

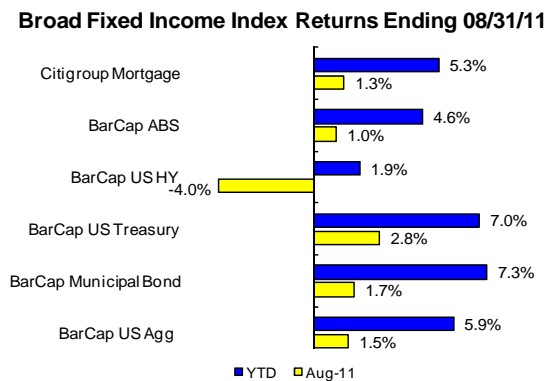
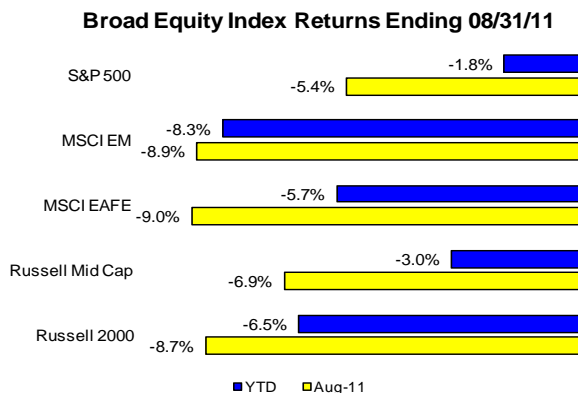
August 2011 Market Commentary

U.S. and international developed and emerging markets ended the month of August mostly lower as a ratings downgrade of the U.S. debt to AA+ by S&P rattled global markets. The ratings agency slammed the nation's political process and criticized lawmakers for failing to raise revenue or cut spending to reduce record budget deficits.

For the month, the Russell 2000 Index of smaller companies ended down 9%, while the S&P 500 Index declined 5%. Consumer staples, utilities and telecommunications services were among the top performing areas, while sectors such as financial services, energy and information technology underperformed. Across market capitalizations, larger companies generally outperformed smaller companies. Meanwhile, growth stocks marginally outperformed their value counterparts.

U.S. fixed income markets posted mixed results as the yield curve flattened. U.S. Treasuries were strong performers amidst heightened risk aversion and the downgrade of the U.S. government debt rating by S&P. Gains in investment grade corporate securities were limited due to weakness among financial-related issuers as capital concerns surrounding large financial institutions re-emerged. Lower quality, higher yielding corporate securities plunged as investors reduced risk exposures during the month.

International markets posted negative results, with the MSCI EAFE declining 9%. Among the largest European markets, France and Germany plunged 11% and 19%, respectively. Within the Pacific region, Japan ended down 8%. Meanwhile, Singapore fell 9%, while New Zealand and Australia each declined 4%. In the emerging markets, the MSCI EM ended down 9% on weakness from select Emerging Asian, Latin American and EMEA (Eastern Europe, Middle East and Africa) countries.



World Market Recap

Economy

- Second quarter GDP was revised lower from 1.3% to 1.0%. Positive contributions came from federal government spending, personal consumption expenditures (PCE), nonresidential fixed investment and exports but were partly offset by negative contributions from state and local government spending and private inventory investment.
- The Federal Reserve continues to keep rates on hold at the 0% to 0.25% range, and indicated it plans to keep exceptionally low rates in place until at least mid-2013 as a way to continue to prop up the economy. The next FOMC meeting is scheduled for September 20th-21st, 2011.

