

**AND THAT'S THE WEEK THAT WAS...**  
**For the Quarter Ended September 30, 2011***Market Matters...*

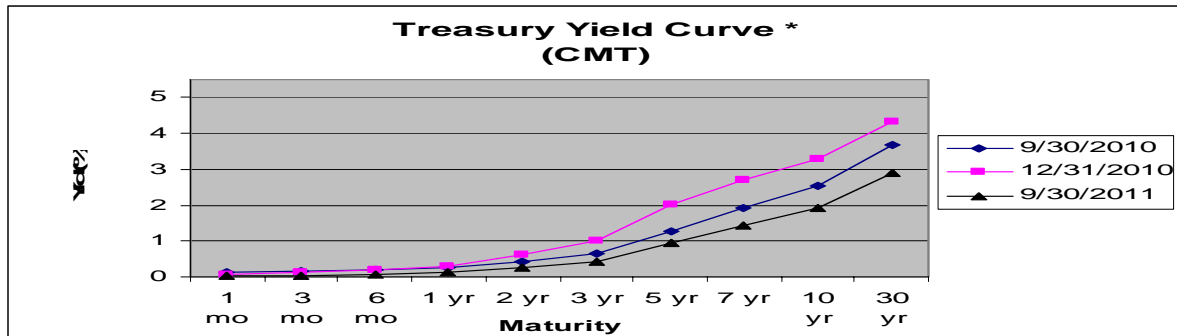
Market/Index	Year Close (2010)	Qtr Close (03/31/11)	Qtr Close (06/30/11)	Qtr Close (09/30/11)	Qtr Change	YTD Change
Dow Jones Industrial	11,577.51	12,319.73	12,414.34	<b>10,913.38</b>	<b>-12.09%</b>	<b>-5.74%</b>
NASDAQ	2,652.87	2,781.07	2,773.52	<b>2,415.40</b>	<b>-12.91%</b>	<b>-8.95%</b>
S&P 500	1,257.64	1,325.83	1,320.64	<b>1,131.42</b>	<b>-14.33%</b>	<b>-10.04%</b>
Russell 2000	783.65	843.55	827.43	<b>644.16</b>	<b>-22.15%</b>	<b>-17.80%</b>
Global Dow	2,087.44	2,186.41	2,134.29	<b>1,725.68</b>	<b>-19.15%</b>	<b>-17.33%</b>
Fed Funds	0.25%	0.25%	0.25%	<b>0.25%</b>	<b>0 bps</b>	<b>0 bps</b>
10 yr Treasury (Yld)	3.31%	3.45%	3.16%	<b>1.92%</b>	<b>-124 bps</b>	<b>-139 bps</b>

Just a few short months ago, analysts were expecting a second half rebound as negative remnants of Japan's earthquake were to shift to positive effects of rebuilding. The American people were preparing for a "great debate" as the brightest minds the country has to offer (Prez candidates) intelligently discussed ways to grow the economy. Companies across all sectors reported solid earnings as retailers (**Macys, Nordstrom**) forecast a favorable holiday season; techs (**Google, IBM, Cisco**) bested expectations; energy (**Exxon-Mobil**) made runs at record profits; and financials (**JP Morgan, Morgan Stanley**) enjoyed enhanced investment banking activity. Sure, Washington had to pass a routine debt ceiling bill to keep the government operating, but that has become standard practice. Then again, nothing is standard or routine in DC these days.

The "would-be-comical-if-it-wasn't-so-sad" negotiations that followed made the current Greek tragedy (the real one in Greece) look like child's play. The brash partisanship and sheer inability to compromise made daily headlines as noted economists, Fed policymakers, and titans of industry practically begged politicians to quit bickering and do their jobs. Warnings to withhold political contributions (**Starbucks** CEO); pleas from creditors (China), threats from ratings agencies (**S&P, Moodys**) offered them little incentive. At times, the parties actually seemed content to walk away with no deal if they thought the other side would suffer in future elections. (So much for that "love of country" they all proclaim.) While a very watered down bill was ultimately passed, S&P (and many investors) seemed to lose all confidence in the powers-that-be to ever make any headway on the true issues of the day (debt/deficit cuts, tax and entitlement reform, healthcare changes). S&P lowered the country's debt rating to AA+ and uncertainty has ruled the day in the aftermath. Since the debacle began in July, the economy has faced a crisis of confidence. Corporations were slow to hire and are stockpiling cash; consumers were scared to spend; merger deals and IPOs came to a standstill as boardrooms focused on buybacks and dividends; investors became hesitant to buy (anything but AA-rated treasuries). Sure, the never-ending Greek/EU crisis contributed more than its fair share of negativity, but the latest "bear-ish" market can be traced in large part to the antics of the nation's "best and brightest" in DC.

