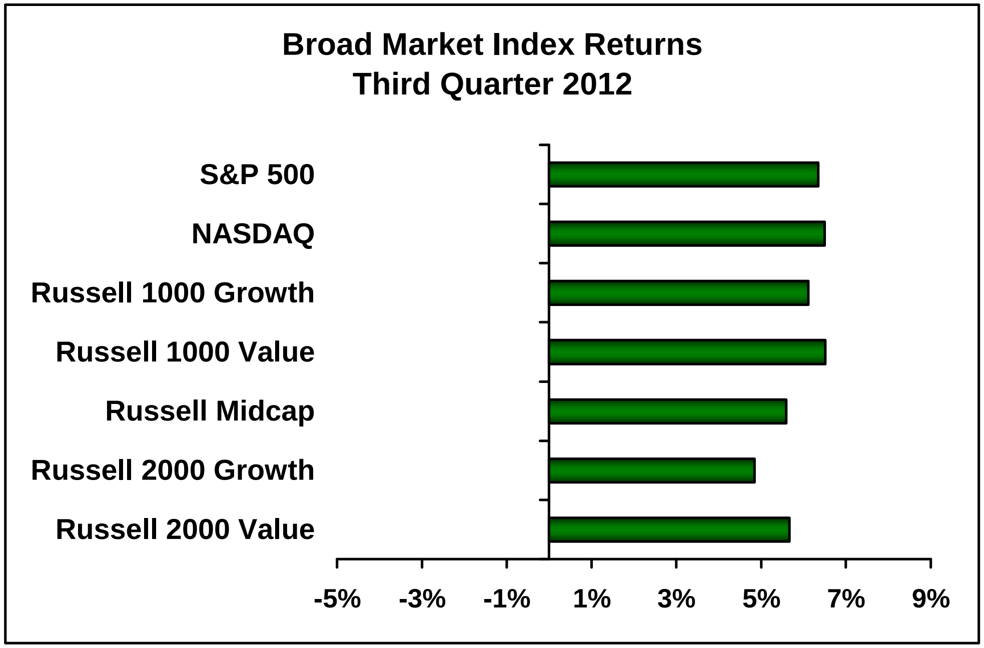
Third Quarter Market Summary

The Economy

Although year-to-date market performance is strong, it has not been smooth sailing for the entire time. The year started particularly strong with double-digit returns across almost all of the equity categories. However, global economic concerns became a bigger concern during April and May driving almost all of the equity markets into negative territory for the second quarter. Performance once again rebounded during the third quarter with most equity markets returning 5% - 7%.



The strong performance from equity markets thus far this year, particularly as it relates to the third quarter, has surprised many individual investors since it has occurred during a time of relatively weak economic growth and high unemployment in the U.S., lack of clarity from Congress regarding the "fiscal cliff", continued concern over events in Europe and a slowing economy in China.

Overall, individual investors continued to pull investments out of equity funds and build their investments in bond funds. Frankly, after being "shell shocked" by the 2008 Credit Crisis and the ensuing near market collapse, many individual investors have completely missed out on the recovery of the equity markets over the past few years.

Highlights

GDP

- The Bureau of Economic Analysis released the third estimate of second quarter 2012 GDP, an increase of 1.3% versus first quarter 2012, revised down from the second estimate of 1.7%.
- Real GDP rose 2.1% from the second quarter of 2011 to the second quarter of 2012.
- The University of Michigan Consumer Sentiment Index in September was revised down from 79.2 to 78.3, which was an increase from August. August was 74.3 up from 72.3 in July.
- ISM Manufacturing Index increased to 51.5 in September from 49.6 in August. Typically, when the ISM Index is above 55 it is bullish and when it is below 45 it is bearish.
- In August, Conference Board Leading Economic Index increased 2.13% year-over-year to 95.7
- The price of WTI Crude Oil was $92.18 at the end of September, which is 8% higher than $85.04 at the end of June. The price of Brent Crude Oil rose 18% in the quarter to $111.36.
- Headline CPI was relatively stable as August came in at 1.7% year-over-year, up from 1.4% in July. Core CPI, which does not include food and energy, came in at 1.9%. Inflation levels have increased in the past two years but remain at acceptable levels as they are under historical averages.

