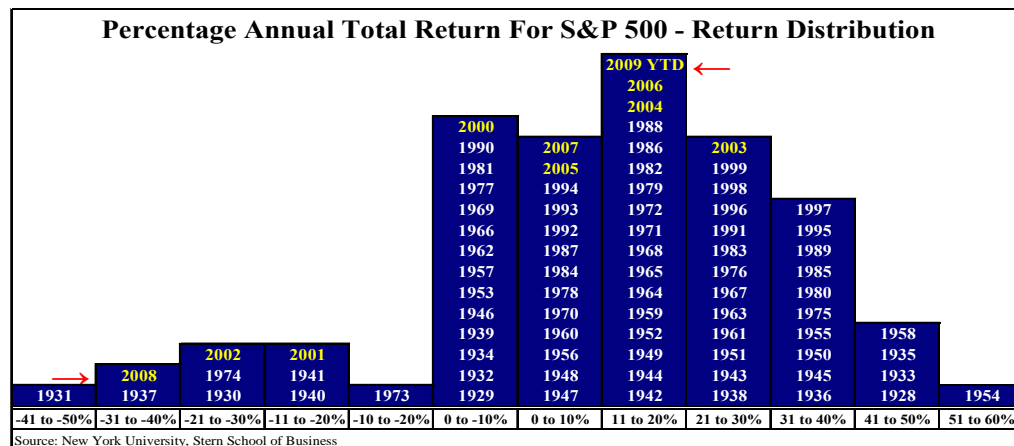


MARKET SUMMARY

THIRD QUARTER 2009

INVESTMENT ENVIRONMENT

Financial markets continued to rally in the third quarter, in-response to unprecedented monetary and fiscal stimulus. Both equities and fixed-income prices were bolstered by historically low interest rates with no immediate inflation concerns. Corporate earnings were helped by inventory restocking following a long period of anemic growth during which inventory levels were allowed to dwindle. Optimism has improved substantially since the market lows in March which resulted in a very strong quarter for the markets, with the Standard & Poor's 500 Index seeing a powerful advance of 15.6% for the three months and a surprising 19.3% gain year-to-date. The chart below illustrates the normal distribution of the S&P 500 Index reconstructed since 1928 and highlights 2009's rebound relative to its almost three standard deviation decline in 2008.



Returns in the U.S. were once again equaled or surpassed by a number of foreign markets as all boats have risen on a global swell of liquidity. The MSCI EAFE rose 19.5% in dollars, and 14.8% in local currency as the dollar remains under pressure. Cash naturally experienced de minimis returns as banks hoarded liquidity, while non-treasury sectors of the bond market produced spectacular results.

The serious questions now facing investors and central bankers are how and when the massive stimulus will begin to be pulled back. Most market participants realize that at some point the tap must be turned off, or at least the flow reduced. The economy is showing signs of stabilization, with the second quarter GDP declining only 0.7%. The final two quarters of the year will probably exhibit a slight rebound and the first part of next year should see moderate growth with

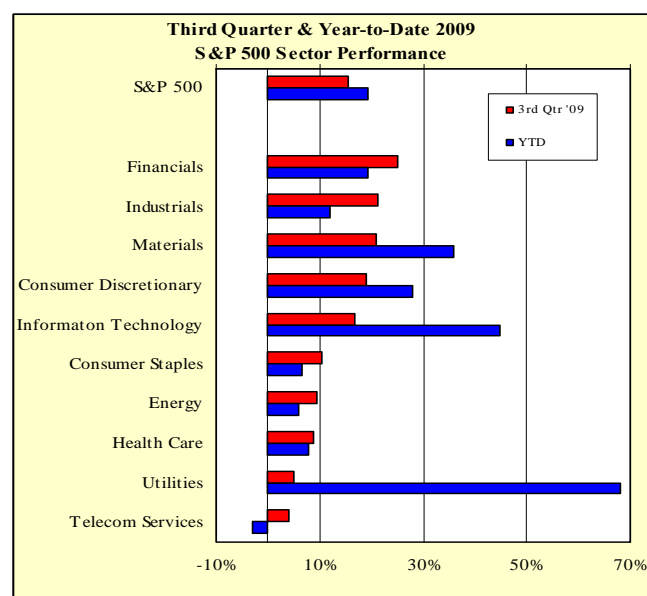
unemployment remaining a problem. While clearly defined indicators point to deflationary pressures, inflation, acting as a byproduct of the excess liquidity, seems set to rise in the period beyond and will likely remain well above levels established during the past 25 years. The road will be bumpy and inflation-fueled volatility is likely to remain elevated. Policy responses will also be uneven, in part because of excess liquidity. The central bankers will find it difficult to engineer a soft landing under what are certain to be vigorous attempts on the part of many politicians to keep the money pump running.

U.S. EQUITY ENVIRONMENT

Equities continued their upward trend, with the S&P 500's added gain of 15.6% for the quarter bringing its rise from the March 9th low to nearly 60%. The growing belief that a precipitous downward spiral in the economy has been averted has led some investors to assume more risk. The better-than-expected GDP number and corporate earnings reports also supported investor confidence. An uptick in merger & acquisition activity and an increased number of Initial Public Offerings also improved sentiment.

