Economic & Market Review

~ August 2012 Investment Newsletter ~

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Monthly Summary

In a continuation of the tone from July, investment markets in August moved steadily higher. By month end, the U.S. stock market had risen for its third consecutive month and reached a level last seen over four years ago. Higher asset prices and diminished volatility, however, are no more a reflection of economic health than the calm of a hurricane's eye suggests the storm has passed. Indeed, aside from a bump in U.S. retail sales, the makings of a turn in housing, and an uptick in job growth, global economic releases during the month were universally poor and challenges in Europe intensified.

The apparent disconnect from economic fundamentals can be attributed to faith being placed on the ability of central banks to come to the rescue. Starting with the European Central Bank's meeting on September 6, the timing, magnitude, and ultimate impact of anticipated monetary actions may fall short of the mark. One week later, eyes will turn to the U.S. Federal Reserve as they conclude their own set of deliberations. Anything shy of dramatic bond purchases out of both of these entities may not sit well with investors.

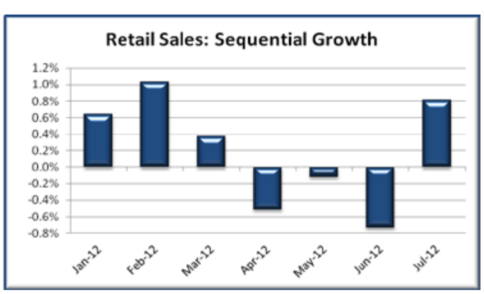
Central bank activity will not be the only thing on radar screens between now and year-end. In September, Germany's constitutional court will rule on the legality of the new European bailout fund (the 12th) and Greece's creditors will evaluate the beleaguered nation's progress on its fiscal deficit. On October 8, that evaluation will result in a decision on the continued funding of Greece. Notably, Germany's approval of the bailout fund and continued Greek financing are dialed into market expectations. Rounding out important events in October will be another ECB meeting on the 4th and the next European summit on the 18th. U.S. elections in early November followed by decisions on the year-end fiscal cliff will round out major events in the home stretch of 2012. Current capital market enthusiasm juxtaposed with an eventful calendar suggests heightened volatility through year-end.

August's Economic Releases

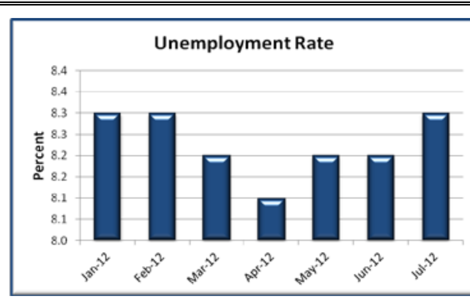
General	Prior	Current
GDP growth	2.0% (Q1)	1.7% (Q2)
Trade balance	-$48.0 B (May)	-$42.9 B (June)

Employment	Prior	Current
Initial jobless claims	374,000	374,000
Continuing claims	3.3 MM	3.3 MM
Change in nonfarm payrolls	64,000 (Jun)	163,000 (Jul)
Unemployment rate	8.2% (Jun)	8.3% (Jul)
Average weekly hours	34.5 (Jun)	34.5 (Jul)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	65.4 (Jul)	60.6 (Aug)
Retail sales growth (YoY)	3.3% (Jun)	3.4% (Jul)
Change in consumer credit	$16.7 B (Jun)	$6.5 B (Jul)



Data Source: U.S. Department of Commerce



Data Source: U.S. Department of Labor

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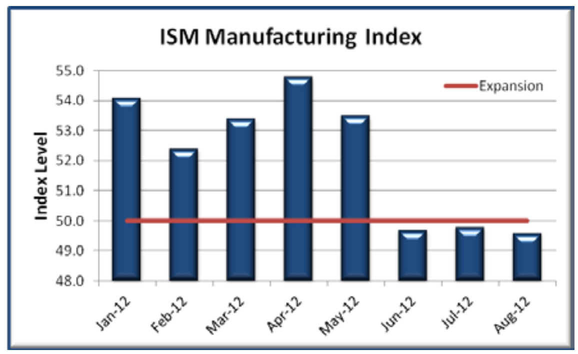
Manufacturing & Service	**Prior**	**Current**
ISM manufacturing index	49.8 (Jul)	49.6 (Aug)
ISM non-manufacturing index	52.1 (Jun)	52.6 (Jul)
Durable goods orders growth	1.6% (Jun)	4.2% (Jul)
Industrial production growth	0.1% (Jun)	0.6% (Jul)
Capacity utilization	78.9% (Jun)	79.3% (Jul)

Real Estate	**Prior**	**Current**
New home sales	359,000 (Jun)	372,000 (Jul)
Existing home sales	4.4 MM (Jun)	4.5 MM (Jul)
Case-Shiller home price index (YoY)	-0.7% (May)	0.5% (Jun)

Inflation	**Prior**	**Current**
Consumer price index/Core (YoY growth)	1.7%/2.2% (Jun)	1.4%/2.1% (Jul)
Producer price index/Core (YoY growth)	0.7%/2.6% (Jun)	0.5%/2.5% (Jul)

Data Source: S&P/Case-Shiller



Data Source: Institute for Supply Management

Market Returns

The S&P 500 index gained 2.3% for the month and is now up 13.5% for the year. Developed international equity markets, as defined by the MSCI EAFE index, were up 2.7% in August while the MSCI Emerging Markets index fell 0.3%. Year-to-date, international developed and emerging markets are up 6.9% and 5.6%, respectively.

In the fixed income market, the Barclays US Aggregate index gained 0.1% for the month and the yield on the 10-year U.S. Treasury bond rose slightly for the month to end with a yield of 1.57%. For the year, the Barclays U.S. Aggregate is up 3.9%. Credit spreads tightened nicely during the month with high yield spreads ending at 5.9%, slightly below the 15 year average. The Barclays High Yield index gained 1.2% in August and is up 10.6% so far this year. International bonds rose 1.5% for the month and now up 3.2% for the year.

The Dow Jones UBS Commodity index returned 1.3% in August and the Dow Jones U.S. Real Estate index rose fractionally for the month.