

MARKET REVIEW

OCT
2011

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October began mired in the gloom of August and September. It didn't take long, however, for a reversal in risk appetite to propel equities to their best month in almost a decade. During October risk assets surged as a furious rally materialized on the back of better-than-expected U.S. economic data, improving short term technical conditions, and the hope that a more coordinated European plan will stem fears of debt contagion.

The rally moved quickly, and the news flow was full of rumors and unsubstantiated reports. While short term traders feasted off of the volatility, longer term investors scrambled to decipher the message of the markets. By the end of the month, the news of Europe's plan was in, and investors had to decide whether any meaningful signals had registered, or if the market had simply been moved by gossip and short covering.

Here is our latest assessment as it relates to our view and portfolio positioning.

The European Grand Plan

Is the latest European bailout plan a game changer? No. While the plan is an improvement over earlier efforts, it lacks details and doesn't appear to be enough to stem the European problems in the long term. Though equity markets have celebrated, we have not seen credit markets confirm, particularly on the European periphery. Whether it can stabilize things in the short term is more questionable, and the surprise referendum was proof of how fragile the situation is. In short, the plan is an improvement over previous offerings, but is not enough to shift our view.

Business Cycle Data

United States

3rd quarter data was quite a bit stronger than we expected, but we remain uneasy that many leading indicators still point to slower growth ahead. Adding to our concerns are downtrends within much of the data we follow, along with an upgrade in future growth expectations that was likely discounted during October. Finally, other parts of the globe are slowing rapidly, which will impact the U.S. In our judgment, it's still worth defending against the risk of anemic growth, or even oncoming recession. However, if the data continues to surprise us on the upside, we may be forced to change our view on the U.S. economy and admit that we missed it on this front.

From a monetary perspective, we believe the Federal Reserve is likely to pursue

further options if the situation deteriorates. However, we also believe that firmer economic data and a healthy equity rally will prevent the Fed from starting a new program in the imminent future.

Fiscally, the government is unlikely to come up with a material program before the election, and it's doubtful the super committee will make the kinds of budget cuts necessary to fix long term problems before November 23rd.

Europe

Europe's economic situation continues to get worse, and the Euro-zone might even be recessing. The economic weakness in Europe will likely flow through the globe and press against the U.S. and Emerging Markets, due to the interconnected nature of the world economy. From a monetary perspective, there's a good chance that new ECB President, Mario Draghi, will continue cutting rates to combat the deteriorating economic situation. While that's good news, the rate cuts will be reactive, not proactive, and it's questionable whether cutting from a 1.5% starting point will be enough to keep the European barge from turning in a negative direction.

China/Emerging

Chinese data continues to slow, and its prior tightening policy will likely continue to move through the system and inhibit growth. China has shown interbank lending stress and is at risk of a property market slowdown, which creates a layer of system risk in the entire region. The good news is that China has recently stopped

tightening and some of the emerging market countries have begun cutting rates, but the effects will take time to work through the system. Part of Asia's challenge is dealing with a very slow developed world, which will put pressure on exports out of the region.

Technical Conditions

Intermediate technical conditions don't appear to have turned, but there are definite improvements in the shorter term technical outlook. Given how depressed sentiment got during the latest downturn -- along with the fact that we're entering a more positive seasonal environment -- we believe there is room for the rally to continue to drift up.

The risk to our current outlook is that the money that had been kept on the sidelines is now pouring back into the market, which engenders confidence and brings more investors back into the game. The market is at a crucial point right now: A confirmation or failure could determine the direction the market will take into the year's end.

Independent Analysis

A number of the independent analysts we follow have gotten more bullish, and while some stay bearish, there are no new bears emerging to confirm our stated view. We don't rely on any single analyst or opinion, but the overall tone is getting more positive and we can't ignore that.

Allocation and Positioning

While we're not bullish on fundamentals right now, there have been some changes that we must take into account in assessing the weight of the evidence.

The combination of some better-than-expected U.S. data, improving short term technicals, and a change in tone from the independent analysts we follow give us less certainty that the markets will make their way back to S&P 500 levels of 950-1050. Therefore, our allocation needs to reflect this by getting slightly less defensive. While we are in no way turning bullish, we are going to play a bit less defense to acknowledge some of the evidence against our current view. We're reviewing our current tactics and magnitude at this time.

