

MARKET PERFORMANCE — THIRD QUARTER 2010

The Quarter in Brief:

Following the sharp sell-off in the second quarter, stocks moved higher in July only to retreat in August due to ongoing worries about the economy. Adding to investor anxiety in August was the occurrence of the “Hindenburg Omen” – a technical analysis pattern that is said to portend a stock market crash. To the contrary, stocks rallied sharply in September, with the S&P 500 posting its best September since 1939. The market move was driven by positive economic data as well as comments by the Fed Chairman that he stood ready to act if the economy faltered. Investors continued to buy gold on fears about a weaker dollar stemming from additional efforts by the Fed to stimulate the economy. Treasuries also rallied on expectations of a new round of quantitative easing.

Domestic Economic Health:

The nation’s GDP grew at 1.7% in the second quarter, following growth of 2.7% in the first quarter. The deceleration in growth comes as the effects of the fiscal stimulus package start to wear off. Sharp contractions in the economy such as the most recent recession are often followed by a healthy surge in GDP growth due in part to pent-up demand. Accordingly, the subpar GDP figures at such an early stage of the recovery are clearly troubling. Blue chip economists surveyed by the Wall Street Journal expect the economy to grow at 1.9% in the third quarter and 2.4% in the fourth quarter. Of note, job growth remained sluggish as the unemployment rate finished the quarter at 9.6%. Not surprisingly, consumer confidence continued to languish.

According to Thomson Reuters, companies in the S&P 500 are expected to post robust earnings growth of 24% in the third quarter relative to the third quarter of 2009. The financial, industrial, energy and technology sectors are expected to post profit growth in excess of 30%. Meanwhile, profits for companies in the S&P 500 are forecast to grow at 31% in the fourth quarter and 14% for all of 2011. Many strategists question whether 14% growth is a realistic forecast as the economy will likely remain sluggish and companies may well run out of ways to boost productivity. After aggressively cutting costs in the downturn, corporations risk cutting muscle, as opposed to fat, with additional cost cuts.

The 10-year Treasury rose during the quarter with the yield falling to 2.52% from 2.96%. This compares to a yield of 3.84% at the start of the year. Investors continued to buy Treasuries as the outlook for the economy dimmed. Also fueling the interest in Treasuries were expectations the Fed would launch another round of quantitative easing whereby it would buy large quantities of Treasuries in an effort to drive down long-term interest rates. Corporate bonds, both investment grade and junk, did well as investors poured more money into fixed income securities. According to the Investment Company Institute, individual investors invested \$87.7 billion into bond funds during the quarter while pulling \$42.6 billion out of stock funds.

The Fed kept the Fed Funds rate unchanged at its August and September meetings. In its September statement, the Fed affirmed its cautious outlook on the economy and indicated that it was “prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate”. This additional accommodation would likely take the form of purchasing large quantities of Treasuries in an effort to drive down long-term interest rates. Many economists are skeptical as to the benefits of another round of quantitative easing by the Fed.

Currencies and Commodities:

The euro rose 11.5% against the dollar to finish at \$1.36. This move erased all the gains the dollar accrued against the euro in the second quarter amid worries over the Greek debt crisis. Similarly, the dollar lost 5.6% against the yen to finish at 83.84. Contributing to the dollar’s retreat were reduced anxieties over sovereign debt defaults in Europe as well as fears about new dollars flooding the market from an activist Fed.

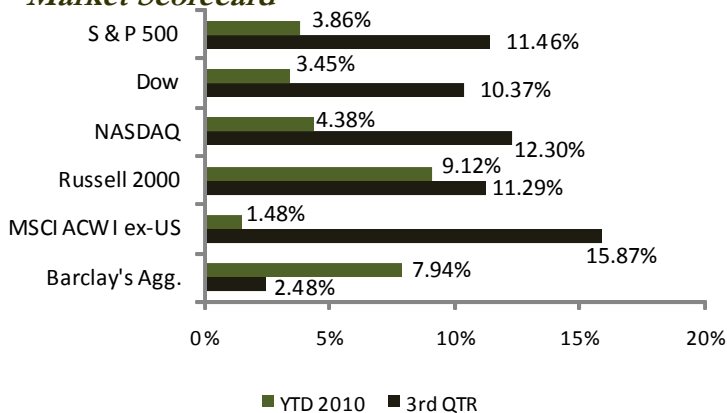
It should be noted that policymakers in the U.S. were likely happy to see the dollar weaken. Weak currencies buoy exports, which can serve as an important driver of growth. In an effort to reverse the yen’s strength and its debilitating impact on Japanese exports, the Bank of Japan intervened in the currency markets in September, buying dollars and selling yen.

