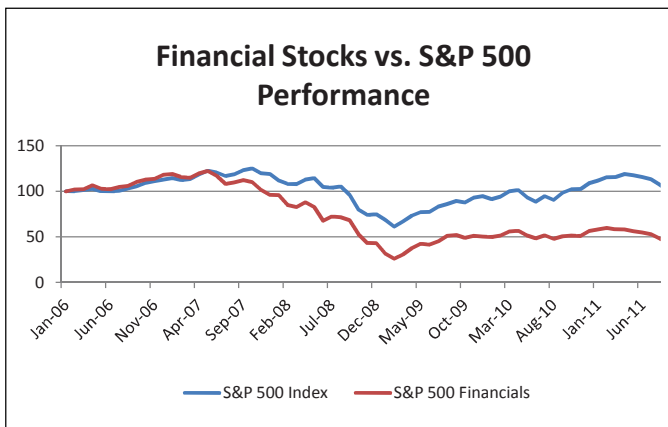


Quarterly Economic and Capital Market Commentary

Third Quarter 2011

Dr. Abdur Chowdhury
Chief Economist of Capital Market Consultants, LLC
Mintz Levin Financial Advisors, LLC Consulting Economist

Introduction: A combination of negative events has roiled financial markets and stoked concerns that the global economy is moving towards another recession. In the U.S., key economic and sentiment indicators have weakened considerably. The political brinkmanship over the debt ceiling and the consequent U.S. credit rating downgrade significantly impaired investor confidence. In Europe, the inability to resolve their own sovereign debt crisis has also directly impacted U.S. stock and bond markets. Financial stocks within the S&P 500 were especially impacted, as can be seen in the following chart.



The major question now is whether another U.S. recession can be avoided. We believe the answer is yes, but against a growing recession probability of about 25%. There are at least three reasons for our positive yet muted outlook. One reason is the weak nature of this recovery. Recessions typically are the result of a “panicky pullback” in which companies and consumers deleverage sharply. Today, none of that is evident as household and business budgets are

lean and mean, gearing for low growth. Two, key shocks to the U.S. economy that led to this slowdown—the rise in gas prices and supply-chain disruptions related to the Japanese earthquake—are now receding. Finally, both the European Central Bank (ECB) and the Federal Reserve are determined to avoid a recession, and will employ all tools available to avoid this scenario.

While we continue to believe the U.S. economy will avoid another downturn, the slow pace of growth leaves the U.S. economy more vulnerable. Weak consumer demand, structural unemployment and the depressed housing market remain the largest obstacles for solid economic growth.

Federal Reserve: The Federal Reserve’s latest attempt to ignite economic growth, dubbed “Operation Twist”, calls for the Fed to sell \$400 billion worth of its short-term Treasury holdings and buy an equal amount of longer-term Treasury securities with maturities ranging from 6 years to 30 years. The market expected this move, but the Fed took an additional step by announcing that it would also reinvest the proceeds from its agency debt and mortgage backed securities (MBS) holdings back into agency bonds and MBS, instead of into Treasury securities. The objective is to reduce spreads between MBS and Treasuries—spreads that have widened in recent months—and thereby make mortgages even more affordable.

The Fed’s decision to reinvest in agency bonds and MBS is likely to help only at the margin. The interest rate for a 30-year fixed mortgage hit an all-time record low level at around 4.0 percent following the Fed’s move on September 21, which caused refinancing activity to pick up marginally. However, mortgage purchase applications have benefited less, as would-be buyers continue to grapple with sluggish job and income growth

and uncertainty about the broader macro environment. Moreover, qualifying for a mortgage is more difficult today, and many would-be sellers have been put off recently by overly conservative appraisals.

Personal Income: Consumers' concerns about job and income growth are borne out by the latest personal income and spending data, which show total personal income falling slightly in August, the first decline for total personal income since October 2009. Much of the gains in personal income since the recession ended have been in transfer payments (from governmental agencies to households). Now, however, with federal, state and local budgets under intense pressure, we are seeing those gains fade away. Tightening eligibility requirements for unemployment insurance and cutbacks in Medicaid reimbursements have led to substantial back-to-back declines in transfer payments, causing consumers to pull back even further. Spending for nondurable goods fell 0.4% in August, following a 0.5% drop in July. The recent weakness in this normally stable category is unprecedented outside of recession periods.

