

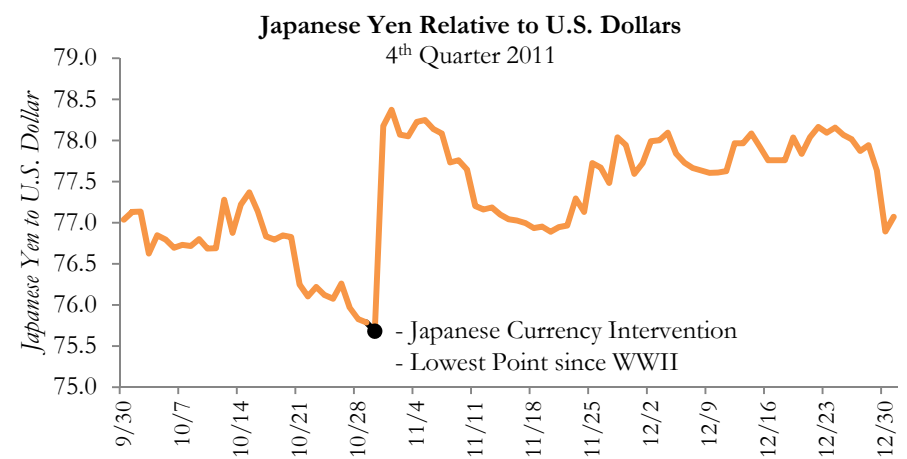
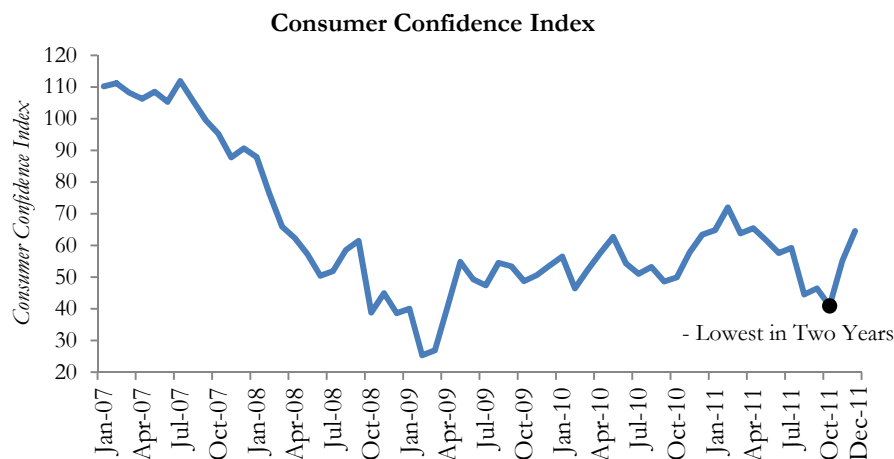
Market Environment – 4th Quarter 2011

The quarter started exceptionally well as October was the strongest month for U.S. equity investors in over 20 years. This was in spite of the fact that the first and last days of the month had steep declines – a stark reminder to investors that volatility was rampant all around. Early in October, investors received better-than-expected economic data and solid corporate earnings reports. Trading and manufacturing data was better than expected, with modest increases in hiring and production. Construction spending was also better than expected, with positive contributions coming from both the public and private sectors. The employment situation improved with notable payroll expansion in the private sector, particularly in professional and business service industries. Strong retail sales data also buoyed stocks, reporting higher than expected, with motor vehicle sales a lead contributor.

With early data suggesting that the probability of a U.S. recession was decreasing, investors rode the euphoria of strong returns. “Risky” assets generally outperformed the more typical defensive names. For example, small cap stocks outperformed large cap stocks and emerging market equities outperformed international developed market equities. The material, energy and industrial sectors all outperformed the utility, consumer staples and telecommunication sectors. And all fixed income sector spreads narrowed relative to U.S. Treasuries during the month.

Optimism helped fuel equity returns in October led by corporate and economic data. In Europe, optimism was building that European leaders would craft a solution to the region’s debt crisis. On October 27th, the EU summit announced a plan that would expand the capacity of the EFSF (European Financial Stability Facility) by leveraging assets by four to five times. In addition, private holders of Greek sovereign debt agreed to a voluntary 50% write-down.