Top Five Performers | October 2011

POSITION	WEIGHT	RETURN
S&P Retail ETF	2%	15.1%
iShares Software ETF	5%	15%
Energy Sector SPDR	2%	14.3%
iShares Semiconductor ETF	2%	14.1%
Consumer Discretionary Sector SPDR	2%	12.2%

Bottom Five Performers | October 2011

POSITION	WEIGHT	RETURN
iShares 7-10 Year Treasury ETF	4%	-1.3%
PowerShares Dynamic Media ETF	0%	-2.7%
ProFunds Rising Dollar Fund	5%	-3.1%
iShare Medical Devices ETF	0%	-3.4%
iShares 20+ Year Treasury ETF	3.5%	-3.8%

Please note that the returns and weightings used for this illustration are based on the Dynamic Moderate Growth portfolio at the end of the period. The individual security returns for other strategies may vary due to trade execution or security selection differences. Securities may have been bought and sold during the month; therefore, client returns (which are shown here) may not reflect a security's actual monthly return. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Past performance does not guarantee future results. Security weights are shown as of month's end.

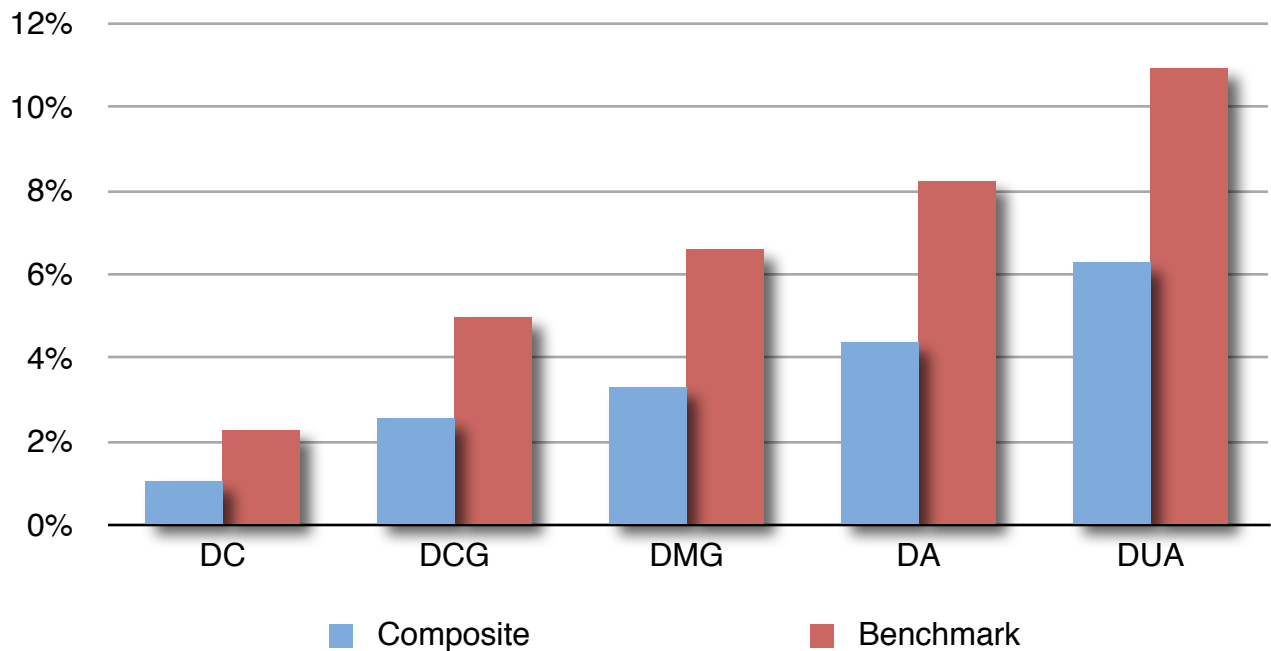
October Portfolio Transactions

After significantly reducing risk in the previous two months, trading activity was mostly relative in nature during October. Portfolios continued to be positioned

defensively, with reduced equity exposure, overweights in non-cyclical sectors, and elevated cash weightings.

