

MONTHLY REVIEW—OCTOBER 2011

MARKET INDEXES

Index	1 Month	3 Months	Year to Date	Trailing 1 Year
<u>Domestic Equity (Large Cap)</u>				
Russell 1000 (Core)	11.21	(3.01)	0.92	8.01
Russell 1000 Growth	10.97	(2.63)	2.98	9.92
Russell 1000 Value	11.45	(3.40)	(1.08)	6.16
<u>Domestic Equity (Small/Mid Cap)</u>				
Russell 2500 (Core)	14.66	(6.10)	(2.39)	7.97
Russell 2500 Growth	15.44	(5.54)	0.10	11.91
Russell 2500 Value	13.92	(6.63)	(4.63)	4.49
<u>International Equity</u>				
MSCI World ex US (Core)	9.73	(9.64)	(6.94)	(3.70)
MSCI World ex US Growth	10.36	(10.14)	(7.36)	(2.73)
MSCI World ex US Value	9.09	(9.12)	(6.50)	(4.74)
MSCI Emerging Markets	13.25	(11.91)	(11.53)	(7.72)
<u>Domestic REITs</u>				
NAREIT All Equity	14.28	(3.95)	7.36	10.16
<u>Commodities</u>				
Dow Jones-UBS Commodity	6.62	(8.18)	(7.90)	1.58
<u>Domestic Fixed Income</u>				
Barclays U.S. Aggregate	0.11	2.31	6.76	5.00

ECONOMIC INDICATORS

	Most Recent	Year-to-Date	Trailing 1 Year
U.S. Dollar (September)	1.9%	-2.3%	-4.5%
Housing Prices (August)	0.2%	0.2%	-3.5%
Consumer Sentiment (level)	60.9	74.5	67.7
Retail Sales (September)	1.1%	5.1%	7.9%
Job Gains/Losses (September)	103,000	1,074,000	1,490,000
Inflation (September)	0.2%	3.5%	3.9%

The financial volatility and market sell-off over the past few months took a badly needed respite in October. In October, the US equity market had its best monthly performance since 1991, snapping a five-month retreat. Stocks rose sharply during the last week of the month after European leaders took more definitive action to contain their ongoing debt crisis. European leaders outlined a plan that includes increasing the European Financial Stability Facility (EFSF) to \$1.4 trillion, a voluntary 50% write-down of Greek debt and the recapitalization of European banks.

It is now in the hands of Greece to either accept the terms or come up with another plan. They are quickly running out of options and without extra funds, will soon run out of cash, requiring them to either balance their budget or find alternative sources of funds. Even if Greece is rescued, the recent

strong market gains are likely to be short lived when investors realize the long line of other countries seeking debt relief. We continue to believe the markets will be volatile and move in conjunction with the morning's headlines. Equity fundamentals appear to be secondary to the latest news coming out of Europe.

October was clearly a month when investors preferred assets perceived to be the most risky. In contrast to the more risk averse third quarter, the emerging markets and small cap equity segments were the monthly winners, although all stocks did well. REITs were particularly strong and are up an impressive 7.4% so far this year. The Russell large cap equity index rose over 11%, bringing the YTD gains to positive territory at 0.9%. Equity managers are quick to point to what appears to be cheap equity valuations, although they assume that recent strong earnings growth can be continued into the future. Third quarter earnings beat Wall Street profit estimates again for the 11th straight quarter, but this trend is not likely to survive renewed economic weakness.

Despite the large rally in stocks over the month of October, investors should not forget that the US has entered into a sustained period of high unemployment, falling housing prices, and lower consumption. So far, the government and the Fed have had little success increasing economic activity or lowering the very high unemployment level. Additionally, the fiscal debate among US policy makers remains unresolved and facing several key deadlines in the coming weeks, most notably the \$1.2 trillion spending cuts set to kick in if further debt reduction cannot be agreed upon by November 23. Moody's, one of the debt rating agencies still holding the Treasury as AAA, has begun to warn about downgrading the Treasury if significant progress on the debt is not made. This sounds eerily like the statements Standard & Poor's were making in late July, prior to downgrading the Treasury. Furthermore, by the end of the year, Congress has to decide whether to extend the payroll tax cut and unemployment benefits. We are not optimistic that any real progress will be made, possibly until after the 2012 elections.