October ended on a mixed note. Consumer confidence data came in much lower than expected, the lowest in two years. Italian and Spanish bond yields increased on concerns that European leaders would struggle to raise the necessary funds required to contain the region’s debt crisis. Japan intervened in the currency market by devaluing the yen versus the dollar, which had hit a post-World War II record. Consequently, investors began to “de-risk” entering the month of November.



Source: © Brian Gould, Agricultural and Applied Economics, UW Madison

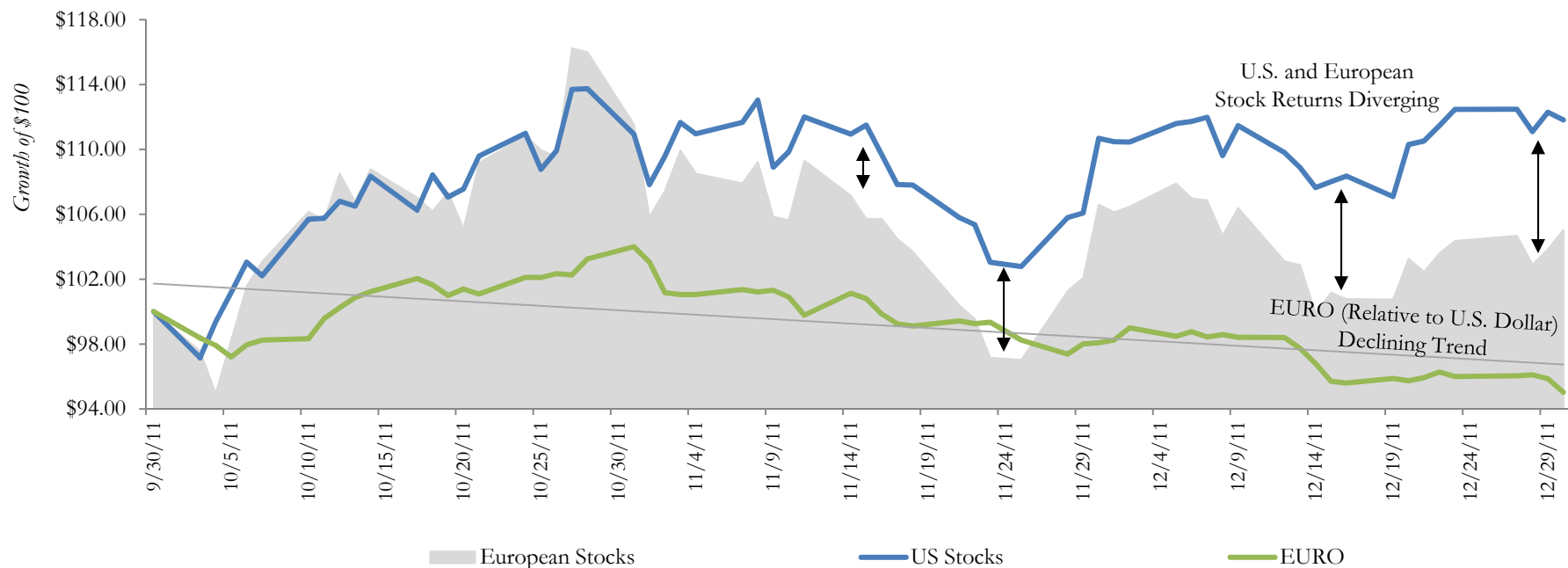
Source: <http://www.exchange-rates.org/history/JPY/USD/>

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Weakness in the Euro began to take hold early in November. George Papandreou, the Greek Prime Minister, pledged to put the acceptance of the European Union's bailout funds to a referendum, a risk of putting Greece into default if rejected by the country's voters. Although Papandreou later scrapped his plans, it highlighted additional risks to the European bailout effort. Shortly thereafter, Papandreou relinquished his role as Prime Minister. The political pressures also spread to Italy where Silvio Berlusconi resigned as Prime Minister. Confidence in Europe waned; manufacturing surveys in Europe showed a contraction in activity and dollar funding costs climbed as European banks sought to shore up their capital.

In the U.S., concern about Europe dampened enthusiasm about the possibility of steady economic growth. Factory orders showed solid strength and initial jobless claims came in lower than expected. Consumer sentiment showed signs of increasing and retail sales continued to gain at a healthy pace.

Optimism was dampened by a revised GDP number that came in lower than previously reported (to 2% from 2.5%) and a U.S. joint committee on deficit reduction failed to generate a solution to America's fiscal problems which put additional stress on the market.



