

Stocks suffered through a dismal third quarter, sending the S&P 500 to its worst quarterly performance since 2008. The quarter began with concerns about Congress not raising the U.S. debt ceiling. An eventual deal to raise the debt ceiling failed to help the market, as it was quickly followed by a downgrade of the U.S credit rating for the first time in history.

As the quarter wore on, concerns mounted that European officials were not taking bold enough action to keep the debt crisis from spreading beyond Greece. In the U.S., economic data disappointed throughout the quarter. Employment growth stalled and economists cut forecasts for future growth, raising concerns about the U.S. economy possibly slipping back into recession.

Utilities were the only sector in the market to post gains for the quarter, as investors searched for income given plummeting bond and CD yields. Financials were again hard hit and remain the worst performing sector year to date. While large cap domestic stock indexes suffered, they held up much better than small cap and international stocks. The Russell 2000 small cap index fell by more than 20% during the quarter.

Looking ahead, we believe current stock prices offer a good buying opportunity. Valuations are down near levels not seen since the March 2009 market lows, with the S&P 500 trading at just 11.6 times trailing 12-month earnings. A resolution to the situation in Europe and a debt reduction agreement from the “super committee” in Washington would likely get cash back into U.S equity markets.

Return of Various Market Indices								S&P 500 Economic Sector Returns		
Index	Last Month	Last Quarter	Year-to-Date	1 Year	3 Year	5 year	10 Year	Wgt.	Sector	YTD
										Return
3-Mo US T-Bills (Cash)	0.00%	0.01%	0.04%	0.08%	0.12%	1.54%	1.86%	4.0%	Utility	10.74%
Barclays 1-3 Year Gov't Bonds	-0.13%	0.47%	1.35%	1.23%	2.74%	3.96%	3.44%	11.7%	Consumer Staple	3.38%
Barclays Gov't/Corp Bonds	1.03%	4.74%	7.47%	5.14%	8.41%	6.52%	5.74%	12.1%	Health Care	2.52%
Dow Jones Industrial Average	-5.91%	-11.49%	-3.90%	3.83%	3.15%	1.37%	4.67%	3.3%	Telecomm	-1.52%
DJ Wilshire 5000	-7.84%	-15.32%	-10.23%	0.31%	1.75%	-0.57%	3.93%	10.7%	Consumer Discr.	-5.72%
S&P 500 Composite	-7.03%	-13.87%	-8.68%	1.14%	1.23%	-1.18%	2.82%	19.4%	Technology	-5.79%
S&P/Citigroup Growth	-6.61%	-11.56%	-5.56%	4.85%	4.47%	1.41%	3.05%	11.6%	Energy	-11.41%
S&P/Citigroup Value	-7.49%	-16.30%	-11.92%	-2.66%	-2.19%	-3.88%	2.41%	10.3%	Industrial	-14.68%
S&P 500 Utilities Sector	0.19%	1.55%	10.74%	11.95%	5.20%	3.88%	5.24%	3.4%	Materials	-21.70%
Russell 2000 (Smallcap Stocks)	-11.21%	-21.87%	-17.02%	-3.53%	-0.37%	-1.02%	6.12%	13.6%	Financial	-25.14%
MSCI EAFE (Int'l Stocks)	-9.50%	-18.95%	-14.62%	-8.94%	-0.66%	-3.00%	5.48%	100%	S&P 500	-8.68%

Source: Ibbotson Associates & Bloomberg LP