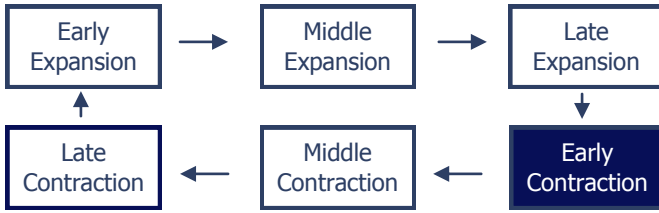




### CURRENT ECONOMIC CYCLE



### ECONOMIC NEWS

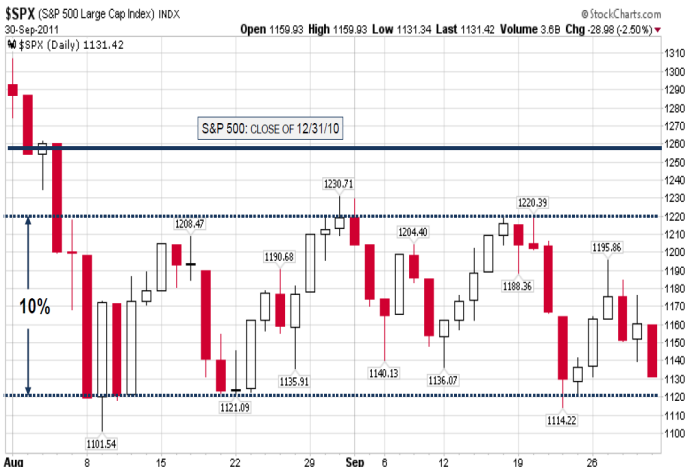
- Even though the U.S. unemployment rate remained unchanged at 9.1%, there were glimpses of improvement in private sector job creation and better than expected retail sales.
- The debate continues as to whether we have slipped back into a recession in the U.S., as economic contraction is accelerating in Europe with the banking system under increasing pressure.

### CURRENT ASSET CLASS ALLOCATIONS

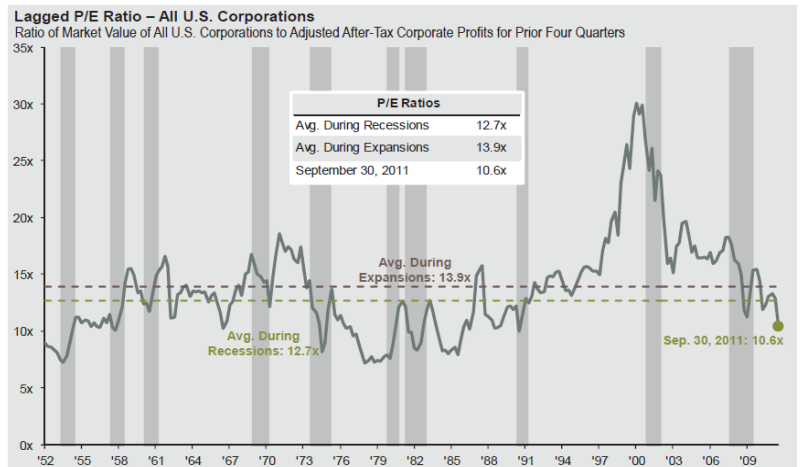
Cash & Equivalents	<i>Underweight</i>
Fixed Income	<i>Overweight</i>
Equities	<i>Underweight</i>

### MARKET TRENDS

- The U.S. equity markets remain extremely volatile as investors react to daily headlines and rumors concerning the European debt crisis, hoping a resolution can be found in time.
- Earnings season will shift the focus back to the fundamentals with the direction of the market tied to earnings surprises.
- Treasury yields continue to fall due to the Fed's "Operation Twist" policy and rising recession concerns.



This chart shows the trading range of the S&P 500 after the drop from the April highs. Prices have been bouncing between 1,120 and 1,220 since August, with plenty of volatility but no clear direction, as hope and reality try to find common ground.



A measurement of the relative value of stock prices is the P/E ratio, stock price divided by earnings. The lower the ratio, the better the value of the stock. Since 2000, the trend has been down with current P/E's at 10.6, but the question that remains is...will they get even cheaper?

### CURRENT THOUGHTS

There are numerous cross-currents that are moving the markets, often times wildly, each day. They range from fundamental economic data that is possible to analyze objectively, to rumors that are generally tied to what governing bodies are going to do, both here and abroad. The added volatility that comes from the reaction to political posturing makes the evaluation of market direction all the more difficult. Europe remains the wild card since the threat to their banking system is real, as the possibility of default on sovereign debt increases each day. The crisis can be averted if the European Central Bank, along with 17 European countries, can create the liquidity to recapitalize the banks impacted by the devalued debt that they hold. Regardless, the economic realities in the U.S. will have to be assessed, with investors deciding the ultimate market direction.

*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.*