

# MONTHLY MARKET REVIEW

## September 2011

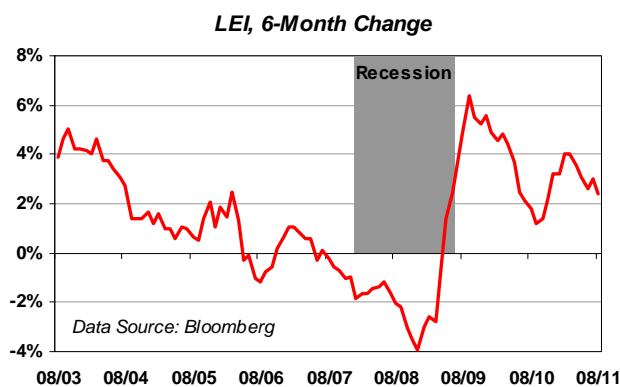
### U.S. Economy

The U.S. economy continued its low-growth trajectory in September, with few signs of either an impending recession or acceleration in GDP growth, in concurrence with economists' expectations.

The Institute for Supply Management's (ISM) manufacturing sector index, which tracks activity in roughly 20% of the economy, rose 1.0 to a level of 51.6, signaling a continued weak expansion (levels below 50 indicate contraction in the sector). The manufacturing gains in September were unexpected and were propelled by gains in exports and production. However, it is still down from 61.4 in February, and the reading signals a stalling sector that is still above recessionary levels. Similarly, the ISM service sector index, tracking activity in approximately 80% of the economy, fell to 53.0 from 53.3 in August, a level the index has been near since April after peaking at 59.7 in February. Combined, the two ISM indices suggest weak, but positive U.S. economic growth continued in September.

The U.S. labor market also remained relatively stagnant in September as the four-week average of weekly initial jobless claims ended the month at 414,000, slightly above the average of 411,000 in August. Readings above 400,000 are still too high and do not signal an environment capable of generating enough net new jobs to sustainably reduce the unemployment rate. Consistent with the recent level of jobless claims, the unemployment rate remained steady at a historically high 9.1% in September as the economy added just 103,000 new jobs, of which 45,000 were attributable to the end of a strike at Verizon. Over the last five months, the economy has averaged 72,000 new jobs, a level too low to bring down the unemployment rate.

Despite no real signs of a pickup in GDP growth, leading indicators still suggest a low probability of another recession in the months ahead. The Conference Board's leading economic indicators index (LEI) has risen 2.4% over the last six months, down from 4.0% in March but still well above the negative levels that have historically preceded recessions. The six-month change in LEI turned negative in May of 2006 and again in June 2007 before the last recession began in December 2007 (see chart). In line with leading indicators, Bloomberg's latest survey of 45 professional economists found median expected GDP growth of 2.2% in the fourth quarter, with growth gradually improving to 2.5% over the next year. These same economists expect inflation to cool over the next year from its current level near 4% down to a level of just 2%. The unemployment rate is projected to remain near 9% through at least the middle of 2012.

