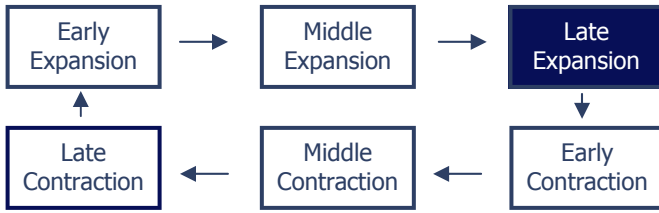




CURRENT ECONOMIC CYCLE



ECONOMIC NEWS

- The Federal Reserve announced that they would attempt to stimulate the economy through a second round of “quantitative easing” by purchasing \$600 billion of U.S. Treasury bonds.
- Their goal is to keep interest rates low and force investment into risk assets like stocks, commodities, and real estate, hoping that higher asset prices will provide the fuel for new job creation.

CURRENT ASSET CLASS ALLOCATIONS

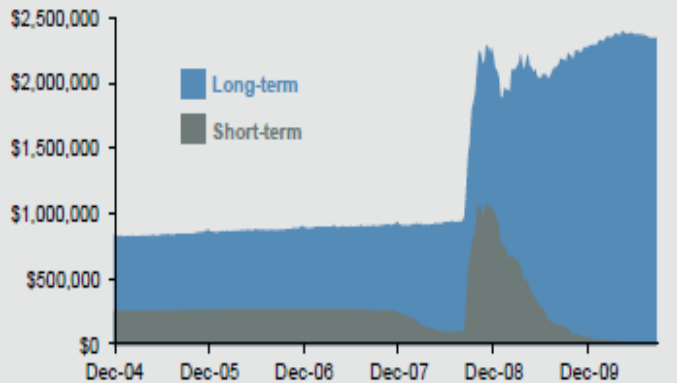
Cash & Equivalents	<i>Underweight</i>
Fixed Income	<i>Neutral to Underweight</i>
Equities	<i>Neutral to Overweight</i>

MARKET TRENDS

- The initial response of the equity markets was to rally on the anticipation of the expected exodus of funds from bonds.
- With the first round of Fed purchases, the yield on longer maturity bonds actually increased to a three month high, putting pressure on some bond prices.
- The Fed policy has weakened the dollar and pushed commodity prices higher, forcing foreign bankers to react.

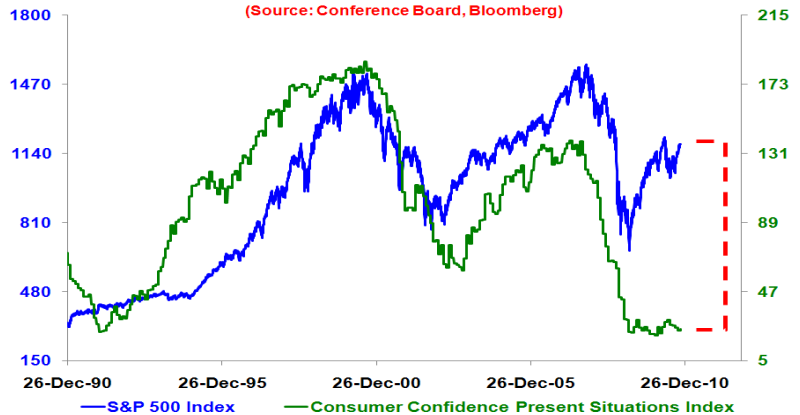
Federal Reserve Balance Sheet

U.S. Federal Reserve, total reserve bank credit, \$ millions



Quantitative easing is the expansion of the Federal Reserve's balance sheet through the purchase of targeted assets. The Fed maintains that their goal is to stimulate job growth, but their method is to create incentives to take investment risk.

A Visual Representation of the Wall Street-Main Street Disconnect
(Source: Conference Board, Bloomberg)



Many economist believe that this round of easing will not achieve the desired results because of a lack of confidence by investors. The graph shows that the gap between the price action of stocks and consumer confidence is at historic highs, so the issue is not the need for more liquidity.

CURRENT THOUGHTS

The Federal Reserve continues to attempt to keep interest rates low and money available in order to fight off their biggest fear...deflation. The economy continues to grow at a slower than desired rate due to the increasing weight of government debt and persistently high unemployment. Even though retail sales have been showing signs of life and retailers have increased hiring in expectation of a better Christmas season, confidence by the consumer has to be reflected in sales results. Corporate earnings remain strong and should maintain upward momentum in stock prices through the end of the year. The White House and the new Congress will have the difficult task of dealing with the need to extend tax cuts in a fragile economy with the pressure to shrink the deficits. Additional pressure is now coming from abroad as U.S. policies are losing support.

The purpose of update is to share some of our current views and research. Although we make every effort to be accurate in our content, data are derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity. Charts and tables shown above are for informational purposes, and are not recommendations for investment in any specific security.