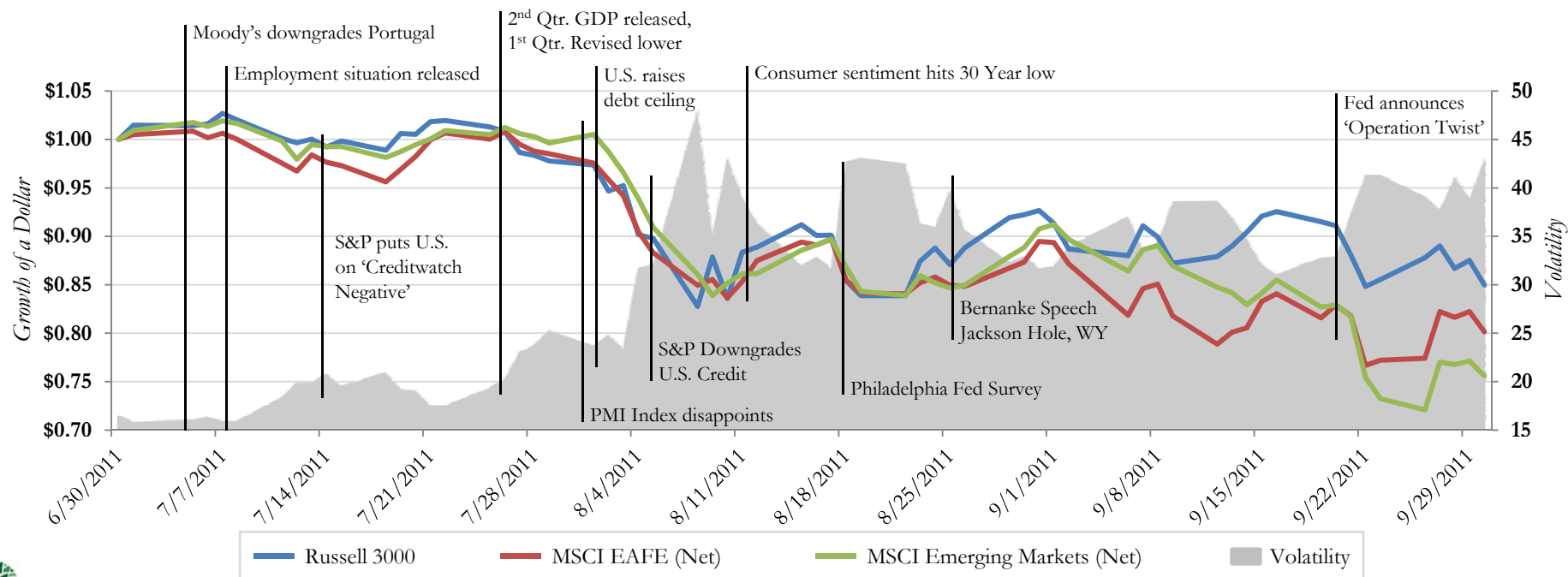


Market Environment – 3rd Quarter 2011

Global stock markets declined every month for the quarter, extending a losing streak to five consecutive months and bringing year-to-date returns into negative territory. Concerns regarding a global economic slowdown combined with European debt problems added to investor uncertainty, reflected in the VIX volatility index (see chart below) – an oft-cited gauge of “fear” in the market.

Early in the quarter, encouraging reports on second-quarter profits and promising June employment numbers shook off the news that Moody’s downgraded Portugal to below investment grade status, citing increasing risks that the country would require an aid package similar to Greece before it could borrow in the capital markets. The short-lived optimism turned sour when the Employment Situation report indicated marginal employment expansion in June, contrary to the growth expected by the consensus of Wall Street economists. Stocks dropped on worry about a global economic slowdown and concerns quickly spread to Europe as yields on Italian and Spanish bonds sharply increased on the uncertainty that they would be able to meet their debt obligations, particularly in the face of decreased global demand and higher costs of capital.

