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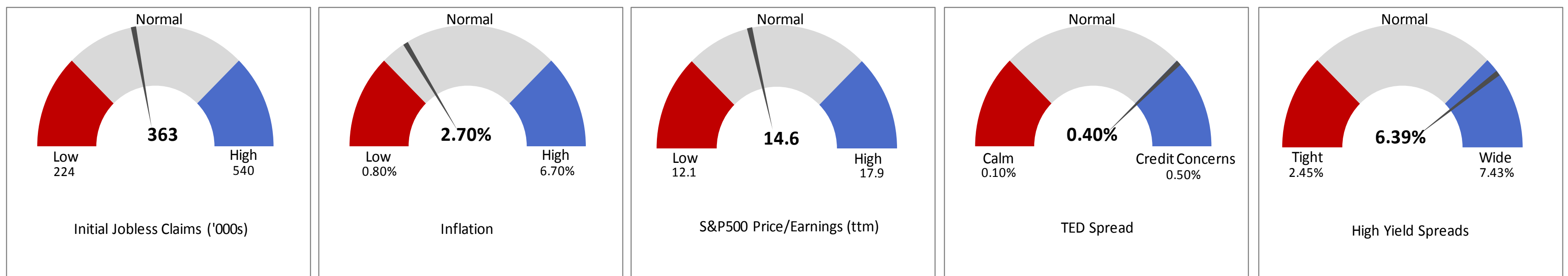
Market Digest

First Quarter 2012



Sell in May?

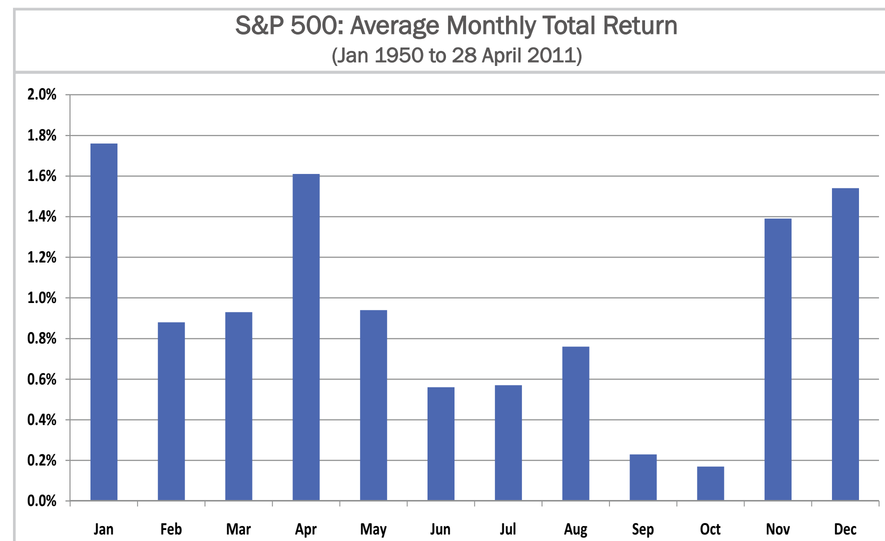
Source: Guerillastocktrading.com

Each year around this time, there is media buzz around the old Wall Street adage, "Sell in May and Go Away." We are hearing considerably more buzz this year. Based on the large run-up in markets in Q1 and the subsequent sell-off in April, a lot of market observers are talking about using the Sell in May phenomenon to protect portfolio gains going into the summer.

Historically, the summer months have been difficult months for the markets. Portfolio managers and traders felt it prudent to sell out of their positions before leaving on vacation as they had very limited access to the markets while away. As a result, trading activity fell dramatically and often contributed to high volatility during the summer months.

With the proliferation of 24-hour access to information via broadband and cell phone connections, managers no longer have to worry about how to stay in touch with the office or the markets while on vacation today as they did 25 or 50 years ago. Nonetheless, Sell in May continues to generate press play, especially in years when stock markets experience downside volatility during the summer months.

The Sell in May theory was popularized in the Stock Trader's Almanac, first published in 1967, which showed that US stocks turned in better performance for the November to May period and worse results for the May to November period (see chart at right). Of the 8% long-term annual return from US equities, the



Source: Plexus Asset Management

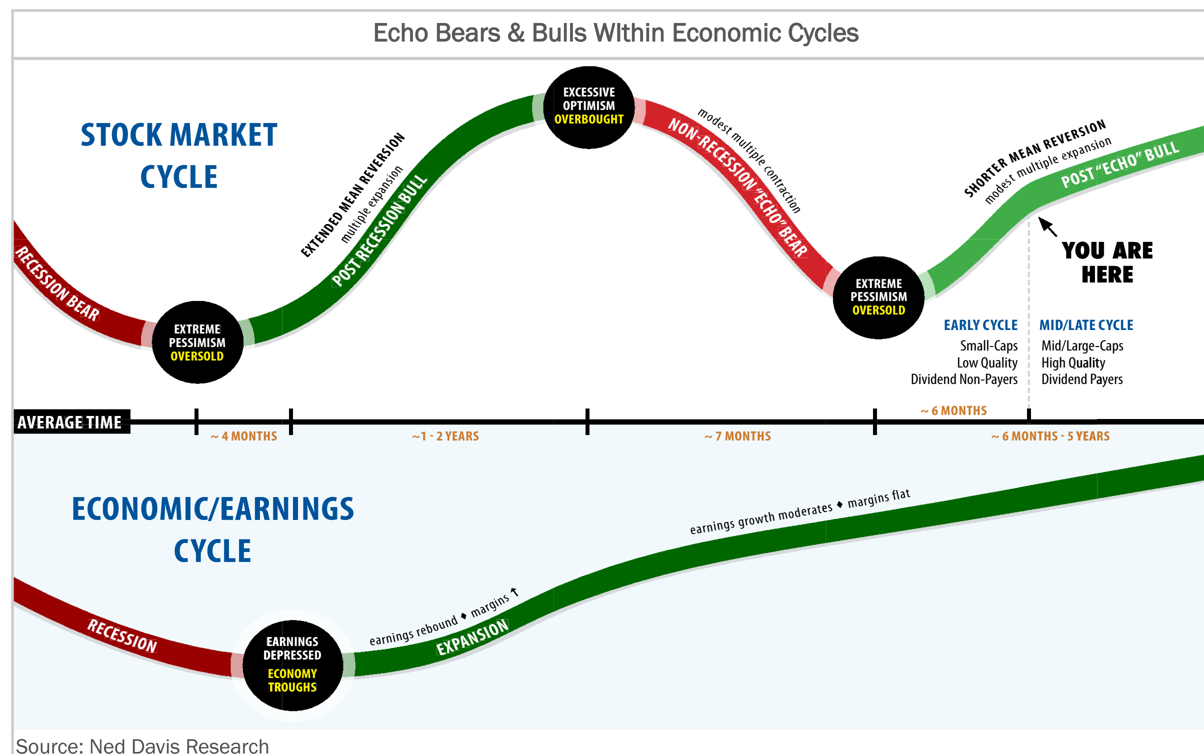
Almanac suggested that roughly 7.4% is captured from November through April, and only 0.7% from May through October.

