



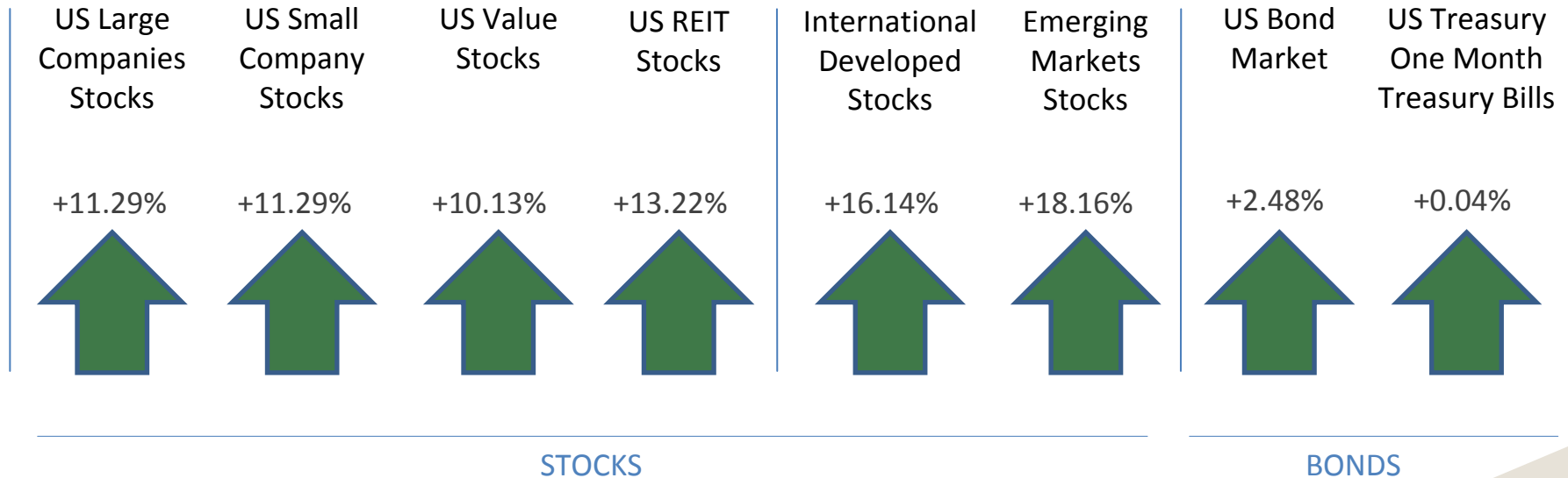
QUARTERLY INVESTMENT REVIEW

Third Quarter 2010



Markets Update: A Quarter in Review

Third Quarter 2010



Market segment (Index representation) as follows: US Large Company Stocks (S&P 500 Index); US Small Company Stocks (Russell 2000 Index), US Value Stocks (Russell 1000 Value Index). US Real Estate Market (Dow Jones US Select REIT Index), International Developed (MSCI World ex USA Index (net div.)), Emerging Markets (MSCI Emerging Markets Index (gross div.)), US Bond Market (Barclays Capital US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995-2010, all rights reserved. MSCI data copyright MSCI 2010, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