HOUSING

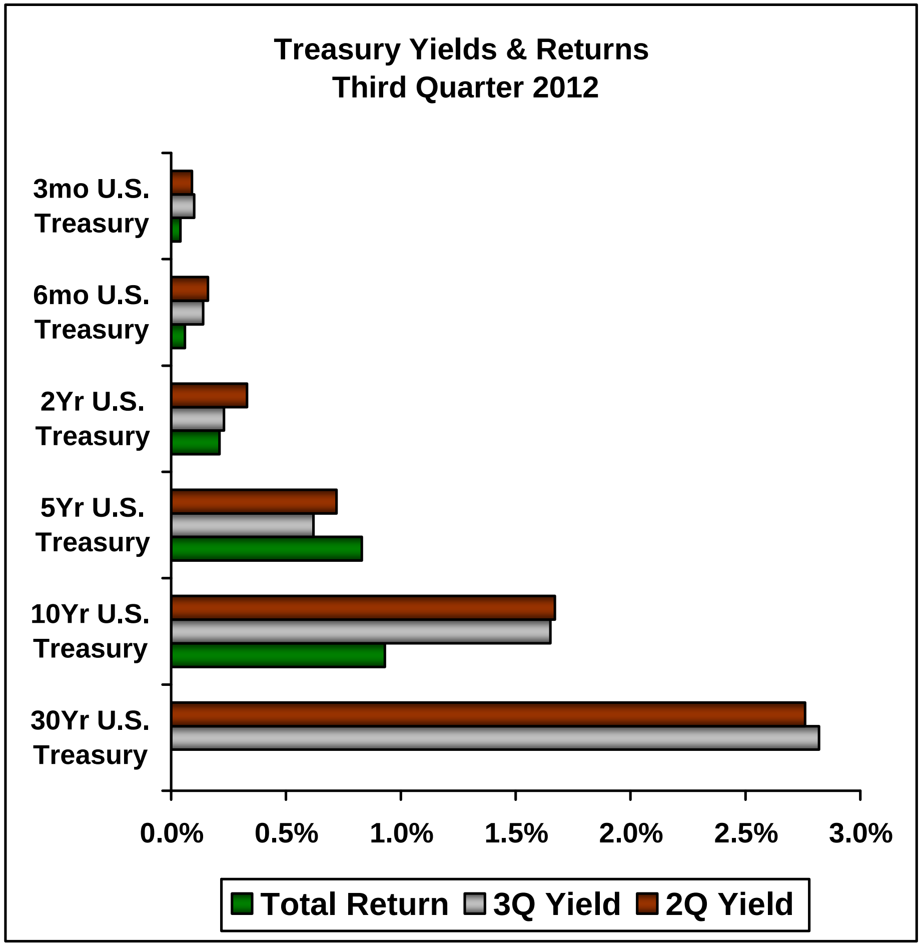
- Preliminary existing home sales rose in August with an annualized rate of 4.3 million units from 3.98 million units in July. The August annualized rate is 10.0% above the 3.91 million units in August 2011 as existing home sales have been rising slowly since last summer.
- Median existing home sale prices rose during the quarter. Prices have risen since the beginning of the year as prices were 10.22% higher from the levels of one year ago.
- New home sales declined slightly in August with a seasonally adjusted annual rate of 373k homes sold versus 374k in July and 361k in June. Home sales have been trending up since last summer. However, new home sales are still at depressed levels compared to long-term averages of above 600k units.
- S&P Case-Shiller 20-City Home Price Index (seasonally adjusted) showed home prices rose 1.1% year-over-year in July. This is the second month in a row that prices have risen after twenty months of falling prices.

EMPLOYMENT

- The labor market was stronger in the third quarter as the July and August Nonfarm Payrolls increased by 181,000 and 142,000 respectively, which was much higher than the second quarter. In September, preliminary Nonfarm Payrolls increased by 114,000, which was lower than consensus expectation of 120,000 new jobs.
- The unemployment rate decreased from 8.2% in June to 7.8% in September.
- Initial Jobless Claims continue to decrease to a more normalized level.