The Sell in May theory was tested in a 2002 academic study by Ben Jacobsen and Sven Bouman. They analyzed stock returns in 37 countries from January 1970 to August 1998, and found evidence of what they called the "Halloween effect" in 36 of the 37 markets. They found that unlike the January effect (in which small cap stocks prices fall going into year-end and recover in the New Year), which dissipated after it became widely adopted, the Halloween effect persisted.

The Jacobsen Bouman study observed that the Halloween effect was more pronounced for non-US markets and more marginal for the US market. A follow-up 2008 study by Haggard and Witte of Missouri State concluded that the Halloween effect was readily observable in US stock markets only after 1954 and that it generated positive risk-adjusted returns. Hence, there is considerable academic support for the Sell in May phenomenon in non-US markets, but the evidence is less compelling for its applicability to the US market.

Sell in May?

Echo Bears & Bulls WIthin Economic Cycles



Source: Ned Davis Research

As we look back at recent history, we see that 2008, 2010 and 2011 might have been good years to sell out of the market prior to the summer. An investor who sold in May 2008 and re-entered the market in September could have cashed out at considerably higher levels and bought back in at considerably lower levels following the collapse of Lehman Brothers, Fannie Mae and Freddie Mac in September (assuming they had the stomach to buy back into the markets at that time). Conversely, this strategy would have been a mistake in 2009, when the recovery that took hold in March continued to pick up strength through the summer.

How about 2010? That year, investors were already nervous about the expiration of the QE1 liquidity program on March 31. They were further rattled by the Flash Crash, an unexplained market malfunction that caused a 1,000-point plunge in the Dow Jones index on May 6. Without a plausible explanation, markets continued to fall over the summer on fears of a double-dip recession, until the Fed revived the markets on August 27 with news of a second quantitative easing program, QE2. Certainly between May 9 and August 27, investors might have preferred being on the sidelines.

We saw a similar pattern in 2011. Investors received a series of bad news over the summer, starting with a worsening Greek budget picture and the threat of contagion spreading to other countries in the Eurozone. Then came the downgrade of the US's AAA credit rating by Standard & Poor's, followed by the ugly fight over rais-

ing the US debt ceiling and the implied threat of a US default. Here again, investors would have done well cashing out in May and coming back in October.

To get a handle on what 2012 potentially holds for investors, we reviewed data from a couple of reliable sources. In its latest weekly update, ISI Group reported that 17 of 20 economic indicators they track very closely are positive and trending in the right direction. Our other research partners at Ned David Research compared charts of the stock market and economic cycles. They concluded that we are now in the post-echo bull stage, where economic growth and earnings growth continue, but at slower rates than in the post-recession stage. Historically, this phase of the cycle has lasted anywhere from six months to five years. Based on the chart on the previous page, it appears the current phase still has some way to go.

Next, we note that although markets started Q2 on a sour note, they have still delivered an average year's returns, or more, to investors in the space of three months. Here is a snapshot of year-to-date gains through March 31 and April 11:

	3.31 YTD	April	4.11 YTD
MSCI World	11.73%	-3.95%	7.31%
S&P 500	12.59%	-2.74%	9.50%
NASDAQ	18.98%	-2.39%	16.14%
MSCI EAFE	11.00%	-4.54%	5.96%
MSCI EM	13.99%	-2.39%	11.28%

Source: Bloomberg

So, we're still up substantially, even after the April sell-off. Given what we have seen in market behavior over the last couple of years and knowing that the Sell in May phenomenon has some empirical validity, should we consider selling out in May 2012? Recall that our market expectations for 2012 were modest, based principally on three major headwinds that we foresaw affecting investors in 2012:

1. The deteriorating outlook for the Eurozone
2. Sharply lower growth forecasts for China
3. The sluggish US economic recovery

Let's review each of these three factors in turn below and see if we need to make any mid-course corrections.

Europe

In late 2011, the outlook for Europe was worrisome, with growing concern that the fiscal crisis in Greece could quickly spread throughout the Eurozone. The large European banks were also at risk as they were the chief holders of European sovereign debt, which was reaching distressed levels. Most troubling, there was little consensus about how best to stop the contagion from spreading and a lack of political will to take the necessary hard decisions to keep the Euro from collapsing.