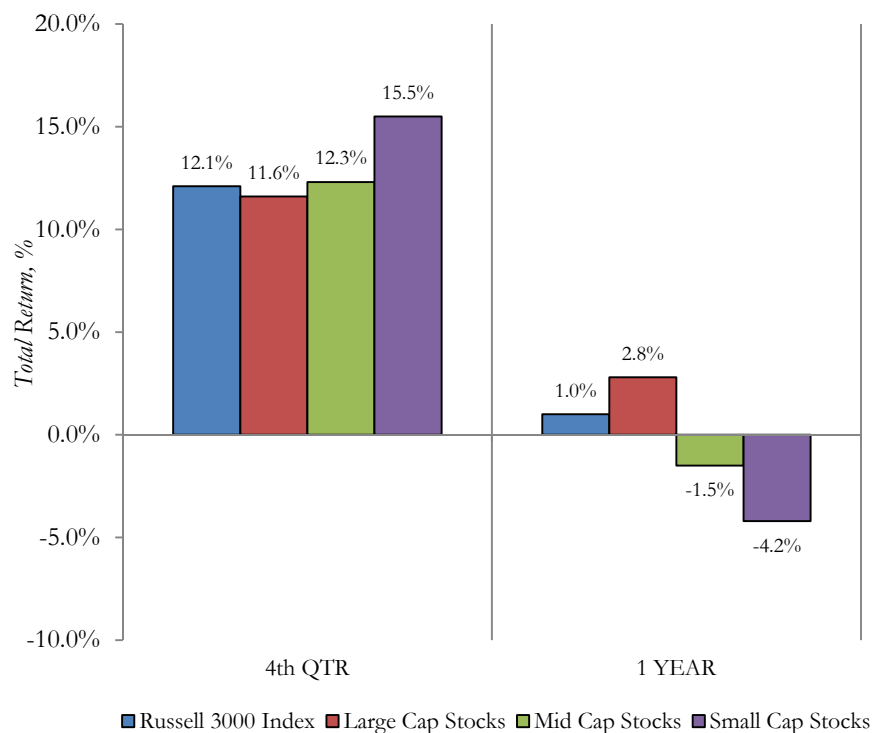
Source: S&P, <http://www.exchange-rates.org/history/EURO/USD/>

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Domestic equities advanced 12.1% for the quarter as measured by the Russell 3000 index. For the year, domestic stocks ended positive but at a dismal 1.0%. As might be expected in an environment where propensities to take risk increase, small cap stocks outperformed large and mid cap stocks for the quarter. The smallest stocks, as measured by the Russell 2000 index, returned 15.5% for the quarter versus 11.6% for large cap stocks and 12.3% for mid cap stocks. For the year, though, large cap stocks offered the best returns at 2.8%. Mid cap stocks and small cap stocks each lost investor's money for the year, with mid cap stocks returning (1.5%) and small cap stocks returning (4.2%).

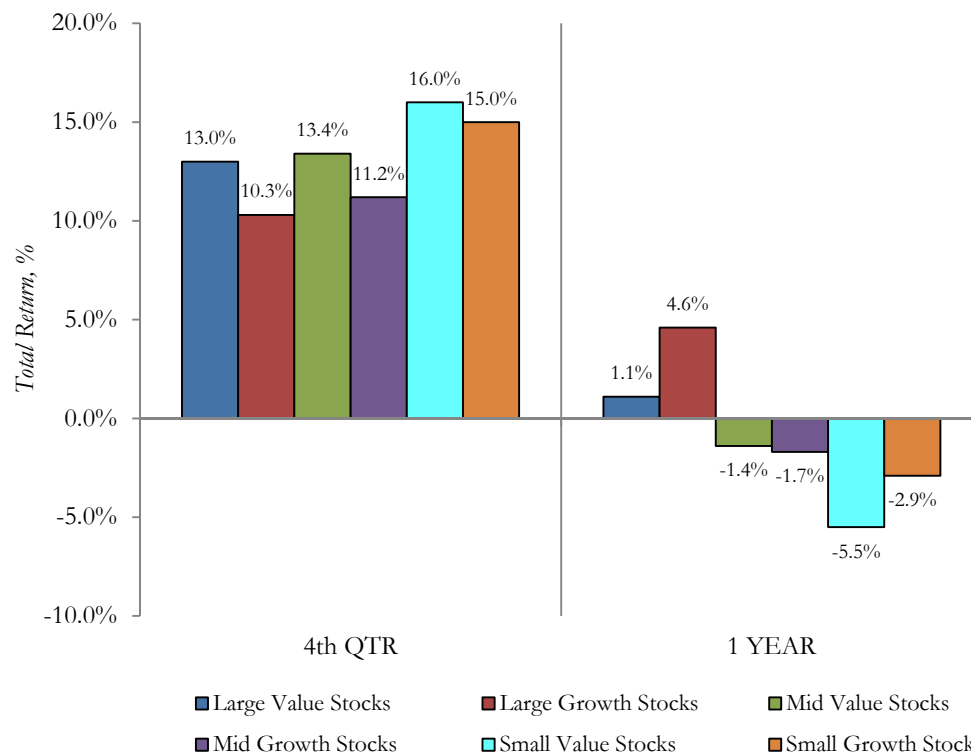
Value stocks were generally in favor for the quarter and proved to be the better investment, particularly in December. Small cap value stocks led the way for the quarter with a return of 16.0% followed closely by a 15.0% return for small cap growth stocks. Large cap value and mid cap value stocks outperformed their growth counterparts by over 2% each for the quarter, with most of the outperformance occurring in December. For the year, large cap growth stocks outperformed all other categories with a return of 4.6%. Large cap value stocks came in second with a return of 1.1%. Mid cap and small cap stocks, both growth and value, lost money for 2011, with small cap value stocks losing the most at (5.5%).