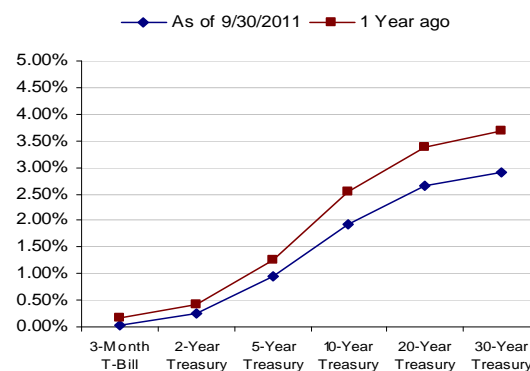


### Market Data

#### Change in Price

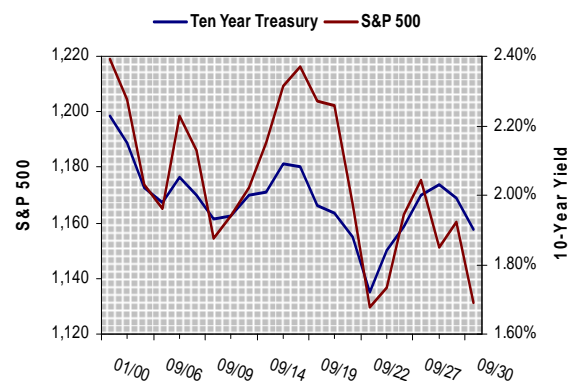
Equity Indices	9.30.11 Close	1-Month		YTD		1-Year	
		Pts.	%	Pts.	%	Pts.	%
Dow Jones Ind. Avg	10913.40	-700.10	-6.03%	-664.10	-5.74%	125.40	1.16%
S&P 500	1131.42	-87.47	-7.18%	-126.22	-10.04%	-9.78	-0.86%
Nasdaq Composite	2415.40	-164.06	-6.36%	-237.47	-8.95%	46.78	1.97%
<b>Commodities</b>							
Oil: \$ Per Barrel	79.20	-9.61	-10.82%	-12.18	-13.33%	-0.77	-0.96%
Gold: \$ Per Ounce	1620.40	-208.90	-11.42%	199.00	14.00%	312.60	23.90%
<b>Currencies</b>							
\$ per € (euro)	1.34	-0.10	-6.87%	0.00	0.01%	-0.02	-1.80%
¥ (yen) per \$	77.02	0.36	0.47%	-4.14	-5.10%	-6.50	-7.78%
\$ per £ (pound)	1.56	-0.07	-4.10%	0.00	-0.18%	-0.01	-0.84%

#### U.S. Treasury Yields:



Term	Yield at month end	One-Month Change	One-Year Change
3 Months	0.02%	0.00%	-0.14%
2 Years	0.25%	0.05%	-0.17%
5 Years	0.96%	0.00%	-0.31%
10 Years	1.92%	-0.31%	-0.61%
20 Years	2.66%	-0.53%	-0.72%
30 Years	2.90%	-0.70%	-0.79%

### Intra-Month Markets

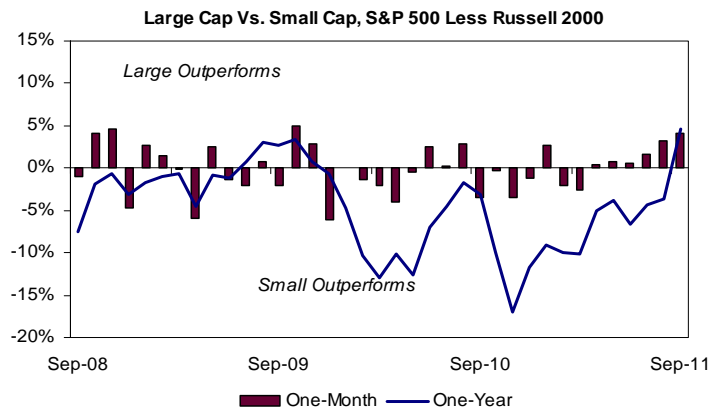
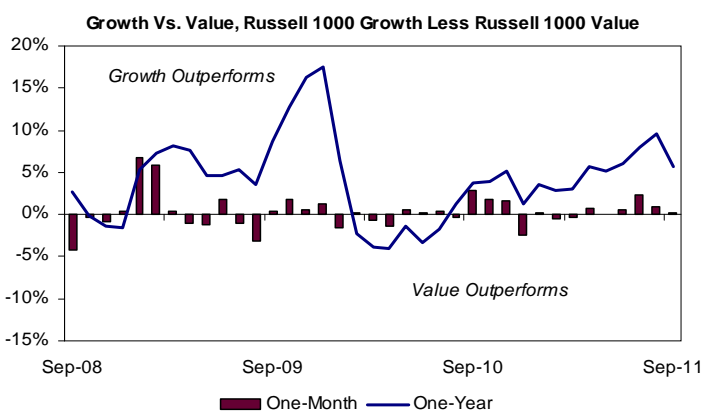