Since then, the Europeans have taken significant steps to address these issues. The ECB has expanded the European Financial Stability Facility and added the Long Term Refinancing Operation. These programs have provided European banks with unlimited short-term funding at very low interest rates and allowed them to raise needed capital to rebuild their balance sheets. More significantly, the EU, ECB and IMF collectively adopted a much harder line with Greece than we expected. They threatened to withhold a much-needed €30 billion payment if Greece did not start getting its fiscal house in order and appointed EU overseers to monitor the Greek government's compliance with the promised economic reforms in return for the bailout funds.

All of these measures helped to boost global investor confidence and spark a market rally. However, as the markets events in April proved, we are nowhere close to a resolution for Europe and the attention has now shifted to Italy and Spain. Both countries have experienced disappointing bond auctions in recent days and they have been forced to pay sharply higher yields on the new bonds. 10-year Spanish government bond yields have now risen to 5.86% and 10-year yields on Italian bonds to 5.45%, compared to 1.81% for comparable German bonds (all figures as of April 11).

Conclusion: Negative. Markets are braced for continuing bad news and further volatility.

Sell in May?

China

Starting in 2011, the Chinese government raised rates to slow the overheating economy and avert a real estate bubble. As these measures took effect, growth forecasts for China fell sharply, leading to fears of a slowdown in economic growth worldwide. The IMF estimates that China's current account surplus has dropped from 10% of GDP to 3% of GDP. With a global recovery, the IMF expects China to post a surplus of 4% or 5% of GDP, substantially lower than its earlier forecast of 7% of GDP.

China reported this week that GDP expanded at an 8.1% rate in Q1 2012. While this is the lowest growth rate in three years, positive readings on retail sales, industrial activity and bank lending suggest that the economy is not about to fall off a cliff. Additionally, with the announcement of a sharp acceleration in money supply growth and cut in required bank reserves, the Chinese government is making it clear that it will take whatever steps necessary to avoid any disruption in an orderly transition of power in October due to a weak economy. Thus, although inflation has risen to around 3.6%, the government is unlikely to raise rates before October, for fear of triggering a hard landing that could push the economy into recession.

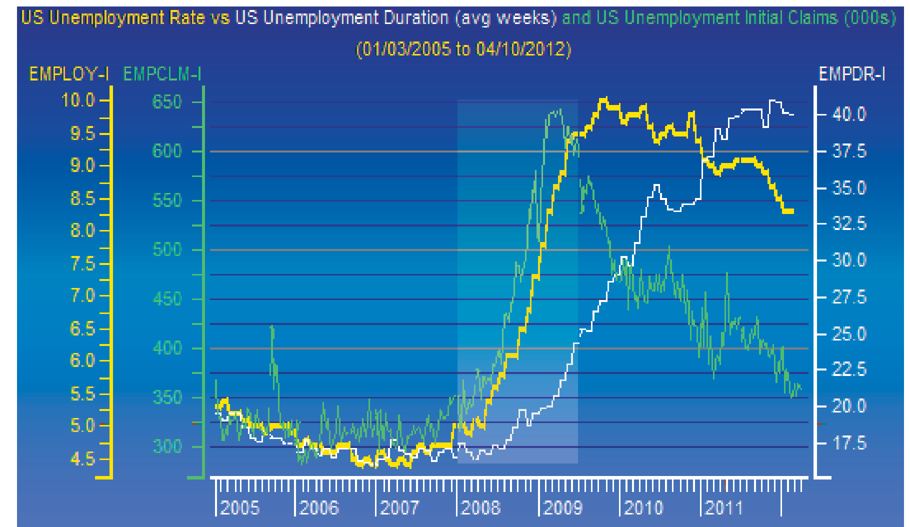
Conclusion: Positive. Expect recent easing measures to fuel faster growth in subsequent quarters.

United States

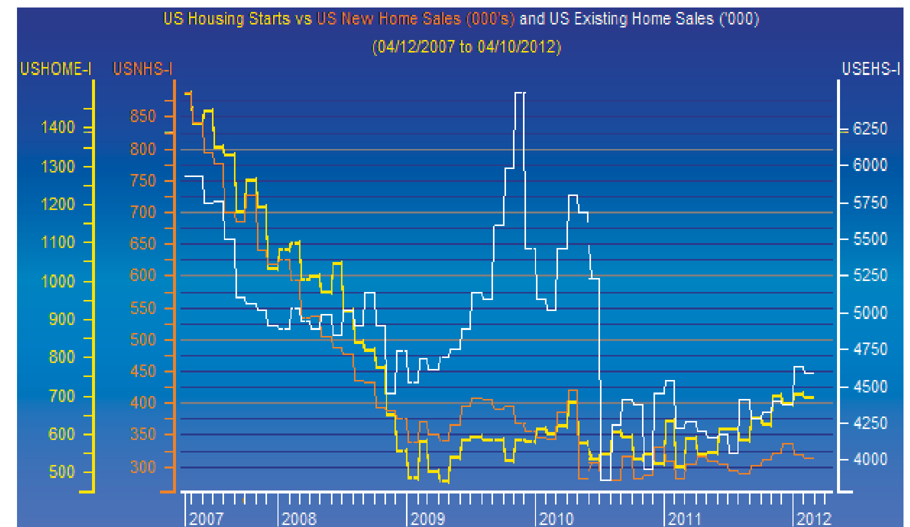
Jobs:

With the unemployment rate now at 8.2% and initial jobless claims falling to their lowest level since April 2008, we are finally seeing improvement in the labor market (see unemployment chart at right).

There has been considerable discussion that the lack of job growth is due to structural factors such as a lack of technical skills or a skills mismatch, rather than cyclical conditions related to the economy. In his March 26 speech to the NABE,



Source: Telemet



Source: Telemet

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Chairman Bernanke addressed this issue directly. In the view of the Fed, the lack of jobs is due to cyclical conditions – the economy is still weak, and employers are reluctant to take on new hires until conditions improve. Whatever the cause, it is clear that a meaningful economic recovery cannot occur absent a significant improvement in the job market.

