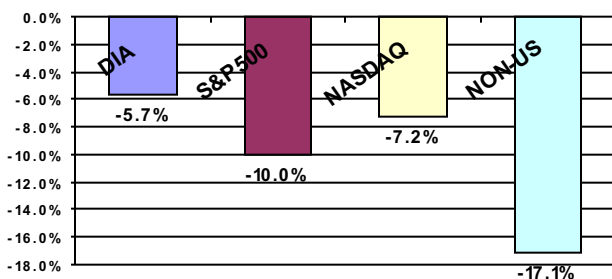


### *Economic and Market Commentary*

Painful is one word to describe the equity markets during the third quarter of 2011. Investor's demonstrated surprising resilience during the second quarter following a multitude of negative news events including the continuing saga of the European sovereign debt crisis. However, the third quarter proved to be more unsettling. Our very own government caused much of the consternation in the third quarter with the bitter debate in Congress regarding raising the debt ceiling. Moreover, their inaction resulted in an historic downgrade of the U.S. Treasury long-term credit rating.



To say that the third quarter of 2011 was “challenging” for equity investors would be an understatement. Increased levels of volatility rattled investor confidence and all unrealized gains of the first half of the year have been reversed, and then some. Year-to-date returns through September 30th for the major market indices are as follows: the Dow Jones Industrials Average lost -5.73%, the S&P 500 sank -10.04%, the NASDAQ declined by -7.20% and Non-US Stocks as measured by EFAF tumbled by -17.1%.

#### Equities

In light of the recent market volatility and the desire for a more defensive posture, our overweight sectors include Consumer Staples, Healthcare, and Utilities. Additionally, we currently maintain market weights in Energy and Technology and are underweight in Financial Services, Industrials, Materials, and Consumer Discretionary. Important to note, the best performing sectors in the S&P 500 through September 30th included Utilities +7.17% and Consumer Staples +1.03%. The worst performing sectors were Financial Services with a -25.94% and Materials -22.98%.

October begins a new quarterly reporting season which is expected to deliver respectable third quarter profits. The corporate sector continues to be a bright spot with healthy balance sheets and continued profitability. Major cost-cutting measures and leaner operating efficiencies have helped to improve corporate profitability over the past several reporting periods. The positive outlook for earnings growth and particularly manufacturing activity may be overshadowed by the slower growth outlook of the U.S. economy.

#### Bonds

U.S. Treasury yields fell to record lows in August with the 10-year note closing out the quarter at 1.75%. Slowing economic growth and the sovereign debt crisis in Europe continue to drive risk aversion and investors' flight to quality. Investors seem more willing to sacrifice yield for the guaranteed return of their original principal. The Federal Reserve has indicated that it intends to keep the Federal Funds rate at exceptionally low levels for the next two years. At the September 21st FOMC meeting Fed Chairman Ben Bernanke rolled out “Operation Twist” a strategy that involves repositioning the Fed's balance sheet from short to longer maturity securities. This program is designed to push down yields on long-term rates to stimulate demand by lowering rates even further for longer-term fixed rate loans and securities. This action seems somewhat futile as long-term rates are already at historically low levels, but we are hopeful that this action will benefit investors and the economy as a whole.

### Commodities

The situation in Greece inspired a short-term rally in Gold rising from \$1,502 in June to a high of \$1,888 on August 22nd. The rally was interrupted by profit takers who caused a precipitous sell-off resulting in a 14% decline in value. Gold ultimately settled out the third quarter at \$1,620. Another commodity in the spotlight was Copper. Closely associated with economic growth in China, concerns of a slowdown in the Asian giant caused a severe pull-back in copper prices from a high in February of \$462 to a close on September 30th at \$314 > a sobering decline of 32%. Agricultural commodity prices did not join the sharp decline seen in precious metals however prices did come off their highs. The one exception to the commodities sell-off was Live Cattle Futures which increased 20% since mid-June. This price momentum was driven by the droughts in Texas and cattle ranchers having to reduce their herds to cut costs.

Crude Oil experienced similar price action reaching a high of \$113.93 on April 29th as a result of the unrest in the Middle East. Prices quickly reversed course closing out the third quarter at \$79.20 > a remarkable decline of 30%. The decline in the price of crude was welcomed relief to consumers whose spending habits have been directly impacted by increased prices at the pump.

### Economy

The slump in commodities prices had a direct affect on the GDP deflator with many economists forecasting GDP to range between 1.5% – 2.5% through the end of the year. Even though rumors of the risk of recession have increased, we feel the U.S. Economy will muddle along for sometime without slipping into an outright contraction. The reason for this belief is the lack of the classic signs of contraction including tighter monetary policy, excessive credit, growing inventories, and a turndown in corporate profits. Although a full blown recession may not be imminent, the sluggish pace of growth makes the U.S. economy more susceptible to negative economic data and external shocks from abroad.

Persistent drags on economic growth include high unemployment currently at 9.10% and the anemic housing market; both of which seem to be in a perpetual quagmire for the foreseeable future. These issues could very well interfere with the current administration's bid for reelection in 2012. Additionally, consumer spending is growing modestly, however weak sentiment may stall momentum in the near term.

As always, the key to a successful investment strategy involves selecting an investment objective and asset allocation that matches your specific risk tolerance. Remember that we are investors for the long-term, not market timers, speculators, or traders. At Seacoast, your Wealth Management Team will continue to provide you with the highest quality service while enhancing total return within your desired risk tolerance parameters. Please feel free to contact your Wealth Management Team anytime with questions and comments at the below referenced phone numbers. As always, we welcome the opportunity to be of service and appreciate your valued relationship.



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