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The third quarter of 2011 provided plenty of fodder for speculation, volatility and fear. Between the S&P downgrade of U.S. debt, the Eurozone mess and imminent Greek debt default, fear of recession, lack of political will and leadership, and plunging commodities prices, it is no wonder the equity markets turned in a dismal third quarter performance. The S&P 500 index closed -14.3%, while the Dow Jones Industrial Average was -12%. The 10 year Treasury bond closed at an interest rate below 2%. The crosscurrents from overseas, combined with a mixture of positive and negative data points, made the quarter particularly challenging as investors grappled with possible near term disappointment on the economy.

Lower commodities prices, from copper to oil, should ultimately have a positive effect on business and the consumer. However, today the falling prices of commodities point to slowing here at home, as well as overseas. China, which has been a global driver of growth, may have accomplished the goal of slowing their overheating economy. However, the rate of that deceleration is causing great consternation among investors, as they try to gauge China's real level of economic activity. Interest rates are also at or near historic lows which would typically be good for the equity markets. But, today's low rates are more reflective of global turmoil, as investors take safe haven in the U.S. Treasury market.

It is difficult at this point to determine if we will slide into a recession. The data are mixed and sentiment is negative. Our "barbell" approach to equities, combining dividend oriented stocks, with our more economically sensitive positions, has cushioned some of the downside, though the materials, energy, and industrial sectors have been hard hit during this decline.

The most important question for the fourth quarter and next year is: What could improve the environment for investing? We think that some orderly default or resolution of the Greek debt situation, along with stronger leadership in Europe to resolve their other outstanding sovereign debt problems, and stronger political will here in the U.S., can ultimately have a positive and lasting effect on our markets. There is a real possibility that this will come to fruition, but more volatility seems inevitable while that unfolds.

In keeping with our philosophical bias, we are not making predictions, but rather we are analyzing the available data, and using our experience to adjust to the possibilities the markets have to offer. We look forward to meeting with you in person or by phone in the next few weeks.

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