U.S. Equity Returns by Market Capitalization



Source: Russell

U.S. Equity Returns by Style



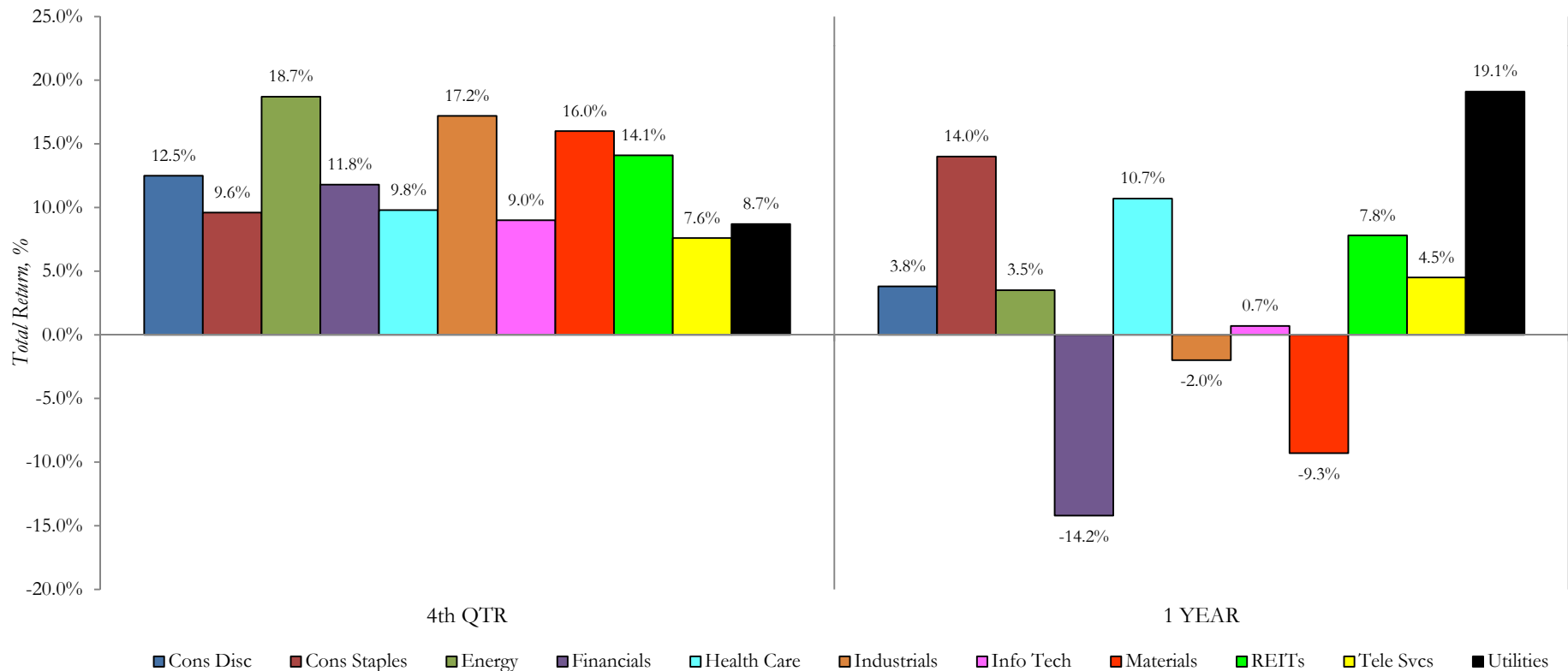
Source: Russell



Market Environment – 4th Quarter 2011

Evidenced by the generally positive U.S. economic data during the quarter, sectors that typically show strength in a strong economic environment performed the best. Energy stocks led returns for the quarter at 18.7%, with industrials and materials close behind, each returning 17.2% and 16.0% respectively. Utilities and Telecommunication Service companies were the laggards for the quarter, each returning a respectable 8.7% and 7.6%, respectively. For the year, Utility stocks were the clear winners, returning 19.1%. Defensive consumer staples and health care stocks also experienced healthy appreciation for the year, each returning 14.0% and 10.7%, respectively. Financials and materials were the worst performers for 2011, each losing investor's money at a return of (14.2%) and (9.3%), respectively. The large disparity between sector returns in 2011 highlights two important points. First, volatility remains elevated, a reflection of the policy responses and fragility of global economic growth. Second, in the strong down markets of August and September, defensive sectors like utilities and consumer staples held up considerably better than other sectors. The strong year-to-date returns for those sectors highlight the important role defensive equity positioning can play in negative markets for downside protection.

