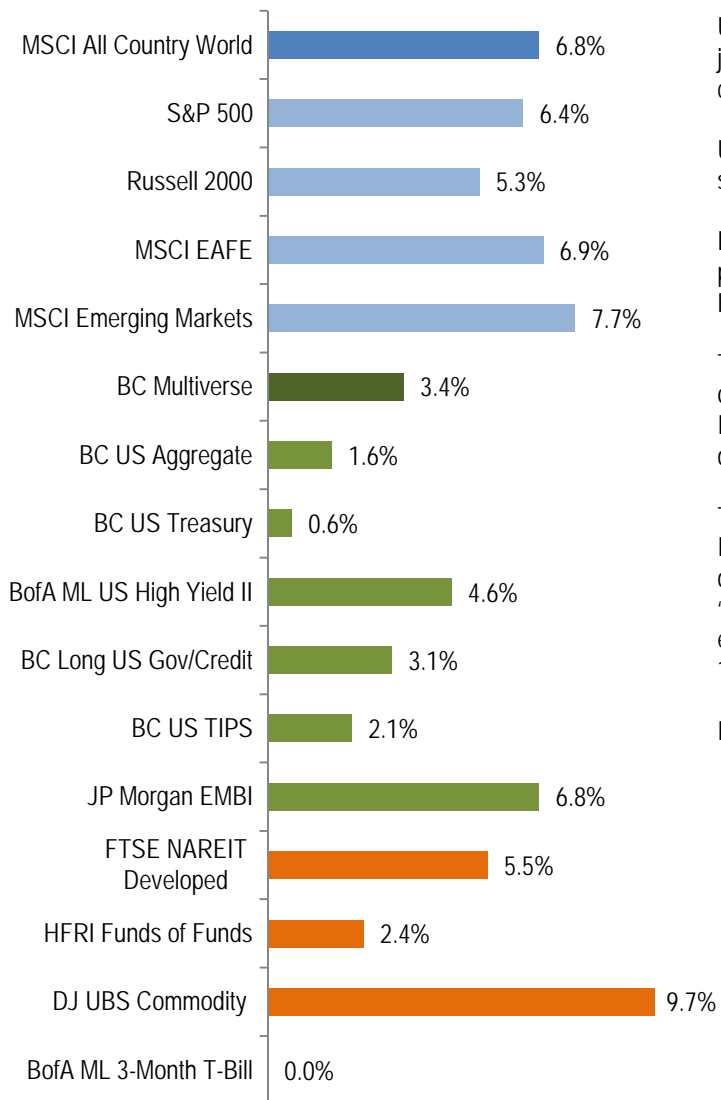


Third Quarter 2012



Third Quarter 2012: Fed and ECB Keep Risk Switch in "On" Position

As of September 30, 2012

US stock markets ended the quarter near all-time highs. The Dow Jones Industrial Average closed the quarter at 13,427, just a few hundred points below its historic high of 14,164, set in 2007. The S&P 500 Index closed the quarter at 1,441. US companies paid out a record \$34 billion in dividends in August.

US corporate profits remain similarly elevated, although their pace of growth is slowing. Global economic activity also slowed during the quarter.

Investors, frustrated by low interest rates on high credit quality instruments and mistrust of an elevated stock market, possessed an insatiable appetite for yield. Issuers are meeting demand with supply. In mid-September, homebuilder D.R. Horton issued \$350 million of bonds at a yield of 4.375%, the lowest ever for a 10-year "high-yield" (fka "junk") US issuer.