Consumer confidence: Consumer confidence remained largely unchanged in September at 45.4. Since April, consumers' view of current economic conditions has fallen by about 8 points. The drop appears to be linked to growing concerns about the stagnant labor market. The economic consequence of lost confidence has the potential to be significant as it will likely weigh on consumer spending in coming months, including the key holiday shopping season. Furthermore, businesses will be less willing to hire, and banks less willing to lend.

Retail Sales: U.S. retail sales were flat in August while July figures were revised down to 0.3% (previously 0.5%). Excluding auto sales, retail activity climbed only 0.2% in August; this comes as no surprise given households' confidence and the labor market yielding zero net new jobs in August. Going forward, retail sales are likely to advance at a very modest pace, in line with underlying U.S. macroeconomic trends. Unimpressive economic growth and slow job creation will continue to suppress spending. We expect consumer spending to grow at around 1.5% during the second half of 2011. This would be consistent with an overall GDP expansion of at least 1.5% this year.

Manufacturing: The ISM manufacturing index rose to 51.6 from 50.6 in August confirming that the U.S. economy is still afloat and defying fears of a double-dip recession. Manufacturers are concerned about the economic outlook,

but are not seeing signs of a sharp retrenchment (consistent with the guidance corporate managements are providing). Gains came mainly in indicators of current activity, as production, supplier deliveries and employment sub-indexes were all up in September. New orders remained flat while the prices paid sub-index rose slightly after four straight months of declines. Despite a string of recent negative economic news, the fact that U.S. manufacturing activity was able to rebound in September speaks to the resiliency of this sector. The unwinding of supply chain constraints following the Japanese disaster earlier in the year likely played a key role in this rebound. The increase in new export orders, while encouraging, will likely prove to be temporary. With the U.S. dollar up close to 10% and global growth weakening, U.S. exporters will face an increasingly difficult environment in the coming months.

Non-Manufacturing: The ISM non-manufacturing (services) index increased in August from 52.7 to 53.3. This is a pleasant surprise in light of the recent string of negative economic news. On the positive side, new orders and new export orders rose. On the other hand, the business activity sub-index and the employment sub-index declined while prices paid posted a substantial increase. Non-manufacturing growth still remains well below the pace seen earlier in the year. However, the index does point to an economy that is growing very slowly and that this lackluster pace of growth will persist well into the future.

Durable goods: Durable goods shipments data revealed an encouraging trend. Nondefense capital goods shipments, excluding aircraft, increased at a 16% three-month-annualized pace in August, up from a 14% pace in the prior month. Over time, this series tends to track real business fixed investment closely. The pace of durable goods shipments through August suggests that growth in business fixed investment during the third quarter should be stronger than that of the second quarter, which should provide a much needed boost to Q3 real GDP.

Labor market: In August national net job creation was zero. Nearly 8.5 million jobs were lost during the Great Recession. At the level of monthly job growth seen in 2011, it would take at least another six years to get back to pre-recession levels on the job front.

We believe that clarity on federal tax policy and continued economic growth will be required to motivate business leaders to step up hiring in the coming months. However, difficult hiring conditions for state and local governments, which account for 17% of employment, could be a continued

drag on job growth. Moreover, the mismatch of job openings and the skills of many unemployed workers is a long-term issue that will likely not be fixed with short-term stimulus.

Housing: While we will likely have to endure a few more months of price declines, a definitive bottom in home sales and new home construction appears to have taken hold. Sales of new homes appear to have bottomed at around a 300,000-unit pace, and existing home sales have perked up a bit as lenders have become more aggressive in terms of clearing out foreclosures in many parts of the country. We expect home prices to decline a bit further, as foreclosures and distressed transactions account for a larger proportion of overall sales later this year and in early 2012. However, a bottom in home prices is within sight.