Not surprisingly, gold rallied during the quarter as the dollar retreated. Gold closed the quarter up 5%, to finish at \$1307.80 per ounce. For the year, gold is up almost 20%. Meanwhile, crude oil finished the quarter at \$79.97 for a gain of 5.7%. Gains were tempered by concerns about an oversupplied U.S. market. Of note, wheat and corn prices surged on the quarter for gains of 45% and 40%, respectively, due to worries about supply shortages. Lastly, copper rose 24% on the quarter due to strong demand from China.

Overseas Markets:

Overseas markets rallied as concerns about the European sovereign debt crisis and worries about a double-dip recession in the U.S. subsided. The MSCI EAFE Index gained 15.8% for the quarter. In particular, markets across Europe rallied sharply while Japan’s performance was subdued due to worries about the strong yen. Emerging markets also surged with the MSCI Emerging Market Index rising 17.2% for the quarter. The belief that China had successfully engineered a “soft landing” for its economy helped fuel the strong gains in emerging markets as did strength in commodities in general.

Market Scorecard



2010 Fourth Quarter Outlook

Stocks enter the fourth quarter with strong momentum. Tailwinds for the market include the following:

The conclusion of the mid-term elections. Republicans are expected to take back the House and win seats in the Senate. This will likely lead to more gridlock in Washington, which investors generally prefer. Moreover, the mere conclusion of the elections will remove the inherent cloud of uncertainty related to the upcoming elections.

Seasonal factors. The fourth quarter is typically a strong period for the market. Moreover, in mid-term election years, the market historically has performed exceptionally well in the fourth quarter, as well as the first two quarters of the following year. See page 3.

Possible increased fund inflows from mutual funds and hedge funds. Many professional money managers were surprised by the sharp rise in the market in September and now risk finishing the year markedly behind their benchmarks. Accordingly, they may have a tendency to chase the market if it continues to rise.

The prospect of more quantitative easing by the Fed in November (after the elections so as to appear apolitical). In the short-term, many investors expect this policy to boost asset prices, including stocks.

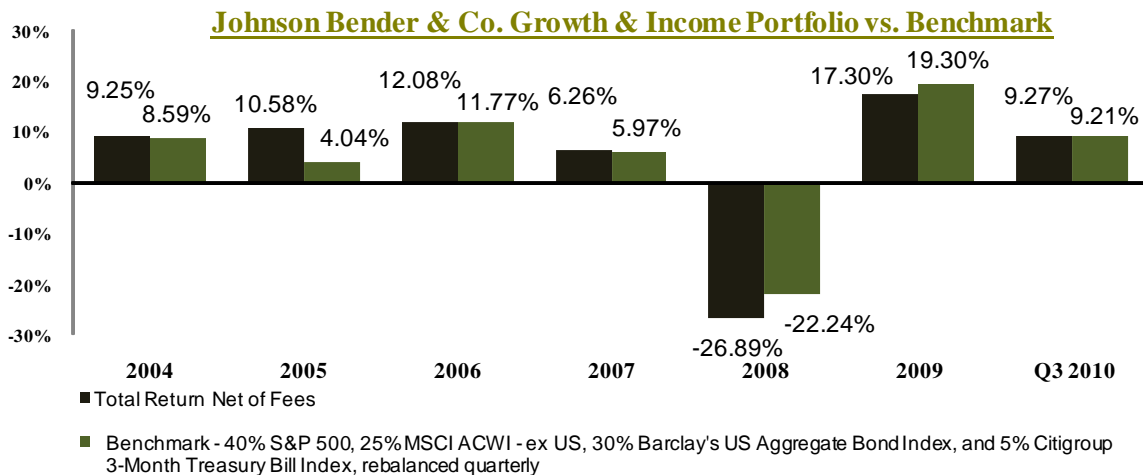
The biggest headwind facing the market is the fragile state of the economy. In particular, job growth remains anemic especially in light of the number of jobs lost in the recession. Without job growth, consumer spending will remain tepid, and consumers drive roughly two-

thirds of the economy. Moreover, a poor jobs market will also weigh heavily on the housing market. Irrespective of how low mortgage rates go, consumers cannot buy homes unless they are employed.

On balance, we expect stocks to trend higher in the final quarter.

