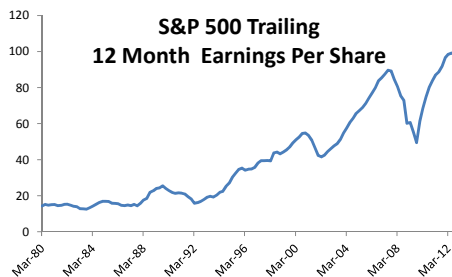


Investor focus has returned to the United States; the election, the “fiscal cliff”, the economy and corporate earnings. The former market drivers, i.e. European economic struggles and global central bank easing, have not gone away, but have been moved to the back burner. The election remains too close to call, but will have important implications for the path the U.S. will take to deal with the short-term issue of the “fiscal cliff” and the longer term problem of the national debt. There is a fine line between curtailing spending and budget deficits without causing another recession in the meantime.

If the “fiscal cliff” becomes a reality in the new year, a U.S. recession is guaranteed. Therefore, we believe Congress and the White House will reach a deal before January 1st to significantly reduce or at least delay the “cliff”. Given a “lame duck” Congress and the uncertainty of which party will control the White House, Senate and House of Representatives, the shape of such a deal is unpredictable. However, any deal that removes uncertainty and the risk of recession should be a positive for the stock market and the economy overall. Here are a few dates to watch for as the negotiations in Washington unfold:

- November 6th – Election
- November 13th – Congress reconvenes
- Early December – hammering out details of possible deal
- Week of December 15th – resolution of deal, hopefully
- January 3rd – new Congress takes office
- January 20th – Presidential Inauguration (of particular importance if Romney wins). Be prepared for volatility and “brinkmanship” as neither party wants to lose face.

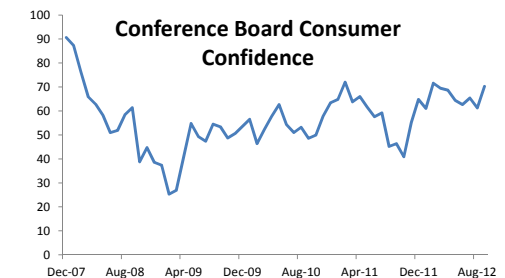
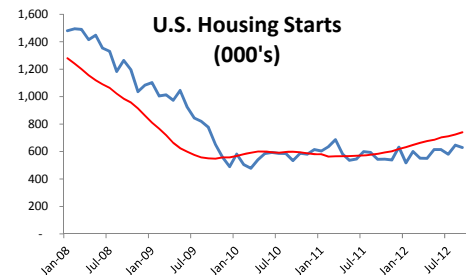
The U.S. economy continues to move higher. We would wish the rate of growth to be better, but certainly the momentum is positive. When we compare this rate of growth with almost any other world economy it is particularly impressive. Housing appears to have finally turned the corner, and the unemployment rate is moving lower. Other positive “green shoots” for the U.S. include retail sales, the ECRI Leading Index, Consumer Confidence and the Non-Manufacturing Purchasing Managers Index. While none of these in isolation is sufficient to convince us, as a group they lead us to expect a stronger economy. Finally, U.S. corporate balance sheets and earnings remain very positive,



even if revenue growth is somewhat of a concern. The resolution of the issues in Washington could release a pent-up demand from companies which have been held back by the questions of future tax rates and regulations. Despite concerns, the U.S. remains the best

investment environment relative to any other we see.

Which provides a segue to Mr. Bernanke and his now public acknowledgement that he will do everything in his power to keep the stock market at a high level. He believes that along with a healthier housing market, a strong stock market will cause a positive “wealth effect” that will increase consumption and thus the economy. Whether he is right or wrong, his position provides strong support for the market. To give context to the monetary stimulus the Fed has provided consider; the Fed opened for business in November, 1914. It took until September, 2008 for the balance sheet to reach \$900 billion. That number doubled in the seven weeks after Lehman collapsed. It was \$2.4 trillion six weeks later, and almost \$3 trillion today. In spite of this remarkable growth, New York Fed President Bill Dudley in an October 15th speech opined that Fed policy “may not have been sufficiently accommodative given the economic circumstances”. Really?



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Mario Draghi, head of the European Central Bank, taking a page from the Bernanke playbook, has promised to shore up the finances of any and all troubled EuroZone members. He lacks the Fed's ability to print money, but his statements have eased the negative effect on European credit and equity markets for the time being. Make no mistake though, the economic reports from countries such as Spain and Greece remain dismal, and further austerity will not improve the outlook. Both those countries are expected to be forced to request new bailout funds before year-end adding to the headline risks. Speaking of headlines, Jean Claude Juncker, Prime Minister of Luxembourg and leader of Euro Finance Ministers, recently admitted that what we read should be taken with a grain of salt. He is quoted in Der Spiegel "In light of the nervousness of the financial markets, it is difficult for us to keep the public adequately and correctly informed..... this is regrettable but unfortunately it's also unavoidable".

In summary, risks remain very real, but with continued monetary stimulus from global central banks, we defer to the learned Mr. Yogi Berra, "it ain't over 'til it's over".