

## The Economy

The U.S. GDP growth rate was an annualized 2.5% in Q3'11. The rate matched the consensus estimate of those economists tracked by Bloomberg. The average U.S. GDP growth rate over the past 20 years was 2.6%, according to Bloomberg. October's nonfarm payroll number showed 80,000 new jobs, a bit less than the consensus estimate of 95,000. The unemployment rate dipped to 9.0% from 9.1%. As we have noted in recent issues, risk-oriented securities and commodities seem to respond positively to any constructive talk out of Europe with respect to finalizing a plan to stabilize the debt crisis in Greece. In October, stocks, speculative-grade debt, gold and oil all posted strong moves to the upside. Short interest and the VIX Index both eased.

<b>Consumer Confidence</b> <b>39.8</b> (Oct) 45.4 (Sep)	<b>Crude Oil (Mo.-End)</b> <b>\$93.19</b> (Oct) \$79.20 (Sep)	<b>Personal Spending</b> <b>0.6%</b> (Sep) Aug was 0.2%	<b>ISM Manufacturing</b> <b>50.8</b> (Oct) 51.6 (Sep)	<b>ISM Non-Manufacturing</b> 52.9 (Oct) 53.0 (Sep)
<b>Gold (Mo.-End)</b> <b>\$1725.20</b> (Oct) \$1620.40 (Sep)	<b>Natural Gas (Mo.-End)</b> <b>\$3.93</b> (Oct) \$3.67 (Sep)	<b>Factory Orders</b> <b>0.3%</b> (Aug) Aug was -0.2%	<b>New Home Sales</b> <b>313,000</b> (Sep) 295,000 (Aug)	<b>Existing Home Sales</b> <b>4.91M</b> (Sep) 5.03M (Aug)

## The Stock Market

### Indices (Source: Bloomberg)

	Oct	12-mo.
S&P 500	10.9%	8.1%
DJIA	9.7%	10.4%
NASDAQ 100	10.4%	12.1%
S&P 400	13.7%	8.5%
Russell 2000	15.1%	6.7%
Russell 3000	11.5%	7.9%
MSCI World (ex U.S.) (USD)	9.7%	-3.2%
MSCI Emerging Markets (USD)	13.2%	-7.7%

### Growth/Value (Source: Bloomberg)

	Oct	12-mo.
S&P 500 Growth	10.6%	10.5%
S&P 500 Value	11.3%	5.6%
S&P 400 Growth	13.3%	12.3%
S&P 400 Value	14.2%	4.9%
Russell 2000 Growth	15.9%	9.8%
Russell 2000 Value	14.4%	3.5%

One hundred and thirty out of the 132 subsectors (98%) that comprise the S&P 500 posted a gain in October, up from 6 (5%) last month, according to S&P. Materials was the top performing sector, up 17.7%. In October, the dividend-payers (392) in the S&P 500 (equal weight) posted a total return of 13.43%, vs. 14.06% for the non-payers (108), according to S&P. Y-T-D, the payers were up 1.18%, vs. a decline of 3.34% for the non-payers. For the 12-month period ended 10/11, payers were up 9.50%, vs. a gain of 4.20% for the non-payers. The number of dividend increases y-t-d totaled 265, up from 191 increases a year ago. Nineteen companies initiated dividends, up from 10. Five dividends were cut, up from three. The S&P 500 was down 18.6% from its 2011 high on 4/29 through its low on 10/3. Since 1948, the S&P 500's average gain over the 12 months following the past eight near-bear/mild bear markets was 31.7%, according to S&P. Corporate insiders (officers and directors) bought \$1.2 billion of their own company's stock in August, the most since November 2008, according to SmartMoney.com. Buyers outnumbered the sellers 2.5 to 1. The three sectors in the S&P 500 with the highest estimated earnings growth rates for 2012 are Industrials (14.56%), Information Technology (14.03%) and Financials (12.85%), according to S&P. The S&P 500's earnings estimate is 10.71%.

