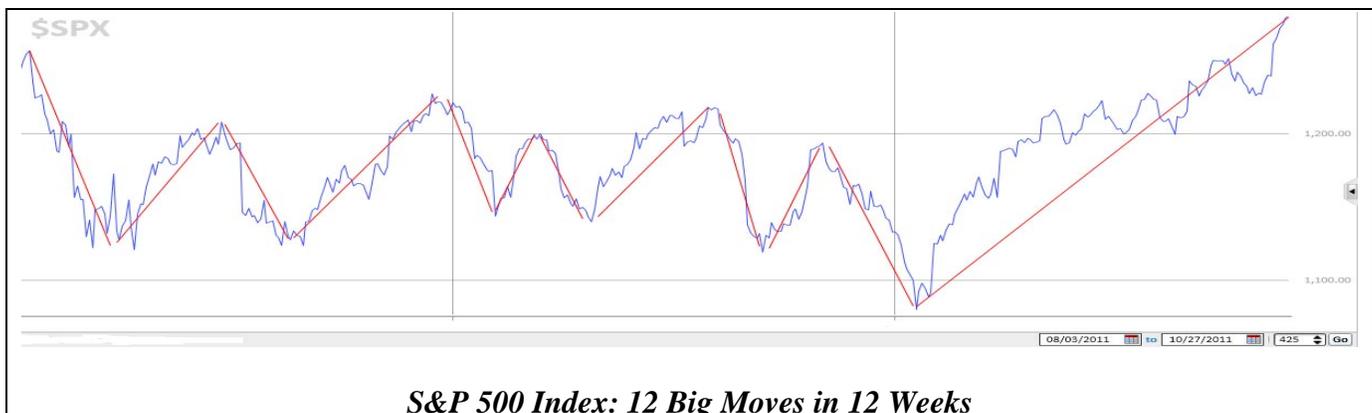


Friday Facts

We pointed out in our 3rd quarter letter that recent stock market volatility had been driven more by fear than fundamentals. We guided our clients to abide by disciplined asset allocation decisions rather than react to short-term fears surrounding the strength of U.S. consumers, corporate earnings and potential decisions by European and Washington policy makers.

We cautioned that “unhealthy investor behavior”, including making allocation changes to stock exposure at the wrong time, could have lasting impact on a portfolio’s return. Oh, what a difference a few weeks can make!

For the month of October, the Dow Jones Industrial Average is rapidly moving toward putting in its best monthly performance in 25 years and recording the largest monthly point move in its history. This 30 stock index was established in 1896, so the month of October would be the best monthly point move in 115 years. In turn, the S&P 500 is having its best monthly performance in 38 years, following significant declines in the 3rd quarter. The chart below indicates the volatility mentioned above and highlights 12 significant price moves in just the past 12 weeks:



So, what caused the severe change in investor sentiment? In the table below we provide an update on some of the key issues that have been behind much of the volatility:

Fear	Recent Fact
An imminent double-dip recession in the U.S. due to weakness in consumer spending.	Unemployment claims came in at a 3-year low, GDP increased 2.4% and orders for durable goods exceeded expectations.
Policy makers in the U.S. and Europe would formulate inadequate fiscal policy measures.	European leaders agreed to key components of a plan to bolster their economies, while the U.S. continues to work toward significant spending cuts.
Corporate earnings would weaken as demand decreased.	Over one-half of the S&P 500 companies have reported 3 rd quarter earnings and, of these, 72% posted results that beat expectations.

While we acknowledge that there are certainly plenty of remaining fears that will cause additional volatility in stocks through the end of the year, we remain acutely observant of the strength across all market segments based upon fundamentals and we are poised to make tactical or strategic allocation changes accordingly.