Market Commentary

3RD QUARTER 2012

Economic Summary

To the surprise of many investors, the U.S. stock market is within shouting distance of its all-time high. Whether the bull market continues or not may depend on the upcoming election (at least in part).

In our view, a change in the administration would likely produce a higher level of confidence among business decision-makers, consumers and investors – further aiding the stock market. If President Obama gets re-elected, we feel that a re-assessment of many investors' asset allocation would be in order, with a lower commitment to equities appropriate.

Whoever wins, the first order of business will be dealing with the "fiscal cliff" that comes January 1, 2013. In our opinion, what is needed is a debt reduction plan. The present course of spending will raise the federal debt-to-GDP ratio to 80% in two years, double its level at the end of 2008, and represent a dangerous and irresponsible level of indebtedness.

Will a debt reduction plan emerge after the election, or will we get some form of "kick the can down the road"? Probably the latter.

Apart from politics, the global economic picture is not encouraging, especially in Europe. According to the International Monetary Fund, the global economy risks skidding into recession just three years after pulling out of the previous one. Slowing global trade has dimmed U.S. exports. Exports have accounted for almost half of the U.S. growth during the past three years. This slowdown in global trade will be apparent, as U.S. companies report third-quarter earnings over the next

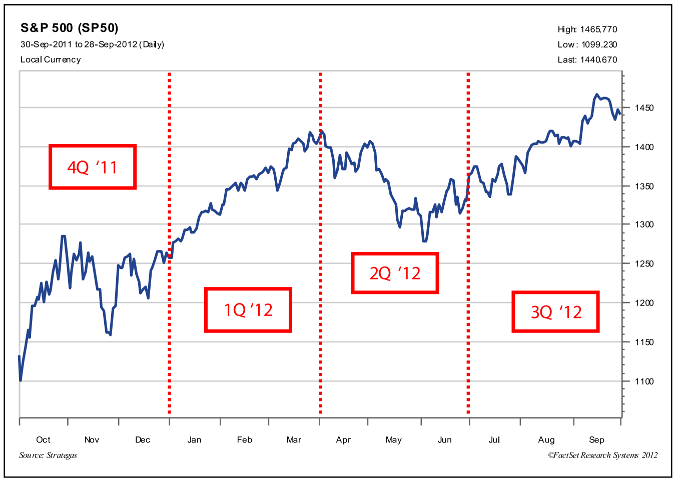

Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 1, 2012*

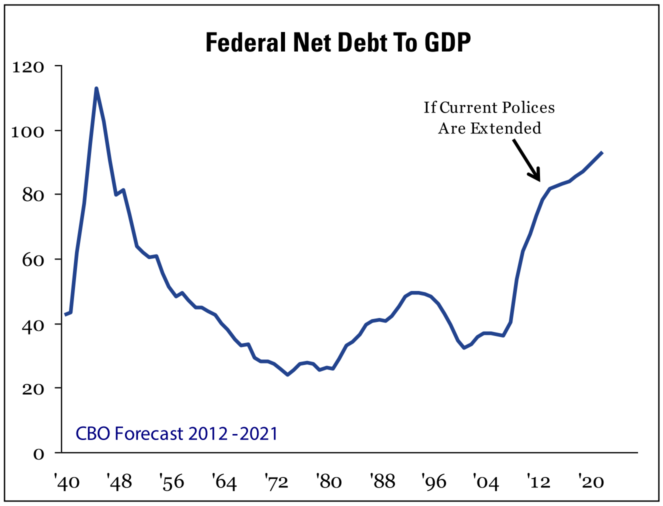

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 1, 2012

Past performance does not guarantee future results. *The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. You cannot invest directly in an index.

Economic Summary (CONTINUED)

several weeks. For the first time in eleven quarters, companies in the S&P 500® stock index are likely to show a decline in profits, albeit modest, from a year ago.

CHART 3 shows the S&P 500® annual earnings estimate progression through several economic cycles.

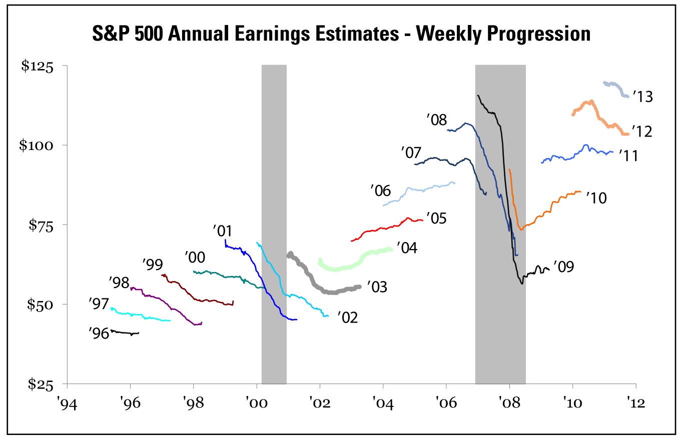

Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 1, 2012

So how is it that the S&P 500® is near a record high with weak economic growth and slower earnings growth? Part of the answer is the action of the Federal Reserve and its Quantitative Easing (QE). The Fed's massive monetary stimulation has been designed to push down long-term interest rates in order to spur spending, encourage investments in stocks and bonds, and produce more growth in economic activity. The effectiveness so far is a mixed bag. One result has been to draw some of investors' huge cash reserves off the sidelines into the stock market, pushing up share prices. Fed Chairman Bernanke also believes that printing money can be done in a way so just the right kind of inflation is created - asset inflation. His philosophy states that by inflating asset prices, home prices, and stock and bond prices, consumers will feel wealthier and increase their spending - thus spurring the economy.

It all sounds good, but the artificial suppression of the price of money (interest rates) and the creation of money out of thin air (printing digital dollars) is likely to have unintended consequences. Generally higher inflation may be the outgrowth of current Fed policy. It'll bear careful watching.

CHART 4 shows the diminishing marginal benefits of each QE program. The Fed has to pedal harder just to stay in the same place.

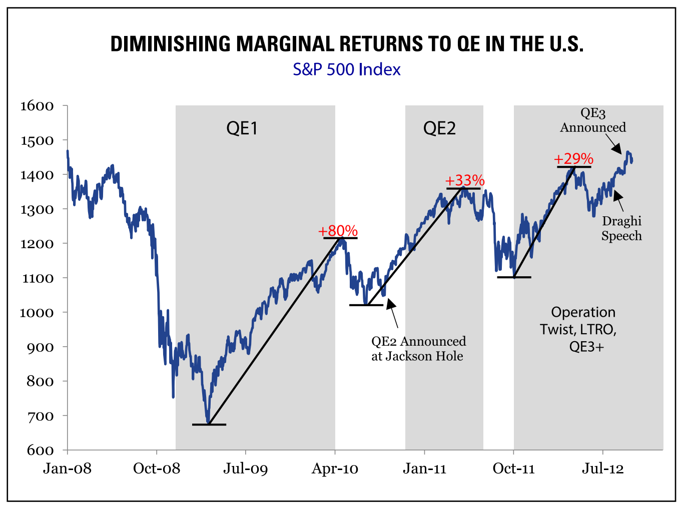

Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 1, 2012

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Equity and Fixed Income Strategy

Our equity strategy continues to favor large U.S. companies. We remain focused on companies with brand-name recognition, high barriers to entry, strong balance sheets, and an ability to pay a growing stream of dividends.

There is no change in our fixed-income strategy. We remain risk averse, keeping maturities short and credit quality high.

Personal Note

We are highly focused on the political landscape, because this election really will be the most important of our lifetime. ***Be sure to vote!***

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