<b>U.S. Dollar Index (DXY)</b> <b>-3.0%</b> (Oct) -3.6% (2011) \$ was down 1.1% in '10	<b>CBOE Total Equity Options</b> (# of contracts in millions) Oct: <b>38.7</b> (+10.6%) Sep: 35.0 (-29.1%) Record 7/08: 67.2 million	<b>Short Interest (NYSE)</b> Oct 14: <b>14.7B</b> (-6.4%) Sep 15: 15.7B (+9.0%) Record 7/08: 18.61 billion shares	<b>VIX Volatility Index (S&amp;P 500)</b> <b>29.96</b> (10/31) 42.96 (9/30) Record 11/20/08: 80.86
---	--	--	---

## The Bond Market

### Index (Source: Barclays)

	Oct	12-mo.	Yield
U.S. Treasury: Intermediate	-0.23%	3.35%	0.84%
GNMA 30 Year	0.27%	6.10%	3.02%
Municipal Bond (22+)	-0.50%	4.04%	4.71%
U.S. Aggregate	0.11%	5.00%	2.37%
Intermediate Corporate	1.41%	3.64%	3.08%
U.S. Corporate High Yield	5.99%	5.17%	8.20%
Global Aggregate	1.33%	4.08%	2.47%
Global Emerging Markets	4.90%	3.41%	5.87%

Investors poured significant amounts of capital into speculative-grade bonds in October, as evidenced by the big returns posted by high yield corporate and emerging markets debt. As mentioned above, the daily news reports from Europe have tended to weigh pretty heavily on trading. The yield on the 10-Year T-Note bounced off its recent low of 1.72% on 9/22 and spiked up to 2.40% on 10/27. It has since settled back towards the 2.00% level. There is a large disparity between the core and headline inflation rates (2.0% vs. 3.9%). The Fed tends to favor the core rate. The headline rate is more volatile because it includes food and energy costs. The Fed has stated that it intends to maintain a 0-0.25% federal funds rate until mid-2013. Investors who own Treasuries and investment-grade debt should, in our opinion, keep one eye on the CPI.

Key Rates as of October 31		Key Yield Spread		2011 Debt Issuance Through September		
		The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 641 basis points on 10/31/11, down from 771 on 9/30/11. It was 518 on 10/29/10.		(Source: Thomson Reuters)		
				Debt Category	\$ Amount	% change over '10
Fed Funds	0-0.25%			Treasury	\$1.65 Trillion	-7.3%
2-Yr. T-Note	0.24%			Corporate	\$813.1 Billion	+2.8%
10-Yr. T-Bond	2.11%			Convertible	\$17.4 Billion	-26.1%
30-Yr. Mortgage	4.20%			Asset-Backed	\$95.0 Billion	+9.1%
Bond Buyer 40	5.00%			Municipal	\$193.5 Billion	-35.4%
(Source: Bloomberg)		(Source: Bloomberg)				

