

Global Economic Summary

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The past few months have been an extremely volatile period in the global financial markets. Since mid-summer, stock prices have been swinging widely as investors react to the latest piece of economic or political news. For example, the S&P 500 Index gained or lost at least 2% on over 40% of the trading days in August and September. (See attached Appendix A.)

During the third quarter, much of the volatility was on the downside, and major stock market indices posted steep declines. However, the third quarter sell-off was followed by a strong rally in global equities in October. In fact, October was the best month for the S&P 500 Index since December of 1991, and the positive returns continued into early November. The October rebound in stocks benefited investors who maintained their strategic asset allocations throughout the turmoil.

After October 31st, volatility again increased, and index returns for the month turned negative. Although US economic indicators have been more favorable than anticipated, a disconnect exists between volatility, fundamentals, and — on average — low valuations. This separation makes it quite difficult to anticipate how equities will fluctuate in the foreseeable future.

Bouts of market volatility have not been uncommon over the past several years. And we believe volatility is here to stay, since current volatility is a function of multiple variables in addition to economic fundamentals. In some cases, it is a function of technology. Technology has enabled securities traders to move in and out of positions in fractions of a second. It has also facilitated the creation of arsenals of synthetic instruments, many of which incorporate substantial leverage. For example, high-frequency trading and esoteric derivatives allow people to quickly add or eliminate risk, which can significantly amplify the volatility of markets that might be justified by fundamentals.

Given our view that volatility will persist, we would like to remind clients that, when one invests in equities, one buys an underlying group of companies whose intrinsic values do not normally change dramatically from day to day, even though their stock prices might. A stock can simply get caught up in whatever news happens to be driving the market, even if that news has nothing to do with the company. We therefore believe investors are best served by lessening their attention to short-term volatility and focusing on the fundamental prospects of their portfolio holdings.

Financial Markets Performance

Fear and uncertainty dominated the investment landscape during the third quarter. Political infighting led the United States to the brink of default on its debt obligations, and Standard & Poor's lowered the US government's long-term credit rating. The European debt crisis threatened to destabilize the global financial system and further

slow the already uncertain global economy. A lack of confidence in policymakers' ability to address their nations' deficits added to the stress in the markets. Against this backdrop, investors took refuge in assets that are traditionally viewed as safe havens; see Exhibit 1.

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Exhibit 1

Total Return* for Selected Equity, Fixed Income, and Hedge Fund Indices

	3Q 2011 (6/30/11 to 9/30/11)	Year to Date (12/31/10 to 09/30/11)	Year to Date (12/31/10 to 10/31/11)
Major Equity Indices	%	%	%
S&P 500 Index	-13.9	-8.7	1.3
Russell 3000 Index (Total US Market)	-15.3	-9.9	0.5
Russell 2000 Index	-21.9	-17.0	-4.5
MSCI All Country Ex-US Index (Net)	-19.9	-16.8	-8.-0
MSCI EAFE International Index (Net)	-19.0	-15.0	-6.8
MSCI Emerging Markets (Net)	-22.6	-21.9	-11.5
<i>Source: Bloomberg, MSCI</i>			
Major Fixed Income and Hedge Fund Indices	%	%	%
Barclays Capital US Aggregate Bond Index	3.8	6.7	6.8
Barclays Capital U.S. Credit Index	3.0	6.5	8.1
Merrill Lynch US High Yield BB-B Bond Index	-5.0	-0.5	4.9
JPMorgan GBI Global Ex-US Index Hedged in USD	3.0	3.6	2.8
JP Morgan EMBI Global Index in USD (Emerging Markets)	-1.8	3.2	7.8
HFRX Equal Weighted Strategies Index (Hedge Funds)	-5.8	-6.0	-5.1
<i>Source: Bloomberg, PIMCO, HFRI</i>			

* includes price appreciation plus dividends and/or interests

Financial Markets Performance Cont.

Equities

Stock markets in nearly every country registered substantial losses. In the United States, equities across the capitalization spectrum were weak, although large caps held up better than small and mid caps. In the international markets, European stocks declined more than their US counterparts as the region's debt crisis intensified. Concerns about global growth and low appetites for risk pressured stocks even more substantially in emerging countries, despite their strong growth prospects, sound fiscal finances, and solid monetary policies.

Global equities reversed course in October, delivering strong performance during the month. The rally was driven by constructive developments in Europe, including an agreement with banks to take a 50% writedown on their Greek government bond holdings. Encouraging data on the US economy contributed to October's gains. And in early November, investors welcomed news of an interest-rate cut from the European Central Bank (ECB) and political transitions in Greece and Italy.

Fixed Income

Bonds outperformed stocks during the third quarter, reflecting the high level of risk aversion in the market. Significant flows out of global equities and into US Treasuries pushed yields to record lows, despite the credit-rating downgrade from Standard & Poor's. Long-maturity Treasuries added to their already strong performance after the Federal Reserve announced "Operation Twist", a stimulus program designed to temporarily reduce long-term interest rates. US investment-grade corporates produced gains, while the high-yield bond market declined. Municipal securities kept advancing as the supply of new issues was limited. Munis also benefitted from the "duration effect" of lower interest rates.