As the August 2nd deadline approached for the U.S. to raise its borrowing limit, political posturing added to concerns that a deal was not certain. In the middle of July, S&P placed the credit rating of the U.S. on ‘Creditwatch Negative’ citing the need for lawmakers to agree on a plan to deal with the Federal deficit and develop a credible solution to alleviate the country’s debt burden. Please see next page for information on the resulting downgrade. Meanwhile, 2nd quarter GDP numbers indicated anemic 1.3% annualized growth, well below the 1.8% consensus expectation. In addition, 1st quarter GDP was revised lower to 0.4% from the 1.9% initial estimate.



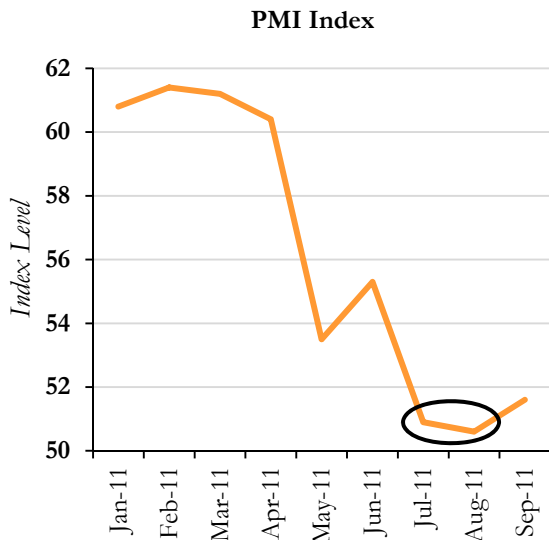
Source: Standard & Poor’s, Russell, MSCI

Market Environment – 3rd Quarter 2011

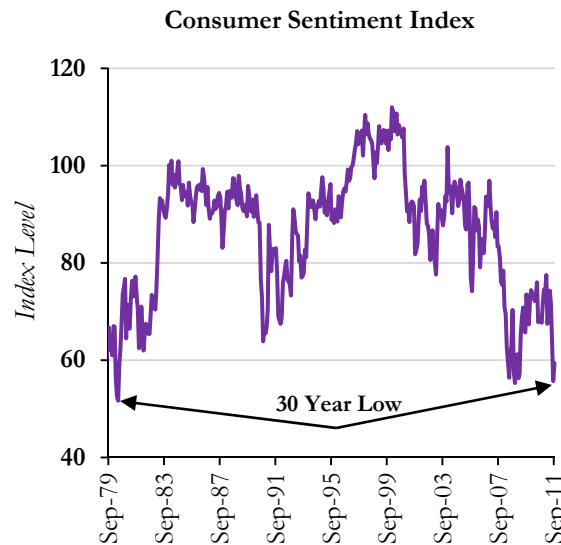
The PMI index measures contributions of new orders, production, employment, supplier deliveries and inventories to the manufacturing sector. A measure above 50 indicates growth or expansion whereas a measure below 50 represents contraction. Following on the heels of a disappointing GDP number, the PMI index (see chart below) contracted significantly dropping over 4% in July to end just above 50, at 50.9.

Shortly following the U.S. government’s agreement to raise the debt ceiling, S&P downgraded the U.S. credit rating from AAA to AA+. Equity prices continued to go lower and government bonds higher - implying investors were more concerned about global growth than the creditworthiness of the U.S. S&P issued the downgrade to reflect their opinion that the fiscal consolidation plan that Congress and the Administration agreed to fell short of what S&P believed would be necessary to stabilize the government’s medium-term debt dynamics. In addition, S&P noted that they were pessimistic about the capacity of Congress and the Administration to be able to leverage their agreement into a broader fiscal consolidation plan that could stabilize the government’s debt dynamics any time soon. S&P’s outlook on the U.S. long-term credit rating remains negative.