Equity funds reported net cash outflows totaling \$12.8 billion in 9/11, vs. \$29.5 billion of outflows in 8/11, according to the Investment Company Institute. Bond fund inflows totaled \$9.5 billion, vs. \$3.5 billion of outflows in 8/11. Money Market fund outflows totaled \$10.8 billion, vs. \$71.8 billion of inflows in 8/11. Y-T-D through September, equity funds reported net outflows totaling \$63.4 billion, vs. \$87.3 billion of inflows for bond funds and \$183.0 billion of outflows for MMFs.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	1565.15	10/09/07	676.53	03/09/09	1253.30	-19.92%	1.30%	2.12%
S&P 500 Growth	730.83	10/12/07	363.99	03/09/09	678.82	-7.12%	4.46%	1.79%
S&P 500 Value	836.19	07/13/07	307.16	03/09/09	567.87	-32.09%	-1.95%	2.48%
S&P 400	1015.26	04/29/11	372.88	10/09/02	887.93	-12.54%	-1.06%	1.48%
S&P 400 Growth	465.69	07/07/11	162.27	10/09/02	411.40	-11.66%	1.80%	0.89%
S&P 400 Value	361.18	06/04/07	135.55	10/09/02	300.98	-16.67%	-3.83%	2.09%
S&P 100	729.79	10/09/07	322.13	03/09/09	563.37	-22.80%	1.38%	2.27%
DJIA	14164.53	10/09/07	6547.05	03/09/09	11955.01	-15.60%	5.45%	2.65%
NASDAQ 100	2429.50	07/22/11	804.64	10/07/02	2360.08	-2.86%	7.12%	0.97%
Russell 2000	865.29	04/29/11	327.04	10/09/02	741.06	-14.36%	-4.46%	1.65%
Russell 2000 Growth	497.75	04/29/11	169.69	10/09/02	428.87	-13.84%	-2.17%	0.81%
Russell 2000 Value	1276.63	06/04/07	469.32	03/09/09	970.76	-23.96%	-6.77%	2.49%
Russell 3000	907.58	10/09/07	389.61	03/09/09	741.66	-18.28%	0.47%	2.01%
MSCI World x U.S. (USD)	5379.90	10/31/07	1636.59	03/12/03	3880.03	-27.88%	-6.94%	N/A
MSCI Emerging Markets (USD)	473.35	10/29/07	79.55	10/10/02	386.62	-18.32%	-11.53%	N/A
Bovespa/Brazil (USD)	44638.24	05/19/08	2160.80	10/16/02	34564.76	-22.57%	-16.94%	4.29%
RTS/Russia (USD)	2487.92	05/19/08	203.52	11/02/01	1563.28	-37.17%	-10.20%	2.35%
Bombay SE 500/India (USD)	226.04	01/07/08	18.81	10/31/01	138.89	-38.55%	-21.00%	1.48%
Shanghai Composite/China (USD)	810.24	10/16/07	122.21	07/11/05	388.41	-52.06%	-6.93%	1.97%
KOSPI/South Korea (USD)	2.29	10/31/07	0.41	03/17/03	1.72	-24.99%	-4.85%	1.49%
Hang Seng (USD)	4082.25	10/30/07	1078.13	04/25/03	2557.27	-37.36%	-11.17%	3.52%
MSCI Euro (USD)	1988.53	10/31/07	598.84	03/12/03	1024.12	-48.50%	-7.67%	4.95%
S&P Consumer Discretionary	328.81	07/07/11	125.72	03/09/09	308.06	-6.31%	5.49%	1.64%
S&P Consumer Staples	333.63	05/19/11	182.72	03/10/03	319.89	-4.12%	8.04%	3.02%
S&P Energy	668.81	05/20/08	163.83	07/23/02	517.85	-22.57%	3.69%	1.94%
S&P Utilities	223.91	12/10/07	77.27	10/09/02	176.78	-21.05%	14.77%	4.04%
S&P Financials	509.55	02/20/07	81.74	03/06/09	181.58	-64.36%	-14.42%	1.80%
S&P Banks	414.38	02/20/07	49.02	03/05/09	123.85	-70.11%	-15.54%	1.86%
FTSE NAREIT Equity REITs	676.54	02/07/07	163.57	03/06/09	444.97	-34.23%	7.37%	3.67%
S&P Health Care	426.93	05/07/07	252.84	03/05/09	388.33	-9.04%	8.41%	2.26%
S&P Pharmaceuticals	442.40	11/26/01	214.50	03/03/09	315.62	-28.66%	9.28%	3.64%
NYSE Arca Biotechnology	1502.18	05/12/11	280.09	07/10/02	1171.49	-22.01%	-9.69%	0.02%
S&P Information Technology	441.36	10/31/07	172.88	10/09/02	421.55	-4.49%	5.08%	1.06%
Philadelphia Semiconductor	637.94	03/08/02	171.32	11/20/08	386.49	-39.42%	-5.18%	1.38%
S&P Telecom Services	181.06	05/31/07	79.00	09/30/02	124.16	-31.43%	1.40%	5.52%
S&P Industrials	381.16	10/09/07	132.83	03/09/09	287.77	-24.50%	-2.74%	2.40%
S&P Materials	285.91	05/16/08	102.55	10/09/02	217.03	-24.09%	-7.82%	2.38%
Philadelphia Gold & Silver	228.95	04/08/11	49.46	11/19/01	201.24	-12.10%	-10.14%	1.57%
Reuters/Jefferies CRB	473.52	07/02/08	184.72	11/06/01	319.84	-32.45%	-3.89%	N/A
Merrill Lynch Perpetual Preferred	197.85	05/08/07	51.79	03/09/09	162.36	-17.94%	5.66%	7.23%
Merrill Lynch High Yield Master II	277.73	07/26/11	106.67	10/10/02	271.95	-2.08%	4.15%	8.52%