U.S. Equity

- U.S. equities moved lower during August, with losses the steepest since May of 2010 when the “flash crash” occurred. Volatility was heightened with the DJIA moving up or down more than 400 points four days in a row. The volatility index (VIX) hit 48 on August 8th after spending a good part of the previous six months below 20.
- The more defensive areas such as the consumer staples, healthcare, telecommunications services and utilities sectors were among the best performers during the month of August as investors sold riskier assets and flocked to safety and yield.
- The information technology sector sold off sharply. Shares of Hewlett Packard fell to a six-year low as investors reacted to a slew of news that included plans to potentially sell or spin-off its PC business. Google moved lower after S&P downgraded the stock’s rating to sell from buy, saying the acquisition of Motorola Mobility will likely have a negative impact on growth.
- The energy-related sector moved sharply lower during the month of August amid global growth concerns and heightened risk aversion. On the supply side, the latest developments out of Libya suggest the country’s civil war could be nearing an end and most industry analysts expect Libya’s crude oil supply to start coming back to market by year-end.
- The financial services sector also came under significant pressure due to the ongoing Eurozone debt crisis and U.S. banks’ potential exposure. Signs of slowing economic growth, curbs on fees, mortgage-related litigation and regulatory action also took their toll.

Fixed Income

- U.S. Treasuries rallied during August amidst heightened risk aversion and the downgrade of the U.S. government debt rating by S&P. The Fed’s announcement that it plans to keep interest rates near zero for another two years encouraged maturity extension in U.S. Treasuries and led to strong returns on the longest maturities.
- Gains in investment grade corporates were limited due to weakness among financial-related issuers, which fell 1.4%, as capital concerns surrounding large banking institutions re-emerged. Industrial- and utility-backed issuers gained 0.7% and 1.5%, respectively. Higher quality outperformed, with AAA-rated issues rising 1.6%, while BBB-rated issues ended unchanged.
- Lower quality, higher yielding corporate securities plunged as investors reduced risk exposures during the month. The weakest credits performed significantly worse with CCC-rated credits declining 6.7%, 390 basis points below BB-rate issues.
- Municipals posted solid results for the month. Risk avoidance was also evident in the municipal market as the AAA/AA credits outperformed the A/BBB sectors. Exceptionally steep yield curves continued to be the dominant influence on municipal returns. Maturities beyond seven years produced returns sharply higher than the one- to three-year segment.

International Developed Markets

- Canada fell 4%. The central bank left rates on hold at 1% as economic growth slowed to a worse-than-expected pace largely due to a drop in exports. Final second quarter GDP numbers showed growth fell 0.4% on an annualized basis, the first quarterly decline since the recession in 2009. Economists were expecting growth would be flat during the period.
- The United Kingdom ended down 7% as the Bank of England (BOE) kept rates on hold at 0.5% and left its quantitative easing (QE) program unchanged amid growing concerns the Eurozone debt crisis might become a drag on growth. Some economists had expected the BOE to resume its QE program as early as this month to try to stimulate the economy.



- The European Central Bank (ECB) left interest rates unchanged at 1.5% as signs of slowing growth in the 17-country Eurozone raised questions about whether rate hikes earlier this year were premature. Among the largest European markets, Spain, France, Italy and Germany plunged 9%, 11%, 15% and 19%, respectively.
- Within the Pacific region, Japan ended down 8%. Meanwhile, Singapore fell 9%, while New Zealand and Australia each declined 4%. On the political front, Japanese Prime Minister Naoto Kan stepped down after little more than a year in office following criticism over his handling of the economy and relief efforts in the wake of the devastating earthquake and tsunami.

International Emerging Markets

- Within Asia, China declined 9% during the month of August as banking shares tumbled. India fell 12% as investors became increasingly worried that inflation could trim corporate earnings growth. Among the other large Asian markets, South Korea and Taiwan plunged 13% and 9%, respectively, as information technology stocks came under heavy selling pressure.
- In Latin America, Brazil declined 7%, while Mexico ended down 4%. Brazil's central bank reversed months of monetary tightening by unexpectedly cutting interest rates by 50 basis points as policymakers shifted their focus to the risk of recession in Europe and the U.S. and away from the country's fastest inflation in six years.
- Among EMEA countries, South Africa ended down 1%. In the Middle East, Turkey and Egypt declined 15% and 7%, respectively. Within Eastern Europe, Russia plummeted 13%. Meanwhile, the Czech Republic, Poland and Hungary lost 6%, 13% and 17%, respectively.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

Russell 2000 Index measures the performance of the small-cap stocks.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.

Note: The information contained in this correspondence was taken from sources which we deem reliable. We do not represent that it is accurate nor complete and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.