

The Sittenfeld, Stuard & Thornberry Group
Private Wealth Management

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Thoughts on the Third Quarter 2010...

Economy

The relative economic stabilization of recent months, heartening as it might be, will be at risk absent meaningful improvement in housing and employment. Unemployment, remaining at 9.6% in September, marks the longest stretch above 9% in a quarter century. Even those with jobs are seeing little increase in wage growth. The lack of inflation is leading to a second consecutive year of no cost-of-living adjustments for Social Security recipients.

Home sales, after the expiration of the tax credit in April, are down sharply with nearly 12 months of inventory unsold. For those who do qualify, the opportunity seems remarkably attractive: historically low interest rates coupled with prices not seen in many years. Refinancing, again for those who are eligible, has enabled consumers to reduce their debt while adding to their disposable income.

The recovery has lost momentum as government stimulus has faded and the private sector has been unable (or unwilling) to provide more than minimal support. The private sector, both business and the consumer, is currently caught in a standoff not unlike two stubborn children stuck on a schoolyard swing set. Neither wanting to be the one to hop off and give the other a push, the consumer is waiting on job growth before increasing spending while business is waiting on customers before adding jobs.

Consumer spending is always central to emerging from a recession. Currently, the consumer is cautious and increasing personal savings while reducing debt. Thus far, the economic recovery has derived mainly from stronger corporate earnings, but much of the rebound in earnings is a result of cost-cutting and productivity enhancements.

Markets

The strongest September stock performance in 70 years, fueled further by early October gains, has pushed the Dow above 11,000. That is certainly positive, but one must remember that the Dow first achieved the 11,000 level in 1999 and is still more than 20% below its level three years ago. Despite low interest rates, investors remain cautious as is evidenced by the continuing flow into

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bonds and bond funds. Gold continues to benefit from the weakening dollar; general uncertainty about tax and fiscal policy; and a broad flight to quality across the globe.

Foreign stocks, recently, have performed better than domestic equities. Emerging markets, typically countries with a growing middle class, are likely to provide the most upside during periods of international strength attendant with the most risk during downturns.

Small and mid-sized companies as well as higher risk alternative forms of investment have fared better than higher quality larger companies. Low interest rates coupled with strong dividends from blue chip companies, are motivating investors to give more favorable consideration to the stability which comes with secure and growing dividends. We continue to make such companies the core of our investment strategy.

Interest Rates

Especially low Treasury yields continue to push investors toward riskier investments. Higher-yield low-quality bonds are experiencing strong demand, but they are accompanied by higher risk of default and price volatility.

The Federal Reserve Board, addressing high unemployment and low inflation, continues to explore a variety of responses. The Fed has expressed willingness to keep borrowing costs low for home buyers as well as corporations. Inflation has fallen to a 0.9% annualized rate and, for the present, appears well in check.

Financial Planning

Tax policy – when and how it will change – remains unresolved as a consequence of Congressional gridlock. This makes both financial planning and estate planning especially challenging with many issues yet to be resolved. The most important component of planning (financial, retirement, estate and insurance) is to regularly review your situation to ensure that strategies and documents in place are congruent with your current objectives. Estate planning documents and life insurance policies that have not been thoroughly reviewed within the last few years could likely be structured more efficiently and effectively. If we have not conducted a recent review for you, it may be timely to do so before year-end.

Outlook

We remain cautious. Concerns endure regarding economic growth prospects and a range of questions and challenges remain. The stock market and the economy don't always move in tandem in the short run. Our goal continues to be capturing as much upside as possible with a diligent focus on minimizing downside risk by staying diversified and rebalancing the asset allocation of your portfolio when appropriate.

As ever, please contact us with any thoughts or questions.

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