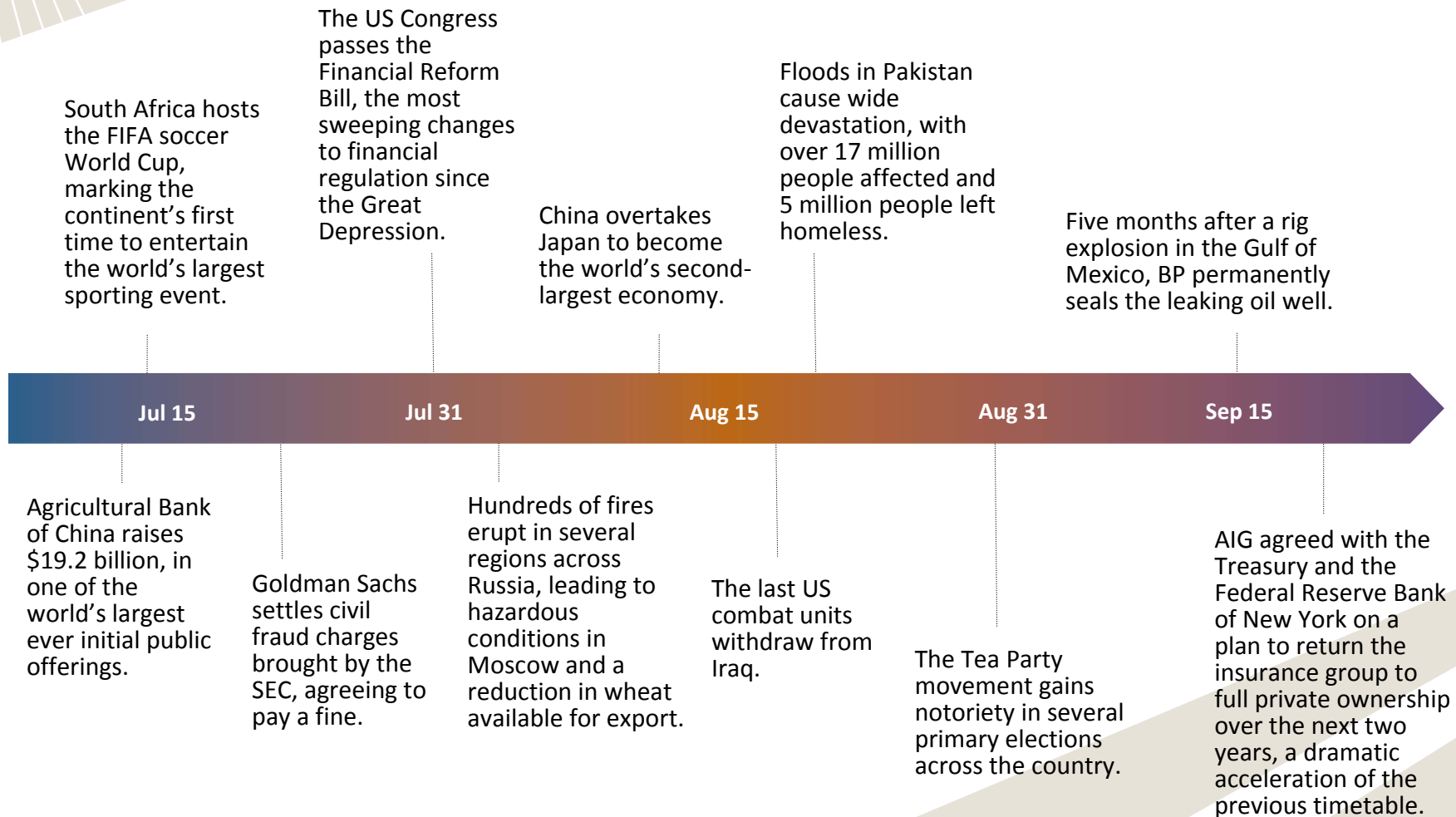
Markets Update: A Quarter in Review

Third Quarter 2010

- The US equity market rallied strongly in the third quarter, reversing the dismal performance of the second quarter. The broad US market gained over 11% in the quarter, with most asset classes delivering double-digit positive returns.
- Performance in other developed markets was generally good, especially in Scandinavia and Australia. However, there was much dispersion in performance at the individual country level. Ireland, which continues to face severe fiscal and financial problems, and Japan had small positive returns, while the Scandinavian countries all had quarterly returns in excess of 25%. The US dollar lost ground against most major currencies, especially the euro and the Australian dollar, which greatly helped the dollar-denominated returns of developed market equities.
- Emerging markets had even better performance than developed markets, and were the top-performing asset class for the period. As in the case of developed markets, there was much dispersion in the performance of different emerging markets, although most emerging markets managed to end the quarter with double-digit returns. The US dollar also lost ground against the main emerging market currencies in the third quarter, which contributed positively to the dollar-denominated returns of emerging market equities.
- In the third quarter, value stocks underperformed growth stocks across all market capitalization segments in the US and in other developed markets. In emerging markets, on the other hand, value stocks had mixed performance relative to growth stocks. Small cap value stocks outperformed small cap growth stocks, while large cap value stocks underperformed large cap growth stocks.
- Along the market capitalization dimension, small caps narrowly trailed large caps in the US. In other developed markets and in emerging markets, on the other hand, small caps greatly outperformed large caps in the quarter.
- Notwithstanding the continued weakness in the commercial and residential real estate markets, real estate securities had excellent returns in the third quarter and very good performance relative to other asset classes.
- Fixed income securities had good returns in the third quarter. Declining long-term rates rewarded investors who were exposed to term risk. Intermediate government securities and inflation-protected securities did particularly well.

