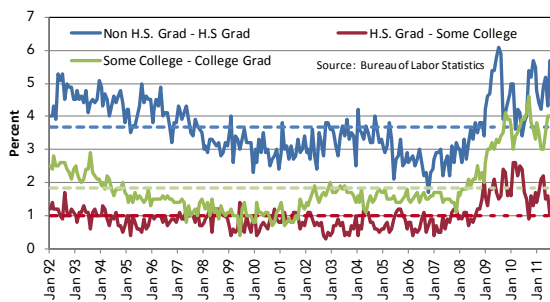


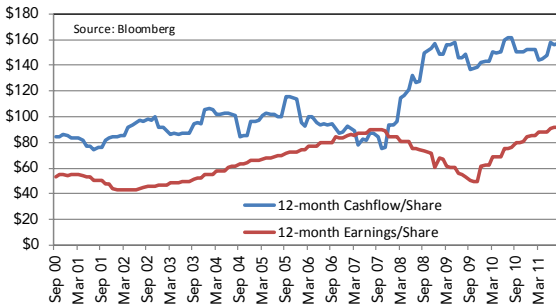
Economic Review

Stock markets remained channel-bound in September, ending on a low point, while the Federal Reserve announced a new plan to tweak bond yields. The Fed's plan, dubbed "Operation Twist", is to sell \$400 billion of Treasury securities with less than 3 years until maturity and buy a corresponding amount with maturities of 6 to 30 years. Operation Twist will end in June 2012. The Fed will also reinvest proceeds from maturing mortgage loans into agency debt and mortgage-backed securities. In reaction to the plan, yields on 10-year Treasury bonds temporarily fell below 1.70% and mortgage rates fell to new record lows. A tacit objective is to make Treasury bonds less attractive to banks so that they will be pushed to lend money in order to make money. While small corporations still have trouble qualifying for loans, many are reluctant to seek loans and expand due to legislative and regulatory uncertainty. Oil prices fell below \$80/barrel mid-month, while gold fell nearly \$300/oz. from its \$1900/oz. peak. Metals and energy stocks bore the brunt of selling pressure, based on downward revisions to world GDP. In a precursor to a sense of desperation amongst retailers, Christmas merchandise appeared on shelves with two weeks remaining in the month. Consumer sentiment has ebbed and flowed with the stock market, but spending has not yet slowed.

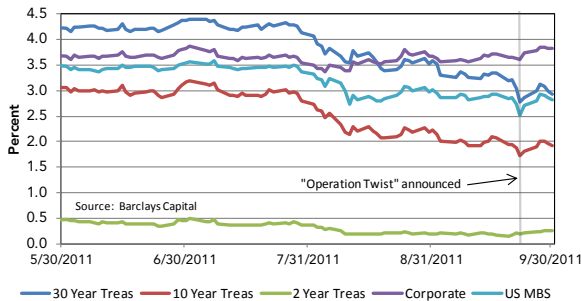
Unemployment Differences by Education Level



S&P 500 Earnings Rise, Cashflow Steady



Bond Yields



Market Returns

	As of September 30, 2011		
	September	3 Months	YTD
S&P 500	-7.0%	-13.9%	-8.7%
Russell 1000 Value	-7.6%	-16.2%	-11.2%
Russell 1000 Growth	-7.4%	-13.1%	-7.2%
Russell 2000	-11.2%	-21.9%	-17.0%
MSCI EAFE	-9.5%	-19.0%	-15.0%
Emerging Markets	-14.6%	-22.5%	-21.7%
Barclays Agg	0.7%	3.8%	6.6%
3-Month T-Bills	0.0%	0.0%	0.1%

Improving the employment outlook remains an elusive goal for the Federal Reserve and lawmakers. August netted zero new jobs, and job prospects for workers without college degrees remained dismal. A person's current likelihood of being unemployed more strongly relates to their education level than at most times in the past. The unemployment rate for college grads was 4.3% in August, while those without a high school degree faced a 14.3% unemployment rate. The group with the worst metrics, compared with historical averages, was workers with some college education but no degree. The difference in their unemployment levels versus college grads was over 2x worse than normal. This group of workers faces increasing job competition from recent college grads who have taken jobs below their qualifications, as typical entry-level jobs for college grads remains sparse. Adding to the weak outlook, Bank of America announced plans to lay off 30,000 workers.

Corporate profitability continued to rise, though it benefited heavily from cost cutting. Fiscal stimulus and Fed interest rate tweaking have done little to increase demand in the economy, leading businesses to delay hiring. Contributing to higher employee costs are healthcare premiums, which the Kaiser Family Foundation estimated will rise 8-9% this year. The National Federation of Independent Businesses appealed to the Supreme Court to nullify all of "Obamacare", while the administration passed on a procedural appeal, clearing the way for the Supreme Court to hear the challenge brought by 26 states.

Boeing delivered its first 787 airplane to All Nippon Airways, several years behind schedule. Airplane production is one of the largest segments of manufacturing in the US. Because of Boeing's large backlog, the decision by the NLRB to prevent a new Boeing manufacturing plant in South Carolina, due to a labor law dispute, will diminish manufacturing output for several years. Manufacturing and utility capacity utilization remained largely unchanged in 2011, but above the level immediately following the 2001-2002 recession. The Congressional budget cutting committee is due to deliver its recommendations by Thanksgiving, and if not approved by Congress many of the cuts to military spending will come from its manufacturing expenditures.

Highlighting the importance of recognizing the unwillingness of customers to pay significantly more for the same or lesser product, Netflix stock had a seismic collapse in the two months following its pricing changes. The stock has fallen from nearly \$300 in July to as low as \$108 as customers fled in droves. Netflix also faces increased competition from the likes of Amazon, Hulu, Vudu, and other web-based entertainment providers.