Market Review - Q3 2010

U.S. Equity Markets

Thanks to an unusually strong September, equity markets witnessed a robust rally in the third quarter of 2010. Regardless of style or capitalization, market indices experienced positive, double-digit returns for the quarter. Domestically, the S&P 500 Index was ahead 11.3% for the quarter and was up 3.9% for the year-to-date period. Small-cap stocks were in-line (also up 11.3%) with their large cap brethren for the quarter, but significantly ahead for the year-to-date period (up 9.1%). Meanwhile, mid-cap stocks were the top performers, up 13.3% for the quarter and ahead 11.0% for the year-to-date period.

Stylistically, over all capitalization ranges, growth stocks outpaced value stocks during the third quarter of 2010. Within the Technology sector (i.e., a traditional growth sector), internet-related stocks posted strong returns for the quarter. For example, Amazon.com and Priceline.com were up 44% and 97%, respectively. In addition, Google, a large component of the growth sector, was ahead 18% for the quarter.

From a sector standpoint, all sectors were positive for the quarter and eight of the ten sectors posted double-digit returns. The top performing sector was Telecom [+20.4%]. With interest rates at historical lows, investors were attracted to Telecommunication companies' large dividend yields. The current average yield for the sector is nearly 5%, higher than most current treasury yields. The next highest performing sectors were the Materials [+18.1%] and Consumer Discretionary [+15.8%] sectors. Contrarily, the Financials [+5.4%] and Healthcare [+8.7%] sectors were the bottom two performing sectors for the quarter. The aftermath of major reform bills passed in Congress continued to weigh down these two sectors.

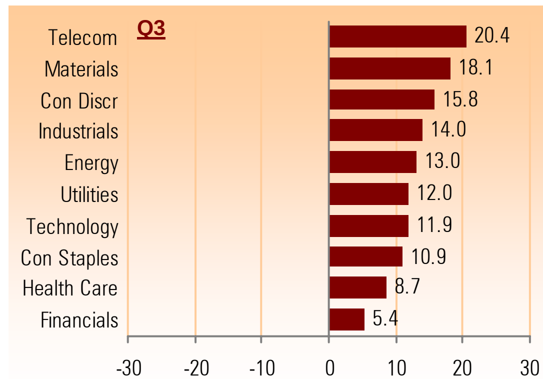
International Equity

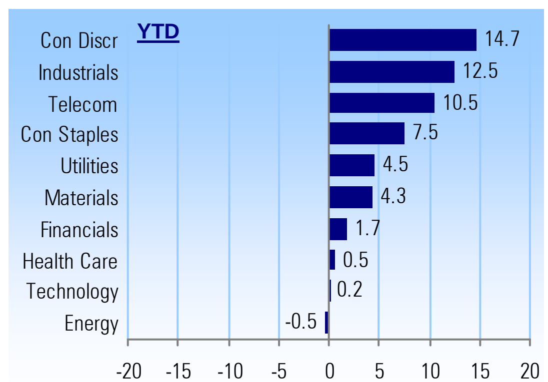
Coming off of an extremely difficult second quarter, developed international markets experienced a significant rebound in asset valuations, outpacing US markets for the first time since the third quarter of 2009. Receding soveriegn debt fears and a weaker US dollar helped to drive equity returns higher during a volatile quarter which included stress tests of major European banks. On a regional basis, Pacific ex-Japan experienced strong returns led by Australia (23.6%) and Hong Kong (21.9%). While Europe did not fare as well by comparison, the PIIGS each outperformed the broad market with the exception of Ireland which posted the only negative return of the period (-3.6%). Japan also cooled off from recent quarters returning 5.83%.

Emerging markets saw even more of a resurgence in the third quarter with the MSCI EM Index posting an 18% return. Generally lower debt levels coupled with domestic growth were attractive to investors given the debt overhang that exists in developed markets. Results were further aided by a weaker US dollar as noted above. After two consecutive negative quarters, China generated a healthy return of 10.7%, but still trailed BRIC counterparts Russia (13.4%), India (15.4%), and Brazil (21.7%). The top performers for the period each returned in excess of 30% and were varied across regions including Poland, Chile, and Thailand.

Equity Market	Past Month	Past 3 Months	YTD	Past 12 Months
S&P 500	8.92%	11.29%	3.89%	10.16%
Russell 1000	9.19%	11.55%	4.41%	10.75%
Russell 1000 Growth	10.64%	13.00%	4.36%	12.66%
Russell 1000 Value	7.76%	10.13%	4.50%	8.90%
Russell MidCap	10.58%	13.31%	10.97%	17.54%
Russell MidCap Growth	12.09%	14.65%	10.85%	18.27%
Russell MidCap Value	9.26%	12.13%	11.15%	16.93%
Russell 2000	12.46%	11.29%	9.12%	13.35%
Russell 2000 Growth	14.15%	12.83%	10.23%	14.79%
Russell 2000 Value	10.74%	9.72%	7.93%	11.84%
MSCI World	9.32%	13.78%	2.58%	6.76%
MSCI EAFE	9.80%	16.48%	1.05%	3.25%
MSCI EM	11.11%	18.03%	10.74%	20.21%
MSCI REIT	4.42%	13.17%	19.62%	30.53%
ML Invest Grade Convertible	3.66%	6.44%	3.83%	8.01%