Housing:

Recent data indicate that the housing market is finally close to a bottom (see housing chart on previous page). The level of existing home sales keeps rising as buyers take advantage of high affordability levels. The outlook for homebuilders has risen sharply, and a number of financial sponsors are coming to market with new funds targeting a house market recovery before prices start to rise again.

One unresolved issue in the housing market is that of principal forgiveness or forbearance. Until now, lenders have been unwilling to countenance any principal reduction measures to help beleaguered homeowners. However, the Federal Housing Finance Agency is under considerable pressure to enact some form of debt relief. The Agency's concerns center around two aspects of moral hazard. One is the incentive for homeowners to deliberately fall behind on their mortgage payments in order to obtain principal relief. The other issue is how to balance the needs of distressed homeowners facing foreclosure with those of homeowners who have continued to make payments in good faith even though they are underwater on their mortgages. A final unresolved issue is the unwillingness of banks holding second mortgages to accept principal concessions on the second loans, without which concessions on first mortgages are unlikely to occur.

Conclusion: Positive. Expect further improvement in economic conditions.

Summary

We believe that the much anticipated conditions for a sustained recovery are now falling into place, with improving economic fundamentals coupled with attractive valuations. We also note that in the newly released minutes of its last meeting, the Fed backed away from the need for further quantitative easing measures, suggesting that policymakers are comfortable that the US economy does not require further stimulus to maintain the recovery.

We do not recommend a Sell in May strategy for our clients. When you factor in account taxes, transaction costs and the great difficulty of market timing, we do not believe it makes sense for the average investor to be out of the market over the summer. Additionally, as shown in the Barclays study below, being in the market is crucial to long-term returns, and there is a very high probability that investors will be out of the market on key days if they sit out the summer.

Ned Davis's analysis of past markets indicates that the second quarter of an election year typically sees market declines averaging 9%, and we are already halfway there after the April sell-off. At current levels, we see more upside than downside; hence, we believe investors will be better served if they stay the course. We will explain why, and outline some of the other steps we are taking to protect portfolios, in the Portfolio Positioning section below.

Although we do not expect a recession in the US, we are concerned about the potential fallout from events in other parts of the world. We are concerned about the prospect of Spain, Italy or Portugal being shut out of the bond market, putting the Euro under pressure and potentially causing another global crisis. We hope that the recent resolve demonstrated by the EU, ECB and IMF in dealing with Greece is a clear indication of their determination to prevent any such outcome.

Also, as we detailed in our outlook, the world will see numerous shifts in leadership in 2012. Next up is the April 22 presidential election in France, followed by the May 6 Greek election. Both of these will be watched closely. The outcome of the Greek election will be a test of the EU's ability to mandate fiscal austerity in the face of widespread local opposition. Sarkozy has been a key player in the Eurozone crisis; if he loses to Hollande, it will greatly complicate the EU's ability to manage the continuing crisis. Finally, October will bring new leadership to China. We are less concerned here from an economic standpoint as the government is intent on an orderly transition.

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Finally, some comments on the upcoming US election season. Although critical issues such as the scheduled expirations of the Bush tax cuts, the temporary payroll tax cut and extended unemployment pay are on the table, we expect legislators to forego action on any initiatives that might be used against them in the campaign. Expect highly charged debate to drive market volatility, but no real action before the election.

Once past the election, Congress will face some hard decisions on the "fiscal cliff." Do they allow the tax cuts and stimulus programs to expire as scheduled and hit a still-fragile economy with a 3% to 5% reduction in GDP, or do they retain these programs, exacerbate the existing debt problem and set the stage for a repeat of last year's rancorous debate over extending the Federal debt ceiling? We expect legislators will behave true to form – approve a short-term extension of the programs in the lame duck session and defer the difficult decisions to the next session of Congress.

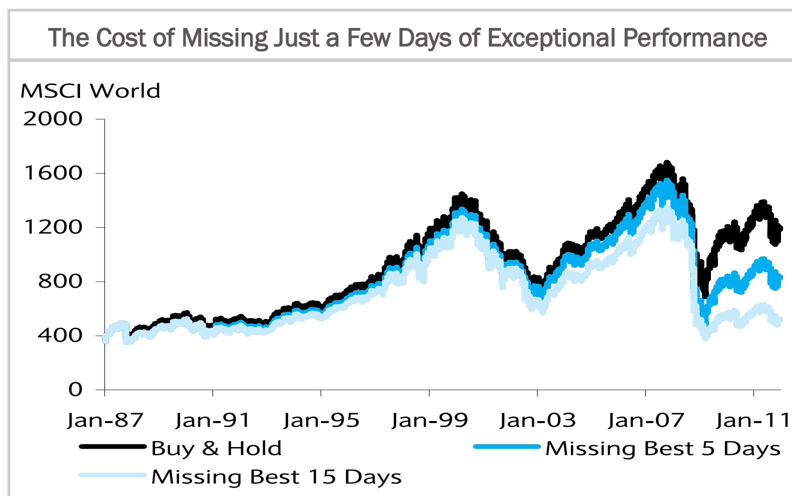
2012 has been an interesting year so far, and it promises to get more interesting as the year progresses. We will do our best to strike the right balance between embracing opportunity and preserving capital. We appreciate your being along for the ride, and thank you for your continued trust and confidence in our firm.

Portfolio Positioning

Here are our thoughts on portfolio positioning as we look ahead to the rest of 2012:

1. Our overriding objectives still remain to preserve our clients' hard-earned capital and help mitigate overall portfolio risk. Many of the risks we discussed in our 2012 Outlook have not gone away; hence, we are comfortable being defensively positioned, especially after the volatile markets of the last couple of weeks. As we discuss below, being defensively positioned does not mean that we will be missing out on attractive opportunities in the market.