U.S. Equity Returns by Sector



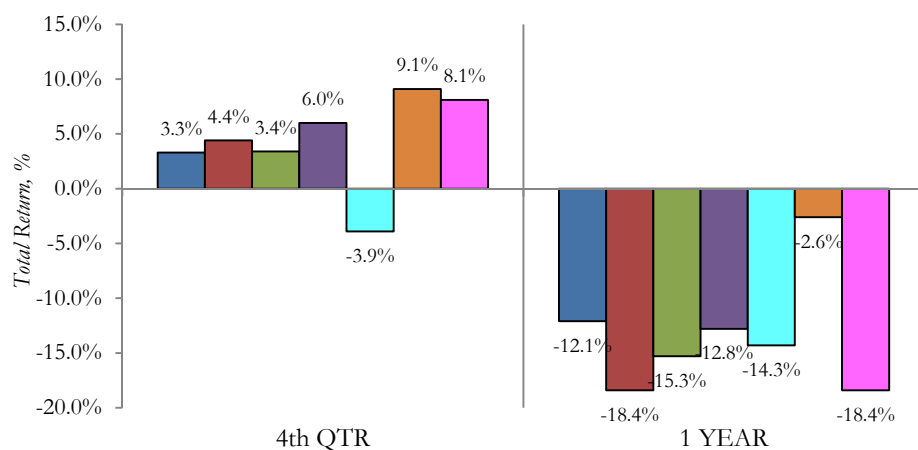
Source: MSCI

Market Environment – 4th Quarter 2011

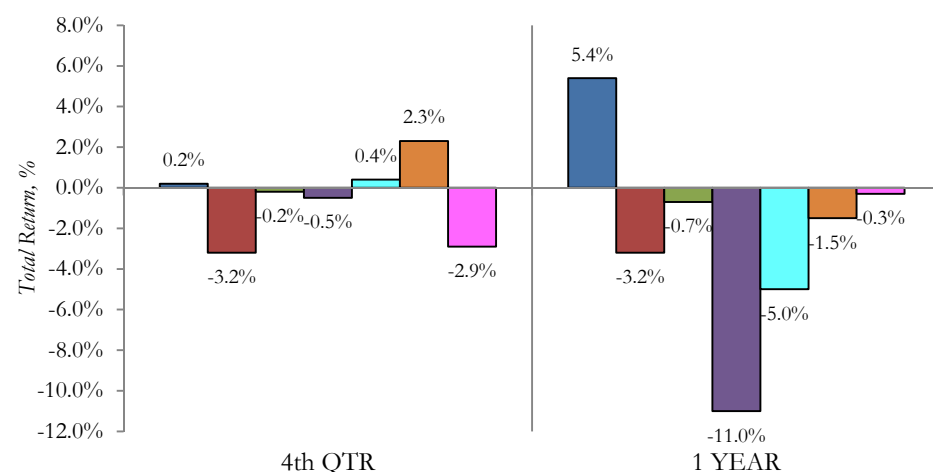
International equity returns were substantial enough during October to protect from the modest losses in November and December to end the quarter at a positive 3.3% return as measured by the MSCI EAFE Index. In local markets, international equities returned 4.1%, evidence that currency depreciation was a factor, but not extremely significant. Emerging market equities outperformed developed market international equities, returning 4.4% (4.8% in local markets). Interestingly, the Pacific region experienced the worst equity returns for the quarter (0.3%), driven largely by a somewhat surprising negative return in Japan during October, a month of almost worldwide strong equity returns. In local Pacific markets, equities returned (1.8%) for the quarter – a sign of the relative strength of the Asian currencies versus the U.S. dollar. Even though Japanese policymakers deliberately devalued the Yen, it still managed to strengthen versus the dollar over the quarter +0.2% and year +5.4%.

