











The Economy

The European Union's delay in finalizing a debt stabilization package to backstop Greece's sovereign debt obligations has clearly spooked investors. The evidence can be found in the 6% rally in the dollar (see below) in September. The dollar surging so quickly after S&P's downgrade of the U.S. from AAA to AA+ indicates the debt problems in the EU are much more of a concern. With oil dropping in recent months from \$113 per barrel to \$79 there is the hope that inflationary pressures in emerging countries, such as China, India and Brazil, will cool enough to allow them to stop raising their benchmark lending rates. Brazil actually cut its rate by 50 bps at the start of September. As we have noted before, investors need some solid guidance from policy makers.

Consumer Confidence 45.4 (Sep) 44.5 (Aug) 	Crude Oil (Mo.-End) \$79.20 (Sep) \$88.81 (Aug) 	Personal Spending 0.2% (Aug) Jul was 0.8% 	ISM Manufacturing 51.6 (Sep) 50.6 (Aug) 	ISM Non-Manufacturing 53.0 (Sep) 53.3 (Aug) 
Gold (Mo.-End) \$1620.40 (Sep) \$1829.30 (Aug) 	Natural Gas (Mo.-End) \$3.67 (Sep) \$4.05 (Aug) 	Factory Orders -0.2% (Aug) Jul was 2.4% 	New Home Sales 295,000 (Aug) 298,000 (Jul) 	Existing Home Sales 5.03M (Aug) 4.67M (Jul) 

The Stock Market

Indices (Source: Bloomberg)

	Sep	12-mo.
S&P 500	-7.0%	1.1%
DJIA	-5.9%	3.8%
NASDAQ 100	-4.5%	8.0%
S&P 400	-10.6%	-1.3%
Russell 2000	-11.2%	-3.5%
Russell 3000	-7.8%	0.5%
MSCI World (ex U.S.) (USD)	-10.0%	-8.6%
MSCI Emerging Markets (USD)	-14.6%	-16.1%

Growth/Value (Source: Bloomberg)

	Sep	12-mo.
S&P 500 Growth	-6.6%	4.9%
S&P 500 Value	-7.5%	-2.6%
S&P 400 Growth	-10.1%	3.0%
S&P 400 Value	-11.0%	-5.4%
Russell 2000 Growth	-11.5%	-1.1%
Russell 2000 Value	-10.9%	-6.0%

Six out of the 133 subsectors (5%) that comprise the S&P 500 posted a gain in September, down from 20 (15%) last month, according to S&P. Utilities was the top performing sector, up 0.2%. In September, the dividend-payers (389) in the S&P 500 (equal weight) posted a total return of -8.73%, vs. -10.83% for the non-payers (111), according to Standard & Poor's. Y-T-D, the payers were down 10.80%, vs. a decline of 15.26% for the non-payers. For the 12-month period ended September '11, payers were down 0.17%, vs. a decline of 5.15% for the non-payers. The number of dividend increases y-t-d totaled 242, up from 177 increases a year ago. Seventeen companies initiated dividends, up from 10 a year ago. Four dividends were cut, up from two cuts last year. The Q3'11 edition of the *Investment Manager Outlook* (released 9/29), a survey of investment managers conducted by Russell Investment Group, found that 78% of managers do not expect the U.S. to slide into a double-dip recession. Strong corporate balance sheets and high corporate profit levels were the top reasons cited. Managers are most bullish on the following asset classes (Q3'11/Q2'11): Emerging Markets Equities (74%/59%); U.S. Large-Cap Growth (73%/60%); and U.S. Large-Cap Value (63%/49%). The sectors managers are most bullish on are Technology (71%/65%) and Energy (57%/55%).

U.S. Dollar Index (DXY) 6.0% (Sep) -0.6% (2011) \$ was down 1.1% in '10 	CBOE Total Equity Options (# of contracts in millions) Sep: 35.0 (-29.1%)  Aug: 49.4 (+34.4%) Record 7/08: 67.2 million	Short Interest (NYSE) Sep 15: 15.7B (+9.0%)  Aug 15: 14.4B (+7.5%) Record 7/08: 18.61 billion shares	VIX Volatility Index (S&P 500) 42.96 (9/30)  31.62 (8/31) Record 11/20/08: 80.86
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The Bond Market

Index (Source: Barclays)

	Sep	12-mo.	Yield
U.S. Treasury: Intermediate	0.31%	3.94%	0.79%
GNMA 30 Year	0.19%	6.96%	2.98%
Municipal Bond (22+)	2.74%	4.31%	4.57%
U.S. Aggregate	0.73%	5.26%	2.35%
Intermediate Corporate	-0.82%	2.92%	3.32%
U.S. Corporate High Yield	-3.27%	1.78%	9.51%
Global Aggregate	-2.31%	4.00%	2.41%
Global Emerging Markets	-5.11%	0.54%	6.54%

What a difference a year can make. A year ago, the focus was on the municipal bond market based on one high-profile analyst's forecast calling for a significant jump in defaults, perhaps eventually approaching \$100 billion or more. The good news is the forecast was massively overstated. The total value of municipal bond defaults is just \$1.1 billion through the first nine months of 2011, roughly one-quarter of last year's total at this point, according to Bank of America Merrill Lynch. RBC Capital Markets polled municipal-finance professionals and found that 64% believe the number of state and local defaults will either stay the same or drop when compared to last year's totals, according to *Bloomberg Businessweek*. Last September, long-term municipal bonds were up just 0.3%, while high yield corporates were up 3.0%.