2. The strong performance of markets in Q1 has shown the importance of being invested. Apart from the extreme difficulty of timing when to get back into the markets if you are sitting on the sidelines, being out of the market on just a few critical days can greatly reduce long-term returns. A recent study by Barclays shows that missing just the best five days of performance of the MSCI World Index over a 25-year period (roughly 6,500 trading days) reduces the average return from 9.4% per annum to 5.3%. Missing only the best 15 days over the same 25-year period drops the annual return to 1.8%, comparable to the return on cash.



Source: Barclays Wealth, Datastream

3. By the same token, we recognize that missing the worst days in the market can help boost returns. However, given the difficulty or impossibility of predicting ahead of time which specific days to avoid, we do not believe this strategy is feasible. Instead, we look at other ways to mitigate risk, as discussed below.

4. We can greatly reduce portfolio risk by being well-diversified across different asset classes and markets. A recent study compared the risk/return profile of an all-equity global portfolio to that of a diversified portfolio holding a combination of stocks/bonds/commodities. The all-equity portfolio

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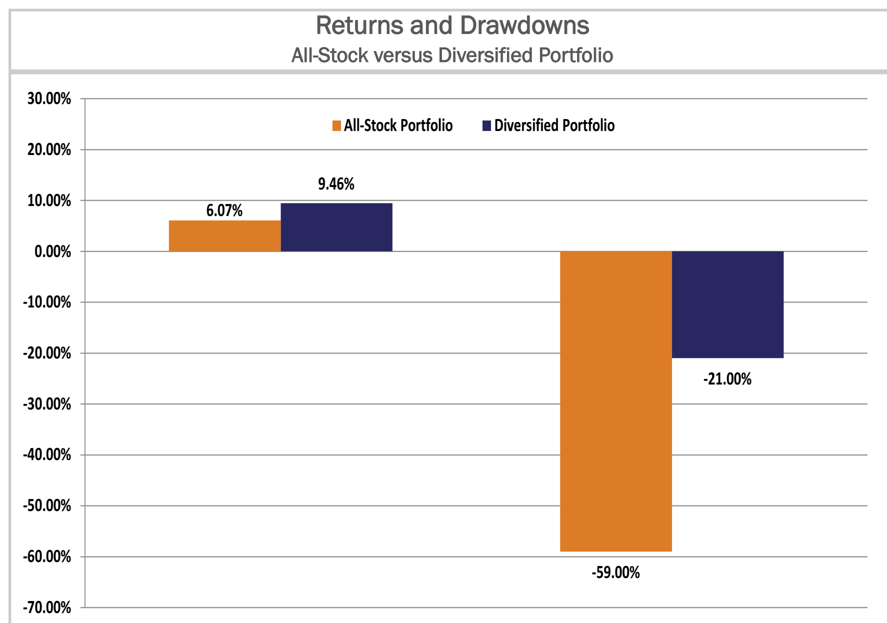
was split equally across S&P 500, EAFE and EM equities. Despite holding 2,277 stocks, this global equity portfolio provided only an 8.4% diversification advantage over an all-S&P 500 portfolio.

By comparison, the diversified portfolio that comprised stocks, bonds and gold provided a 45% diversification advantage over the all-equity portfolio, due to the lower correlations among the stocks, bonds and commodities than the US, EAFE and EM equities. More importantly, over a 15-year period, the broadly diversified portfolio delivered higher returns and lower downside than the all-equity portfolio.



Source: Butler Philbrick Gordillo & Associates. Data from Yahoo.

5. Tactical asset allocation allows us to appreciably improve the risk/return profile of portfolios. We can selectively reduce exposure to unfavorable markets and asset categories, or raise our exposure to promising markets and asset categories. We can also position portfolios to be more defensive or more aggressive by fine-tuning our exposure.

6. We are continually seeking opportunities to mitigate risk and improve the risk/return profile of client portfolios. For instance, when we are concerned with downside risk in equities, we can replace direct (or long-only) exposure with strategies that offer more downside protection, such as an equity long-short (or hedged) strategy.

7. We can also employ specialist managers who are more skilled at hedging portfolio risk, or who have more tools at their disposal to do so. Many specialized strategies that were previously available only through illiquid vehicles with high investment minimums are now broadly accessible through more liquid or publicly traded vehicles with lower entry costs. The specific vehicle we use may be a mutual fund, hedge fund, private equity fund or structured note. The wrapper is less important than its contribution to improving the risk/return profile of the portfolio.

8. Among the various options discussed here, structured notes are helpful for tailored exposure to a market or asset class. By specifying how much downside protection we want to build into the note, we can control the amount of portfolio risk. Hence, they are an effective tool for reducing portfolio risk and enhancing the return profile of a portfolio.