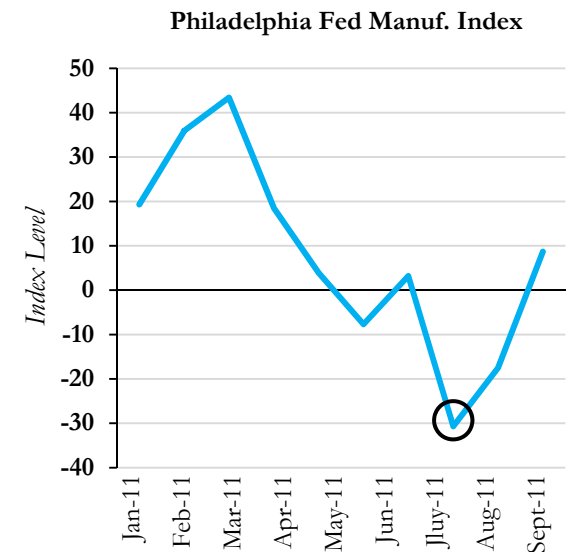
Further fueling uneasiness about global growth, August saw the Reuters/University of Michigan Consumer Sentiment Index drop to its lowest level in over thirty years (see chart below) – a survey of 500 households, which quantifies their financial conditions and attitudes about the economy. More unsettling news came from the Philadelphia Fed’s manufacturing report that showed a significant month-to-month contraction in general business conditions throughout August (see chart below).



Source: Institute for Supply Management



Source: Thomson Reuters/University of Michigan



Source: Federal Reserve Bank of Philadelphia



Market Environment – 3rd Quarter 2011

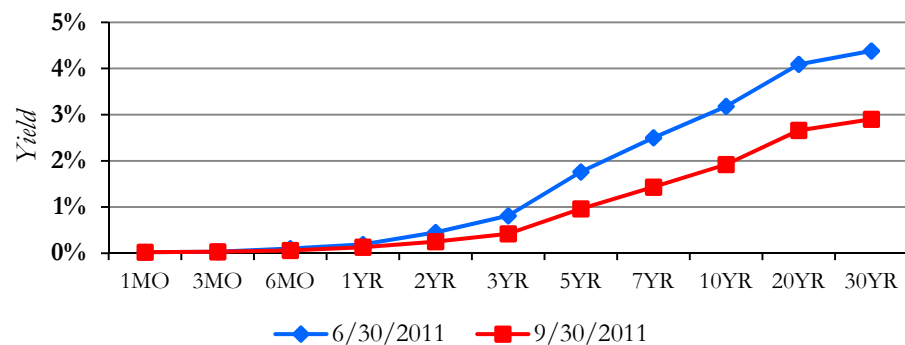
Domestic equity markets received some respite ahead of Ben Bernanke's August 26th conference in Jackson Hole, Wyoming where Mr. Bernanke reaffirmed the Fed's commitment to at least two more years of low policy rates. Mr. Bernanke did not elaborate on whether further quantitative easing would occur, but mentioned that the Fed "has a range of tools that could be used to provide additional monetary stimulus". He stated that growth fundamentals did not appear to have been permanently altered by the shocks of the past four years and that, over time, the U.S. could expect to see a return to growth rates and employment levels consistent with underlying fundamentals. However, Mr. Bernanke emphasized that economic policymakers must engage in fiscal sustainability that does not disregard the fragility of the current economic recovery - alluding to the fact that the debt ceiling debate in Congress and credit downgrade by S&P hurt business and consumer confidence.

As prospects for growth across the developed world remained muted, emerging markets declined significantly on fears that the developed world's consumption would contract, therefore causing a decline in emerging market exports. Furthermore, strength in the U.S. dollar relative to most foreign currencies made foreign equity returns worse. Debt problems in Europe, particularly the risk that Greece could default on its sovereign debt, combined with slow economic growth, raised fears that a default would spread across the Eurozone and lead to further defaults. Such fear found investors fleeing Euros for U.S. dollars and Japanese Yen.

In an effort to make financial conditions more accommodative, the Fed announced that it would extend the average maturity of its purchases in U.S. Treasuries by selling Treasuries with remaining maturities of three years or less and purchasing Treasury securities with remaining maturities of 6-30 years. "Operation Twist" as it's informally referred to, is intended to put downward pressure on longer-term interest rates.