Key Rates as of September 30		Key Yield Spread		2011 Debt Issuance Through August		
		The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 771 basis points on 9/30/11, up from 642 on 8/31/11. It was 559 on 9/30/10. (Source: Bloomberg)		(Source: Thomson Reuters)		
		Debt Category	\$ Amount	% change over '10		
Fed Funds	0-0.25%	Treasury	\$1.48 Trillion	-8.0%		
2-Yr. T-Note	0.25%	Corporate	\$739.6 Billion	+14.9%		
10-Yr. T-Bond	1.92%	Convertible	\$17.3 Billion	-16.9%		
30-Yr. Mortgage	4.03%	Asset-Backed	\$80.1 Billion	+7.8%		
Bond Buyer 40	4.92%	Municipal	\$164.6 Billion	-37.6%		
(Source: Bloomberg)						

Equity funds reported net cash outflows totaling \$29.3 billion in 8/11, vs. \$31.1 billion of outflows in 7/11, according to the Investment Company Institute. Bond fund outflows totaled \$4.1 billion, vs. \$9.8 billion of inflows in 7/11. Money Market fund inflows totaled \$71.8 billion, vs. \$118.9 billion of outflows in 7/11. Y-T-D through August, equity funds reported net outflows totaling \$49.2 billion, vs. \$72.7 billion of inflows for bond funds and \$172.4 billion of outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1131.42	-27.71%	-8.68%	2.30%
S&P 500 Growth	730.83	10/12/07	363.99	03/09/09	614.53	-15.91%	-5.54%	1.98%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	511.02	-38.89%	-11.92%	2.66%
S&P 400	1015.26	04/29/11	372.88	10/09/02	781.26	-23.05%	-13.02%	1.63%
S&P 400 Growth	465.69	07/07/11	162.27	10/09/02	363.24	-22.00%	-10.16%	0.97%
S&P 400 Value	361.18	06/04/07	135.55	10/09/02	263.87	-26.94%	-15.79%	2.31%
S&P 100	729.79	10/09/07	322.13	03/09/09	513.37	-29.66%	-7.78%	2.40%
DJIA	14164.53	10/09/07	6547.05	03/09/09	10913.38	-22.95%	-3.89%	2.82%
NASDAQ 100	2429.50	07/22/11	804.64	10/07/02	2139.18	-11.95%	-2.95%	1.02%
Russell 2000	865.29	04/29/11	327.04	10/09/02	644.16	-25.56%	-17.02%	1.83%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	370.33	-25.60%	-15.57%	0.90%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	849.47	-33.46%	-18.51%	2.77%
Russell 3000	907.58	10/09/07	389.61	03/09/09	665.97	-26.62%	-9.90%	2.19%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3536.13	-34.27%	-15.19%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	75.62	10/03/01	341.40	-27.88%	-21.88%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	28228.53	-36.76%	-32.17%	4.48%
RTS/Russia (USD)	2487.92	05/19/08	174.20	10/03/01	1341.09	-46.10%	-22.96%	2.60%
Bombay SE 500/India (USD)	226.04	01/07/08	17.27	10/08/01	130.39	-42.31%	-25.88%	1.59%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	369.71	-54.37%	-11.42%	2.06%
KOSPI/South Korea (USD)	2.29	10/31/07	0.38	10/08/01	1.50	-34.47%	-16.88%	1.61%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2259.61	-44.65%	-21.53%	3.88%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	907.46	-54.37%	-18.20%	5.15%
S&P Consumer Discretionary	328.81	07/07/11	125.72	03/09/09	275.53	-16.20%	-5.72%	1.78%
S&P Consumer Staples	333.63	05/19/11	182.72	03/10/03	306.71	-8.07%	3.38%	3.35%
S&P Energy	668.81	05/20/08	163.83	07/23/02	442.79	-33.79%	-11.41%	2.17%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	170.77	-23.73%	10.79%	4.23%
S&P Financials	509.55	02/20/07	81.74	03/06/09	159.05	-68.79%	-25.14%	1.91%
S&P Banks	414.38	02/20/07	49.02	03/05/09	113.16	-72.69%	-22.93%	1.94%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	390.09	-42.34%	-6.05%	4.11%
S&P Health Care	426.93	05/07/07	252.84	03/05/09	367.73	-13.87%	2.52%	2.27%
S&P Pharmaceuticals	442.40	11/26/01	214.50	03/03/09	303.64	-31.37%	4.92%	3.67%
NYSE Arca Biotechnology	1502.18	05/12/11	280.09	07/10/02	1102.56	-26.60%	-15.01%	0.03%
S&P Information Technology	441.36	10/31/07	172.88	10/09/02	378.19	-14.31%	-5.79%	1.12%
Philadelphia Semiconductor	637.94	03/08/02	171.32	11/20/08	338.82	-46.89%	-16.92%	1.51%
S&P Telecom Services	189.14	10/02/01	79.00	09/30/02	122.01	-35.49%	-1.52%	5.52%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	252.62	-33.72%	-14.68%	2.65%
S&P Materials	285.91	05/16/08	102.55	10/09/02	184.55	-35.45%	-21.70%	2.67%
Philadelphia Gold & Silver	228.95	04/08/11	49.46	11/19/01	185.00	-19.20%	-17.49%	1.60%
Reuters/Jefferies CRB	473.52	07/02/08	183.52	10/22/01	298.15	-37.04%	-10.41%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	156.41	-20.95%	1.79%	7.55%
Merrill Lynch High Yield Master II	277.73	07/26/11	106.67	10/10/02	256.66	-7.59%	-1.71%	9.63%