Economic & Capital Markets Outlook

Third Quarter 2010 Highlights

- Double dip recession or not – that is the major consideration for the investment market. If it happens, we would expect global equities to experience another drop in value. The consensus among investors is that a double dip will not develop as evidenced by the September rally in the stock markets.

- The Fed appears less optimistic and has done an unusual policy about-face. In the spring, as the economic recovery was progressing well, the Fed was contemplating how to withdraw the massive stimulus that had propped up the economy and stabilized financial markets. In contrast, at the September 21st meeting, in response to the weakening recovery, the Fed stated it would "provide additional accommodation if needed to support economic recovery and return inflation, over time, to levels consistent with its mandate." Economists have assigned a high probability of a second buyback program, albeit smaller in scale, to begin before year-end.

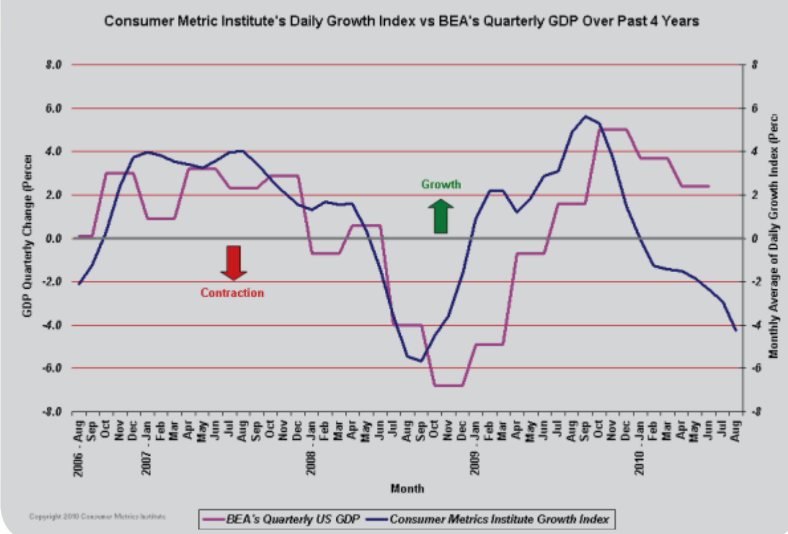
- The domestic economic healing process continues its slow path of recovery with real GDP growing at a 1.7% annual rate for the 2nd quarter of 2010, marking the 4th consecutive quarter of GDP increases. The low growth rate epitomizes the fragility of the recovery due to the massive unwinding of consumer borrowing (deleveraging) resulting in a deflationary environment. We project modest GDP growth for the balance of 2010 in the 1-2% range as the impact of declining government stimulus is realized. Economic and market surprises will be on the downside.

- The deterioration in consumer discretionary spending is measured in the Consumer Metric Institute's Daily Growth Index (CMI) leading indicator in blue, Graph 1. The CMI's strong historical correlation to future quarterly GDP (in red) illustrates the growing possibility of an economic softening to come and the severity of the CMI 's downturn means that it could be significant.

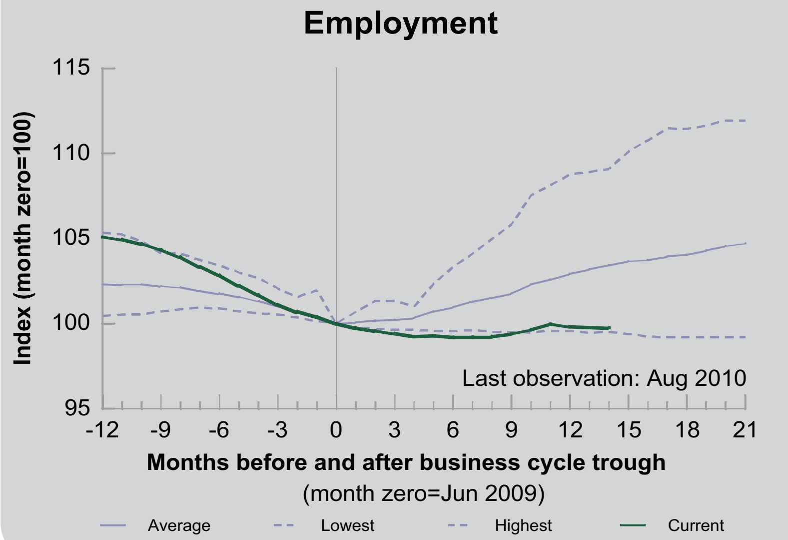
- Unemployment continues to drift sideways, stalling at 9.6%. Graph 2 from the St. Louis Federal Reserve Bank illustrates that current employment growth is at the bottom end of the range for post-war recoveries. In fact, the current cycle employment index shows renewed weakening in employment growth – a rarity at this point in the economic cycle. Low GDP growth and strong productivity argue for unemployment to stay high for an extended time.