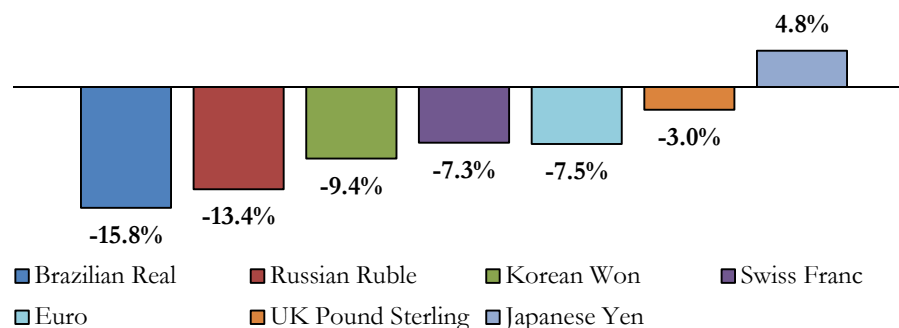
Overall, second quarter corporate-earnings were relatively robust with many companies outperforming consensus estimates. The PMI index stayed above 50 in the month of September, beating the expectation that the number would come in below 50 – a sign of contraction. Consumer sentiment also increased in September, coming off its thirty year lows. With the possibility that economic growth would not help abate fiscal problems in the U.S. and Europe, stocks continued to sell off and volatility remained elevated as the quarter saw global equities lose double digits.

U.S. Treasury Yields



Source: U.S. Treasury

Currency Returns relative to U.S. Dollar
3rd Quarter 2011



Source: Markov Processes International

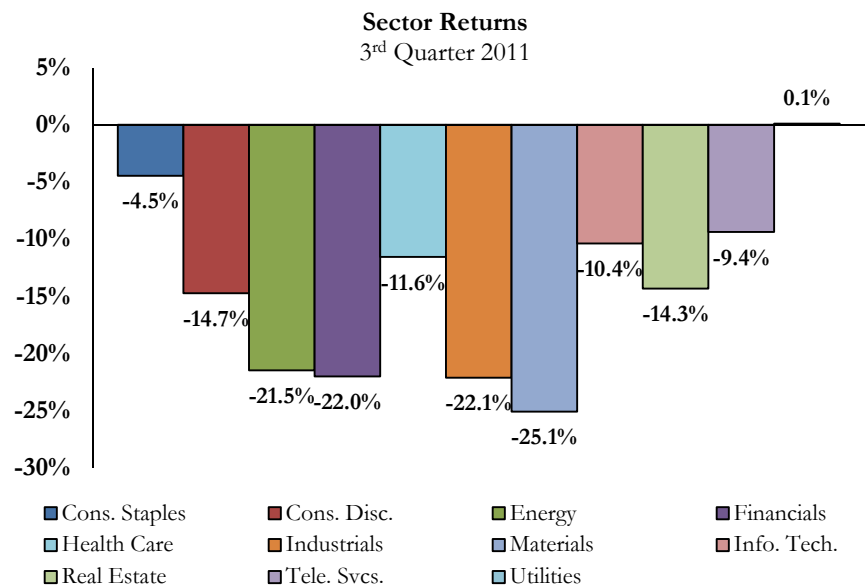
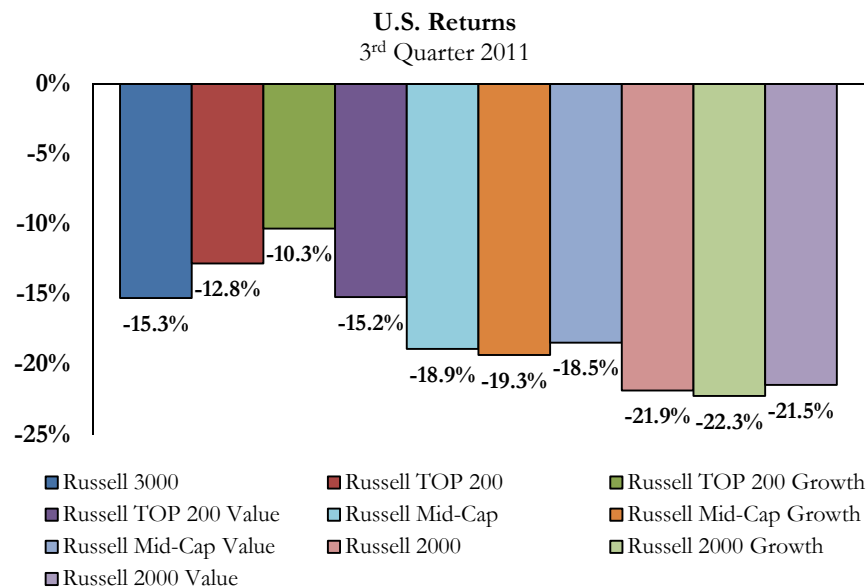