Timeline of Events: A Quarter in Review

Third Quarter 2010



Beyond the Quarter: Survey of Long Term Performance

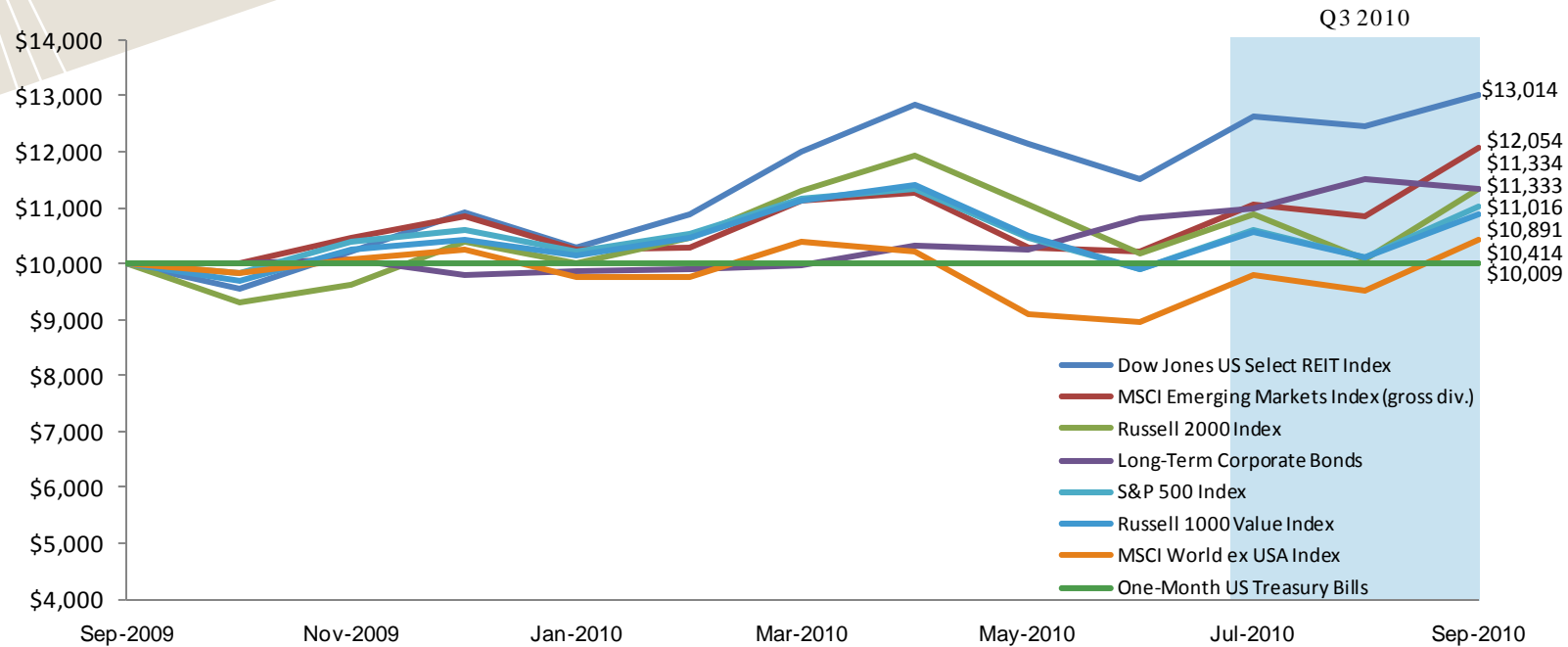
As of September 30, 2010

Index	Annualized (%)					
	1 Year Ending 9/30/2010	3 Years Ending 9/30/2010	5 Years Ending 9/30/2010	10 Years Ending 9/30/2010	20 Years Ending 9/30/2010	Since Inception (Inception date)
US Large Company Stocks						
S&P 500 Index	10.16	-7.16	0.64	-0.43	9.05	9.77 (01/1926)
US Small Cap Stocks						
Russell 2000 Index	13.34	-4.29	1.60	3.99	10.28	11.29 (01/1979)
US Value Stocks						
Russell 1000 Value Index	8.91	-9.38	-0.48	2.59	9.97	11.93 (01/1979)
US Real Estate Investment Trust Stocks						
Dow Jones US Select REIT Index	30.14	-6.98	1.36	10.12	11.23	12.39 (01/1978)
International Stocks						
MSCI World ex USA Index	4.14	-8.96	2.42	2.91	6.30	9.40 (01/1970)
MSCI Emerging Markets Index (gross div.)	20.54	-1.20	13.08	13.77	11.60	13.87 (01/1988)
Bonds						
SBBI Long-Term Corporate Bonds	13.33	9.80	6.82	8.55	8.65	5.96 (01/1926)
SBBI One-Month US Treasury Bills	0.09	0.93	2.43	2.35	3.55	3.63 (01/1926)

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Change in Value of \$10,000 Invested in Various Markets