First Quarter Performance Summary

Asset Class	Benchmark	1Q12 Return	YTD Return	Performance Summary
Cash	Citi 3-month T-bill	0.01%	0.01%	Cash yields to remain low for the foreseeable future as Fed maintains accommodative policy.
Domestic Gov't / Agency	BC U.S. Gov't & Related 5-7	-0.38%	-0.38%	Treasurys lagged as investors moved into equities and other risky assets in Q1, and also in reaction to Fed signals that with economy now on the mend, further quantitative easing measures unlikely.
Domestic Tax-Exempt	BC Municipal Bond 5-Year	0.58%	0.58%	New issuance demand rose in Q1 after a steep drop in 2011 as municipalities took advantage of the their improved financial position to refinance debt at lower yields.
TIPS	BC TIPS	0.86%	0.86%	TIPs benefited as a strengthening economic recovery and rising oil prices raised the prospect of accelerating inflation down the line.
Investment-Grade Debt	BC Inv. Grade Intermediate	0.30%	0.30%	Returns for higher quality bonds lagged as investors became comfortable moving into more risky asset categories in Q1 on news of improving economic conditions.
High-Yield Debt	BC High-Yield Intermediate	5.16%	5.16%	Issuers took advantage of stronger market conditions in Q1 to retire higher coupon debt and issue new paper on more favorable terms.
Global Bonds	Citi World Gov't Bond Index (Hedged)	-0.51%	-0.51%	Investors moved into bonds with higher credit spreads as fears of a Eurozone crisis subsided. Portugal, Greece and Italy were among the better performing bond markets in Q1.
Emerging-Markets Debt	Morningstar EM Composite Bond Index	5.16%	5.16%	Emerging markets recovered some of the ground lost in 2011 as investors were willing to take on risk. Slower growth in major markets such as Brazil and China was offset by high growth in the peripheral markets such as Egypt, Turkey and Hungary. USD deprecation boosted returns for US investors.
Large-Cap Equity	S&P 500	12.59%	12.59%	Rising investor confidence buoyed returns for financial, technology and consumer discretionary stocks in Q1 at the expense of defensive categories such as consumer staples, energy and utilities stocks.
Small/Mid-Cap Equity	Russell 2000	12.44%	12.44%	Smaller and growth-oriented stocks posted strong returns than larger or defensive stocks in the Russell 2000, a sign of rising investor confidence in the recovery.
International Equity	MSCI EAFE	11.00%	11.00%	All developed markets except Spain posted positive returns for Q1. Investor confidence was boosted by the receding fears of a Eurozone collapse, continuing improvement in US fundamentals and a strong Japanese recovery from the 2011 earthquake and tsunami. Except for Japan, US dollar investors benefited from dollar depreciation against the local currency.
Emerging-Markets Equity	MSCI EM	13.99%	13.99%	Emerging markets recovered some of the ground lost in 2011 as investors were willing to take on risk. Slower growth in major markets such as Brazil and China was offset by high growth in the peripheral markets such as Egypt, Turkey and Hungary. USD deprecation boosted returns for US investors.
Real Estate	DJ Composite REIT Index	9.19%	9.19%	Q1 returns were weaker than the previous quarter. Timber REITs were the strongest category in Q1. Strong returns were posted by small-cap REITs that underperformed in 2011.
Commodities	DJ UBS Commodity Index	0.87%	0.87%	Q1 was a difficult period for commodities. Price declines for energy and livestock offset gains in metals and agriculturals. Precious metals were best performers, with 7.15% return for Q1.
Private Equity	S&P Listed Private Equity	17.09%	17.09%	Strong equity markets worldwide boosted sale opportunities for portfolio companies. IPOs announced for Carlyle and Oaktree.
Hedge Funds	HFRX Global Hedge Fund Index	3.14%	3.14%	Strong returns for Relative Value, Equity Hedged and Event Driven offset weak returns in Macro strategies due to underperformance in commodities and quantitative strategies.

Source: Bloomberg; Data as of 3/31/12.

First Quarter Market Summary

							Annualized			
		2Q11	3Q11	4Q11	1Q12	YTD	1-Year	3-Year	5-Year	10-Year
US Equity Benchmarks	**Price**									
Dow Jones Industrial	13,212.04	1.42%	-11.49%	12.77%	8.84%	8.84%	9.90%	24.03%	4.19%	5.02%
Nasdaq Index Composite	3,091.57	-0.03%	-12.70%	8.21%	18.98%	18.98%	12.54%	28.52%	6.07%	6.14%
S&P 500	1,408.47	0.10%	-13.87%	11.82%	12.59%	12.59%	8.34%	23.96%	1.99%	4.12%
Russell 1000 (Large Cap)	778.92	0.13%	-14.68%	11.87%	12.91%	12.91%	7.76%	24.61%	2.19%	4.55%
Russell 1000 Growth	663.73	0.76%	-13.14%	10.60%	14.69%	14.69%	10.99%	25.73%	5.11%	4.24%
Russell 1000 Value	691.34	-0.51%	-16.20%	13.10%	11.12%	11.12%	4.56%	23.48%	-0.85%	4.58%
Russell Mid Cap	1,097.59	0.43%	-18.89%	12.35%	12.95%	12.95%	3.44%	29.83%	3.08%	7.90%
Russell Mid Cap Growth	501.77	1.61%	-19.33%	11.24%	14.52%	14.52%	4.58%	29.57%	4.45%	6.94%
Russell Mid Cap Value	1,105.57	-0.69%	-18.46%	13.37%	11.41%	11.41%	2.27%	30.07%	1.27%	7.92%
Russell 2000 (Small Cap)	830.30	-1.61%	-21.86%	15.48%	12.44%	12.44%	0.20%	27.59%	2.18%	6.48%
Russell 2000 Growth	480.60	-0.59%	-22.25%	14.99%	13.28%	13.28%	1.05%	28.85%	4.20%	6.00%
Russell 2000 Value	1,087.44	-2.65%	-21.47%	15.97%	11.59%	11.59%	-0.68%	26.24%	0.06%	6.49%
S&P GICS Sectors	**Weight**									
Consumer Discretionary	9.6%	3.45%	-12.98%	12.58%	15.96%	15.96%	17.07%	34.55%	5.27%	5.14%
Consumer Staple	11.5%	5.25%	-4.19%	10.26%	5.54%	5.54%	17.08%	20.72%	8.35%	6.69%
Energy Sector	11.4%	-4.63%	-20.46%	18.20%	3.88%	3.88%	-7.18%	18.84%	4.77%	11.09%
Financials	14.6%	-5.92%	-22.80%	10.82%	22.05%	22.05%	-2.20%	25.88%	-13.04%	-3.02%
Health Care	13.0%	7.87%	-10.02%	9.96%	9.06%	9.06%	16.36%	18.27%	4.42%	3.17%
Industrials	10.5%	-0.67%	-21.02%	16.52%	11.31%	11.31%	2.12%	29.39%	2.45%	4.42%
Information Technology	19.4%	-1.37%	-7.70%	8.72%	21.46%	21.46%	19.91%	29.42%	8.16%	5.06%
Materials	3.5%	-0.88%	-24.52%	15.39%	11.19%	11.19%	-3.62%	23.30%	2.16%	7.18%
Telecommunication Services	3.0%	2.11%	-8.01%	7.90%	2.08%	2.08%	3.43%	14.86%	0.50%	3.52%
Utilities	3.6%	6.14%	1.55%	8.28%	-1.62%	-1.62%	14.49%	16.63%	1.42%	5.89%
Global Equity Benchmarks	**Price**									
MSCI World Index	1,312.01	0.66%	-16.50%	7.74%	11.73%	11.73%	1.09%	21.57%	-0.09%	5.33%
MSCI AC World x-USA	333.30	0.42%	-17.32%	7.32%	12.01%	12.01%	-0.13%	22.02%	0.38%	5.90%
MSCI EAFE	1,553.46	1.80%	-18.92%	3.40%	11.00%	11.00%	-5.27%	18.52%	-2.97%	6.27%
MSCI EAFE Growth	1,182.59	2.30%	-18.91%	3.94%	12.12%	12.12%	-3.26%	18.96%	-1.42%	5.94%
MSCI EAFE Value	2,499.94	1.28%	-18.94%	2.87%	9.87%	9.87%	-7.29%	18.03%	-4.59%	6.50%
MSCI Emerging Markets	1,041.45	-1.10%	-22.49%	4.53%	13.99%	13.99%	-7.76%	25.85%	4.95%	14.09%
MSCI BRIC	304.00	-3.43%	-25.84%	4.39%	13.87%	13.87%	-13.94%	21.25%	2.84%	15.17%
Nikkei 225	10,083.56	0.72%	-10.60%	-2.67%	20.29%	20.29%	5.93%	8.94%	-8.63%	0.16%