Overseas, government bonds in most developed markets generated positive returns, with the exception of Greece, Italy, and Portugal. Emerging market (EM) debt lost ground as commodity prices fell and investors sought the perceived safety of greater liquidity and true quality.

"Bonds outperformed stocks during the third quarter, reflecting the high level of risk aversion in the market."

Global Economic Outlook

United States

The US economy has been growing since the middle of 2009, quarter after quarter. Apart from Housing, critical sectors (e.g., Light Vehicle Sales, Real Capital Goods Orders, and Manufacturing and Trade Inventories) have seen a

meaningful recovery, and corporations have experienced a strong resurgence in their profits and cash flows. (See attached Appendices B, C, and D.) Last summer's debt-ceiling debate certainly undermined business and consumer confidence. However, the impact was not as bad as many people feared, and

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Global Economic Outlook Cont.

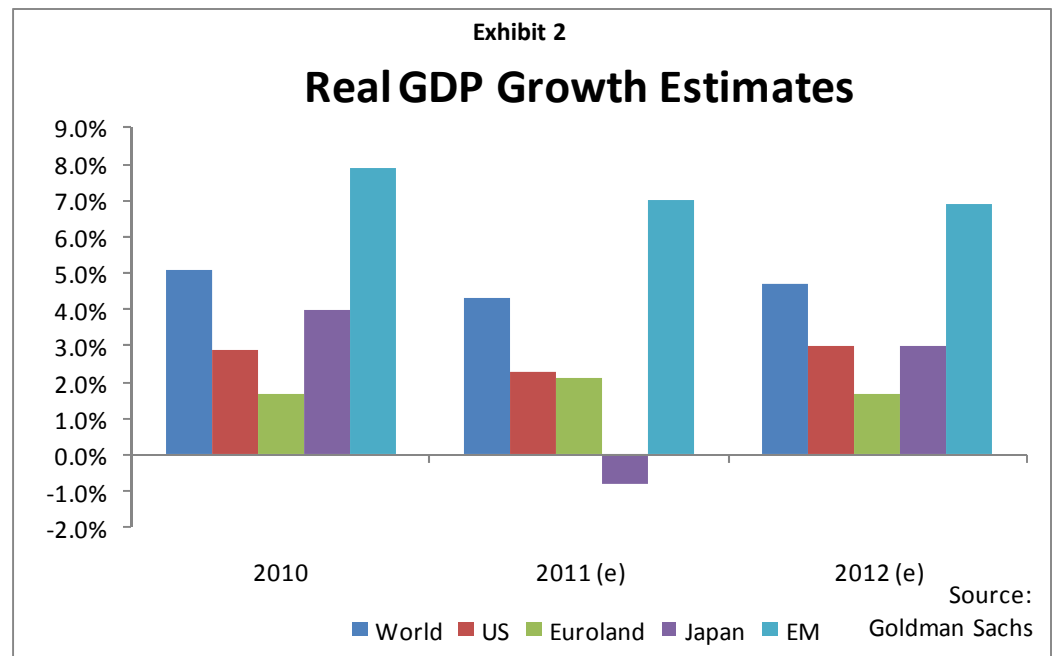
From page 3

economic data has become more positive. Consequently, we think the United States will most likely avoid a double-dip recession and continue to grow, albeit slowly. Coming out of such a serious recession (with consumers and businesses deleveraging) a slow rate of growth is to be expected.

One of the most important components in any recovery is access to credit. And although the US financial system is healthy again, banks are highly cautious to lend because of the stricter controls regulators have placed on them. This is not a problem for large corporations,

since they tend to issue debt to meet their financing needs. But it is a challenge for small- to mid-sized companies, which are responsible for at least 60% of the total employment in the economy. So, for the United States to see faster growth and lower unemployment, one of the many issues to address is for the financial regulators to prudently relax some of the tight lending restrictions which affect credit to most borrowers. Renewed confidence in our political authorities — at all levels of government — would also be welcome and important to stimulating growth.

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Europe

The best-case scenario for the European economy would be slow growth over the remainder of 2011 and into 2012. However, we think there is a high probability that the

debt crisis and shift toward austerity might push the region into a recession. In our view, the debt problems in Europe are manageable but, until recently, were not being managed. In particular, the ECB

Global Economic Outlook Cont.

should have been more aggressive in providing the banking system with liquidity, similar to what the Fed did during the US credit crisis. Fortunately, the stronger European countries are finally realizing that, by helping their weaker counterparts, they are also helping themselves. By way of example, the total amount of Greek sovereign debt is approximately 350 billion Euros. Yet concerns about a Greek default have erased substantially more value from Europe's equity and fixed income markets.

