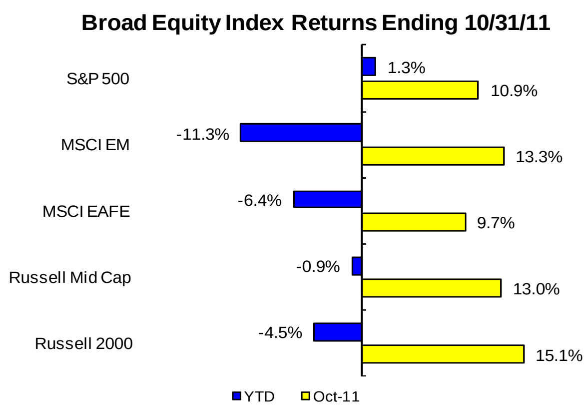
October 2011 Market Commentary

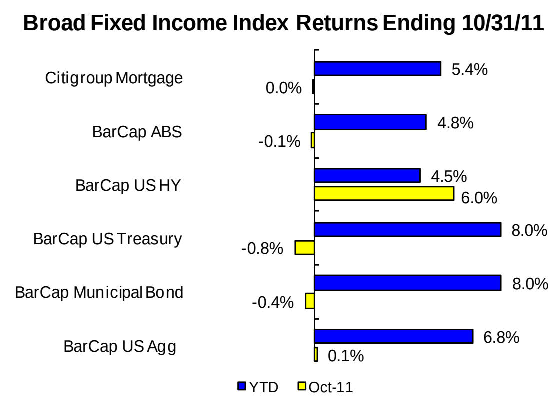
U.S. and international developed and emerging markets ended the month of October sharply higher amid news of a potential rescue package out of Europe.

For the month, the Russell 2000 Index of smaller companies ended up 15%, while the S&P 500 Index advanced 11%. Materials, energy and financial services were among the top performing areas, while sectors such as consumer staples, telecommunications services and utilities underperformed. Across market capitalizations, small- and mid-cap companies generally outperformed larger companies. No investment style emerged as a favorite as value fared best among large-caps, but trailed among small- and mid-caps.

U.S. fixed income markets ended with mixed results. Lower quality, higher yielding corporates were among the strongest performers with lower-rated issues outperforming. Investment grade corporate securities also advanced, led by financial-related issuers. U.S. Treasuries fell on stronger than expected economic data. Other sectors, including mortgage-backed securities (MBS), asset-backed securities (ABS) and municipals, were flat or moved marginally lower.

International markets posted positive results, with the MSCI EAFE gaining 10%. Among the largest European markets, France and Germany rallied 13% and 16%, respectively. Within the Pacific region, Japan ended unchanged. Meanwhile, Hong Kong gained 13%, while Australia rose 17%. In the emerging markets, the MSCI EM ended up 13% on strength from select Emerging Asian, Latin American and EMEA (Eastern Europe, Middle East and Africa) countries.





World Market Recap

Economy

- Third quarter GDP rose 2.5% according to the advance estimate. 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, where it has been since December 2008. The Fed also decided to continue its “Twist” program of shifting its bond portfolio toward longer maturities and continue reinvesting maturing principal payments into mortgage-backed securities.

U.S. Equity

- Strong earnings, better-than-expected economic data and European progress in combating regional debt helped the major averages post impressive gains. The DJIA posted its best monthly point gain on record and its best monthly percentage gain since October 2002. The S&P 500 logged its best monthly gain since December 1991, while the NASDAQ posted its best month since last September.

- The materials sector soared during the month on significant strength from chemicals and metals & mining stocks. Industrial-related stocks also rallied led by the construction & materials, industrial engineering, electronic & electrical equipment and transportation sub-sectors.

- The energy-related sector moved sharply higher during the month of October amid optimism that leaders were finding common footing to deal with the Eurozone debt crisis and the impact that could have on the global, or more importantly, emerging markets economic outlook.

- Financials rallied on expectations that European monetary authorities were taking the necessary steps to stem the debt crisis. MF Global was a notable exception, as the firm filed one of the nation's largest bankruptcy cases after suffering big losses on European debt holdings, making it the first U.S. casualty of the Eurozone debt crisis. Meanwhile, millions of dollars of customer funds have reportedly gone missing.

- The more defensive areas such as the consumer staples, telecommunications services and utilities sectors were among the weakest performers during the month of October as investors gravitated towards riskier assets and away from safety and yield.

Fixed Income

- During the month, U.S. Treasuries declined and yields rose as investors shunned ultra-low rates. In this environment, the long-end sold off the most, with the 10- and 30-year Treasury falling 2.0%, and 4.9%, respectively.

- Investment grade corporates posted solid gains. Financial-related issuers outperformed both industrial-backed and utilities-related issuers as measures to stabilize peripheral Europe emerged and potential haircuts to Greek debt were better quantified. Lower quality outperformed, with BBB-rated issues rising 2.3%, while AA-rated issues ended up 0.6%.

- Lower quality, higher yielding corporate securities soared during the month as investors switched back to the "risk-on" trade. The weakest credits performed significantly better with CCC-rated credits rising 8.8%, 410 basis points above BB-rated issues.

- Municipals registered small losses as the flight to safety witnessed in prior months seemed to take a back seat to the riskier trade, resulting in higher municipal yields. October was the largest month of new municipal bond issuance this year, as nearly $35B came to market. The backup in rates brought investors back to the market, enabling the increased supply to be absorbed.

International Developed Markets

- Canada gained 11%. The central bank left rates on hold at 1%, citing a worsening global economy for the need to maintain the current level of stimulus. The central bank hinted it may have to keep its benchmark interest rate that low for an extended period, surprising those who have been expecting a rate hike sooner rather than later.

- The United Kingdom ended up 12% as the Bank of England (BOE) kept rates on hold at 0.5%, where it has remained since March 2009. The BOE voted to expand its bond-buying program for the first time in almost two years as government budget cuts, combined with Europe's debt crisis, pose an increasing threat to Britain's economic recovery.

- Following month end, the European Central Bank (ECB) surprised markets by cutting interest rates by 25 basis points to 1.25% as the Eurozone's ongoing debt crisis outweighed the concern over persistently high inflation. The cut marked a change in policy course after the ECB increased rates earlier this year, when it became the first major central bank to hike as the global economy emerged from the financial crisis.

- Within the Pacific region, Japan ended flat. Meanwhile, Hong Kong gained 13%, while Australia rose 17%. The Japanese yen sank from a post-World War II record against the U.S. dollar after government officials intervened in currency markets. The yen had risen nearly 7% against the U.S. dollar since the beginning of this year, which hurts Japan's important export industry.

International Emerging Markets

- Within Asia, China gained 15%. Investors cheered amid reports Chinese officials were considering a sizable investment in the Eurozone rescue deal. The Chinese have $3 trillion in foreign currency reserves, earned through exporting much more to the rest of the world than they import, with Europe being its biggest market. Among the other large Asian markets, Taiwan, India and South Korea, advanced 7%, 9%, and 15%, respectively.

- In Latin America, Brazil rallied 19%, while Mexico ended up 14%. Brazil's central bank cut interest rates to 11.5%, marking the second straight meeting at which the rate was reduced by a half-percentage point to mitigate the effects of a restrictive global environment, despite inflationary concerns. The Brazilian inflation rate stands at 7.3%, above the 6.5% upper limit.

- Among EMEA countries, South Africa ended up 9%. In the Middle East, Turkey declined 2%, while Egypt gained 10%. Within Eastern Europe, Russia skyrocketed 19%. Meanwhile, the Czech Republic, Hungary and Poland rose 7%, 13% and 14%, 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.