October 1, 2009 – September 30, 2010



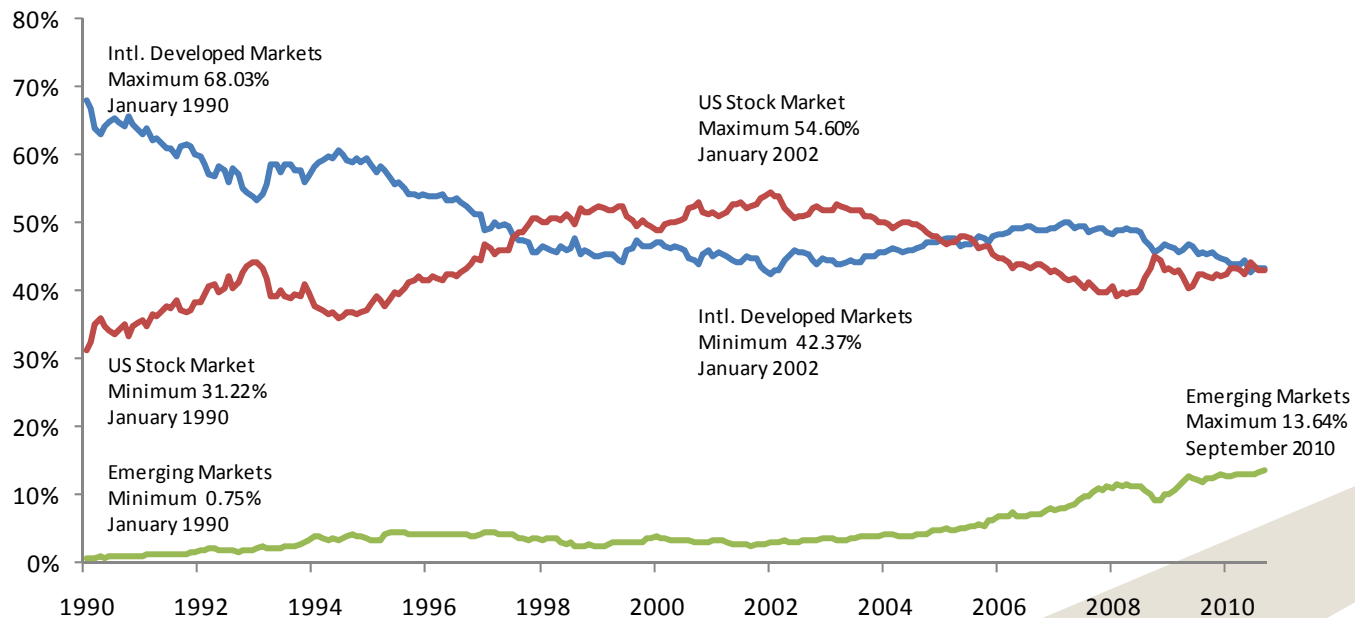
Asset Class	Index	CHANGE IN VALUE OF \$1			
		1 Year	5 Years	10 Years	20 Years
US Large Company Stocks	S&P 500	\$1.10	\$1.03	\$0.96	\$5.66
US Small Cap Stocks	Russell 2000	\$1.13	\$1.08	\$1.48	\$7.07
US Value Stocks	Russell 1000 Value	\$1.09	\$0.98	\$1.29	\$6.69
US Real Estate Investment Trust Stocks	Dow Jones US Select REIT	\$1.30	\$1.07	\$2.62	\$8.41
International Developed Stocks	MSCI World ex USA	\$1.04	\$1.13	\$1.33	\$3.39
Emerging Market Stocks	MSCI Emerging Markets (gross div.)	\$1.21	\$1.85	\$3.63	\$8.99
Fixed Income Corporate Bonds	Long-Term Corporate Bonds	\$1.13	\$1.39	\$2.27	\$5.25
Short Term Government Bonds	One-Month US Treasury Bills	\$1.00	\$1.13	\$1.26	\$2.01

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Value of Stock Markets Around the World

January 1990 – September 2010

	Number of Countries	Number of Stocks	Total Value	Weights		
				September 30, 2010	Change From Previous Quarter	01/90-9/10 Average
United States	1	2,954	12.82 Trillion	42.91%	▼ -1.29%	44.66%
Developed Markets	23	3,613	12.98 Trillion	43.45%	▲ 0.72%	50.47%
Emerging Markets	21	2,629	4.07 Trillion	13.64%	▲ 0.56%	4.87%
Total	45	9,196	29.87 Trillion	100.00%		



- Global market capitalization weights are not static, they vary across time.

Developed markets' securities and commodities data provided by Bloomberg. Emerging Markets' data provided by International Finance Corporation. The Russell 3000 Index is used as the proxy for the US market. The proxies for the non-US developed and emerging markets are the respective developed country and emerging country portions from the MSCI All Country World IMI ex USA Index. The proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy.

The Randomness of Quarterly Returns

This table shows from top to bottom the highest returning asset classes each year over the last 14 quarters. Each asset class is color coded based on the legend below.

