

Stocks performed well in the 3<sup>rd</sup> quarter, despite a continued sluggish economy and concerns about a possible year end “fiscal cliff” of scheduled tax hikes and government spending cuts. The Fed came to the rescue during the quarter as Chairman Bernanke announced another bond buying program (known as QE3) and pledged to keep short term rates near zero as long as it takes to get the unemployment rate lower.

The S&P 500 gained 6.35% for the quarter, bouncing back from a 2<sup>nd</sup> quarter decline. While investors seem to still have a pessimistic view towards the economy and stock market, the reality is the S&P 500 has gained 30% in the 12 months ended September 30<sup>th</sup>. Even more impressive is that the S&P 500 has returned more than double the return of international stocks (as measured by the MSCI EAFE index) over the last year.

Energy was the best performing sector in the market during the 3<sup>rd</sup> quarter, followed by telecommunications. Financial and technology stocks also did well, and both remain among the best performing sectors in the market for the year. Utilities failed to keep up with the rally, as is typical in strong market moves higher.

While stocks have had an outstanding last 12 months of returns, we still believe they should outperform bonds going forward. Equity valuations remain below historic averages, and corporations remain flush with cash for dividend hikes and share repurchases. The 4<sup>th</sup> quarter will likely see increased volatility as we get nearer the election and the year end Congressional debate over how to handle the looming fiscal cliff.

Return of Various Market Indices								S&P 500 Economic Sector Returns		
Index	Last Month	Last Quarter	Year-to-Date	Data as of: September-2012 [periods > 1 year annualized]				Wgt.	Sector	YTD Return
				1 Year	3 Year	5 year	10 Year			
3-Mo US T-Bills (Cash)	0.01%	0.02%	0.04%	0.04%	0.07%	0.56%	1.68%	3.3%	Telecomm	25.89%
Barclays 1-3 Year Gov't Bonds	0.02%	0.26%	0.44%	0.65%	1.49%	2.94%	2.92%	20.2%	Info Technology	21.79%
Barclays Gov't/Corp Bonds	0.06%	1.67%	4.23%	5.49%	6.43%	6.57%	5.34%	14.6%	Financial	21.62%
Dow Jones Industrial Average	2.75%	5.02%	12.19%	26.52%	14.45%	2.16%	8.60%	10.8%	Consumer Discr.	21.36%
DJ Wilshire 5000	2.63%	6.08%	16.10%	30.00%	13.29%	1.53%	8.77%	12.0%	Health Care	17.80%
S&P 500 Composite	2.58%	6.35%	16.44%	30.20%	13.20%	1.05%	8.01%	10.9%	Consumer Staple	12.74%
S&P/Citigroup Growth	2.14%	6.40%	17.00%	29.65%	14.93%	3.55%	8.06%	3.5%	Materials	11.96%
S&P/Citigroup Value	3.13%	6.30%	15.78%	30.81%	11.39%	-1.56%	7.87%	9.8%	Industrial	11.23%
S&P 500 Utilities Sector	1.17%	-0.53%	4.27%	12.90%	12.25%	2.42%	11.27%	11.3%	Energy	7.56%
Russell 2000 (Smallcap Stocks)	3.28%	5.25%	14.23%	31.91%	12.99%	2.21%	10.17%	3.5%	Utility	4.27%
MSCI EAFE (Int'l Stocks)	2.99%	6.98%	10.59%	14.33%	2.59%	-4.77%	8.69%	100%	S&P 500	16.44%