Market Commentary

3RD QUARTER 2011

Economic Summary

Market turbulence marked the third quarter of 2011, as the weight of many unanswered questions, mainly about the economic recovery's staying power and the soundness of Europe's financial system dragged stocks sharply lower. The 14.2% decline in the S&P 500® Index (the "Index") for the three-month period ended September 30, 2011 was the worst quarterly loss since 2008 and left the Index down since the start of 2011 (CHART 1).

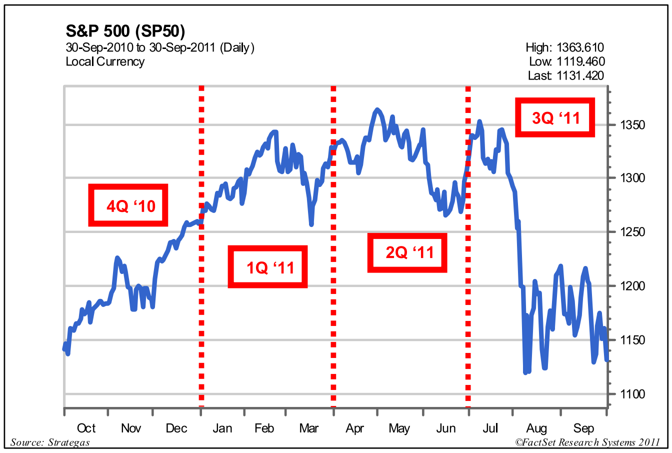

Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 3, 2011

As the third quarter began, economists were hopeful that the economy would rebound from the spring's "soft patch". However, data in early July showed the U.S. economy was instead slowing, which raised concerns about a double-dip recession. This was followed by the political wrangling that took the U.S. debt to the brink of default and led to the loss of the country's AAA credit rating from Standard & Poor's. At the same time, Europe's debt crisis deepened with increasing worries about the viability of European banks, and that was followed by troubling signs that China's growth rate was slowing, which raised doubts about future demand for commodities and other goods.

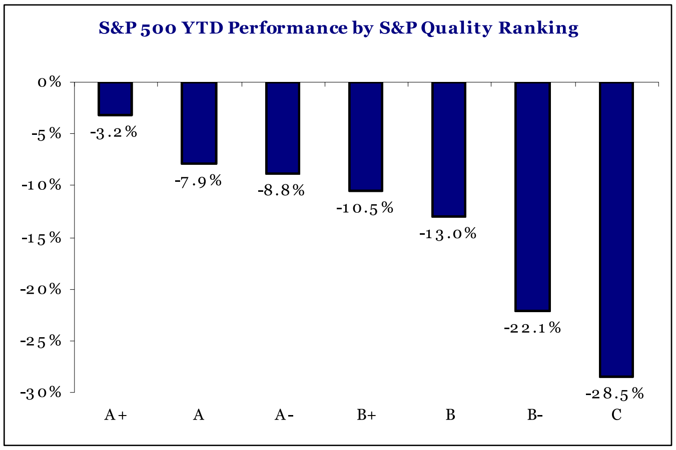

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 3, 2011

These concerns led to lower stock prices across the board. The weakest areas were companies in the cyclical industrial, financial services, and natural resources.

We have added what we believe are high-quality, large-cap, dividend-paying stocks to our portfolios. Besides offering good prospects for growth, these stocks were purchased because historically, they hold up well during turbulent times. CHART 2 illustrates the recent outperformance of the highest quality stocks, as defined by the S&P Quality Rankings.*

** S&P Quality Rankings attempt to reflect the long-term growth and stability of a company's earnings and dividends based on data from the most recent 10 years. The ranking scale ranges from Highest (A+) to Lowest (C).*

Past performance does not guarantee future results.

Economic Summary (CONTINUED)

During the final three months of 2011, we expect the economy to sidestep a recession with GDP growth struggling to reach 2.0%. We believe the continuing high levels of consumer, business, and government debt are a major factor holding back the economic recovery. This debt overhang limits fundamental growth drivers like consumer spending. Consumers who still face large mortgage payments and credit card bills have less ability to increase spending on goods and services, which in turn keeps a lid on job growth. This is reflected in the falling levels of consumer confidence (CHART 3).

Consumers have made progress as total household debt relative to GDP declined to 66% from a peak of 76% in early '09, but this remains far above the historical average of 37%, dating back to 1951.

As consumer debt has slowly declined, the federal government has stepped into the breach. Total federal debt as a percent of GDP has reached levels not seen since the late '40s.

In our view, the huge amount of outstanding debt limits the Federal Reserve's flexibility, because any attempt to kick up inflation to drive growth runs the risk of increasing long-term interest rates, which would make refinancing the debt mountain more difficult.

A second important factor affecting the economy is the contentious government policies coming out of Washington and the public's low level of confidence in government. We believe the anti-business rancor has left companies hoarding cash rather than making investments for the future, and the economic concerns along with the bitter fight over raising the debt ceiling, has eroded confidence in Washington's ability to solve problems (CHART 4).