Equity Sector Returns (%)





Equity Style Returns (%)

Q3	Value	Core	Growth
Large	10.13	11.55	13.00
Mid	12.13	13.31	14.65
Small	9.72	11.29	12.83

YTD	Value	Core	Growth
Large	4.50	4.41	4.36
Mid	11.15	10.97	10.85
Small	7.93	9.12	10.23

Fixed Income Markets

Domestically, interest rates continued to fall during July and August as the economic recovery seemed on the brink of stalling. The Federal Reserve continued its aggressive stance with regard to monetary policy, making it known that they would continue to keep short-term rates at historically low levels, while providing additional monetary stimulus if needed. This kind of economic backdrop forced investors to seek higher yielding investment opportunities, thereby helping the “riskier” fixed income sectors experience the largest gains for the quarter. The Barclays Capital High Yield Index advanced 6.72% for the quarter, with the Barclays US Credit Index posting a return of 4.64%. Conversely, the Barclays Capital Government Index rose by “only” 2.52% for the three-month period.

The extremely accommodating monetary policy stance taken by the Federal Reserve can be viewed as a sign that the current economic recovery is occurring at a slower pace than would have been expected. The Federal Reserves' stance continues to fuel the inflation/deflation debate which will continue well into 2011.

The current stance of the Federal Reserve regarding monetary policy is having a dramatically negative impact on the U.S. dollar. However, by keeping short-term interest rates at these historically low levels, the Fed is hoping that banks will increase lending, consumers will increase spending, and that companies will increase hiring.

Economic Overview

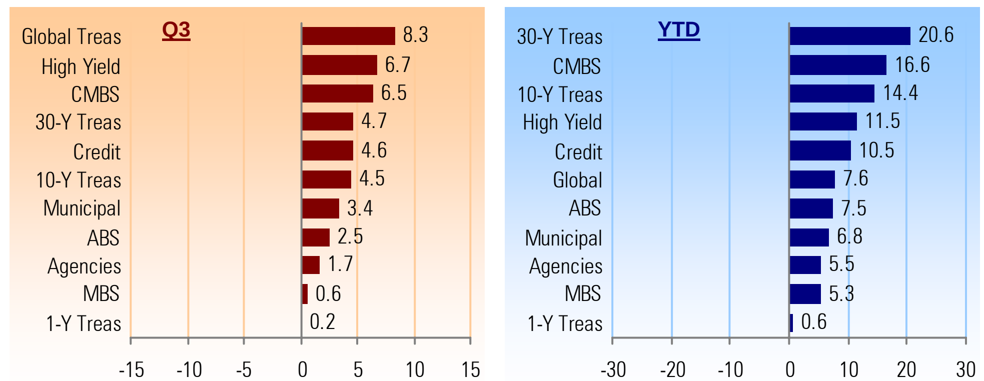
Despite the technical end of the recession in June 2009, weak economic data continues to flow in unemployment and housing reports. As a result of weak data, growth forecasts continue to be low, causing the Federal Reserve to maintain its record-low interest rate stance, with the added possibility of increased "quantitative easing" moving forward should signs of deflation arise.

Commodities had a particularly strong quarter as prices for agricultural products such as wheat, sugar, and cotton spiked due to adverse weather conditions in Russia, Pakistan, and Brazil. Continued strong demand from China caused metal prices to rise as industrial metals such as copper, lead, and tin prices increased 24%, 31%, and 41%, respectively. Gold prices closed above $1300 per troy ounce, though only up 5% for the quarter. Crude oil also closed up 6% while natural gas prices declined by 16% on high inventories.

After a weak first half of the year for the Euro, stronger than expected economic data out of Europe drove the Euro higher by 11% versus the Dollar. The Dollar also lost value against the Japanese Yen, which rose to a 15 year high versus the U.S. currency in mid-September.

Fixed Income Market	Past Month	Past 3 Months	YTD	Past 12 Months
Barclays Capital Aggregate	0.11%	2.49%	7.95%	8.17%
Barclays Capital Intermediate Aggregate	0.21%	2.07%	6.95%	7.50%
Barclays Capital Universal	0.32%	2.88%	8.28%	8.91%
Barclays Capital Government	0.05%	2.52%	8.06%	6.98%
Barclays Capital Credit	0.65%	4.64%	10.52%	11.67%
Barclays Capital Municipal	-0.16%	3.40%	6.82%	5.81%
Barclays Capital High Yield	3.01%	6.72%	11.55%	18.46%
Barclays Capital Mortgage	-0.38%	0.63%	5.32%	5.91%
Citigroup 3-Month Treasury Bill	0.01%	0.04%	0.08%	0.11%
Citigroup Non-US WGBI Unhedged	3.32%	10.44%	6.76%	4.47%
1-Month LIBOR	0.02%	0.07%	0.21%	0.27%
Barclays Capital U.S. TIPS	0.60%	2.47%	6.99%	8.88%
DJ-UBS Commodity	7.26%	11.60%	0.89%	10.00%

Fixed Income Sector Returns (%)



Treasury Yield Curve