Market Environment – 3rd Quarter 2011

Domestic equities declined (15.3%) for the quarter as measured by the Russell 3000 index. Large cap stocks offered more protection than mid and small cap stocks. The largest 200 stocks, as represented by the Russell 200 index, returned (12.8%) versus the (18.9%) return for the Russell Mid Cap index and the (21.9%) return for the Russell 2000 index. Large cap growth stocks protected better than large cap value stocks with each returning (10.3%) and (15.2%) respectively. Large cap growth stocks benefited from a lack of financials (22.0%) and a heavy weight towards information technology (10.3%) – one of the better performing sectors for the quarter. In fact, Apple and IBM, two of the three largest components of the Russell 200 Growth index, returned a positive 13.6% and 2.4% for the quarter, respectively.

In contrast to large cap stocks, mid and small cap value stocks outperformed their growth counterparts for the third quarter. In the mid cap space, value (18.5%) outperformed growth (19.3%) due to a larger representation of the utilities sector. As the best performing sector for the quarter, utilities returned 0.1%. Mid cap growth indices tend to have larger exposures to economically sensitive (cyclical) stocks. Three of the four worst performing sectors for the quarter – materials (25.1%), industrials (22.1%) and energy (21.5%), have larger representations in the Russell Mid Cap Growth index than in the Russell Mid Cap Value index. The substantial weight of financials in the Russell Mid Cap Value index kept its returns closer to the benchmark Russell Mid Cap index.

Small cap stocks experienced the worst returns for the quarter domestically, returning (21.9%). Once again, exposure to the financial sector detracted significantly from returns for the Russell 2000 Value index (21.5%) for the quarter but still outperformed the Russell 2000 Growth index (22.2%) which was pulled lower by large weights in industrials, information technology and consumer discretionary (14.7%).



