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Investment Strategy Update **Fourth Quarter 2012**

Europe's continued progress toward greater financial stability and proven resilience in a slow growth U.S. economy have helped lift equity markets around the world during the third quarter. We are maintaining a modestly conservative asset allocation relative to our clients' benchmark portfolios.

Robin Smith, CFA, CFS, EA

Our modestly conservative asset allocation, when compared to each client's neutral benchmark, reflects a world economy that continues to work toward financial stability – something that will take years to achieve.

During the third quarter of 2012, events in Europe continued to show slow progress toward a solution to its financial crisis. Spain will be the next test as it considers seeking a bailout based on conditions imposed by lenders and the European Central Bank.

In the United States, economic data suggest that we have once again survived a midyear slow down. However, Wall Street now expects quarterly profits to begin to weaken at the typical large American company for the first time since 2009. Causes of the expected weakness include: exhausted efforts at corporate cost cutting, a continued anemic economy in the United States, a European recession and slowing growth in China. There is also the looming prospect of automatic tax increases and spending cuts in Washington, which has caused companies to sit on the sidelines instead of hiring and expanding capacity.

When compared to each client's personalized benchmark weightings, equity positions remain over weighted toward the U.S. and focused on undervalued conservative, safe harbor investments. Clients with fixed income positions remain focused on investments with shorter maturities and durations that offer above average yields.

We have experienced a significant rise in most markets this year, resulting in investor complacency and reduced market volatility. We anticipate a resurgence of risk-aversion in all markets during the fourth quarter, making it difficult to move significantly higher from here.

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