sector was down 5.9%, while Consumer Staples were up 3.2%. Healthcare was up 2.2%, while Financials, the worst sector, posted a -25.2% loss. Technology fell 5.3% while Utilities posted a gain of 10.5%.

Six of the nine sectors were positive for the twelve months, with all six outpacing the market and three trailing the market. The Energy sector gained 6.0%. Materials posted a -8.2% loss, while Industrials declined 4.7%. The Consumer Discretionary sector was up 6.0%, while Consumer Staples were up 9.5%. Healthcare was up 6.2%, while Financials brought up the rear posting a large -16.5% return for the twelve months. Technology and Utilities posted gains of 4.0% and 11.7% respectively.

Stocks by Region

3 months ended 9/30/11



Three of the four regions underperformed the S&P 500 Index return of -13.9% for the quarter, while one exceeded the U.S. market.

Europe posted a -22.6% return followed by **Latin America**, which was the worst region, losing 25.1% and the **Far East** lost 21.7% for the quarter. **Japan** was the only region to out-perform the U.S. with a 6.4% decline.

None of the four regions outperformed the S&P 500 Index return of -8.7% for the nine months. **Europe** lost 15.6%, while **Latin America** declined 27.6%. **Japan** was down 10.9%, while the **Far East** lost 20.8%.

The U.S. was the only positive region for the twelve month period with the other four regions all producing negative results. The United States was up 1.1%. Europe fell 11.8%, Latin America -23.7% and the Far East lost 15.2%. Japan was the strongest outside the U.S. with a -0.1% return.

Please note that these returns are in U.S. Dollar terms and the change in currencies will have an effect on the return.

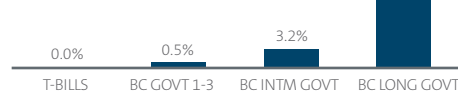
BOND MARKET

The U.S. economy stalled with concerns of falling back into a recession during the summer months. This pushed yields on Treasuries down and prices up.

The yield on the 2 year Treasury went from 0.6% at the start of the year to 0.8% on March 31st to 0.4% on June 30th to 0.3% at the end of the quarter. Likewise, the yield on the 5 year went from 2.0% to 2.2% to 1.8% to 1.0%. The 10 year went from 3.3% to 3.5% to 3.2% to 1.9%. The 30 year went from 4.3% to 4.5% to 4.4% to 2.9% at the end of September.

Bonds by Maturity

3 months ended 9/30/11



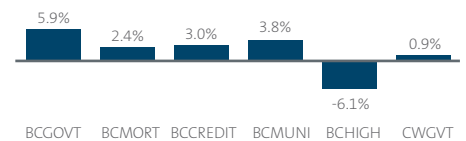
The decrease in rates across the yield curve had pushed bond prices higher across the yield curve. **T-Bills** produced a 0.0% return,

while the **Barclays Capital 1-3 Year Index** returned 0.5% and the **Barclays Capital Intermediate Government Index** produced a 3.2% return. The **Barclays Capital Long Government Index**, which is the most sensitive to changes in interest rates, was up a staggering 23.9% for the quarter.

The returns for the nine months are 0.1% for T-Bills, 1.4% for the 1-3 year, 5.4% for the intermediate and 26.9% for the long index. The twelve month returns are 0.1% for T-Bills, 1.2% for the 1-3 year, 3.7% for the intermediate, and a 16.8% for the long index.

Bonds by Sector

3 months ended 9/30/11



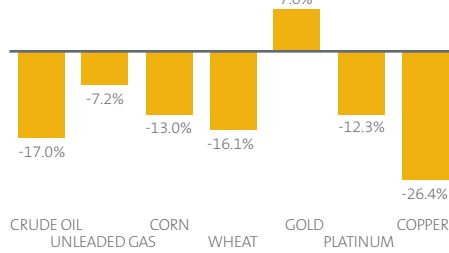
All the sectors were positive for the quarter with the exception of the high yield sector. The **Government** index was up 5.9% and the **Mortgage** sector was up 2.4%. Barclays Capital **Credit** at 3.0% and Barclays Capital **High Yield** produced the lowest return of -6.1%. The **Municipal** sector was strong at 3.8% as fears of municipal defaults subsided. The **World Government** at 0.9% was influenced by falling currency prices against the U.S. dollar.

The nine month returns followed a similar path as the three month returns. The government index returning 8.1%, the mortgage index at 5.3% and the credit index at 6.5%. Municipals returned 8.4%, while high yield declined with a -1.4% return. World government came in at 5.7%.

The twelve month returns were all positive with government index returning 5.6%, the mortgage index at 5.6% and the credit index at 4.6%. Municipals returned 3.9%, while high yield trailed with a 1.8% return. World government came in at 4.1%.

COMMODITIES MARKET

3 months ended 9/30/11



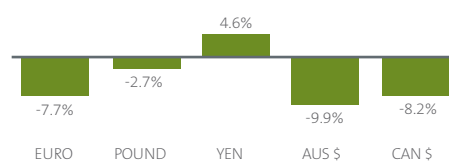
The Dow Jones UBS Commodity Index was down 11.3% for the third quarter after being up 4.5% in the first quarter and losing 6.7% in the second quarter. This resulted in a -13.6% return for the nine months. The index is flat at 0.0% for the twelve month period. All but one sector of the commodity market were down for the quarter. **Oil** and **Unleaded Gas** were down 17.0% and 7.2%. The agriculture sectors were down with **Corn** decreasing 13.0% and **Wheat** down 16.1% for the quarter. Metals were mixed with **Gold** being up 7.6%, while **Platinum** lost 12.3% and **Copper** down 26.4%.

The nine month returns were mixed. Oil was down 11.8%, but unleaded gas prices were up by 12.1%. Corn was down a 2.5%, while wheat was off 8.7%. Gold increased 15.3%, but platinum lost 13.9% and copper shed 29.2%.

The twelve month returns were mainly positive. Oil, which was off 1.0%, did not keep unleaded gas prices from going up by 29.0%. Corn was up a staggering 22.3%, while wheat was up 19.3%. Gold increased 23.9%, but the other metals were off with platinum falling 9.1% and copper 13.7%.

CURRENCY MARKET

3 months ended 9/30/11



The **Euro** was off 7.7% against the U.S. Dollar for the quarter, up 0.1% for the nine months, and down 1.8% for the twelve month period.

The **British Pound** was off against the US Dollar 2.7% for three months, but up 0.4% for the nine months and down 1.8% for twelve months. The **Japanese Yen** gained 4.6% against US Dollar for the third quarter, 5.4% for the nine months and 8.4% for twelve months. The **Australian Dollar** and **Canadian Dollar**, both of which are strongly sensitive to commodity prices, were negative against the US Dollar. The Australian Dollar was down 9.9%, 5.4% and flat at 0.0%, while the Canadian Dollar was down 8.2%, 5.0% and 2.0% for the three, nine and twelve months. ■