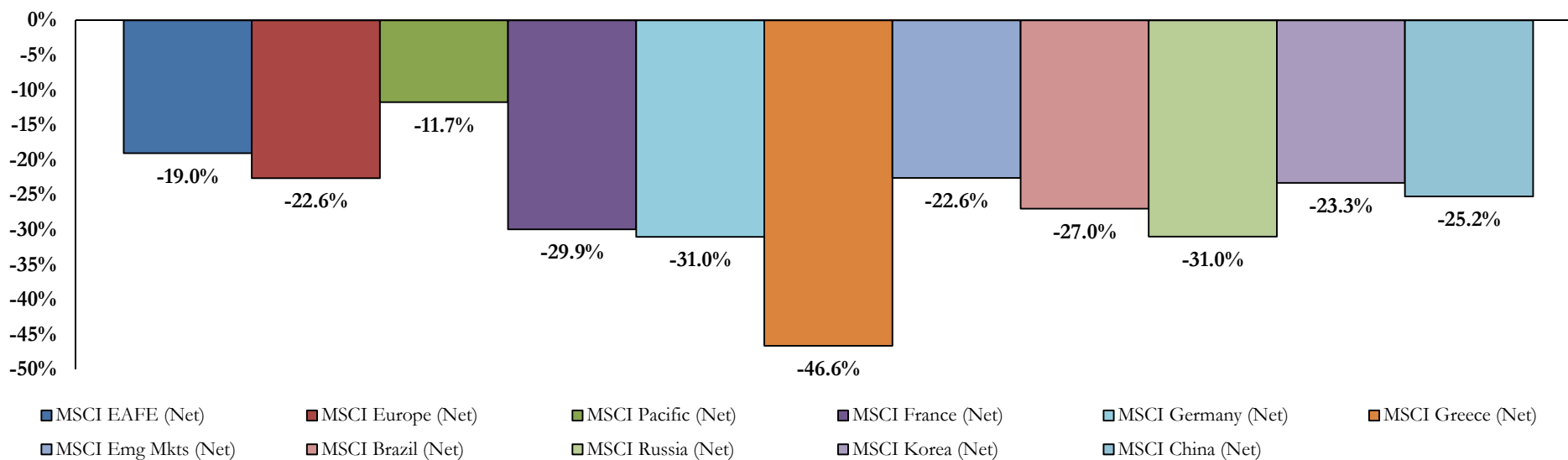
Market Environment – 3rd Quarter 2011

International equities suffered most from concerns of a potential Greek default and the effect such a default would have on European institutions with exposure to Greek debt. Investors fled toward relative strength, particularly U.S. dollar and Japanese Yen-denominated assets, causing the Euro and Swiss Franc to decline against the U.S. dollar by (7.5%) and (7.3%) respectively. The MSCI EAFE (Net) index returned (19.0%) for the quarter. MSCI EAFE (Net) is largely comprised of European equities, with two of the larger constituents being France (29.9%) and Germany (31.0%), two countries at the heart of European fiscal negotiations. With the exception of Switzerland (17.5%) and Belgium (19.1%), all of the other Eurozone countries lost at least 20% of their market value, led by Greece's (46.6%) decline.

Both Japan (6.4%) and the United Kingdom (15.4%) outperformed the U.S. market on a local currency basis. Japan benefited from a 4.8% increase in the Yen relative to the U.S. dollar. The U.K. Pound Sterling declined (3.0%) relative to the U.S. dollar.

Emerging markets suffered from a flight to safety as concerns about economic growth saw the MSCI Emerging Markets index decline (22.6%) for the quarter. Currency depreciation was a large contributor to the poor performance. The Brazilian Real declined (15.8%), the Russian Ruble declined (13.4%) and the Korean Won declined (9.4%) for the quarter. Brazil (27.0%) continues to battle inflation while investors in Russia (31.0%) and Korea (23.3%) worry about a potential global recession, the prospect of lower oil prices (a chief Russian export) and reduced consumer demand from developed countries and China (25.2%), which is also battling inflation and prospects of weaker economic growth.