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Highest Return	15.05	14.52	3.66	2.14	0.58	4.78	23.36	1.02	34.84	35.44	9.18	9.81	8.40	18.16	?
	6.98	2.71	1.97	0.52	0.53	0.43	0.20	0.03	31.46	21.04	8.58	8.85	0.02	16.14	?
	6.28	2.56	0.93	-1.13	-0.80	-1.12	-21.15	-11.01	25.86	19.36	6.04	6.79	-4.13	13.22	?
	4.93	2.03	-1.62	-8.69	-1.17	-6.11	-21.94	-12.43	20.68	19.28	4.22	5.39	-8.29	11.29	?
	4.42	1.42	-3.33	-8.72	-2.49	-8.37	-22.18	-13.14	16.69	18.24	3.88	2.45	-9.93	11.29	?
	1.26	1.14	-4.58	-9.45	-2.72	-8.54	-26.12	-14.95	15.93	15.61	2.44	1.53	-11.14	10.13	?
	-1.88	-0.24	-5.80	-9.90	-5.32	-20.67	-27.56	-16.77	8.24	11.09	0.01	1.35	-11.43	4.98	?
Lowest Return	-9.36	-3.09	-13.54	-10.92	-5.39	-26.86	-39.95	-33.92	0.02	0.03	-2.17	0.01	-13.63	0.04	?

US Large Cap Stocks (S&P 500)
US Small Cap Stocks (Russell 2000)
US Large Value Stocks (Russell 1000 Value)
International Developed Stocks (MSCI World ex USA)
Emerging Markets Stocks (MSCI Emerging Markets)
Real Estate (Dow Jones US Select REIT)
One-Month US Treasury Bills
Long-Term Corporate Bonds

The lack of a pattern indicates that picking which asset classes will be the best or worst performers is virtually impossible.

In Q4 2008, for example, the MSCI Emerging Markets Index was the second to worst performing asset class. A quarter later it was right up at the top.

Portfolios combining these various investments will avoid extreme returns.

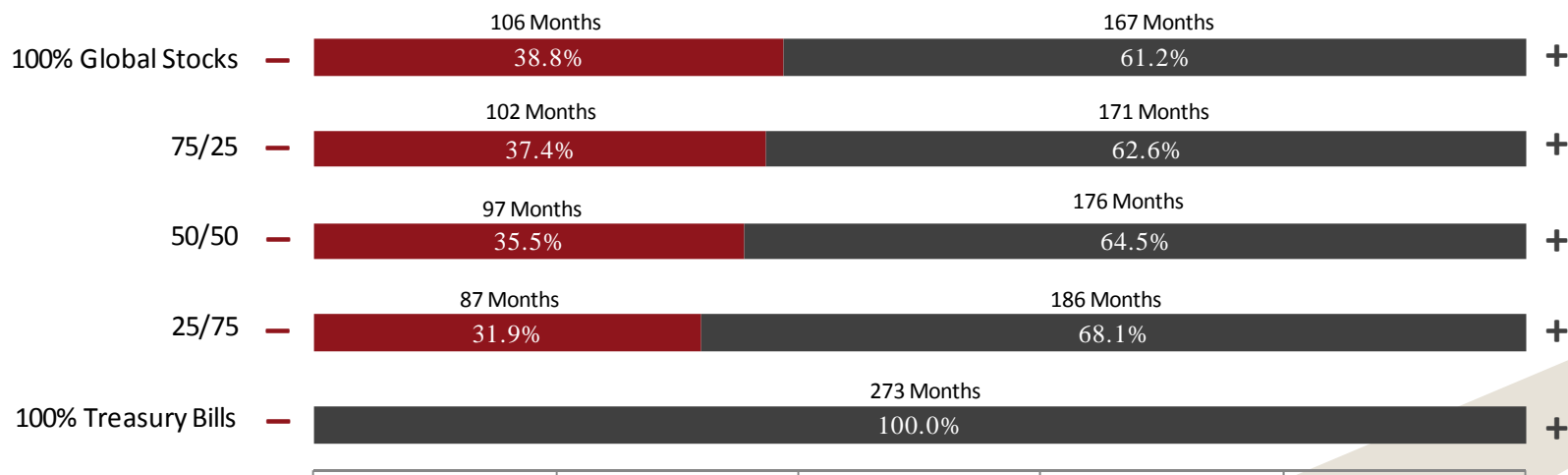
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Returns of Globally Diversified Portfolios

As of September 30, 2010

	Q3 2010	One Year	Annualized (%)			
			Three Years	Five Years	Ten Years	Twenty Years
100% Global Stocks	14.46	8.95	-6.97	2.93	2.13	7.83
75/25	10.83	7.01	-4.48	3.20	2.49	6.99
50/50	7.22	4.88	-2.34	3.20	2.65	6.00
25/75	3.62	2.57	-0.53	2.94	2.60	4.84
100% Treasury Bills	0.04	0.09	0.93	2.43	2.35	3.55

Positive vs. Negative Months: January 1988 – September 2010, Total 273 months



January 1988 start date based on the latest common index inception. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Data copyright MSCI 2010, all rights reserved. © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