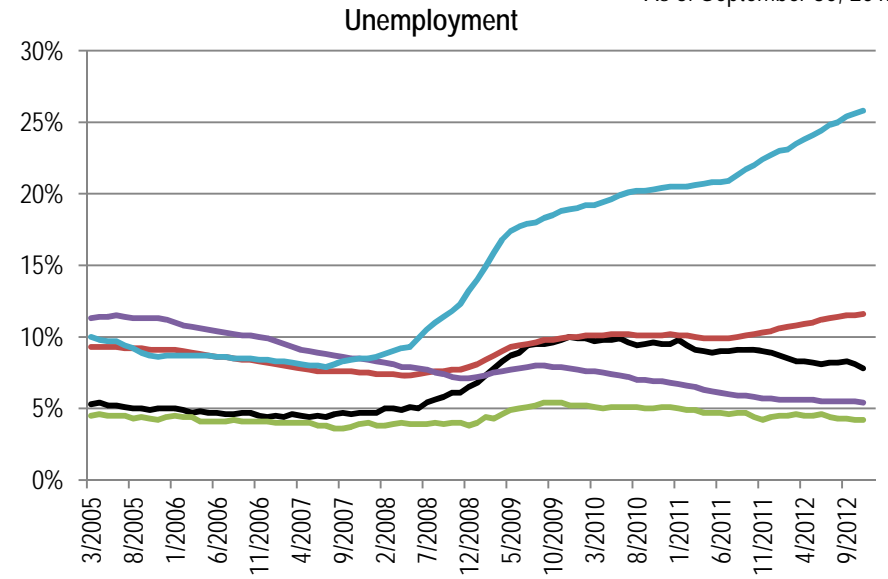
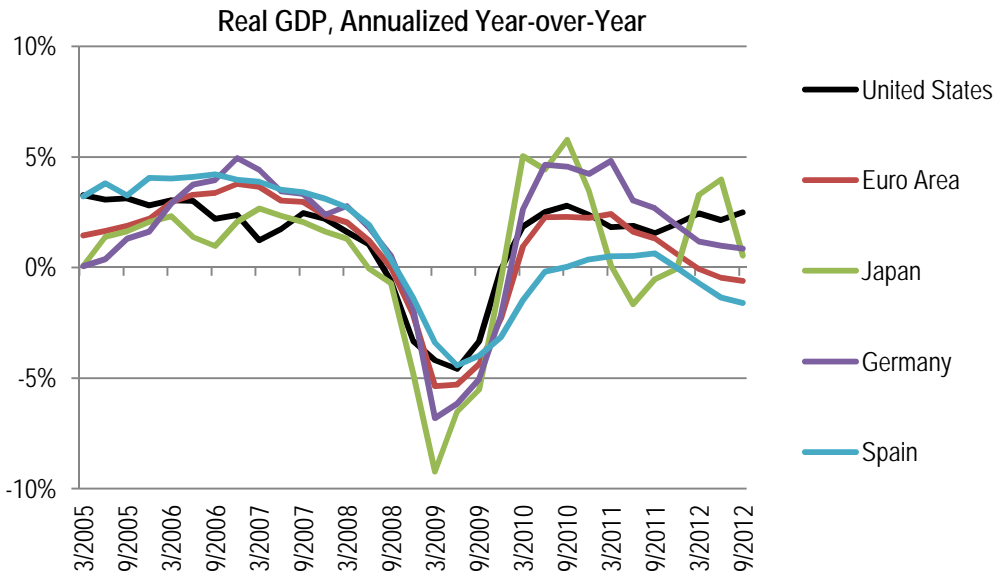
The US Federal Reserve and the European Central Bank continued to signal support for weary global economies in the quarter. In the US, the Fed announced its QE3 program, designed to lower interest rates and keep asset prices high. The ECB announced a bond-buying program, lessening the risk of systemic collapse, and has pledged further support, though details remain elusive.

The debt crisis in Europe remains unresolved, and European economies, for the most part, continue to stagnate. Still, European stock markets continued to climb in the quarter. The German benchmark DAX Index has risen 22% in the year to date. French, Belgian, Italian, Irish, Dutch, and even Greek stock markets are positive for the year. Among the so-called "PIIGS," only Spanish sovereign yields are higher today than they were a year ago – but they are still much lower than earlier in the quarter. The Spanish 10-year peaked above 7.5% in late July, and at quarter's end yielded 5.97%; Germany's 10-year bond closed the quarter yielding 1.46%.

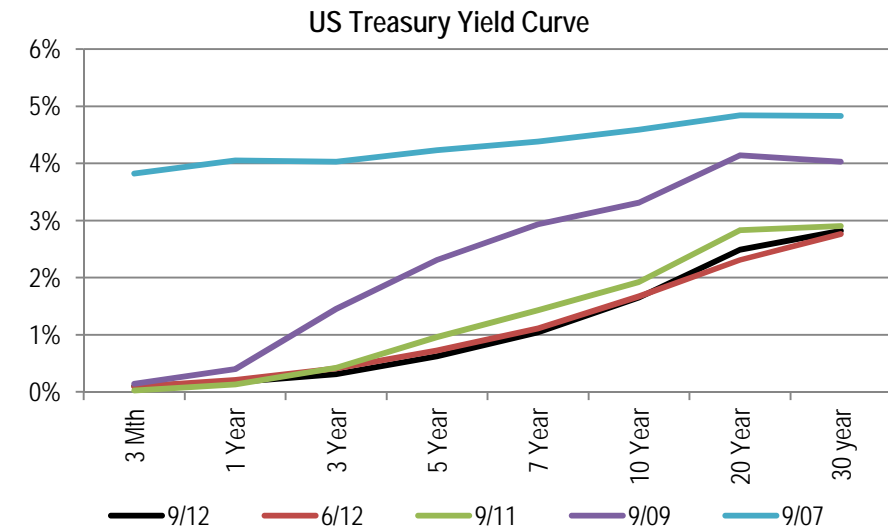
Risks on the horizon: the US presidential election; the "fiscal cliff"; European solvency; valuations.