International Equities
3rd Quarter 2011



Source: MSCI



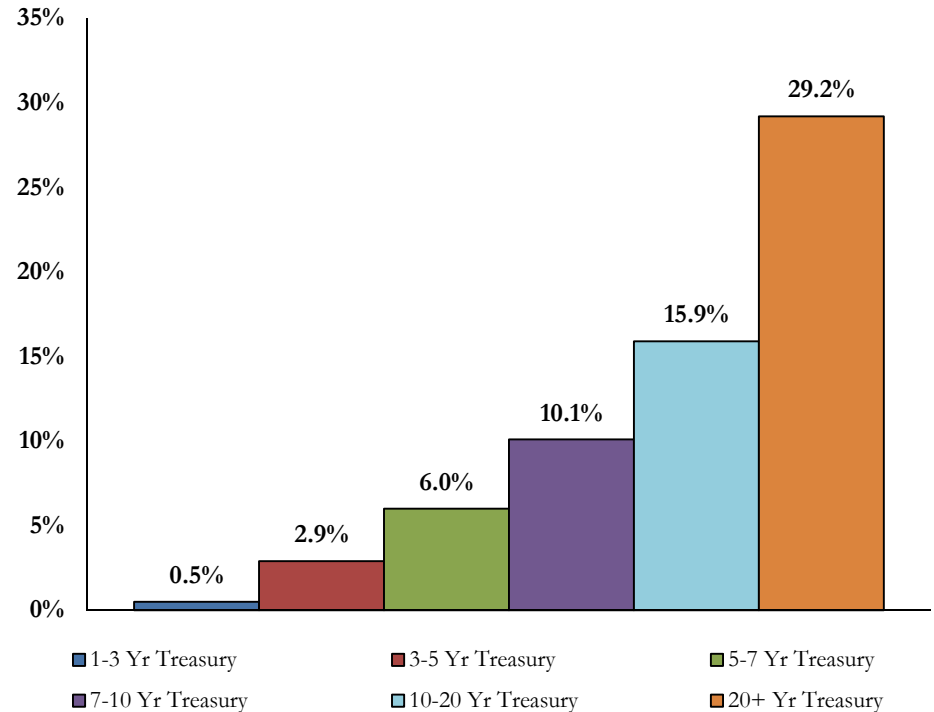
Market Environment – 3rd Quarter 2011

Against the prospect of a weak global macroeconomic outlook and European sovereign risk, bond yields dropped as government bond values increased. U.S. Treasury yields, particularly longer-term securities, experienced large declines. Global government bonds increased in value (+3.9% in U.S. dollars as measured by the Citi World Government Bond Index) led by strength in U.S. Government bonds (+5.9%). As investor's propensity to take risk declined throughout the quarter, spreads widened causing U.S. Credit (+3.0%), Mortgage-Backed Securities (+2.4%) and High Yield bonds (6.1%) to underperform U.S. Treasuries. In Europe, investors sought the perceived safety of German, French and British bonds, pushing their yields down and driving up the value of their securities. As money flowed into safe havens, yields even turned negative in Switzerland, prompting the Swiss to cap the Swiss Franc's appreciation to the fragile Euro, further impetus for investors to purchase U.S. Treasuries.

Fixed Income Securities
3rd Quarter 2011



U.S. Treasuries
3rd Quarter 2011



Source: Morningstar

Source: Morningstar

Market Environment – 3rd Quarter 2011

DOMESTIC EQUITY	QTR	YTD	1 Year	3 Year	5 Year	10 Year
Russell 3000 Index	(15.3)	(9.9)	0.5	1.5	(0.9)	3.5
Russell 3000 Growth Index	(13.9)	(7.9)	3.4	4.5	1.6	3.2
Russell 3000 Value Index	(16.6)	(11.8)	(2.2)	(1.6)	(3.5)	3.6
S&P 500 Index	(13.9)	(8.7)	1.1	1.2	(1.2)	2.8
Russell 1000 Index	(14.7)	(9.2)	0.9	1.6	(0.9)	3.3
Russell 1000 Growth Index	(13.1)	(7.2)	3.8	4.7	1.6	3.0
Russell 1000 Value Index	(16.2)	(11.2)	(1.9)	(1.5)	(3.5)	3.4
Russell TOP 200 Index	(12.8)	(7.9)	1.7	0.7	(1.5)	1.8
Russell TOP 200 Growth Index	(10.3)	(5.2)	5.2	4.4	1.7	2.1
Russell TOP 200 Value Index	(15.2)	(10.5)	(1.8)	(2.9)	(4.6)	1.6
Russell Mid-Cap Index	(18.9)	(12.3)	(0.9)	4.0	0.6	7.4
Russell Mid-Cap Growth Index	(19.3)	(11.6)	0.8	5.9	1.6	6.7
Russell Mid-Cap Value Index	(18.5)	(13.0)	(2.4)	2.0	(0.8)	7.5
Russell 2000 Index	(21.9)	(17.0)	(3.5)	(0.4)	(1.0)	6.1
Russell 2000 Growth Index	(22.2)	(15.6)	(1.1)	2.1	1.0	5.5
Russell 2000 Value Index	(21.5)	(18.5)	(6.0)	(2.8)	(3.1)	6.5
DOMESTIC EQUITY BY SECTOR						
MSCI US Consumer Discretionary	(14.7)	(7.7)	4.9	9.7	1.4	5.0
MSCI US Consumer Staples	(4.5)	4.0	10.6	6.1	6.4	6.8
MSCI US Energy	(21.5)	(12.8)	6.4	(1.2)	3.4	11.1
MSCI US Financials	(22.0)	(23.3)	(14.3)	(12.4)	(14.6)	(2.5)
MSCI US Health Care	(11.6)	0.9	6.0	4.1	1.9	2.5
MSCI US Industrials	(22.1)	(16.4)	(5.0)	(0.4)	(1.0)	4.3
MSCI US Information Technology	(10.4)	(7.6)	2.8	7.8	3.5	4.9
MSCI US Materials	(25.1)	(21.8)	(7.0)	0.5	2.3	7.5
MSCI US REITs	(14.5)	(5.7)	1.3	(1.7)	(2.6)	9.1
MSCI US Telecommunication Services	(9.4)	(2.9)	3.8	6.8	0.6	(0.3)
MSCI US Utilities	0.1	9.6	12.0	5.6	4.0	5.8