Brazil and China each experienced strong equity returns on news of accommodative monetary policy in Brazil and the Chinese signaling possible acceptance of more accommodative monetary policies. Back in Europe, countries were fighting off mixed economic news and political meddling. As might be expected, countries like Italy and Spain experienced weak to negative returns. European stalwarts, Germany and France, each posted solid positive returns, 7.4% and 6.1% in local currencies, respectively. But overall weakness in the Euro eroded some of those positive returns for U.S. investors. Equity investments in Greece have been annihilated. For the quarter, Greece lost (27.5%) for dollar-based investors. For all of 2011, dollar-based investors lost a whopping (62.8%) of their equity in Greece. Outside of the Eurozone, the U.K. experienced some benefit from being outside the clout of the Euro. For the quarter, U.K. equities returned 9.1% (9.4% in local markets). In November and December, U.K. equities experienced some strength, as confidence in the Euro slowly eroded.

International Equity Returns



Currency Appreciation/Depreciation versus U.S. Dollar



■ EAFE ■ Emerging Markets ■ Europe ex UK ■ Pacific ex Japan
 ■ Japan ■ United Kingdom ■ China

■ Japan ■ Europe ■ United Kingdom ■ Brazil ■ Russia ■ S. Korea ■ Switzerland

Source: Markov Processes International

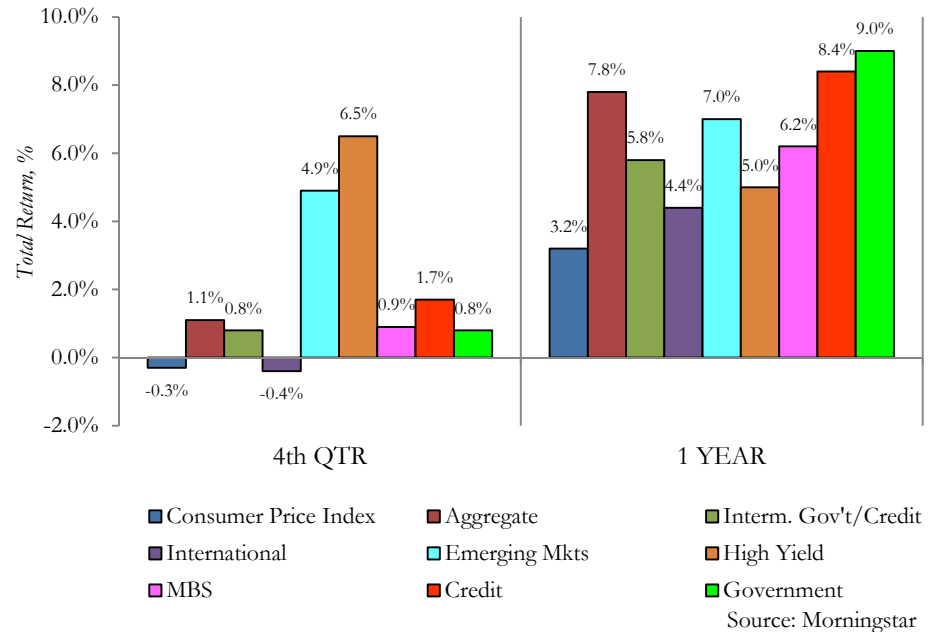
Source: MSCI Net total return indices reinvest dividends after deducting withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