US Stock Returns

As of September 30, 2010

Asset Class	Index	Returns (%)		
		Q3 2010	One Year	Three Years Annualized
Marketwide	Russell 3000	11.52	10.96	-6.60
Large Cap	S&P 500	11.29	10.16	-7.16
Large Cap	Russell 1000	11.56	10.75	-6.79
Large Cap Value	Russell 1000 Value	10.13	8.91	-9.38
Large Cap Growth	Russell 1000 Growth	13.00	12.66	-4.36
Small Cap	Russell 2000	11.29	13.34	-4.29
Small Cap Value	Russell 2000 Value	9.72	11.84	-4.99
Small Cap Growth	Russell 2000 Growth	12.82	14.78	-3.75

- Historically, value stocks, as measured by the ratio of book-to-market equity (BtM), have outperformed growth stocks over the long term. During the third quarter value stocks underperformed growth stocks.
- Historically, small stocks have experienced higher returns than large stocks over the long term. During the third quarter small caps stocks generally underperformed large cap stocks.

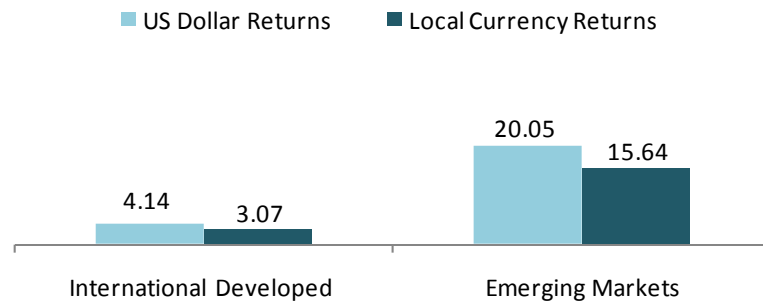
International Stock Returns

As of September 30, 2010

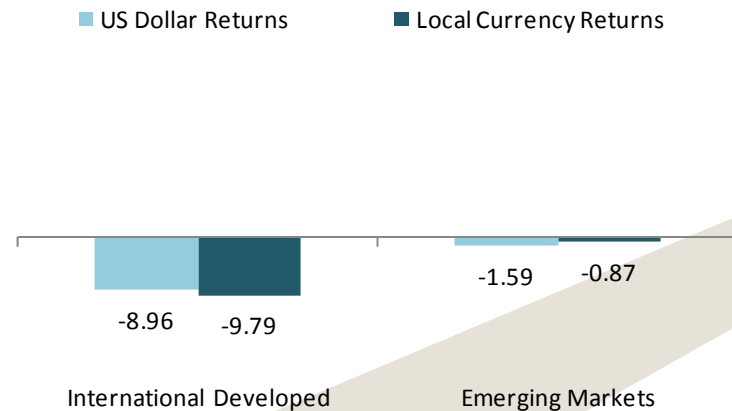
Asset Class	Index	Returns (%)		
		Q3 2010	One Year	Three Years Annualized
Marketwide	MSCI All Country World ex USA	16.58	7.56	-7.42
Developed Large Cap	MSCI World ex USA	16.14	4.14	-8.96
Developed Small Cap	MSCI World ex USA Small Cap	17.75	10.86	-6.31
Developed Value	MSCI World ex USA Value	15.83	-0.23	-9.97
Developed Growth	MSCI World ex USA Growth	16.44	8.69	-8.02
Emerging Markets Large Cap	MSCI Emerging Markets	18.23	20.05	-1.59
Emerging Markets Small Cap	MSCI Emerging Markets Small	20.48	32.32	1.26
Emerging Markets Value	MSCI Emerging Markets Value	16.76	19.11	0.75
Emerging Markets Growth	MSCI Emerging Markets Growth	19.31	21.34	-3.74

IMPACT OF CURRENCY FLUCTUATIONS ON RETURNS FOR INVESTORS IN US DOLLARS

One Year Returns in US Dollars and Local Currency








Three Year Annualized Returns in US Dollars and Local Currency








MSCI Country Returns in US Dollars and Local Currency

As of September 30, 2010

Third Quarter 2010 Returns

	Return US Dollars	Return Local Currency	Impact of Currency
 1. Poland	35.46%	16.79%	18.67%
 2. Chile	32.55%	16.89%	15.66%
.			
.			
.			
 40. United States	11.36%	11.36%	-
.			
 44. Japan	5.83%	-0.91%	6.74%
 45. Ireland	-3.55%	-13.46%	9.91%

One Year Returns in US Dollars and Local Currency

	Return US Dollars	Return Local Currency	Impact of Currency
 1. Chile	57.13%	37.99%	19.14%
 2. Philippines	52.35%	41.11%	11.24%
.			
.			
 26. United States	9.62%	9.62%	-
.			
.			
 44. Ireland	-25.12%	-19.83%	-5.29%
 45. Greece	-52.38%	-49.02%	-3.36%