Global Equity Valuation Summary

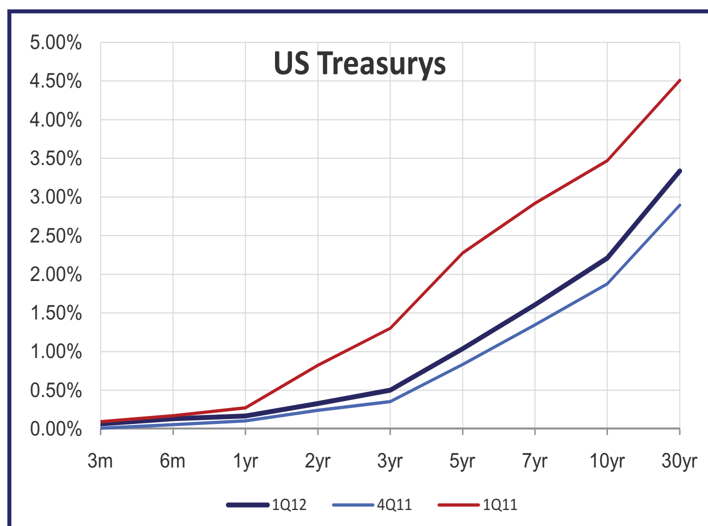
Benchmarks	4Q11	1Q12	QoQ
S&P 500			
Price	1,257.60	1,408.47	150.87
Trailing P/E	13.6	14.6	0.9
Est P/E	12.7	13.5	0.8
Trailing 12m Earnings	92.2	96.7	4.5
Est Forward 12m Earnings	98.9	104.2	5.3
Implied 1yr Earnings Growth	7.2%	7.8%	0.5%
Russell Mid Cap			
Price	975.82	1,097.59	121.77
Trailing P/E	16.4	18.0	1.7
Est P/E	15.5	15.7	0.2
Trailing 12m Earnings	59.6	60.8	1.3
Est Forward 12m Earnings	63.1	69.8	6.8
Implied 1yr Earnings Growth	5.8%	14.8%	9.0%
Russell 2000			
Price	740.92	830.30	89.38
Trailing P/E	31.2	31.3	0.1
Est P/E	22.1	20.3	(1.8)
Trailing 12m Earnings	23.7	26.5	2.8
Est Forward 12m Earnings	33.5	40.9	7.4
Implied 1yr Earnings Growth	41.1%	54.0%	12.9%
MSCI EAFE			
Price	1,412.55	1,553.46	140.91
Trailing P/E	12.3	14.2	1.8
Est P/E	10.3	11.4	1.1
Trailing 12m Earnings	114.5	109.7	(4.8)
Est Forward 12m Earnings	137.3	136.8	(0.4)
Implied 1yr Earnings Growth	19.9%	24.7%	4.8%
MSCI EM			
Price	916.39	1,041.45	125.06
Trailing P/E	10.8	11.8	1.1
Est P/E	9.1	10.1	1.0
Trailing 12m Earnings	85.3	88.2	2.9
Est Forward 12m Earnings	100.3	103.1	2.8
Implied 1yr Earnings Growth	17.6%	16.9%	-0.7%