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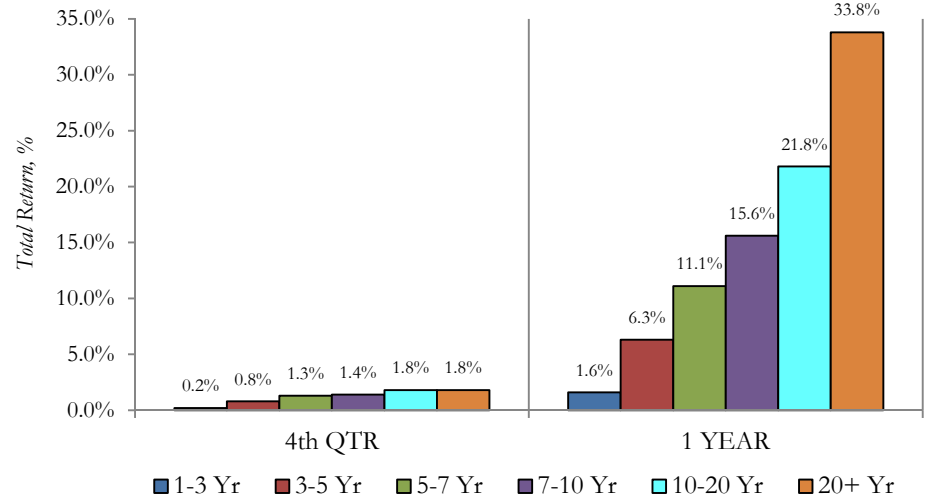
The Barclays Capital Aggregate Bond index ended the year up 7.8%, posting real returns of 4.6%. The Barclays Capital Intermediate Government/Credit index returned 5.8% for the year, posting a real return of 2.6%. The difference in returns between the two indexes is largely attributable to the slightly longer duration of the Aggregate index (5.0 years versus 4.0 years for the Intermediate Government/Credit index). For domestic fixed income investors, duration was critical to returns. During 2011, longer duration Treasuries outperformed shorter duration Treasuries by well over 20%.

For the fourth quarter, U.S. treasury yields ended almost exactly where they started, but that is not to say they kept still. As expected during a strong equity market, treasuries declined and yields spiked up in October. Long-term treasuries saw prices decline (5.4%) during the month. All spread products (i.e. credit) appreciated during the month, posting better returns than duration-equivalent treasuries. In November, debt markets began to unwind the positive returns of October as investor's demand for less risky assets increased. As risk was being priced back into the market, spreads widened and fixed income investors in credit, all saw price depreciation. Only the "safest" fixed income securities experienced positive returns in November. Positive economic news out of the U.S. and liquidity injections by the ECB helped prop up fixed income returns for the month of December. All fixed income sectors ended the quarter on a positive note and 2011 returns finished with positive real returns.