TEN YEAR PERFORMANCE RANKING OF MARKETS AROUND THE WORLD IN US DOLLARS AS OF JUNE 30, 2010

1. Colombia 2. Peru 3. Indonesia 4. Czech Republic 5. Egypt 6. Brazil 7. Russia 8. India 9. Chile 10. Mexico 11. Thailand 12. South Africa 13. Morocco 14. Korea 15. Denmark 16. Hungary 17. Australia 18. Malaysia 19. China 20. Norway 21. Philippines 22. Singapore 23. Canada 24. Austria 25. Poland 26. Switzerland 27. Turkey 28. Israel 29. Hong Kong 30. Spain 31. New Zealand 32. Sweden 33. Germany 34. United Kingdom 35. Portugal 36. Netherlands 37. Belgium 38. France **39. USA** 40. Taiwan 41. Japan 42. Italy 43. Ireland 44. Greece 45. Finland

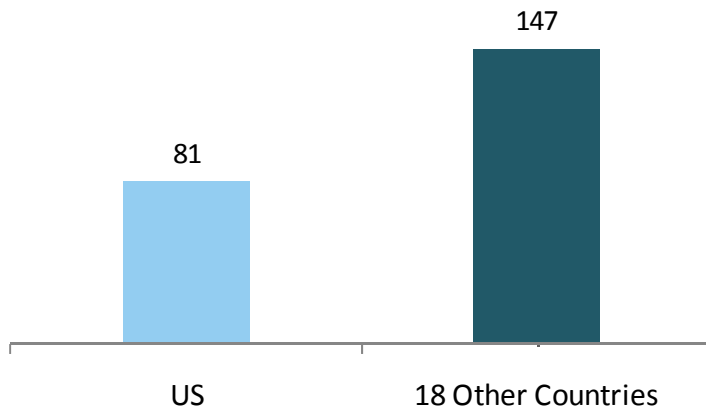
Real Estate Investment Trusts (REIT) Stocks

As of September 30, 2010

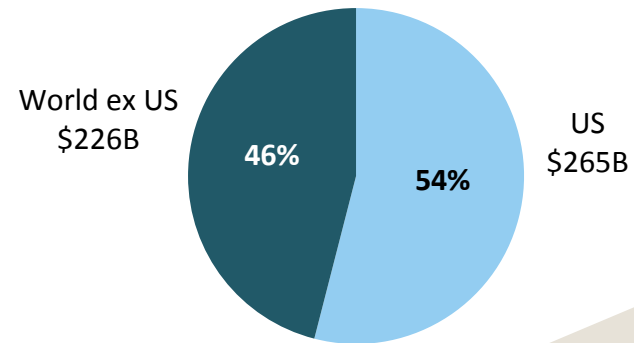
Returns (%)

Index	Q3 2010	One Year	Three Years Annualized
Dow Jones US Select REIT Index	13.22	30.14	-6.98
S&P Global ex US REIT Index	21.88	10.09	-13.26

Number of REIT Stocks



Total Value of REIT Stocks



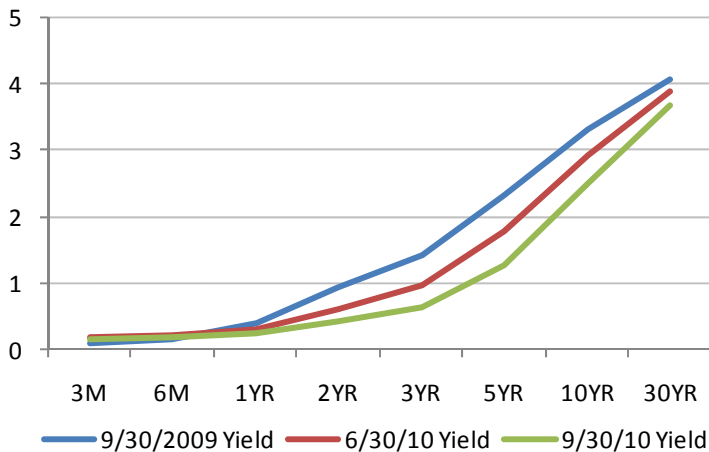
Number of REIT stocks and total value based on the two indices. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's ©. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Bond Returns