- Inflation will not be a factor in 2010 as massive government stimulus is offset by the effect of worldwide deleveraging, excess capacity in the economy, and high unemployment. Core inflation averaging around 1% remains below the Fed's target range of 1-2%.

GRAPH 1



GRAPH 2



CLERMONT
WEALTH STRATEGIES

Economic & Capital Markets Outlook

Third Quarter 2010 Highlights

EQUITY

• Equity markets posted strong returns in the 3rd quarter as approximately 90% of the S&P 500 companies met or exceeded earnings estimates. Housing and employment concerns weighed on the equity markets in August only to reverse themselves in September boosting the markets.

• Businesses offered a cautious outlook for the 2nd half of 2010 because of concerns with consumer spending. Corporations indicated that hiring would remain on hold until they see further signs of economic stabilization.

• Analysts are expecting S&P 500 companies to grow earnings over the next year in excess of 20% (See Table 1). Historically, high expected growth rates are associated with lower than average stock returns. High expected earnings growth is regarded as a contra-indicator since the market is pricing them in but is disappointed when the actual growth rate falls short of expectations.

TABLE 1

S&P 500 Annual Performance When:

Expected Earnings Per Share Growth Is:	
Above 14.2%	-3.6
Between 4.2% and 14.2%	6.9
4.2% and Below	17.2

Source: Ned Davis Research, Inc.

Equity Returns

as of 9/30/2010

	3 months	YTD	1 year	3 year	5 year	10 year
S&P 500	11.29	3.89	10.16	-7.16	0.64	-0.43
Russell 1000 Value	10.13	4.49	8.90	-9.39	-0.48	2.59
Russell 1000 Growth	13.00	4.36	12.65	-4.36	2.06	-3.44
Russel Mid Cap	13.31	10.97	17.54	-4.16	2.60	4.86
Russell 2000	11.29	9.12	13.35	-4.29	1.60	4.00
MSCI EAFE net	16.48	1.07	3.27	-9.51	1.97	2.56
MSCI EM net	18.03	10.75	20.22	-1.48	12.74	na

