

Q3
2011

Points of Interest

P1 Dow closes down -1,301 points and S&P 500 closes down -189 points in 3Q 2011

P2 Cash on the Balance sheets at Corporate America \$2 Trillion
Apple \$76 B
Microsoft \$52 B
Hew Pack \$13 B
Intel \$13 B
IBM \$12 B

P3 How to spend \$2 Trillion: At \$1 million per day it would take 2,000,000 days or 5,450 years to spend. In your life time (50 years) you would have to spend \$20 billion per day

P4 Oceans of the World
Pacific Ocean 155,557,000 sq. km
Atlantic Ocean 76,762,000
Indian Ocean 68,556,000
Southern Ocean 20,327,000
Arctic Ocean 14,056,000



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Pension Fund Evaluations, Inc.

Third Quarter Market Update

Tums! Might be the only way to handle this Volatility

Unfortunately the old adage that what goes up must come down came into play during the 3rd quarter of 2011. After a rather volatile but positive up trend in the equities market through the first two quarters of the year (DJIA gain approx. 7 % ytd) the third quarter experienced a negative bump in the road. Fueled by persistently high unemployment rates, depressed housing markets, continued concern over global government deficits and credit rating downgrades, slow domestic GDP growth, dropping consumer confidence and investor fixation on the daily financial news generated in Europe, the S&P 500 has experienced a quarterly decline of approximately 15% and the DJIA 13%. For the most part worldwide markets performed the same way.

The good news is that *businesses have adjusted to this weak environment and corporate profits are still growing. Companies are spending on updating equipment and software and consequently, capital spending is one of*

the bright spots in the economy. This is helping to offset the slowing growth in consumer spending and limited housing market activity. In addition gasoline prices continue to decline helping to stretch consumer incomes. The Fed's recent action, Operation Twist, is intended to shorten maturities by buying longer term securities in the market and selling shorter terms and is in part designed to encourage more mortgage financing through lower mortgage interest rates. While manufacturing activity has lost some momentum in the U.S and Europe it is still considered to be steady and Asia's economic expansion remains positive. The threat of another financial crisis if the European debt problems cascade beyond the current efforts to contain them remains one of the largest economical risks.

It is important for investors to see that some parts of the economy are still expanding at a healthy pace even though other parts of the economy are weak and remain diligent with the philosophy that investing where possible must remain a longer term effort. As a rule, when stocks are off mid-cycle highs, investors in

P5 Highest Mountains on each Continent

Asia Mount Everest

8,850 meters; 29,035 feet

South America Aconcagua

6,960 meters; 22,834 feet

North America Mount McKinley

6,194 meters; 20,321 feet

Africa Mount Kilimanjaro

5,963 meters; 19,563 feet

Europe Mount Elbrus

5,633 meters; 18,481 feet

Australia/Oceania Carstensz Pyramid

5,030 meters; 16,502 feet

Pension Fund Evaluations

Consults to Funds:

Pension

Annuity

Health

Money Purchase

Foundations

401(k), 403(b), 457

Services

- Performance

Measurement

- Commission Recapture

- Investment Guidelines

- Manager Searches

- Custodial Searches

- Asset Allocation

- Execution Analysis

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general are fearful and shares appear attractive versus current and estimated earnings, most long term investors start seeking opportunities.

Fixed Income

Fixed income markets for the quarter were somewhat of a safe haven, returning somewhere around 3%. Higher quality bonds outperformed lower quality during the quarter and year to date. The Fed announces that it will be keeping interest rates low. In response to the S&P downgrade of the U.S. credit rating on August 5, the Federal Reserve pledged at its August FOMC meeting to keep the Treasury benchmark interest rates at record low rates through mid-2013 to revive the flagging recovery. In September, the FOMC released its intentions to buy the 30-year Treasury benchmark issue as well as employ monetary tools to revive the economy and confidence among investors. After the Federal debt ceiling was lifted recently, U.S. debt surpassed 100% of GDP. Such a level has been the watermark for Moody's and S&P to downgrade any country's credit rating. When President Obama signed the debt-ceiling deal into law, federal debt rose \$238 billion to a level of \$14.58 trillion putting it over the \$14.53 trillion in GDP. The last time federal debt topped GDP was in 1947 during world war II.

09/30/11	QTR	YTD
S&P 500	-13.90%	-8.70%
R 1000 G	-13.10%	-7.20%
R 1000 V	-16.20%	-11.20%
R Mid Cap	-18.90%	-12.30%
R 2000 G	-22.30%	-15.60%
R 2000 V	-21.50%	-18.50%
MSCI EAFE	-17.30%	-13.20%

	Sept	1 Year
Utilities	-0.13%	7.15%
Materials	-16.59%	-8.73%
Consumer Stap	-3.70%	6.40%
Financial's	-11.56%	-17.66%
Consumer Discr	-6.96%	4.56%

Greece, Portugal and Ireland

Downgraded to Junk; Italy downgraded

Greece, Portugal and Ireland Downgraded to Junk; Italy downgraded to A2. On February 6, Moody's downgraded Greece below investment grade; on May 9, S&P cut Greece's credit rating from BB- to B; on July 5, Moody's downgraded Portugal below investment grade; on July 12, Moody's downgraded Ireland below investment grade; on October 4, Moody's downgraded Italy to A2 with a negative outlook. These actions were taken by Moody's based on the Euro Zone economic trends of growing federal debt, lack of austerity policies to reduce government spending and faltering economic growth.

Lloyd's of London Abandons European

Banks! In a flash alert from Money Morning, they report that without warning, Lloyd's, the world's oldest insurance market, is withdrawing its money from European banks. The reasoning is that Lloyd's feels that the banks are in danger of failing as Europe's debt crisis continues to intensify. Lloyd's did not specify what European governments they are targeting. Lloyd's finance director, Luke Savage, said: "If you're worried the government itself might be at risk, then you're certainly worried the banks could be taken down with them." In addition to the government debt crisis threatening European banks, a huge credit crisis is spreading across the Continent. Spanish and Italian banks are rejecting massive numbers of loans and charging customers more as the sovereign debt crisis drives their borrowing costs higher.