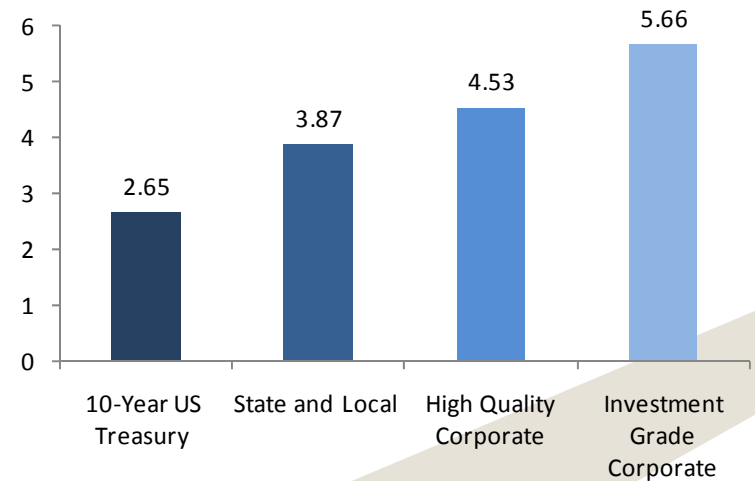
As of September 30, 2010

Index	Returns (%)		
	Q3 2010	One Year	Three Years Annualized
One-Month US Treasury Bills (SBBI)	0.04	0.09	0.93
Bank of America Merrill Lynch Three-Month T-Bills	0.04	0.13	1.13
Bank of America Merrill Lynch One-Year US Treasury Note	0.25	0.91	2.60
Citigroup World Government Bond 1-5 Years (hedged)	0.83	2.83	4.45
US Long Term Government Bonds (SBBI)	5.64	13.37	10.84
Barclays Capital Corporate High Yield	6.71	18.44	8.75
Barclays Capital Municipal Bonds	3.40	5.81	6.04
Barclays Capital US TIPS Index	2.48	8.89	6.91

US Treasury Yield Curve



Bond Yields Across Different Bond Issuers



Yield Curve data from Federal Reserve. State and Local Bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. High Quality Corporate Bonds represent the Moody's seasoned Aaa Corporate Yield. Investment Grade Corporate Bonds represent the Moody's seasoned Baa Corporate Yield. Barclays Capital data, formerly Lehman Brothers, provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indexes copyright 2010 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2010 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

The Tabletop Guide to Mutual Funds

Is everything you need to know about mutual fund investing contained on a napkin?

Probably not. But a recent Morningstar study suggests that keeping this bit of folded wisdom in your pocket might be more helpful than consulting an army of experts in the search for clever money managers. Morningstar examined five broad categories of equity and fixed-income funds over multiple periods beginning in 2005, 2006, 2007 and 2008 and ending in March 2010. Funds were sorted into quintiles based on expenses and the performance of the cheapest funds was compared to that of the most expensive. They computed total return for funds surviving through March 2010 as well as a "success ratio" measuring the percentage of the initial cohort that went on to survive and outperform their peers.

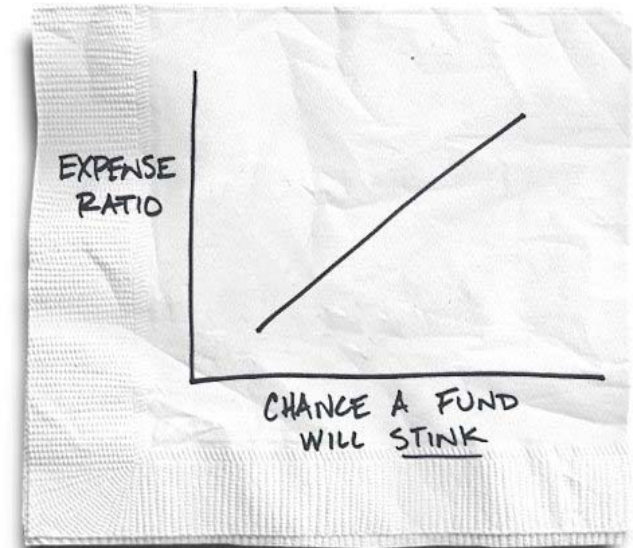
Unsurprisingly, cheap funds outperformed their expensive cousins. Commenting on the results, Morningstar Director of Mutual Fund Research Russel Kinnel observed:

*"In every single time period and data point tested, low-cost funds beat high-cost funds."*¹

A similar exercise evaluated the same funds using the Morningstar Ratings assigned at the beginning of each time period. The ratings showed predictive power as well, although not as pronounced as the expenses ratios. "In general," Kinnel states, "5-star mutual funds beat 1-star funds on our three measures, although there were exceptions. All told, the stars guided investors to better results in 59 out of 70 (84%) observations." So which measure is more useful for investors—fund expenses or ratings? Morningstar declines to crown a champion, finding merit in both. Expenses were a more reliable predictor ("they worked every time"), while stars could be helpful "in identifying funds that might be merged out of existence."

For reasons unclear to us, the predictive power of expenses in this exercise was more pronounced among equity funds than fixed income or balanced vehicles. Among both domestic and international equity funds, total returns in every time period were higher for the cheapest funds compared to the 5-star funds. Morningstar concludes that "Investors should make expense ratios a primary test in fund selection. They are still the most dependable predictor of performance." Sounds good to us.

Waiter, I'll keep that napkin.



1. Russel Kinnel. "Fund Spy—How Fund Expense Ratios and Star Ratings Predict Success" Morningstar, August 9, 2010. This sketch by Carl Richards originally appeared in [The New York Times](#). More of his sketches can be found at [Behaviorgap.com](#).