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Building and Preserving Client Wealth Since 1989

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Economic & Investment Outlook

Fall 2012

As we forecasted at the start of this year, equity performances, although volatile, have been POSITIVE. We expect more of the same for the remainder of 2012

We are proud and pleased to inform you that our original Economic & Investment Outlook for 2012 as presented at the start of this year has played out with precision. As a refresher, we encourage you to review our beginning year Economic & Investment Outlook available at our website www.fmgonline.com. It will also provide you with further understanding of the content in this updated Fall Outlook

The below chart reflects a strong third quarter bounce back for the equity markets which offset second quarter negative results.

Index	3rd Quarter	YTD	3 year	10 year	20 year	Description
S&P 500 Index	6.35%	16.44%	13.20%	8.01%	8.20%	Large-Cap Stocks
Russell 1000 Growth	6.11%	16.80%	14.73%	8.41%	7.30%	Large-Cap Growth Stocks
Russell 1000 Value	6.51%	15.75%	11.84%	8.17%	8.92%	Large-Cap Value Stocks
Russell 2000 Growth	4.84%	14.08%	14.19%	10.55%	6.55%	Small-Cap Growth Stocks
Russell 2000 Value	5.67%	14.37%	11.72%	9.68%	10.32%	Small-Cap Value Stocks
MSCI - EAFE	6.98%	10.59%	2.59%	8.69%	5.94%	International Stocks
MSCI – Emerging Market	7.89%	12.33%	5.96%	17.37%	8.91%	Emerging Market Stocks
Barclay's Aggregate Bond Index	1.58%	3.99%	6.19%	5.32%	6.34%	Domestic Bonds
All returns are annualized as of September 30, 2012.						

Strong positive results year-to-date through the end of the third quarter occurred despite faltering global economic results and political uncertainty, the extent of which varies by country. While we expect performance volatility to occur for the remainder of 2012, we remain confident that the year-end will reflect overall positive returns.

The above chart also shows significantly how positive equity performances typically manifest in the long run despite interim periods of unsettling volatility. This should serve as a valid reminder to remain focused on the longer-term investment horizon and to stay emotionally detached from shorter-term downward movements.

It is significant from historical experience that markets can perform decently even if underlying economic growth is sluggish

Although most nations worldwide are suffering through sluggish economic activity, it's important to distinguish between Europe and the rest of the world. Europe is suffering far more than other regions and is now indisputably in a recession caused by the combination of fiscal austerity, rock-bottom confidence levels, and weakening credit.

We believe the possibility of a Greek exit from the Eurozone continues to exist, but the odds remain well under 50%. No one wants this, and so quite a lot of firepower will be used to avoid this fate. We reiterate that while this scenario is difficult to contemplate, it also constitutes a central reason why a Greek exit remains unlikely: nobody wants the consequences.

While the current foreign economic data is faltering, conditions beyond Europe are not all bad, and we are cautiously optimistic about international equity performance continuing to improve.

The U.S. economy can progressively comeback provided the looming fiscal perils are addressed. We are monitoring overall political decision-making for determining our tactical asset allocations

The U.S. economy continues to be in a perilous state, but there are opportunities for a staged comeback thanks to the resilient private sector over coming the stalemated political environment. Corporate earnings are up, the labor market is beginning to turn, the credit market is showing gradual improvement as banks are beginning to extend more loans to consumers and businesses, and the housing market has seemingly bottomed out.

However, there are two looming and somewhat intertwined fiscal risks that could cast a dark shadow by the end of 2012. The first is the U.S. debt ceiling, which will likely present itself again sometime in November. The second is the arrival of an unprecedented "fiscal cliff" at the end of 2012, which if not intelligently addressed in a timely manner by the Congress could result in the U.S. economy regressing back into a recessionary environment in 2013, regardless of the Presidential election result.

Our view is that the politicians will be economically forced to come to their senses and ensure that some portion of these potential fiscal drags are addressed and alleviated before the end of the year. However, a substantial economic impact will still be felt in 2013, the magnitude of which will be determined by which political mandate prevails in the upcoming November elections. Regardless, we continue to favor equity exposure in the investment portfolios because the outlook for fixed income and cash alternatives is dismal for the foreseeable forecasting future.

Remain overweight equities, underweight fixed income

Global economic and political threats have hit investor sentiment hard, driving down equity-market valuations while causing investors to bid up bond valuations. We believe a popping of the bond-market bubble lies ahead for investors. Why? In short, yields are too low, bond prices too high, and quality spreads too tight. While it is unlikely that yields will normalize in the near term, barring another severe recession, we believe they will eventually move higher resulting in capital losses for fixed-income investors. Therefore, we continue to maintain relatively short maturity/duration bond exposure in client portfolios to minimize downside risk.

We favor equities despite an uncertain investment environment because record-high corporate profits have been going largely unrewarded, providing attractive investment opportunities when investor risk aversion subsides. While equity markets are highly unlikely to jump to fair value in the short term, at current depressed levels potential long-term returns are compelling. Accordingly, we are continuing to maintain portfolios close to their strategic target levels without making any significant tactical asset allocation shifts.

Our Economic & Investment Outlook for 2013 will become better determinable once the political and fiscal uncertainties peel away. In the meantime, we believe that the portfolios are relatively risk-adverse because of their broad diversification and prudent exposure to equities. Because inflation and interest rates are low, equity performance offers the best opportunity to stay ahead of cost-of-living increases without spectacular returns being required.

Alternatively, achieving positive returns and staying ahead of cost-of-living increases is not manageable by relying upon fixed income and cash alternatives. Instead, we utilize these investments to serve as a stabilizing portfolio anchor and a funding mechanism for rebalancing opportunities and meeting client money requirements.

We are available to discuss further with you our Economic & Investment Outlook as it relates to your investment portfolio. Best regards,

Financial Management Group Investment Policy Committee

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