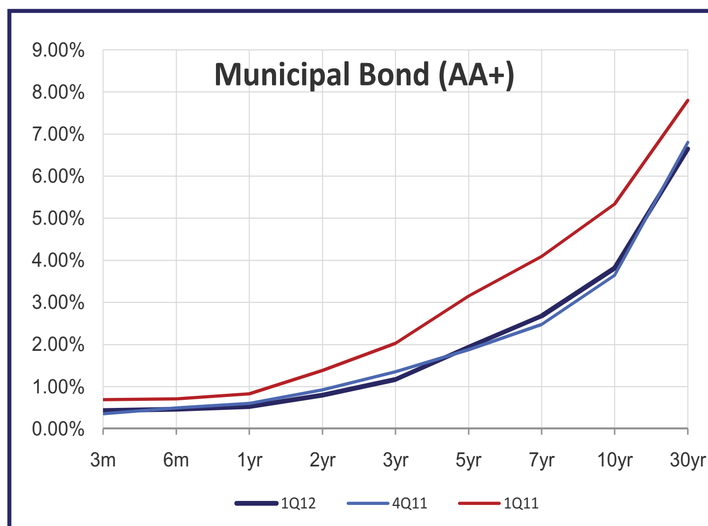
Source: Bloomberg; Data as of 3/31/12.

First Quarter Market Summary (Continued)

		2Q11	3Q11	4Q11	1Q12	YTD	Annualized 1-Year	3-Year	5-Year	10-Year
Interest Rates	**Yield**									
Prime Rate	3.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-5.00	-1.50
3m Treasury Bill	0.07	0.06	0.06	0.06	0.06	0.06	-0.03	-0.06	-4.96	-1.72
US LIBOR 3m	0.47	-0.11	-0.11	-0.11	-0.11	-0.11	0.16	-0.74	-4.88	-1.56
US Treasury 3m	0.07	0.05	0.05	0.05	0.05	0.05	-0.03	-0.11	-4.98	-1.72
US Treasury 10yr	2.23	0.34	0.34	0.34	0.34	0.34	-1.24	-0.50	-2.41	-3.19
US Treasury 30yr	3.34	0.44	0.44	0.44	0.44	0.44	-1.17	-0.26	-1.51	-2.46
Fixed Income										
Citi 3-month T-bill		0.04%	0.02%	0.01%	0.01%	0.01%	0.05%	0.11%	1.12%	1.81%
BC U.S. Gov't & Related 5-7		0.02%	2.08%	3.19%	-0.38%	-0.38%	5.66%	3.44%	5.46%	4.87%
BC Municipal Bond 5-Year		0.61%	2.73%	1.97%	0.58%	0.58%	6.90%	5.34%	5.65%	4.88%
BC TIPS		2.08%	3.66%	4.51%	0.86%	0.86%	12.20%	8.74%	7.60%	7.51%
BC Investment Grade Intermediate		0.99%	2.21%	0.94%	0.30%	0.30%	7.71%	6.83%	6.25%	5.80%
BC High Yield Intermediate		3.74%	0.90%	-6.05%	5.16%	5.16%	6.23%	22.85%	7.76%	8.87%
Citi World Gov't Bond Index		3.32%	2.38%	-0.12%	-0.51%	-0.51%	5.33%	6.19%	6.75%	7.89%
Morningstar EM Composite Bond Index		2.32%	-5.44%	4.37%	5.16%	5.16%	6.26%	16.64%	7.81%	
Real Estate	**Price**									
Dow Jones Composite REIT Index	195.93	1.69%	-15.49%	12.41%	9.19%	9.19%	6.22%	36.09%	-5.92%	3.45%
FTSE EPRA/NAREIT Europe	1,329.46	2.55%	-17.43%	0.18%	9.16%	9.16%	-8.07%	19.28%	-15.13%	0.94%
Commodities	**Weight**									
DJ UBS Commodity Index		-6.74%	-11.34%	0.34%	0.87%	0.87%	-14.81%	9.81%	-3.81%	3.60%
Energy	21.0%	-8.08%	-16.31%	2.14%	-6.11%	-6.11%	-24.94%	-5.89%	-18.23%	-5.66%
Agriculturals	33.0%	-9.76%	-9.04%	1.36%	3.16%	3.16%	-11.62%	14.59%	4.75%	3.74%
Livestock	6.7%	-10.51%	5.92%	-3.85%	-5.19%	-5.19%	-12.74%	-1.79%	-12.56%	-6.51%
Softs	8.3%	-7.55%	-8.97%	-5.92%	-2.20%	-2.20%	-21.88%	25.55%	7.35%	2.16%
Industrial Metals	20.2%	-3.67%	-22.70%	1.51%	5.75%	5.75%	-19.48%	17.75%	-6.78%	9.71%
Precious Metals	10.8%	0.78%	2.31%	-4.38%	8.49%	8.49%	8.07%	25.14%	18.25%	16.61%
Private Equity / Hedge Funds	**Price**									
S&P Listed Private Equity Index	132.03	-3.20%	-27.05%	8.33%	17.09%	17.09%	-10.49%	37.53%	-9.25%	
HFRX Global Hedge Fund Index	1144.24	-2.51%	-6.45%	-0.48%	3.14%	3.14%	-6.17%	3.57%	-2.48%	
Currencies	**Price**									
ICE Dollar Index	79.00	-2.05%	5.72%	2.07%	-1.46%	-1.46%	3.79%	-2.74%	-1.00%	-3.98%
Euro / US Dollar	1.33	2.43%	-7.69%	-3.18%	2.95%	2.95%	-5.55%	0.36%	0.02%	4.36%
Pound / US Dollar	1.60	0.16%	-2.92%	-0.26%	2.99%	2.99%	-0.40%	3.92%	-3.99%	1.17%
US Dollar / Yen	82.87	-3.09%	-4.34%	-0.19%	7.75%	7.75%	-0.02%	-5.20%	-6.84%	-4.60%

Source: Bloomberg; Data as of 3/31/12.





Municipal bond yields are shown on a comparable, adjusted basis using a 35% tax rate.

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