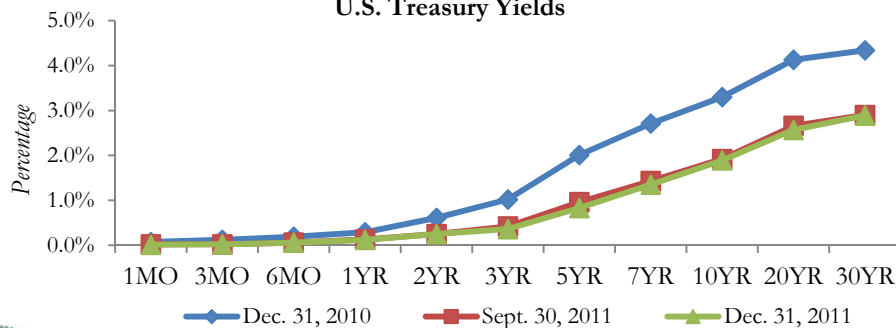
Fixed Income Returns



U.S. Treasury Returns by Duration



U.S. Treasury Yields



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DOMESTIC EQUITY	QTR	1 Year	3 Year	5 Year	10 Year
Russell 3000 Index	12.1	1.0	14.9	0.0	3.5
Russell 3000 Growth Index	10.9	2.2	18.1	2.5	2.7
Russell 3000 Value Index	13.3	(0.1)	11.6	(2.6)	4.1
S&P 500 Index	11.8	2.1	14.1	(0.2)	2.9
Russell 1000 Index	11.8	1.5	14.8	0.0	3.3
Russell 1000 Growth Index	10.6	2.6	18.0	2.5	2.6
Russell 1000 Value Index	13.1	0.4	11.5	(2.6)	3.9
Russell TOP 200 Index	11.6	2.8	12.8	(0.6)	2.1
Russell TOP 200 Growth Index	10.3	4.6	16.7	2.6	1.9
Russell TOP 200 Value Index	13.0	1.1	9.0	(3.7)	2.3
Russell Mid-Cap Index	12.3	(1.5)	20.2	1.4	7.0
Russell Mid-Cap Growth Index	11.2	(1.7)	22.1	2.4	5.3
Russell Mid-Cap Value Index	13.4	(1.4)	18.2	0.0	7.7
Russell 2000 Index	15.5	(4.2)	15.6	0.2	5.6
Russell 2000 Growth Index	15.0	(2.9)	19.0	2.1	4.5
Russell 2000 Value Index	16.0	(5.5)	12.4	(1.9)	6.4
DOMESTIC EQUITY BY SECTOR					
MSCI US Consumer Discretionary	12.5	3.8	25.9	1.8	4.2
MSCI US Consumer Staples	9.6	14.0	14.7	7.5	7.5
MSCI US Energy	18.7	3.5	14.4	4.9	12.1
MSCI US Financials	11.8	(14.2)	4.1	(13.9)	(2.1)
MSCI US Health Care	9.8	10.7	12.8	3.5	3.1
MSCI US Industrials	17.2	(2.0)	15.2	0.8	4.3
MSCI US Information Technology	9.0	0.7	22.6	4.0	2.5
MSCI US Materials	16.0	(9.3)	19.7	3.0	7.7
MSCI US REITs	15.3	8.7	21.6	(1.5)	10.2
MSCI US Telecommunication Services	7.6	4.5	11.5	0.4	1.4
MSCI US Utilities	8.7	19.1	12.6	3.8	6.9



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DOMESTIC FIXED INCOME	QTR	1 Year	3 Year	5 Year	10 Year
Merrill Lynch 3-month T-Bill	0.0	0.1	0.1	1.5	2.0
Barclays Govt/Credit 1-3 Yr	0.2	1.6	2.7	4.0	3.6
Barclays Intermediate Government/Credit	0.8	5.8	5.6	5.9	5.2
Barclays Long Government/Credit	2.6	22.5	11.2	9.7	8.5
Barclays Government	0.8	9.0	4.0	6.6	5.6
Barclays Credit Bond	1.7	8.4	10.9	6.8	6.3
Barclays Aggregate Bond	1.1	7.8	6.8	6.5	5.8
Barclays Mortgage Backed Securities	0.9	6.2	5.8	6.5	5.7
Barclays High Yield Corporate Bond	6.5	5.0	24.1	7.5	8.9
Barclays TIPS	2.7	13.6	10.4	8.0	7.6
Consumer Price Index	(0.3)	3.2	2.5	2.3	2.5
INTERNATIONAL/GLOBAL EQUITY					
MSCI EAFE (Net)	3.3	(12.1)	7.6	(4.7)	4.7
MSCI EAFE Growth (Net)	3.9	(12.1)	8.5	(3.2)	4.3
MSCI EAFE Value (Net)	2.7	(12.2)	6.8	(6.3)	5.0
MSCI EAFE Small Cap (Net)	(0.6)	(15.9)	14.6	(4.1)	9.0
MSCI AC World Index (Net)	7.2	(7.3)	12.0	(1.9)	4.2
MSCI AC World Index Growth (Net)	7.2	(7.4)	13.6	(0.5)	3.9
MSCI AC World Index Value (Net)	7.1	(7.3)	10.4	(3.5)	4.5
MSCI Europe ex UK (Net)	3.4	(15.3)	4.5	(6.2)	4.1
MSCI United Kingdom (Net)	9.1	(2.6)	14.9	(3.2)	4.8
MSCI Pacific ex Japan (Net)	6.0	(12.8)	20.8	2.7	11.6
MSCI Japan (Net)	(3.9)	(14.3)	1.7	(6.6)	3.0
MSCI Emerging Markets (Net)	4.4	(18.4)	20.1	2.4	13.9
FTSE EPRA/NAREIT Global Real Estate	6.7	(8.1)	15.9	(5.4)	NA
SPECIALTY					
S&P GSCI	(3.6)	9.6	20.1	18.5	17.9
S&P GSCI Gold	9.0	(1.2)	6.9	(2.8)	5.6

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

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