## U.S. Equities

The S&P 500 index plunged 7.03% in September, falling for five straight months for the first time since March 2008 and for only the fourth time in the last 30 years. For the year, the index is now down 8.68%. The small-cap Russell 2000 index lagged large-cap indices for the sixth straight month, plummeting 11.21% in September. Over the last 12 months, large-cap stocks are now ahead of small-cap stocks by more than 4%. The broad Russell 1000 Growth index fell 7.37%, just slightly ahead of its Value counterpart's 7.56% drop. Over the last 12 months, growth index is ahead by 5.67%.

Heading into the third-quarter earnings reporting season, analysts are expecting S&P 500 earnings for non-financial companies to have grown 14% according to data from Bloomberg, down from expectations of 16% at the end of July and the smallest gain since the end of 2009. Future earnings growth projections have also been declining as the economic slowdown has persisted, resulting in analyst expectations of the slowest earnings growth since the end of the recession over the coming quarters. Analysts expect non-financial company fourth-quarter earnings growth for the S&P 500 of 12%, with a further slowdown to 9% in the fourth quarter. These growth forecasts are still quite optimistic in light of the current economic environment. With profit margins already at high levels, companies may find it increasingly difficult to increase margins further through additional layoffs and cutbacks, leaving earnings growth more dependent on top line revenue growth. Such sales growth may prove elusive amid weak GDP growth. Thus, while equity investors have enjoyed historically high earnings growth in recent years, despite one of the weakest economic rebounds in history, the time of double-digit percentage earnings growth appears to be nearing an end.

The charts below illustrate the relative rolling returns of growth vs. value stocks and large-cap vs. small-cap stocks.



Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Wilshire 5000	All-Cap Core	(7.75)	(15.15)	(10.15)	0.32	1.85	(0.51)	3.96
S&P 500	Large-Cap Core	(7.03)	(13.87)	(8.68)	1.14	1.23	(1.18)	2.82
S&P 500/Citigroup Growth	Large-Cap Growth	(6.61)	(11.56)	(5.56)	4.85	4.47	1.41	2.55
S&P 500/Citigroup Value	Large-Cap Value	(7.49)	(16.30)	(11.92)	(2.66)	(2.19)	(3.88)	2.89
S&P 400	Mid-Cap Core	(10.59)	(19.88)	(13.02)	(1.28)	4.05	2.20	7.50
S&P 600	Small-Cap Core	(10.29)	(19.83)	(13.79)	0.21	0.77	0.27	7.41
Russell 1000	Large-Cap Core	(7.46)	(14.68)	(9.25)	0.91	1.61	(0.91)	3.28
Russell 1000 Growth	Large-Cap Growth	(7.37)	(13.14)	(7.20)	3.78	4.69	1.62	3.01
Russell 1000 Value	Large-Cap Value	(7.56)	(16.20)	(11.24)	(1.89)	(1.52)	(3.53)	3.36
Russell Midcap	Mid-Cap Core	(9.63)	(18.90)	(12.34)	(0.88)	3.96	0.56	7.45
Russell Midcap Growth	Mid-Cap Growth	(10.05)	(19.33)	(11.59)	0.80	5.89	1.64	6.70
Russell Midcap Value	Mid-Cap Value	(9.22)	(18.46)	(13.01)	(2.36)	1.98	(0.84)	7.54
Russell 2500	SMID-Cap Core	(10.80)	(21.22)	(14.87)	(2.22)	2.25	0.19	7.08
Russell 2500 Growth	SMID-Cap Growth	(10.88)	(21.35)	(13.29)	0.59	4.56	1.91	6.32
Russell 2500 Value	SMID-Cap Value	(10.73)	(21.10)	(16.29)	(4.70)	0.08	(1.69)	7.24
Russell 2000	Small-Cap Core	(11.21)	(21.87)	(17.02)	(3.53)	(0.37)	(1.02)	6.12
Russell 2000 Growth	Small-Cap Growth	(11.50)	(22.25)	(15.57)	(1.12)	2.07	0.96	5.45
Russell 2000 Value	Small-Cap Value	(10.92)	(21.47)	(18.51)	(5.99)	(2.78)	(3.08)	6.47
Russell Micro Cap	Micro Cap Core	(11.06)	(22.68)	(20.30)	(4.83)	(2.00)	(4.36)	5.28
NAREIT Composite Index	REITS	(10.44)	(14.51)	(5.92)	1.30	(1.06)	(3.04)	8.56