While new home sales have fallen for four straight months, sales are down by just a cumulative 6.7% since April. Existing home sales have actually picked up to a 4.5 million-unit pace, which is 5.4% above the pace of sales witnessed this past spring. New home construction is also holding near current levels. Housing starts fell nearly 5.0% in August to a 571,000-unit pace, but building permits rose 3.2% during the month and are up 7.8% on a year-ago basis. The resilience of new home sales and new home construction in the face of global financial instability is largely due to the historic slide in activity that occurred over the past five years. Sales and new home construction are already so low that they are unlikely to fall significantly further unless the U.S. economy dips into an actual recession or the credit market freezes up. Unfortunately, there is not much chance of a breakout to the upside either; not at least until the stock of foreclosures and pending foreclosures is cleared, appraisals normalize and lending standards ease up.

Inflation: Headline CPI rose 0.4% in August and 3.8% on a year-over-year basis. Core CPI rose 0.2% in August and 2.0% on an annual pace. Of the three main factors fueling core price growth (autos, apparel, and rent) since May, two (autos and apparel) should prove temporary. Auto price growth has already slowed as inventories and production return to normal following Japan's tsunami. Meanwhile, cotton prices have fallen dramatically in recent months, which will slow future growth in apparel prices. That said, recent momentum in rental prices should prove more resilient. Falling home prices and deleveraging has caused the homeownership rate to decline. This will increase the demand for rentals. Overall, this report represents a small upside risk to our forecast for the core rate of inflation to peak at slightly

higher than 2.0% in early 2012. Our inflation outlook continues to call for inflation leveling off over the next few months. At this time, we do not anticipate a deflationary environment to return anytime soon.

Currency: Currency investors have had a lot to contend with this year as fears over the global economy and financial system have mounted. A downgrade of U.S. government debt, currency intervention from authorities in Japan and Switzerland and continuing concerns over the eurozone debt crisis have led to higher volatility in foreign exchange markets. On top of that, worries that the developed world is facing an economic slowdown have added impetus to investors' search for a shelter from the storm. Despite the gloomy outlook for the U.S. economy, demand for the dollar has soared. Part of the dollar's appeal has stemmed from the increased concerns over the very existence of the euro as officials in Europe have struggled to convince investors that they are capable of containing the eurozone's debt problems. However, equally important has been the action of other countries whose currencies have in the past benefited from safe haven demand as turmoil emerged on world markets. Gains in the yen and the Swiss franc have been capped by official intervention as authorities in Japan and Switzerland fretted that the overvaluation of their currencies could push their economies into recession.

This action has left the dollar to bear appreciation pressure as uncertainty has heightened and sparked an exodus from risky assets such as commodities and equities. Indeed, even gold, usually seen as a haven, has dropped sharply as investors have liquidated positions both to cover losses in other markets and to seek out the security of short-term U.S. government debt. Given the less-than-compelling reasons for buying the dollar, we anticipate the currency to give back its gains when the outlook for global growth improves.

Trade deficit: The U.S. trade deficit narrowed dramatically to \$44.8 billion in July from a revised \$51.6 billion in June. The drop was driven primarily by a surge in exports of goods and services. Export growth was widespread across categories with especially strong performances in industrial and capital goods. On the other hand, imports dropped due to a decline in the value of petroleum imports driven by lower oil prices. The sharp rebound in exports bodes well for continued economic growth in the third quarter of this year. In real terms, the trade deficit narrowed by \$5.0 billion in July. If the real trade deficits in August and September remain unchanged at July's level, then net exports should add about 0.5 percentage points to overall GDP growth in the third quarter.

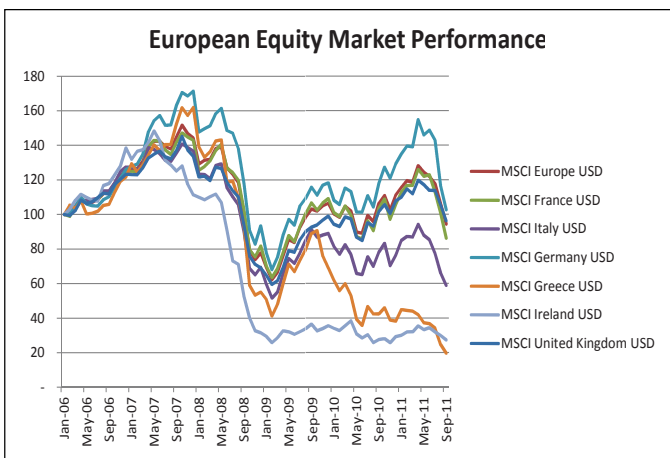
Europe: We strongly believe that there needs to be an orderly default in Greece and a restructuring of their debt (as we have been saying for many quarters now). Mired in recession and with no ability to devalue its currency, the only way for Greece to regain international competitiveness is for domestic wages and prices to adjust downward. By our estimates, prices would need to fall by some 30-40% from their current levels, a feat no country in modern history has ever achieved. Even if Greece were somehow to manage this, deflation would only worsen the country's debt position. Falling prices and shrinking paychecks would raise the value of existing debt relative to (now reduced) incomes, choking off spending and diverting funds for new investments. Economic growth would, therefore, stay depressed.

