



Portfolio Shift Commentary: September 28, 2011

There was no lack of market volatility last week. After the Federal Reserve, announced on Wednesday that it was providing more accommodation to jump start the flagging economy, the financial markets responded in a hellish fashion. Stock prices in the U.S. and overseas markets plunged, reflecting a frenzied effort by global investors to dump all risky assets, including gold. It is unfair to blame the Fed entirely for the market turmoil on Wednesday and Thursday. The sovereign debt crisis continues to percolate with no resolution in sight. Greece is the focal point, but concern is spreading that major banks in Europe are having funding problems, reminiscent of the months preceding the global financial crisis in 2008.

The latest gyrations in financial markets may be more reflective of a crisis in confidence than of actual economic developments. Investors are clearly questioning whether political leaders in the U.S. and overseas have the will or ability to come to grips with the proliferating problems unfolding before them. It was under the glare of this hot spotlight that the Federal Reserve took action last week. Following its two-day meeting, the Fed announced "Operation Twist," a \$400 billion reshuffling of its vast portfolio of securities, selling short-term Treasuries and swapping the proceeds into longer-term issues maturing from 6-30 years over the next eight months. Simply put, time will tell the success of this program. However, given the dire straits of the economy coupled with relatively low inflation, the potential benefit of adding an extra measure of accommodation outweighs the risk of doing nothing.

With the persistent economic uncertainty, we lowered our international equity exposure in favor of higher dividend paying equities. We feel that positioning the portfolios with a higher dividend yield, while overweighting domestic markets relative to international markets; will help dampen the volatility over the next few months as the markets adjust to the fear and uncertainty that have gripped investors.

As always, we thank you for your continued support.

Sincerely,

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