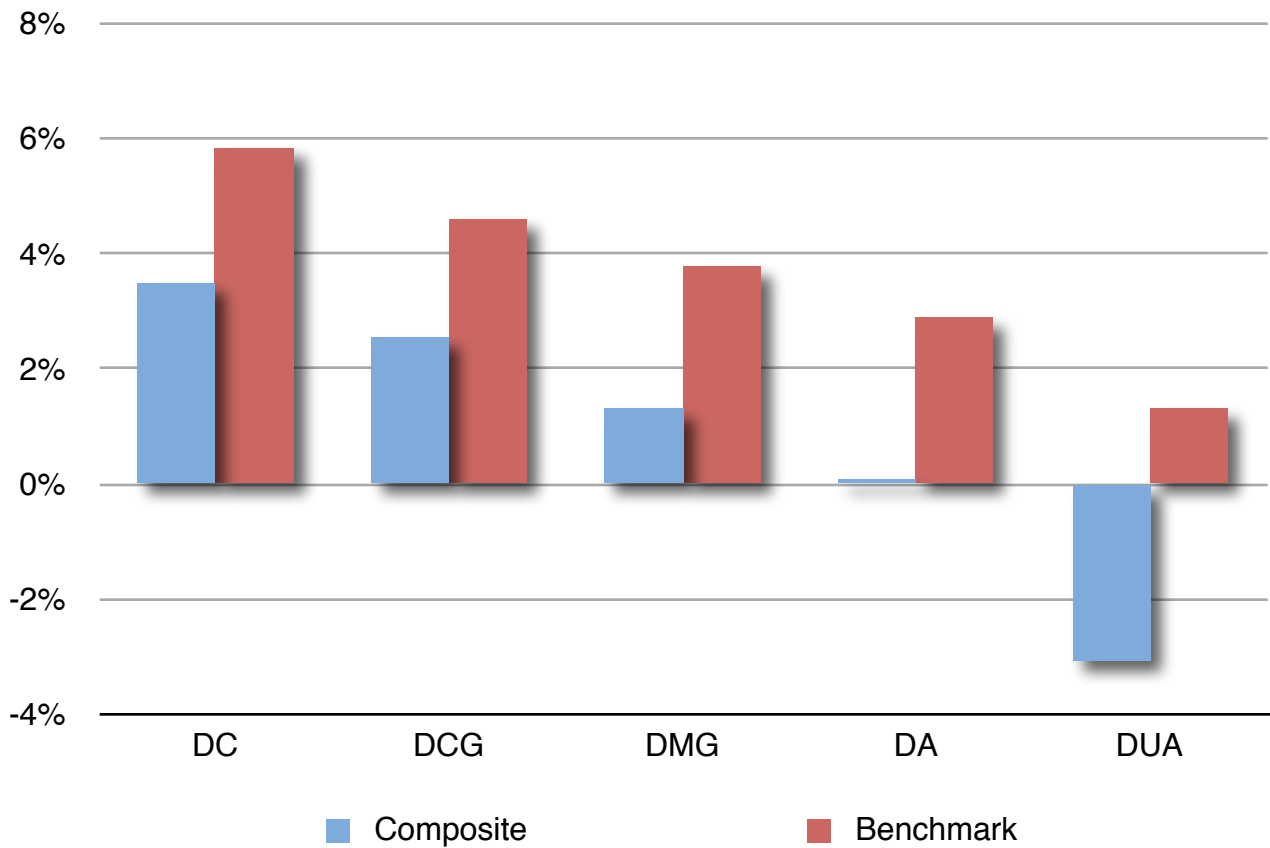
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POLICY	COMPOSITE	BENCHMARK
DC	1.05%	2.27%
DCG	2.55%	4.97%
DMG	3.29%	6.60%
DA	4.38%	8.22%
DUA	6.28%	10.93%



Year to Date | 2011

POLICY	COMPOSITE	BENCHMARK
DC	3.49%	5.84%
DCG	2.55%	4.61%
DMG	1.31%	3.78%
DA	0.09%	2.89%
DUA	-3.07%	1.31%



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