

Q3  
2010

## Points of Interest

**P1** Dow closes up 1,014 points and S&P 500 closes up 110 points in 3Q 2010

**P2** Antarctica is the only land on our planet that is not owned by any country.

**P3** If the population of China walked past you in single file, the line would never end because of the rate of reproduction.

**P4** During WWII, because a lot of players were called to duty, the Pittsburgh Steelers and Philadelphia Eagles combined to become The Steagles.



*"Helping Your Investments Reach Their Peak"*



*Pension Fund Evaluations, Inc.*

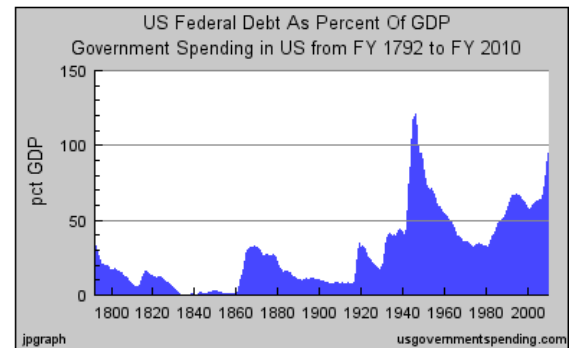
## Third Quarter Market Update

**The best September S&P 500 return in 71 years, back to positive YTD**

A strong month of September allowed for one of the better quarterly returns in a while, S&P 500 up 11.29%. Growth slightly outperformed Value and for the quarter all asset classes posted double digit returns.

During the month investors fled the government treasuries and bid up corporate bonds. Lower quality bonds showed some of the best returns. It didn't take long for the "flight to quality" issue to disappear. The long treasury was down -1.47% for September while low quality corporate's posted 4% average returns.

REIT'S came roaring back in the month, +4.5% and posted strong quarterly returns of +13.2%. Given that rental rates and occupancies have risen, this trend just might continue. Hopefully it will provide further evidence that we may have turned the corner in the real estate markets.



### Equity Markets

The third quarter provided a much rosier picture for stocks across the board. The S&P 500 posted an 11.29% return. Large Cap performance was still strong. Are investors still a little defensive?

We believe a lot of the rally in the third quarter was attributable to the further decline in the US dollar. Since mid-June, the U.S. dollar has fallen nearly 13 percent against a basket of major currencies, erasing most of the gains it racked up earlier in the year when European sovereign debt worries sent investors scrambling for safety.

As the dollar weakens, US exports become cheaper. There is an underlying assumption that this will lead to more demand which in turn will increase growth

**P5** The most points scored in a regular season football game by a team. Redskins 1966 -72. They beat the giants 72-41. This also is highest scoring

**P6** The creator of the NIKE Swoosh symbol was paid only \$35 for the design

**P7** Sharks track other fish by hearing their heartbeats

## Equity Markets

prospects and in response companies will need to hire employees which will reduce unemployment.

The one caveat here is that most developed countries around the world, except for China, are doing the same thing.

A lot of the tension has come from the fact that some emerging economies are still growing, such as BRICs, Brazil, Russia, India and China and they continue to play the currency game. The Federal Reserve is going to have to walk a fine line. Rates are already at all time lows and there is talk of printing more money to purchase assets to further stimulate the economy. I would say this sounds like a real cat and mouse game.

While the current environment of subdued growth and high uncertainty may persist for quite a

## Equity Markets

while, equity investors may still expect satisfactory returns over the next several years. The S&P 500 has moved up almost 70% from its 2009 low, but stocks are valued at levels that will allow prices to respond to improving profits, and we are optimistic about the outlook for corporate profits, since their balance sheets are so strong.

## Fixed Income Markets

The Barclays U.S. Aggregate Bond index returned 2.5% in the third quarter of 2010, pushing its year-to-date return to 7.9%. In the third quarter, corporate bonds (+4.7%) and commercial mortgages (+6.4%) led the investment-grade market as spreads tightened. For the year to date, returns on investment-grade corporate bonds have topped 10% and commercial mortgage returns are approaching 20%. Treasury bonds also beat the Aggregate in Q3, returning 2.7% (8.7% year to date).

Investors continued to pile into Treasury bonds in the third quarter. The yield on the 10-year Treasury bond declined by more than 40 basis points in Q3 to 2.5%, the lowest since January 2009, after declining 90 basis points in the second

### Winners

Country	Return
Sri Lanka	62.8%
Latvia	35.4%
Chile	34.1%
Slovakia	33.6%

### Other Notables

Country	Return
Brazil	22.1%
UK	18.9%
India	16.1%
US	11.3%

	09/30/10	QTR	YTD
S&P 500		11.29%	3.89%
R 1000 G		13.00%	4.36%
R 1000 V		10.13%	4.49%
R Mid Cap		13.31%	10.97%
R 2000 G		12.83%	10.23%
R 2000 V		9.72%	7.92%
MSCI EAFE		16.53%	1.46%

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	Quarter	1 Year
Utilities	11.11%	7.00%
Materials	17.24%	8.18%
Consumer Stap	9.76%	9.53%
Financial's	4.06%	-3.98%
Consumer Discr	14.72%	21.73%

quarter. The entire Q3 decline came in August, when worries about a "double dip" were rising; in September, when stocks were advancing smartly, bonds did not give up any of their earlier gains. Continuing uneasiness about the economy and the European debt crisis as well as the low near-term inflation threat contributed to the appeal of Treasury bonds

## Countries Overloaded Debt

There is no doubt that the US national debt is in dire straits and getting increasingly out of control; ballooning over 100% since 2000, when it was a mere \$5.75 trillion. But despite steadily increasing debt levels, individuals and countries around the world continue to maintain a high demand for US debt, hinging their confidence on the strength of the American taxpayers and government revenues generated by the country's economic activity. But when the numbers are looked at on a more relative basis, the total amount of debt owed by the US, although still quite high, seems more reasonable than that of other nations.. at least for now.

## Countries Overloaded Debt

One way to look at a nation's debt situation is by comparing external debt - the combined total of liabilities, plus interest, that corporations, private citizens and the government owe to entities outside their borders - to that country's GDP, a comparison called the debt-to-GDP ratio. By comparing what a country owes to what it produces, a picture forms of how likely or unlikely a country as a whole will be to pay back its debt.

External debt is more worrisome and important than public debt, as public debt is generally recycled back into the economy," says Josh Bivens, Economist at the Economic Policy Institute who has studied the long-term trends of national debt positions. "With US government debt, a majority of interest payments go to US citizens and money stays within the country. External debt represents pure 'leakage' out of the United States and is money that citizens will not have because they've borrowed it in the past."

6 Largest Debtor Nations based on External Debt Ratios.

Country	Return
Ireland (2.25T)	1,305%
UK (9.1T)	429%
Switzerland (1.12T)	379%
Belgium (1.25T)	327%
Denmark (608B)	307%
Sweden (894B)	270%
US (13.9T)	98.4%

The US has a much higher GDP than most countries - From CNBC Editor