We believe the same strategies that worked in the first three quarters will continue to work in the final quarter. These include the following:

- International stocks and bonds that will benefit from a weakening dollar.
- Emerging markets due to their growth prospects.
- Large cap companies with global brands that can capitalize on growth overseas.
- Technology stocks, which have healthy balance sheets and are posting strong earnings growth.
- Energy and other commodity-related companies that will benefit from a weakening dollar and the rising demand for commodities from China and other emerging markets.
- Equity-income investments such as high yield bonds, high-yielding stocks, master limited partnerships, preferred stocks as well as REITs.



*Prior to 2010, the benchmark was 65% S&P 500 + 35% Barclay's U.S. Aggregate Bond Index

Past performance cannot guarantee comparable future results. The JBC Growth & Income Composite was created on December 31, 2003. The composite is defined to include all fully discretionary accounts over \$250,000 that are managed according to the growth and income strategy (65% equities, 30% fixed income investments and 5% cash). Periodically, the portfolios may deviate from these allocations based on market conditions. The equity holdings will generally resemble those equities that comprise either the S&P 500 or the MSCI ACWI (All World Country Index) ex-U.S. The fixed income holdings will generally resemble the Barclay's U.S. Aggregate Bond Index. However, if market conditions warrant, the portfolio may include investments in floating rate loans, high yield bonds, international bonds, preferred stocks and CDs. Lastly, the portfolio may include commodity holdings depending on market trends. All performance figures for the composite and benchmarks are net of management fees and expenses unless otherwise noted, include the reinvestment of dividends, are reported in U.S. dollars and reflect the changes in net asset value. All performance figures are as of December 31 of the year noted with the exception of Q3 2010, which is as of September 30, 2010.

Mid-Term Elections—A Catalyst for Stocks?



MID-TERM ELECTION STOCK PERFORMANCE

S&P 500	
Mid-Term Election Yr	Fourth Qtr. Performance
2006	6.2%
2002	7.9%
1998	20.9%
1994	-0.7%
1990	7.9%
1986	4.7%
1982	16.8%
1978	-6.3%
1974	7.9%
1970	9.4%
1966	4.9%
1962	12.1%
1958	10.3%
1954	11.4%
1950	5.0%
Average	7.9%

Source: LPL Financial,
Bloomberg

Since 1950, the S&P 500 has averaged an impressive gain of 7.9% in the fourth quarter of a mid-term election year. Reasons for the gains often relate to the cloud of uncertainty that lifts in the aftermath of the elections.

Additionally, the 3-quarter period that includes the fourth quarter of the mid-term election year plus the first two quarters of the following year has averaged a gain of 18.1% since 1929. These average returns are the best for any 3-quarter period during a four-year presidential cycle.

Moreover, the third year of a president's term historically has produced the best stock market returns of all four years in a presidential cycle. According to Standard and Poor's, the third year of a presidential cycle has averaged 17.1% since 1945, three times as large as the next best year (year 4 of the cycle).

Reasons for this include increased gridlock in the aftermath of the elections as the party of the president typically loses Congressional seats in mid-term elections. Moreover, some of the would-be gains from the second year are arguably pushed into the third year.

S&P 500 PERFORMANCE DURING THE PRESIDENTIAL CYCLE					
YEAR OF PRESIDENTIAL CYCLE	AVERAGE S&P 500 % CHANGE (WITHOUT DIV'S Q1 '45-Q1 '10)				
	Q1	Q2	Q3	Q4	YEAR
YEAR 1	(1.0)	2.6	0.9	3.4	5.2
YEAR 2	1.2	(2.0)	(1.0)	6.8	4.9
YEAR 3	7.1	5.3	1.9	2.4	17.1
YEAR 4	0.5	2.6	0.1	1.9	5.7
ALL YEARS	1.9	2.2	0.5	3.6	8.2

An additional reason offered by some is that the president makes an added push to stimulate the economy in this year, ahead of the presidential election the following year.

In short, history suggests that the market may have an upward bias in the months ahead. Experts predict that the Republicans will take control of the House while Democrats retain control of the Senate. The likely result is more gridlock. Investors typically enjoy gridlock. However, in light of the challenges facing our economy, investors may or may not ultimately cheer such an outcome.

FIRM ANNOUNCEMENTS & UPCOMING EVENTS

Shell Retirement Seminars

Plaza Club—November 9th

Westlake Club—November 11th

Event Seating is limited.

Contact Kelli Stillely for more information:

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User Name:

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Enable Additional Security:

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Forgot My Password  Unable to Logon 

Sources and Disclosures:

The Wall Street Journal, Thomson Reuters, Standard & Poor's, Financial Times, Barron's Magazine, James Stack, editor InvesTech Market Analyst, Bloomberg, LPL Financial

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