## U.S. Fixed Income

The Barclays Aggregate index gained 0.73% in September and 3.82% during the third quarter. Once again, performance was led higher by Treasuries. Long-term maturity yields fell throughout the quarter and gained more momentum after the Fed announced their "Operation Twist" program in September which is expected to purchase \$400 billion of Treasury debt maturing in 6 to 30 years, while selling an equal amount of debt maturing in 3 years or less. In September, the 20-year Treasury yield fell 0.53% to 2.66% and the 30-year Treasury yield fell 0.70% to below 3.00%. The Barclays Treasury 20+ index gained a whopping 12.37% in September and is up 31.44% year-to-date. Meanwhile, yields on shorter maturity Treasury debt remained relatively flat during September. The entire Barclays Treasury index returned 1.75% in September and is up 8.84% year-to-date.

Spread sectors underperformed Treasuries in September, particularly credit bonds. The credit index gained 0.25% and trailed duration-matched Treasuries by 1.86%. The rally in Treasuries has caused credit spreads to widen out by nearly 80 basis points over the past two months to 2.20%.

Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Citigroup 3-Month T-Bill	Cash	0.00	0.01	0.07	0.11	0.20	1.62	1.92
BofA ML US Treasuries 1-3 Yrs	Short Treasuries	(0.14)	0.49	1.36	1.20	2.39	3.84	3.31
Barclays 1-3 Yr Govt/Credit	Short Govt/Credit Bonds	(0.20)	0.29	1.34	1.27	3.56	4.15	3.68
Barclays Interm. Aggregate	Interm. Core Bonds	(0.00)	2.30	5.01	4.22	7.12	6.16	5.30
Barclays Interm. Govt/Credit	Interm. Govt/Credit Bonds	(0.12)	2.39	4.92	3.40	7.02	5.92	5.12
Barclays Long Govt/Credit	Long Govt/Credit Bonds	6.03	15.64	19.42	12.74	14.87	9.39	8.26
Barclays Aggregate	Core Bonds	0.73	3.82	6.65	5.26	7.97	6.53	5.66
Barclays Mortgage	Mortgage-Backed Bonds	0.17	2.36	5.30	5.56	7.02	6.69	5.61
Barclays Government	Government Bonds	1.53	5.85	8.11	5.58	6.43	6.56	5.44
Barclays Credit	Corporate Bonds	0.25	3.03	6.54	4.56	11.74	6.72	6.26
Barclays Municipals	Municipal Bonds	1.03	3.81	8.40	3.88	8.08	5.01	5.09
Barclays US TIPS	TIPS	(0.24)	4.52	10.59	9.87	8.13	7.10	7.17
Barclays US Corporate High Yield	High Yield Bonds	(3.27)	(6.06)	(1.39)	1.78	13.83	7.08	8.78
BofA ML All US Convertible	Convertible Securities	(5.36)	(12.94)	(9.08)	(2.31)	8.81	2.24	5.15

## International

The MSCI EAFE index lost 9.5% in September and 19.0% in the third quarter. The index has fallen 23.0% since peaking in early May. The biggest loser's have been in Europe with Greece down 46.6%, Austria 37.7%, and Italy 31.0% during the quarter. The MSCI Emerging Markets index fell 14.6% in September and 22.5% in the third quarter. The index has fallen 26% since hitting its 2011 high in May. The BRIC nations were hit particularly hard as Brazil, China, and Russia each fell nearly 20.0% during September and just over 25.0% for the quarter.