Market Environment – 3rd Quarter 2011

DOMESTIC FIXED INCOME	QTR	YTD	1 Year	3 Year	5 Year	10 Year
Merrill Lynch 3-month T-Bill	0.0	0.1	0.1	0.2	1.7	2.0
Barclays Govt/Credit 1-3 Yr	0.3	1.3	1.3	3.6	4.1	3.7
Barclays Intermediate Government/Credit	2.4	4.9	3.4	7.0	5.9	5.1
Barclays Long Government/Credit	15.6	19.4	12.7	14.9	9.4	8.3
Barclays Government	5.8	8.1	5.6	6.4	6.6	5.4
Barclays Credit Bond	3.0	6.5	4.6	11.7	6.7	6.3
Barclays Aggregate Bond	3.8	6.6	5.3	8.0	6.5	5.7
Barclays Mortgage Backed Securities	2.4	5.3	5.6	7.0	6.7	5.6
Barclays High Yield Corporate Bond	(6.1)	(1.4)	1.8	13.8	7.1	8.8
Barclays TIPS	4.5	10.6	9.9	8.1	7.1	7.2
Consumer Price Index	0.8	3.8	4.1	1.3	2.3	2.5
INTERNATIONAL/GLOBAL EQUITY						
MSCI EAFE (Net)	(19.0)	(15.0)	(9.4)	(1.1)	(3.5)	5.0
MSCI EAFE Growth (Net)	(19.0)	(15.4)	(8.8)	(0.6)	(2.2)	4.9
MSCI EAFE Value (Net)	(19.0)	(14.5)	(10.0)	(1.7)	(4.8)	5.1
MSCI EAFE Small Cap (Net)	(18.6)	(15.5)	(5.5)	5.6	(1.9)	9.8
MSCI AC World Index (Net)	(17.4)	(13.6)	(6.0)	0.6	(1.6)	4.5
MSCI AC World Index Growth (Net)	(17.2)	(13.6)	(5.2)	1.5	(0.3)	4.4
MSCI AC World Index Value (Net)	(17.7)	(13.5)	(6.8)	(0.4)	(3.0)	4.4
MSCI Europe ex UK (Net)	(26.0)	(18.0)	(15.0)	(4.5)	(4.7)	5.0
MSCI United Kingdom (Net)	(15.4)	(10.7)	(5.3)	0.8	(3.0)	4.5
MSCI Pacific ex Japan (Net)	(19.7)	(17.7)	(10.9)	7.6	4.7	13.0
MSCI Japan (Net)	(6.4)	(10.9)	(0.1)	(0.2)	(4.9)	2.8
MSCI Emerging Markets (Net)	(22.6)	(21.9)	(16.1)	6.3	4.9	16.1
FTSE EPRA/NAREIT Global Real Estate	(17.7)	(13.9)	(9.1)	(0.3)	(4.0)	-
SPECIALTY						
S&P GSCI	(11.7)	(9.3)	2.9	(15.9)	(5.3)	3.5
S&P GSCI Gold	7.8	13.7	23.2	21.7	20.8	17.8

Source: Russell, S&P, MSCI, Merrill Lynch, Barclays Capital, FTSE

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