Investors sold early and often in the quarter as equities suffered their worst declines since late 2008 (the height of the financial crisis) and daily triple-digit moves (**Dow Jones**) became the norm. The major indexes experienced double-digit losses with financials among the hardest hit due to potential European exposure. Global stock plummeted (Germany -25%, China -16%, Hong Kong -21%, Brazil -16%) and investors turned to the safe-haven of treasuries (even lower rated ones). The yield on the benchmark 10-year fell to levels not seen since the 1940s. Oil plunged from \$100/barrel to around \$80/ on concerns that a weaker economy would impact demand. Some investors looked to the Fed for additional stimuli to move the country back into growth mode, though the actions were met with a mild yawn. In reality, the economy cannot get rolling until confidence returns (and Washington's ongoing bickering surely isn't helping).

## Economically Speaking...



First it was Greece and no one really cared (except about how the problems would affect themselves). Then Italy initiated austerity measures as threats of contagion spread and China began talking about buying its debt. France suffered its own crisis of confidence as the ratings agencies threatened cuts its AAA as well. Germany began to feel the ill-effects of the slowdown as its manufacturing sector recorded the weakest reading in two years. Ill-timed rate hikes by the European Central Bank began to look foolish by mid-quarter as no one could seem to figure out how to handle the bailout of Greece. While the 17 (diverse) govts in the euro-zone finally agreed to more expansive terms in return for new spending cuts (and revenue hikes), the dire situation seems far from resolved. Heading into the new quarter, neighboring countries (and global financial institutions like **Morgan Stanley**) are quite concerned about the overall impact of the related sovereign debt that remains on their balance sheets. Shifting to Asia, China has long been the savings grace of the global economy, but the slowdown in developed Europe and the US is taking its toll there as well. Its manufacturing sector weakened dramatically in August as demand slowed across the globe. Now threats of inflation are creating a bit of a double-edged sword...Do they continue to initiate measures to fight price pressures that could also slow the economy in future quarters? Do they focus on economic growth measures as the rest of the world weakens and worry about inflation down the road? Guess no one is immune to challenges today?

Closer to home, labor and the consumer head the list of concerns about the economy (and the two go hand-in-hand). Unemployment stands at 9.1% and no new nonfarm jobs were added in August. As biz remain slow to hire in these unsettled times, folks are worried about their jobs and are hesitant to spend on much other than the necessities of life. Hurricane Irene impacted some back-to-school shopping and suddenly retailers panicked (and started to discount). Granted, just a few short months ago, these same retailers were predicting a solid holiday season so sentiment can swift on a dime. Manufacturing has slowed in the aftermath of the Japanese earthquake, though some late-quarter signs of renewed activity brought a glimmer of hope (just a glimmer though). Inflation is not really on the radar screen (for now) and plunging energy prices should help matters for the time being. Bernanke and friends admitted that the economy is weaker than anticipated and took measures to combat the doldrums. The policymakers first announced that rates will remain low well into 2013 and then they shifted duration on the Fed's fixed income portfolio by selling short-treasuries and buying long (thus lowering mortgage rates). Three voters dissented to the moves, but all the policymakers agreed that Congress must put partisanship aside and work together to help the economy grow through fiscal measures. (LOL)

**On the Horizon...** Yes, the quarter was bad for the markets, but earnings season will go a long way toward revealing if companies are truly hurting. Many are thought to be sitting on plenty of cash, just waiting for calmer times to invest in operations (and hopefully human capital). Meanwhile, Dr. B. still claims to be ready to jump in with more stimuli if deemed necessary. As for Europe...can they ever get their house in order? Their politicians may be just as "bad" as ours?