

Flash Report

October 31, 2009

Macro Environment

"Yeah, but what have you done for me lately?" Investors nodded genuine approval at the Q3 GDP results published this month; the 3.5% rebound represented the first positive reading in five quarters and confirmed that the economy pulled out of recession over the summer. Still, with almost two-thirds of the gain related to vehicle purchases and residential construction — both of which were juiced by strong government support, it's understandable if the celebration was short-lived. That's not to say signs of recovery don't continue: ISM's service industry index crossed the expansion line in September for the first time in a year; its manufacturing index — already in expansion-territory since August — enjoyed its strongest reading since early 2006. But lingering weakness also is clearly evident: Job losses unexpectedly accelerated in September, while unemployment ticked up to 9.8%; consumer spending fell 0.5% for the same period, reversing course after four consecutive monthly gains; retail sales slumped 1.5% on a post-Clunker hangover; and confidence showed continued vulnerability. Housing was mostly positive, with prices, existing home sales, and pending sales up — but new home sales falling.

Domestic Equity

The equity market's seven-month campaign paused in October, as stocks finished lower for the first time since February. Economic recovery concerns trumped mostly positive Q3 corporate earnings reports, leaving the S&P 500 1.9% underwater. Small caps fared even worse, plunging almost 7%. Volatility spiked at month-end, pushing the VIX Index to its highest level since July.

Fixed Income

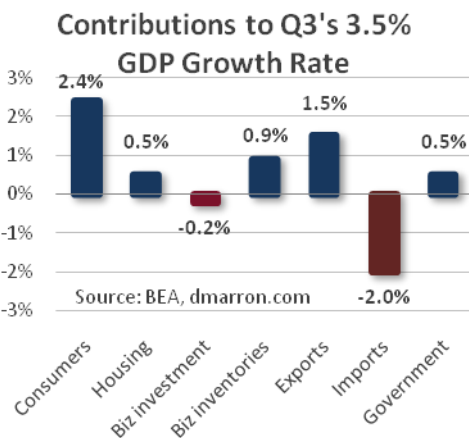
The long and short ends of the Treasury curve moved in opposite directions, as investors wrestled with the implications of a mixed bag of economic news. Spreads tightened modestly. Munis came under pressure, as the September rally was deemed a bit overdone.

Non-U.S. Equity

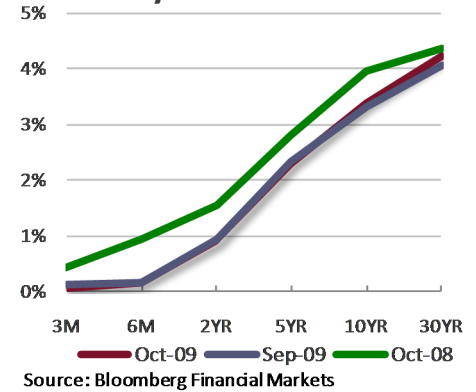
Overseas stocks followed the domestic theme. Developed markets slipped for the first time since June. Emerging shares treaded water in dollar-terms but faded slightly in local currency.

Currencies/Commodities

The trade-weighted dollar finished sideways. Oil hit a 12-month, \$81 high before trimming gains and settling at \$77.



Treasury Yield Curve



	Month (%)	Last 3 Months (%)	Year to Date (%)	Last 12 Months (%)	Last 36 Months-% Annualized
U.S. Equities					
Standard and Poor's 500	(1.86)	5.48	17.05	9.80	(7.02)
NASDAQ Composite	(3.61)	3.58	30.70	20.09	(3.90)
Russell 1000 Index	(2.21)	5.45	18.41	12.99	(6.84)
Russell 1000 Growth Index	(1.35)	4.97	25.39	18.98	(4.05)
Russell 1000 Value Index	(3.06)	5.95	11.33	6.85	(9.79)
Russell 2000 Index	(6.79)	1.41	14.12	11.30	(8.51)
Russell 2000 Growth Index	(6.95)	0.13	20.15	16.16	(6.88)
Russell 2000 Value Index	(6.64)	2.68	8.63	6.79	(10.26)
Morgan Stanley REIT Index	(4.63)	16.01	12.41	7.20	(15.82)
Fixed Income					
Barclays Agg Bond Index	0.49	2.60	6.24	13.79	6.35
Barclays Gov/Corp Index	0.24	2.58	4.99	14.61	6.13
Merrill Lynch HY Index	1.78	10.06	51.71	49.31	5.43
Barclays Muni Bond Index	(2.10)	3.15	11.61	13.60	4.17
Non-U.S. Equities (U.S. Dollars)					
MSCI EAFE Index	(1.24)	8.15	27.97	28.41	(4.74)
MSCI Emerging Mkts Index	0.13	8.88	65.10	64.63	6.66
MSCI EAFE Small Cap Index	(1.74)	11.57	46.07	49.11	(4.97)
MSCI Japan Index	(2.51)	(0.37)	6.67	13.91	(9.22)
Currencies (\$/Intl Currency)					
Euro (1.47 \$/€)	0.54	3.24	5.35	15.66	4.87
Yen (90.1 ¥/\$)	(0.43)	5.09	0.61	9.29	9.10
British Pound (1.65 \$/£)	2.94	(1.56)	12.74	2.34	(4.81)
Commodities					
Dow Jones UBS Commodity	3.28	4.29	12.64	0.10	(5.36)
Gold (\$1,040)	3.21	9.09	17.65	44.86	19.69
Crude Oil (\$77.00)	9.05	10.87	72.65	13.55	9.45

Source: Bloomberg, The Wall Street Journal, and Lehman Brothers. The information and views contained in this report are as of the date specified and are subject to change. These comments are not necessarily representative of the opinions and views of other portfolio managers or of the firm as a whole. Past performance is no guarantee of future results. The information presented does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities mentioned. Indices shown are for informational purposes only and cannot be invested in directly. The statistics have been obtained from sources we believe to be reliable, but we cannot guarantee its accuracy or completeness.