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Quarterly Market Review: July – September 2012

Dear Clients,

Over the years, we have taken a great deal of pride and enjoyment in providing you with our market commentary at the end of each quarter and fiscal year. This new report is condensed. It will provide you with a more brief format, while continuing to capture the more pertinent information.

Our goal is to simplify the communication experience as well as the information flow. We seek to make the process much more functional in reporting to you our discoveries as we comb the investment landscape.

Following your review of the report, we welcome your comments and suggestions so that we may keep you better informed.

Quarterly Economic Perspective

- It was Spain's turn to become the focus of concerns about eurozone financial stability as interest rates briefly topped 7% once again. Investors were relieved when a German court cleared the way for implementation of the eurozone's bailout fund.

- However, by the end of the quarter, protests against fresh austerity measures and tax increases coupled with worry about a potential downgrade of Spain's credit rating weighed on global equities.

- U.S. economic growth continued to slow; the Commerce Department said gross domestic product rose only 1.3% in the second quarter compared to Q1's 2% rate. Meanwhile, the Bureau of Labor Statistics said the unemployment rate remained stalled at 8.1% in August as increases in corporate jobs were partly offset by cuts in government payrolls.

- There was some encouraging news in the housing market. The S&P/Case-Shiller index of home prices saw three straight months of increases during the quarter, and by quarter's end were at their highest level in nearly two years. Meanwhile, the National Association of Realtors® said home resales were 9.3% higher than a year ago.

- And although sales of new single-family homes fell 0.3% during August, the Commerce Department said they were still almost 28% higher than the previous August, and the median home price of $256,900 was the highest it's been since March 2007. Finally, housing starts were almost 30% higher than a year earlier.

- The Federal Open Market Committee launched QE3, a new $40 billion bond-buying program that represents the third round of quantitative easing designed to help stimulate the economy, and set no time frame for the purchases to end. The Fed also said it now anticipates keeping its target interest rate at its current low level until mid-2015.

- U.S. manufacturing data was mixed. Hurricane Isaac helped cut the Fed's measure of industrial production by 1.7%, and a sharp drop in orders for commercial aircraft helped take durable goods orders down by 13.2% in August.

- Meanwhile, the Commerce Department said retail sales in August were 4.7% higher than a year ago, while the Bureau of Labor Statistics' yearly snapshot of consumer expenditures showed the first yearly increase in consumer spending in three years.

- In China--the world's third largest economy behind the United States and the eurozone--economic growth continued to slow in the second quarter, hitting a three-year low of 7.6%. While robust by U.S. standards, it's still a far cry from the 11.9% seen at the beginning of 2010.

The Markets

Domestic equities confounded anyone worried about a possible repeat of August 2011 and reached year-to-date highs in mid-September. The Dow hit a level not seen since December 2007, while the S&P 500's quarterly gain left it up more than 14% for all of 2012.

The Nasdaq has done even better, gaining more than 6% in Q3, and almost 20% so far this year. The Russell 2000 was in third place for the year despite being edged out during the quarter by the Global Dow, which trailed domestic equities year-to-date despite last quarter's nearly 5% advance.

The 10-year Treasury bond yield hit a new low in late July as demand pushed prices up; however, it edged back upward a bit by the end of the quarter. After spiking close to $100 in mid-September, oil prices fell back to end the quarter at $92 a barrel, more than 8% higher than at the end of June.

Gold moved steadily upward, gaining more than 10% for the quarter and ending at roughly $1,775 an ounce. Meanwhile, the dollar hit $84 in July against a basket of six foreign currencies, then gave up more than 5% to end the quarter at roughly $79.

Market/Index	2011 Close	As of 9/28	Monthly Change	Quarterly Change	YTD Change
DJIA	12217.56	13437.13	2.65%	4.32%	9.98%
NASDAQ	2605.15	3116.23	1.61%	6.17%	19.62%
S&P 500	1257.60	1440.67	2.42%	5.76%	14.56%
Russell 2000	740.92	837.45	3.12%	4.88%	13.03%
Global Dow	1801.60	1921.70	2.77%	4.92%	6.67%
Fed. Funds	.25%	.25%	0 bps	0 bps	0 bps
10-year Treasuries	1.89%	1.65%	8 bps	-2 bps	-24 bps

In closing,

On behalf of the entire staff here at Financial Concepts, we want to thank you again for your continued support. The past few years have been challenging on many fronts for investors. The global recession still lingers and its duration is difficult to estimate.

Despite the fact that financial markets will always ebb and flow, sometimes rationally and other times irrationally, we should never forget the wealth creating effect that usually comes from this. In the short term -- anything can happen, but over longer periods of time, patterns have emerged.

In order for us to best navigate this landscape, we believe that staying true to our long held view of preserving client principal is paramount. Looking ahead, we remain diligent and focused in finding new opportunities in the coming year…

Sincerely,

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Equities data reflect price changes, not total return.

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange.

The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indexes listed are unmanaged and are not available for direct investment. The U.S. Dollar Index is a weighted geometric mean of the dollar compared to the euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc

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