Economic growth expectations were cut by the International Monetary Fund and the European Union. The IMF expects the world economy will expand 4% in 2011 and 2012, down from previous forecasts of nearly 4.5%. Developing countries are still expected to grow in excess of 6%, while developed nation growth was cut to 1.6% this year from prior expectations of 2.2%.

Euro-area services and manufacturing output contracted for the first time in more than two years in September. The European Central Bank noted that threats to euro-area growth have intensified and inflation risk have eased, signaling the potential for rate cuts in the near future, this coming after the ECB raised rates earlier this year.

European Union members are attempting to increase the European Financial Stability Fund. This fund was created after the 2008 financial crises and its initial 250 billion euro funding has been mostly tapped by Ireland and Portugal. The EU is attempting to increase the bailout fund to 440 billion euros, but all 17 euro-zone countries must approve. After Germany approved increasing funding in late September, 13 members have voted in favor of the plan. It is expected that the increased funding would go to support Greece, which has already received a bailout from the EU and IMF.

Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
<b>International Equities</b>								
MSCI World	Global Developed Mkt Equity	(8.60)	(16.52)	(11.82)	(3.84)	0.50	(1.68)	4.24
MSCI EAFE	Intl Developed Market Equity	(9.50)	(18.95)	(14.62)	(8.94)	(0.66)	(3.00)	5.48
MSCI Europe	European Equity	(10.95)	(22.56)	(15.13)	(11.26)	(2.13)	(3.55)	5.34
MSCI Japan	Japanese Equity	(1.58)	(6.37)	(10.75)	0.07	(0.04)	(4.77)	2.89
MSCI Pacific	Pacific Equity	(6.77)	(11.65)	(13.37)	(4.14)	2.53	(1.86)	5.75
MSCI Emerging Markets	Emerging Market Equity	(14.56)	(22.46)	(21.66)	(15.89)	6.59	5.17	16.41
<b>International Fixed Income</b>								
Barclays Global Aggregate	Global Invest. Grade Bonds	(2.31)	0.97	5.40	4.00	7.78	6.85	6.88
Citigroup World Government Bond	Intl Developed Market Bonds	(1.95)	2.38	6.48	4.61	7.71	7.54	7.43
JP Morgan EMBI+	Emerging Market Bonds	(4.10)	(1.22)	3.75	1.36	11.64	7.90	10.97

## Alternative Investments

<i>Index</i>	<i>Asset Class</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>	<i>10 Yr</i>
Goldman Sachs Commodity Ind.	Commodities	(12.17)	(11.69)	(9.30)	2.87	(15.91)	(5.32)	3.48
HFRI Equity Hedge	HF - Equity Long/Short	(4.90)	(9.58)	(9.08)	(2.63)	3.13	1.40	5.12
HFRI Equity Mkt Neutral	HF - Equity Market Neutral	(1.72)	(3.24)	(2.58)	0.16	(0.25)	0.68	2.23
HFRI Convert Arb	HF - Convertible Arbitrage	(1.81)	(5.98)	(7.20)	(1.68)	12.26	4.19	4.94
HFRI Distressed Sec	HF - Distressed Securities	(3.23)	(6.79)	(4.58)	1.54	5.33	2.94	8.56
HFRI Event Driven	HF - Event Driven Strategies	(3.28)	(7.00)	(5.69)	0.55	5.33	3.45	7.22
HFRI Fixed Income	HF - Fixed Income Strategies	(0.68)	(2.03)	(1.35)	2.95	7.90	3.23	5.77
HFRI Macro	HF - Macro Strategies	(0.43)	0.92	(0.61)	3.29	4.82	6.32	7.87