FIXED INCOME

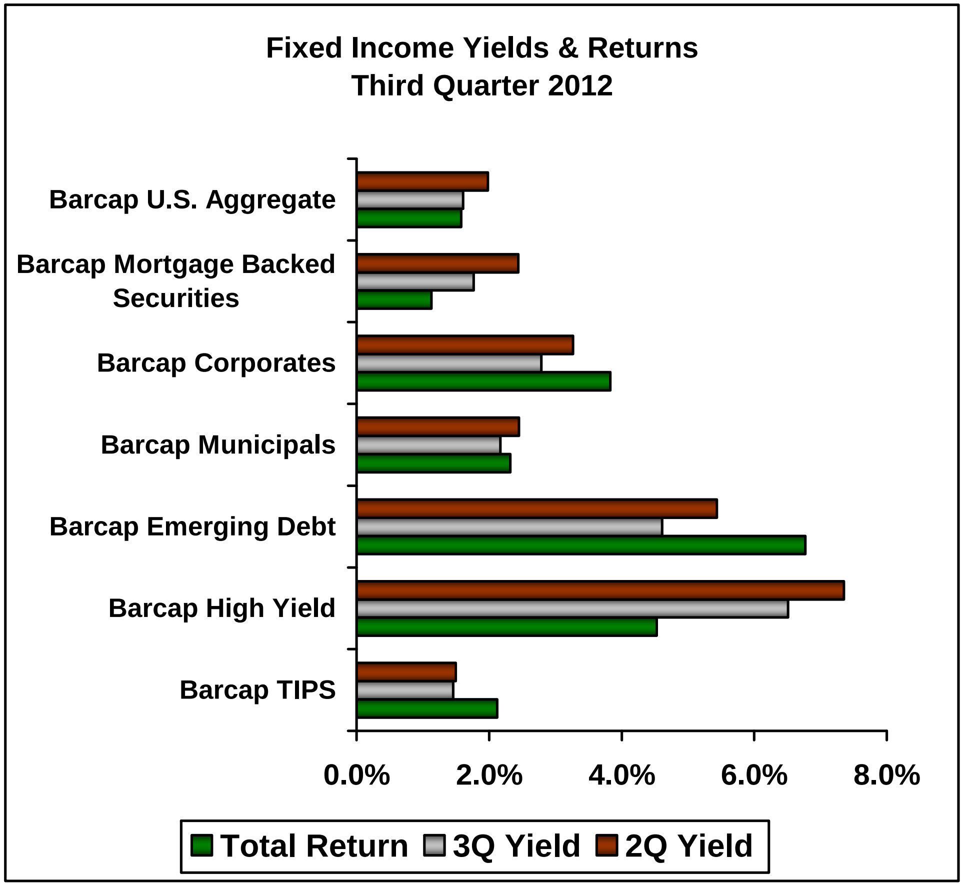
- The yields on Treasury securities decreased on a quarter-over-quarter basis with the exception of 3mo and 30 Yr Treasuries. The rising of 30 YR Treasury yields caused the yield curve to steepen.
- The credit segment of the market witnessed a decrease in rates. Yields for High Yield and Emerging Market Debt had the largest decrease in yields; these segments were the best performing in the third quarter.



- The TED Spread, which is the difference between the three-month LIBOR and three-month T-bill rates, has decreased slightly from 0.37% in June to 0.35% currently. A low TED Spread indicates the perceived risk of bank defaults is low.

FED POLICY

- In September, the Federal Open Market Committee (FOMC) announced they will leave the federal funds rate at 0% to 0.25% percent. In addition, they maintained the fed funds rate will likely remain at exceptionally low levels through mid 2015.



EQUITIES

- For the quarter, stock prices ended higher. Performance was slightly better for large capitalization stocks versus small capitalization stocks. Growth stocks performed worse on a relative basis than value stocks.
- The Russell 1000 Index of large capitalization stocks posted a total return of 6.31% during the quarter. On a year-over-year basis, the Russell 1000 Index has advanced 30.06%.
- Small capitalization stocks, as represented by the Russell 2000 Index, posted a gain of 5.25%. On a year-over-year basis the index has increased 31.91%.
- International stocks generally performed better than U.S. domestic equities. The MSCI EAFE index of international markets stocks increased 6.92% during the quarter. On a year-over-year, the EAFE is up 13.75%.
- During the quarter, emerging market stocks performed better than developed markets. The MSCI Emerging Markets Index increased 7.74% in the quarter, and it is up 16.93% on a year-over-year basis.
- CBOE Volatility Index (VIX) fell slightly in the quarter from 17.08 at the end of June to 15.73 at the end of September. Low levels on the VIX are generally positive for the equity markets.