Dear Client: October 1, 2011

2011 3rd Quarter Recap

The Third Quarter of 2011 will go down in history as one of the most challenging for investors as we worked to navigate the markets during unprecedented economic and political uncertainty. Global leaders need to put aside irresponsible gamesmanship and step up to address the looming implied recession potential facing economies around the world!

During the Quarter in the US, we experienced historic events lead by S&P's downgrade of our sovereign debt rating after the US nearly defaulted on its obligations. Following this unprecedented event, the Federal Reserve confirmed its commitment to keep rates low into 2013. This was somewhat ill-timed as the most recent readings on the domestic economy make things appear stable (low inflation, solid leading indicators and strong existing home sales) but obviously tempered by slow GDP growth and the anemic job situation.

The market's interpreted all of the above as a sign that the economy continues to struggle and investors fled the equity markets and a flight to quality followed; Treasuries rallied driving yields to record low levels (all in spite of the aforementioned S&P downgrade). Extreme volatility continued in the equity market where daily moves of over 2% were common and amplified by high frequency trading. There were four straight days in early August where the Dow Jones Industrial Average swung more than 400 points. The S&P finished the quarter down 13+% and the 10 year Treasury yield stood at 1.92%.

Index	Q3 Total Returns (%)
S&P 500	-13.87
DJIA	-11.44
NASDAQ	-12.91
MSCI EAFE	-19.60
MSCI Emerging Markets	-23.19
Barclays Agg Bond Fund	5.02

Adding to the stress for the quarter were a series of shocks (and Natural Disasters) including the Fall of Egypt and Libya as well as continued unrest in Yemen. Additionally, the States were pummeled by two serious hurricanes and an earthquake in the North East.

In Europe, leaders continue to threaten the World economy as they struggle with the European Central Bank's (ECB) control over monetary policy and the potential default by Greece. The Euro zone has been deliberating over this topic since May of 2010. They possess the firepower and the resources to solve the crisis as their aggregate deficit and debt numbers compare favorably to the US and Britain. However, Europe is not a single entity, politically or economically and any potential solution brings its own set of unique implications. While Germany and France are critical to a resolution, the ECB will need to work closely the IMF and Greece to resolve the crisis. As stated in this week's Economist "European leaders may feel wounded by the patronizing lectures of outsiders. But unless the euro zone's countries listen to good advice, and quickly act on it, they will find not just humiliation but economic catastrophe."

While equity portfolio values are dramatically down across the board and across the globe, we believe equity valuations remain compelling for long term investors. And, while currently not attractive from an income or interest rate risk perspective (when bonds revert to traditional levels), fixed income securities continues to provide liquidity and safety for investors. What is challenging in the current rate environment: Treasury yields are below the inflation rate, resulting in negative real (adjusted for inflation) returns. To add salt to the wound, the yield on the S&P stands at 2.2%, above the aforementioned yield on the10 year Treasury which is again, unprecedented!

We are honored to be your fiduciary partner. We look forward to speaking with you soon. Please don't hesitate to contact us should you have any questions or require any additional information.

Sincerely,

Locust Capital Management, LLC