But the alternative—a forced redefinition of the eurozone—would be ugly for everyone involved, most of all, Greece. Even the slightest indication of an impending exit would send Greek depositors running to the banks in a desperate bid to withdraw their euros before they were redenominated in devalued drachmas. Greece would have no choice but to close its border to prevent capital flight. The free movement of people and goods that Greece previously enjoyed as a member of the European community would be cut off, at least temporarily. Given the social and economic consequences of such an outcome, it is likely that European politicians would opt for some sort of fiscal transfer union among the zone's member states, thus keeping Greece within the fold. Unfortunately, such plans take time to draw up, and financial markets are not that patient. It is this very kind of social disruption that we have been concerned about for some time.

Whatever the outcome in Europe, the U.S. will not be immune from the fallout. American banks had an estimated \$1.4 trillion in exposure to European debt as of early 2011. Any distress across the Atlantic would quickly migrate west through financial linkages. The dollar would likely surge as a flight to safety takes place among investors. Exports, the one bright spot in an otherwise sluggish recovery, would take a hit.

Outlook: The experience of the first two years of economic recovery following the Great Recession confirms that recoveries after a financial crisis are painfully slow. As many of the impediments to growth are structural in nature, there are no quick fixes or easy solutions to the current economic malaise. Fiscal stimulus is waning and unless some variant of the President's proposals are enacted, the fiscal climate will now be more of a drag on growth than a lift. Furthermore, in an environment of deleveraging and heightened risk aversion, monetary policy can provide only minimal support to economic activity. However, while growth looks to be slow it also appears set to continue. Time is beginning to heal the credit environment, and the alleviation of temporary negative factors should allow growth to rebound slightly in the third quarter. Assuming that the European fiscal crisis does not end in calamity and that there are no further major shocks to consumer or business confidence, recent economic indicators are pointing to an annualized growth of 1.5–2.0% in 2011.

Other Matters: In accordance with SEC regulations, we request that you contact us in the event that there have been any material changes in your financial circumstances or investment objectives, or if you wish to impose any reasonable restrictions on the management of your accounts or modify existing restrictions on the management of your accounts.



A Greek default may seem inevitable, but what happens afterward is far less certain. The integrity of the eurozone might still be preserved if policymakers can present a bold and unified response. In the event of default, Greece would face an immediate liquidity crunch. At this point the country would require massive sums of external financing, either from other member states or through the ECB, lest the liquidity squeeze force its voluntarily exit from the euro. Whether the rest of Europe would agree to keep financing Greece, however, is unclear. Already, resistance to further aid is swelling among the political ranks of Europe's less-profligate northern states, and the ECB has been reluctant to push the boundaries of its price-stability mandate. Furthermore, a default would put strain on the entire European banking system because of the amount of Greek debt held in their portfolios. Member states would more likely be concerned with providing liquidity to their own banks, rather than those of a foreign sovereign.