Source: Morningstar

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WEALTH STRATEGIES

FIXED INCOME

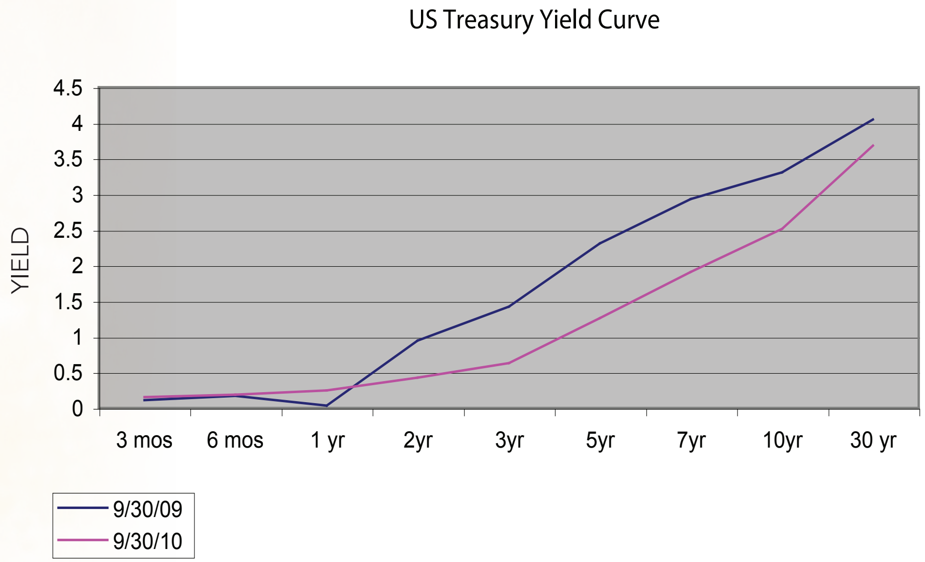
Economic & Capital Markets Outlook

Third Quarter 2010 Highlights

• The interest rate environment remains low with the Fed funds and discount rates at .25% and .75%, respectively. Expectations are the Fed will maintain a very low level on the Fed funds rate until the economy mounts a sustained recovery and employment improves. In fact, the Fed has never started a rate tightening cycle when unemployment was above 7.0%.

• The Treasury yield curve continued an unusual bullish flattening where long term yields fell more than short term yields. The 10-year Treasury yield is at historic lows in the 2.40-2.75% range due to concerns of slower economic growth, investor flight to quality and the European sovereign debt crisis.

• Investor demand for bonds continues at a strong pace while spreads between treasuries, agencies, corporate bonds and high yield tightened in the 3rd quarter. The mortgage sector spreads widened during the 3rd quarter mainly due to the significant decline in the 10 year treasury.



Fixed Income Returns

as of 9/30/2010

	3 mos	YTD	1 yr	3 yr	5 yr	10 yr
BarCap Aggregate	2.48	7.94	8.16	7.42	6.20	6.41
BarCap Inter Gov/Cr	2.76	7.44	7.77	6.93	5.95	6.05
BarCap Treasury	2.73	8.74	7.32	7.43	6.19	6.21
BarCap Credit	4.65	10.53	11.67	8.30	6.48	7.10
BarCap Corp High Yield	6.71	11.53	18.44	8.75	8.37	7.96
BarCap Municipal	3.40	6.83	5.81	6.04	5.13	5.73

Source: Morningstar

CLERMONT WEALTH STRATEGIES

Economic & Capital Markets Outlook

Third Quarter 2010 Highlights

• Based upon the expected softening in consumer demand, reduced government stimulus, potential higher taxes, and weakening housing market, the chances of very low economic growth with deflation have increased. To that conclusion we positioned portfolios as follows:

- Reduced your target equity exposure.
- Invested the equity proceeds in the portfolio's current fixed income strategy to pick up yield. Potential loss of principal is mitigated by a deflationary and slow growth environment.
- For portfolios that include alternative investments we invested the equity proceeds in non-correlated and/or negatively correlated alternative strategies.

• Continue to overweight large cap growth and large cap value versus the strategic benchmark with additional overweighting in the large cap value sector using high dividend and high quality equities. Small cap, mid cap and developed international remain underweighted. Remain neutral weighted in emerging market equities.

• Invest in high quality corporate bonds and government guaranteed securities with a neutral duration to the benchmark. Emphasize high quality municipal bonds for tax free income and maintain an allocation to high yield bonds as appropriate.

Current Tactical Allocation

	Underweight	Neutral	Overweight
Asset Class:			
Equities	■		
Fixed Income			■
Cash	■		
Equity Holdings:			
Large Cap Growth			■
Large Cap Value			■
Mid Cap	■		
Small Cap	■		
Developed International	■		
Emerging Markets		■	

2010 Tactical Highlights

January-Reduced the Small Cap sector to an underweight position from neutral and increased the Large Cap Value sector exposure from neutral to overweight with the proceeds.

June-Reduced the Developed International sector to underweight from neutral and reinvested the proceeds to further overweight the Large Cap Value sector, with an emphasis on targeting greater exposure to high quality/high dividend stocks.

September-Reduced Equities in portfolios to underweight from neutral and increased Fixed Income to overweight from neutral with the proceeds. Recommended use of Alternative Assets, where appropriate, to deploy equity proceeds. Maintained minimal cash positions to cover liquidity needs.

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