The Federal Reserve is committed to keeping interest rates low in response to the specter of high, and rising, unemployment. The current level of personal income is too weak to sustain consumer spending, so the challenges to future corporate earnings are substantial. The third quarter is the most important according to Standard & Poor's, as earnings reports either boost confidence in year-end projections or reduce expectations. Currently, S&P equity analysts project a 10% year-over-year decline in third quarter operating earnings, up from a 2% decline predicted in April. The divergence in earnings estimates, larger than anticipated losses and higher stock prices suggest that stocks have gotten ahead of where they should be. Other dynamics are also important, but earnings results will be closely scrutinized in coming quarters as will managements' comments on the outlook. It will be an interesting earnings season.

In a reversal of the trend seen in prior months, smaller capitalization stocks outperformed large and value indexes trumped their growth counterparts. The Russell 2000 Value gained 22.7% while the Russell 2000 Growth came in 16.0%, 670 basis points lower. All of the S&P sectors showed positive performance. Financials was the top performer of the ten sectors with a gain of 25.1%, a strong comeback following a severe battering in the financial melt down in 2008. In last year's fourth quarter, the sector was down 37.6% which brought its total loss over the past twelve months to -56.9%. Over the past three months, the second best sector performance has been Industrials, up 21.2%. Materials



were the third, and Consumer Discretionary stocks registered a gain of 18.8%, fostered by both the more optimistic economic outlook and the Cash for Clunkers program. Utilities and Telecommunications were solidly positive, gaining 5.0% and 3.9% respectively.

FIXED INCOME ENVIRONMENT

Fixed income markets experienced broad-based gains as the realization dawned that although an economic waterfall had been averted, restrained growth in economic activity should be expected over the coming months. As a result, borrowing by the private sector should be modest, helping to offset the voracious appetite for funds by the public sector. Inflation also appeared unlikely to provide a near term threat. U.S. Treasury interest rates continued to fall throughout the quarter.

Caution originating from the savage financial debacle of the past two years has driven investors to preserve capital, driving interest rates extremely low and, after fees, negative in the case of some money market funds. The discounted yield on 13-week Treasury Bills stood at 0.11% on September 30th, a decline of seven basis-points from three months earlier; the Fed intends to keep short term rates low for as long as it takes to energize economic activity. The benchmark 10-year Treasury Note ended the quarter with a yield of 3.3%, down 25 basis points. The 30-year bond stood at 4.05%, down 28 basis points in yield from the start of the period.

Fixed-income returns in sectors other than Treasuries proved to be much more satisfying. Corporate bonds climbed 8.1% as improved liquidity attracted investors to higher yielding assets. The spread between corporate bond yields and Treasury yields fell to 218 basis points, their narrowest level since the end of 2007. Record-low borrowing costs triggered a rush of financing by corporations, bringing total new corporate bond issuance to \$700 billion for the first nine months of the year. Lower quality high-yield bonds produced the best returns, with net inflows into bond mutual funds and from institutional investors providing a good source of demand wiping out almost all of their under-valuation from 2008's lows. Mortgage securities also had a good quarter, helped by the government's support for agency bonds and some indications that perhaps the housing sector was stabilizing. Home equity asset-backed securities were up 29% in the period.

Volatility and uncertainty remained high as investors worried about the effects that the explosive growth in monetary aggregates will have on economic growth over the next few years and, whether higher inflation might not begin to appear. Misgivings about the fiscal and monetary stimulus that has been applied around the globe will be ongoing for a long time. The ultimate outcome will depend on how and when the central banks, and those responsible for fiscal policy, attempt to withdraw excess liquidity in the global financial system.

INTERNATIONAL ENVIRONMENT

Markets outside the United States also had very positive returns as improving economic and liquidity indicators prompted investors to continue the pursuit of rewards available in riskier asset classes. Foreign governments and central banks worked to stimulate their economies and investor sentiment was bolstered as a consequence. The MSCI EAFE Index, measuring the performance of

non-U.S. developed countries, rose following a strong second quarter result of 25.8%, with an advance in the third quarter of 19.5%. Once again a weaker U.S. dollar improved performance by a rather surprising 470 basis points, from a local return of 14.8%. It is important to note that U.S. corporate earnings are elevated when funds from foreign operations are repatriated and converted into dollars. The large economies of continental Europe have been the first to spring back from recession. Germany and France returned to economic growth after experiencing only four quarters of contraction. German stocks rose by 23.2% and France was up 26.6%. Overall, equities in Europe rose by 25.0%, with merger activity being very friendly to prices. Banking and energy shares led the MSCI UK Index to a gain of 18.5%, in a rare instance where the currency was weaker relative to the dollar. Another currency that pumped up the local return was Japan, where the return was 6.5% in dollars, but -1.2 % in yen.

Emerging markets continued their rally as evidence of economic recovery in some markets appeared, with a brief pause in August on concerns about China's growth. The pullback was short lived and the MSCI Emerging Markets Index ended the quarter up 20.9%. Asian economies have been supported by positive manufacturing data and rising consumer confidence; China had announce in July that second quarter annualized GDP had risen 7.9% compared to 6.1% in the prior quarter. There is apprehension about how hard exporting economies might be hit if economies in the West do not recover sufficiently. This unease is justified, but it should also be noted that a middle class is arising in a number of regions that will support the growth of domestic demand. Additionally, as many Asian economies have high saving rates and large pools of currency reserves, spending can be increased substantially without resorting to debt markets to raise capital. Asian banks, for example, are proving to be more resilient and healthy than Western banks. They are better capitalized, have lower loan-to-deposit ratios and have a large captive deposit base. The asset quality is high as they carry none of the toxic assets with which their Western counterparts are strapped. The economies of the world are certainly dependent on one another as never before, but developing nations are in much better shape than they were in the 1998 crisis.