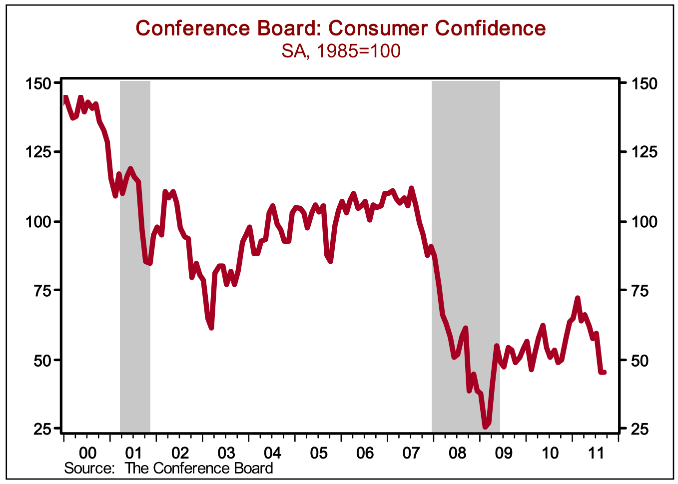

Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 3, 2011

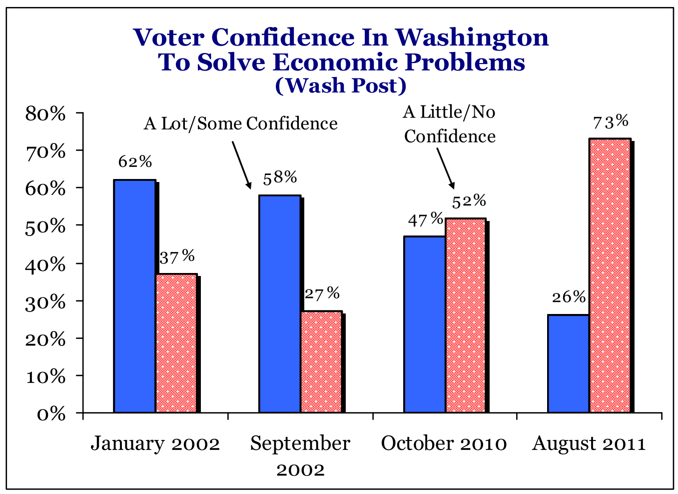

Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", OCTOBER 3, 2011

Now that the 2012 election seems to be already in full swing, it is interesting to see the comparison of approval ratings between Presidents Obama and Reagan at this point in the cycle (CHART 5 ON PAGE 3). After the death of Osama Bin Laden, President Obama's numbers improved despite increasing unemployment.

Past performance does not guarantee future results.

Economic Summary (CONTINUED)

We think continued elevated unemployment is bringing voters back into a pessimistic mood. Reagan did not begin to see a strong improvement until the fall of 1983; so presumably, Obama still has a few more months to get growth going (CHART 6).

Amid all of this market turbulence, which has obviously been disconcerting to investors, we think it is constructive to step back and examine the facts and fundamentals. First of all, there are a number of indicators that show that the economy may be improving. These include:

- Strong corporate profitability is a tailwind for employment and capital expenditures.
- Vehicle sales are being helped by replacement. The last boom in vehicle sales was about 10 years ago, and cars last about 10 years (and cars are much better than they were 10 years ago).
- Vehicle production bounced in 3Q and is still scheduled to improve further in 4Q.
- The dollar is still positive for U.S. exports.
- Bank deposits have surged.

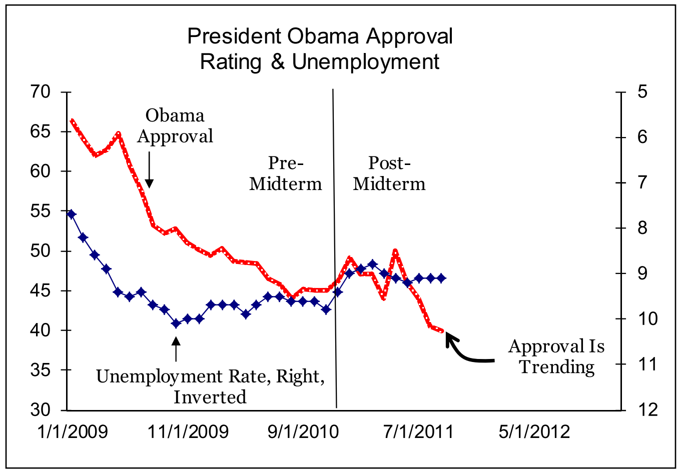

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS — POLICY OUTLOOK, JULY 13, 2011

Chart 6

SOURCE: STRATEGAS RESEARCH PARTNERS — POLICY OUTLOOK, JULY 13, 2011

Equity Market

In our opinion, many stocks look very cheap by historical standards. Our research leads us to believe that depressed stock prices are already reflecting a zero-growth economy. The popular averages are selling at only 11-12 times estimated earnings.

We are optimistic about both the resolution of the "macro events" worldwide and the resumption of the U.S. economic growth. At the same time, we are very optimistic about the significant price-appreciation potential available in selected stocks. Specifically, we will be adding to the companies we consider to be high-quality. We believe these companies have a sustainable competitive advantage, a strong financial position, and an increasing dividend.

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Fixed Income Market

Our bond strategy remains unchanged. We think inflationary pressures will increase next year, pushing up interest rates. So to best protect principal, we have invested in top-quality, short and intermediate-maturity issues.

Conclusion

Finally, we think it is timely to refer to Warren Buffett's 1994 letter to shareholders of Berkshire Hathaway, Inc. He said:

> *"We will continue to ignore political and economic forecasts, which are an expensive distraction for many investors and businessmen. Thirty years ago, no one could have foreseen the huge expansion of the Vietnam War, wage and price controls, two oil shocks, the resignation of a president, the dissolution of the Soviet Union, a one-day drop in the Dow of 508 points or Treasury bill yields fluctuating between 2.8% and 17.4%."*

> *"We have usually made our best purchases when apprehensions about some macro event were at a peak... A different set of major shocks is sure to occur in the next 30 years. We will neither try to predict these nor to profit from them. If we can identify businesses similar to those we have purchased in the past, external surprises will have little effect on our long-term results."*