Index Performance as of September 30, 2011

	<u>1 Month</u>	<u>QTD</u>	<u>YTD</u>	<u>1 Year</u>	<u>5 Year</u>
Russell					
3000 Growth Index	-7.70	-13.90	-7.90	3.39	1.56
3000 Index	-7.76	-15.28	-9.90	0.55	-0.92
3000 Value Index	-7.83	-16.63	-11.85	-2.22	-3.50
1000 Growth Index	-7.37	-13.14	-7.20	3.78	1.62
1000 Index	-7.46	-14.68	-9.25	0.91	-0.91
1000 Value Index	-7.56	-16.20	-11.24	-1.89	-3.53
Mid-Cap Growth Index	-10.05	-19.33	-11.59	0.80	1.64
Mid-Cap Index	-9.63	-18.90	-12.34	-0.88	0.56
Mid-Cap Value Index	-9.22	-18.46	-13.01	-2.36	-0.84
2000 Growth Index	-11.50	-22.25	-15.57	-1.12	0.96
2000 Index	-11.21	-21.87	-17.02	-3.53	-1.02
2000 Value Index	-10.92	-21.47	-18.51	-5.99	-3.08
Standard & Poor's					
S&P 500					
Consumer Discretionary	-6.84	-12.98	-5.73	6.17	1.60
Consumer Staples	-3.33	-4.19	3.38	9.70	6.26
Energy	-12.54	-20.46	-11.40	7.63	3.40
Financials	-11.43	-22.80	-25.16	-16.50	-17.47
Health Care	-4.42	-10.02	2.52	6.25	1.16
Industrials	-9.21	-21.02	-14.68	-4.60	-1.39
Information Technology	-3.38	-7.70	-5.81	3.84	3.33
Materials	-16.36	-24.52	-21.79	-6.90	1.05
Telecommunication Services	-1.12	-8.01	-1.52	5.71	1.54
Utilities	0.19	1.55	10.74	11.95	3.88
Other U.S. Equity					
Dow Jones Industrial Avg	-5.91	-11.49	-3.90	3.83	1.37
MSCI USA	-7.19	-14.03	-8.72	1.33	-0.95
Wilshire 5000 (Full Cap)	-7.75	-15.16	-10.15	0.32	-0.51
International Equity - Broad Market					
MSCI EAFE	-9.50	-18.95	-14.62	-8.94	-3.00
MSCI Emerging Markets	-14.56	-22.46	-21.66	-15.89	5.17
MSCI Frontier Markets	-4.93	-12.04	-16.78	-10.13	NA
MSCI AC World	-9.40	-17.33	-13.20	-5.54	-1.07
MSCI AC World ex USA	-11.09	-19.78	-16.48	-10.42	-1.12
MSCI AC Asia ex Japan	-13.16	-20.75	-19.72	-14.33	5.23
International Equity - Country Region					
MSCI Brazil	-18.38	-26.93	-28.02	-25.47	11.61
MSCI BRIC	-16.55	-25.81	-25.94	-23.12	4.77
MSCI China	-16.82	-25.19	-24.37	-23.85	7.45
MSCI Europe	-10.95	-22.56	-15.13	-11.26	-3.55
MSCI India	-6.52	-19.94	-26.73	-25.11	5.05
MSCI Japan	-1.58	-6.37	-10.75	0.07	-4.77
MSCI EM Latin America	-17.44	-24.51	-25.69	-21.19	9.33
MSCI Russia	-21.85	-30.96	-24.01	-11.47	-6.57
Fixed Income					
BC Aggregate Bond	0.73	3.82	6.65	5.26	6.53
Merrill Lynch 3-month T-Bill	0.00	0.02	0.10	0.14	1.74
BC Government	1.53	5.85	8.11	5.58	6.56
BC Credit Bond	0.25	3.03	6.54	4.56	6.72
BC High Yield Corporate Bond	-3.27	-6.06	-1.39	1.78	7.08
BC Muni Bond	1.03	3.81	8.40	3.88	5.01
BC TIPS	-0.23	4.51	10.59	9.87	7.10
BofA ML Global Broad Market Ex USD	-4.02	-0.55	4.91	3.40	7.10
BofA ML Global Broad Market	-2.01	1.31	5.64	4.18	6.85
BofA ML Emerging Market Credit	-7.22	-8.04	-0.90	1.32	7.95
Alternative Investments					
NAREIT Equity REIT Index	-10.97	-15.07	-6.06	0.92	-2.44
DJ-UBS US Commodity Index	-14.73	-11.33	-13.62	0.02	-1.10
HFRI Equity Hedge	-4.90	-8.88	-8.14	-1.55	2.39
HFRI Equity Market Neutral	-1.72	-2.49	-0.23	2.33	1.90