	<u>QTD</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
S&P 500	6.4%	16.4%	30.2%	13.2%	1.1%	8.0%
Russell 2000	5.3%	14.2%	31.9%	13.0%	2.2%	10.2%
MSCI EAFE	6.9%	10.1%	13.8%	2.1%	(5.2%)	8.2%
MSCI Emerging Markets	7.7%	12.0%	16.9%	5.6%	(1.3%)	17.0%
BC US Aggregate	1.6%	4.0%	5.2%	6.2%	6.5%	5.3%
BC US Treasury	0.6%	2.1%	3.0%	5.4%	6.2%	4.8%
HFRI Fund of Funds	2.4%	3.4%	2.9%	1.5%	(1.6%)	3.6%
BofA ML 3-Month T-Bill	0.0%	0.1%	0.1%	0.1%	0.7%	1.8%

As of September 30, 2012



	<u>9/2012</u>	<u>6/2012</u>	<u>9/2011</u>	<u>9/2009</u>	<u>9/2007</u>
Market Inflation Expectations					
5 Year	2.1	1.7	1.5	1.4	2.1
10 Year	2.4	2.1	1.8	1.8	2.3
20 Year	2.4	2.2	1.9	2.0	2.6
CPI Year-over-Year	2.0	1.7	3.9	-1.4	2.8
Gold Spot Price	1781.0	1569.5	1629.0	1001.3	737.8
West Texas Crude Oil	92.2	85.0	78.9	70.5	81.6
Trade Weighted Dollar Index	72.4	75.1	72.3	73.9	75.0
US Unemployment Rate	7.8	8.2	9.0	9.8	4.7
Consumer Sentiment Index	78.3	73.2	59.5	73.5	83.4
Real GDP Growth YoY	2.5	2.1	1.6	-3.3	2.5
Federal Funds Rate	0.1	0.2	0.1	0.2	4.9
US Government Debt (% of GDP)	102%	102%	98%	85%	64%



2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD 2012	01/01/2003 - 9/30/2012	Legend
56%	38%	34%	42%	39%	14%	79%	27%	22%	22%	8%	MSCI All Country World
47%	26%	21%	32%	16%	8%	58%	20%	15%	16%	7%	S&P 500
41%	20%	20%	26%	15%	5%	38%	19%	14%	15%	10%	Russell 2000
39%	18%	15%	21%	12%	4%	35%	17%	10%	14%	8%	MSCI EAFE
34%	15%	14%	18%	12%	2%	32%	15%	8%	13%	16%	MSCI Emerging Markets
29%	12%	11%	16%	11%	-2%	28%	15%	8%	12%	6%	Barclays Multiverse
28%	12%	11%	15%	10%	-11%	27%	15%	6%	12%	5%	Barclays US Aggregate
26%	11%	7%	12%	9%	-11%	26%	13%	4%	10%	5%	Barclays US Treasury
24%	11%	5%	10%	9%	-21%	19%	12%	2%	8%	10%	BofA ML US High Yield II
13%	9%	5%	10%	7%	-26%	11%	10%	0%	8%	8%	Barclays Long US Gov/Credit
12%	9%	5%	7%	7%	-34%	11%	8%	-4%	6%	7%	Barclays US TIPS
8%	9%	3%	5%	6%	-36%	8%	7%	-6%	6%	11%	JP Morgan EMBI
8%	8%	3%	4%	5%	-37%	6%	6%	-6%	5%	6%	NCREIF-ODCE AWA
6%	7%	3%	3%	5%	-42%	2%	6%	-7%	4%	12%	FTSE NAREIT Developed
4%	4%	3%	3%	2%	-43%	0%	6%	-12%	3%	4%	HFRI Funds of Funds
2%	4%	2%	2%	-2%	-48%	-4%	6%	-13%	2%	5%	DJ-UBS Commodities Index
1%	1%	-4%	0%	-7%	-53%	-30%	0%	-18%	0%	2%	BofA ML 91-Day T-Bill

Returns for the period from 01/01/2003 - 9/30/2012 are annualized.

Concerned over slowing growth, The People's Bank of China cut interest rates for the second time in less than a month.

European Central Bank President Mario Draghi pledges to do "whatever it takes" to preserve the euro and protect the Eurozone from collapse.

Sellwood Consulting LLC launches.

Apple's market capitalization increased to \$623 billion, making it the most highly valued company in American history.

Despite anemic job growth, the unemployment rate fell from 8.3% to 8.1% due to a sharp drop in labor force participation.

The Federal Reserve announced plans to purchase \$40 billion in mortgage-backed securities per month until labor market conditions improve.

Suggesting improvement in the housing market, the Case-Shiller Home Price Index rose for the 5th straight month.