We are now seeing progress. As noted earlier, there is a plan to recapitalize the banks, the ECB has cut rates, and new leaders are taking the reins in Greece and Italy where austerity measures have been passed. In addition, the European Union has increased the lending capacity of the European Financial Stability Facility (EFSF), a special purpose vehicle that makes loans to euro area countries. Nonetheless, we believe there has to be proper coordination of the fiscal policies of the different countries for more effective solutions to the current crisis to emerge.

Japan

The Japanese economy has bounced back following the March 11 earthquake and tsunami. GDP grew at an annual rate of 6.0% in the third quarter, the fastest pace in a year and a half. The

slowing global economy and strong yen, which makes Japan's exports more expensive overseas, are headwinds to future growth. However, reconstruction spending and strength in emerging economies should pave the way for a moderate expansion. Furthermore, the Bank of Japan has been easing monetary policy and intervening in the currency markets to weaken the yen. The special attraction of Japan for investors is the low equity valuations of very high-quality multinational and domestic companies.

Emerging Markets

The growth outlook in many emerging markets remains bright. Over the past two years, China, India, and other developing countries have been tightening monetary policy to curb inflation — tightening that has modestly slowed their robust economies. However, most EM central banks paused during the third quarter on signs of weakness in the global economy.

We believe emerging markets will be the main driver of global growth in the short term as developed nations continue to deleverage, and in the long term because of favorable demographics. These countries could contribute even more to global growth if they move toward consuming more and saving less — especially China, which seems to be moving in that direction.

“We believe there has to be proper coordination of the fiscal policies of the different [European] countries for more effective solutions to the current crisis to emerge.”

Investment Strategy

Equities

Global equity valuations remain depressed relative to historical averages, despite the recent rally. Within the asset class, and since last year, we have been tilting (and our mutual fund managers have been tilting) our exposure toward large multinational corporations, both in the United States and developed markets overseas. These large multinationals generally have solid balance sheets and are positioned to benefit from growth in emerging markets, now and for the long term. Mid- and small-cap companies also show some undervaluation and justify an appropriate level of exposure.

As noted above, we have indirect exposure to emerging markets through developed market funds that include corporations which partially engage in EM activities. We also have direct exposure to emerging markets through our international funds that invest directly in these countries. While we feel confident about this positioning, we remain cognizant of general market trends when uncertainty and volatility are high. Despite the strong fundamentals and good growth prospects of emerging countries, in turbulent times, investors often turn to the most liquid markets, thereby generating high volatility in emerging markets. We saw this happen recently when, despite strong fundamentals in the EM, their equities declined more than those in developed countries with weaker fundamentals.

“Despite the strong fundamentals and good growth prospects of emerging countries, in turbulent times, investors often turn to the most liquid markets, thereby generating high volatility in emerging markets.”

Fixed Income

We have been (and our mutual fund managers have been) lowering our duration in anticipation of higher interest rates. We do not expect short-term rates to rise in the near future given the Federal Reserve’s pledge to hold its key policy rate near zero through at least the middle of 2013. The Fed is also committed to keeping long-term rates low. However, we think longer rates could rise quickly if there is more positive news on the economy.

Treasuries still look overvalued and appear to be venturing into “bubble” territory. If the global economic picture deteriorates, we believe investors will continue to flock to US government debt. But if the outlook improves, the market could weaken. Certainly over the long-term, we think today’s low Treasury yields are unsustainable.

We are seeing more opportunities in investment-grade and high-yield bonds following the sell-off in August than we were seeing earlier this year. EM debt also sold off and makes it more attractive today.

In closing

We continue to believe that fixed income, with its lower volatility and low correlation with equities, is an integral component of a diversified portfolio, providing funding for liquidity needs. Depending on the type of fixed income (Treasuries, corporates, munis, etc.), it is our opinion that such investments are fairly valued to overvalued.

As described in previous letters, we believe it is highly probable that fixed income will face headwinds when interest rates rise and, where appropriate, we have lowered duration and shifted toward fixed income sectors less sensitive to rising interest rates. Further, we favor mutual fund managers who search out special opportunities or have the flexibility to move to less interest-rate-sensitive areas. Lastly, given that high-yield fixed income securities generally have lower sensitivity to interest rates, we are maintaining a position where appropriate.

The recent turbulence in the markets reinforces our belief that successful long-term investing requires patience. At SOL, we expect periods of volatility, knowing that volatility will smooth out over time. We also believe that diversification offers the greatest protection against permanent loss of capital and sometimes can lessen volatility. As a result, subject to client restrictions and instructions, portfolios are broadly diversified by asset class, geographic market, asset size, and investment style.

We continue to thoughtfully rebalance portfolios, being mindful of the events taking place around the world. As always, we remain focused on achieving your long-term investment objectives, within your risk profile, and funding your future liquidity needs. Please call us at 301.881.3727 with any questions or concerns about your portfolio.

Sincerely,

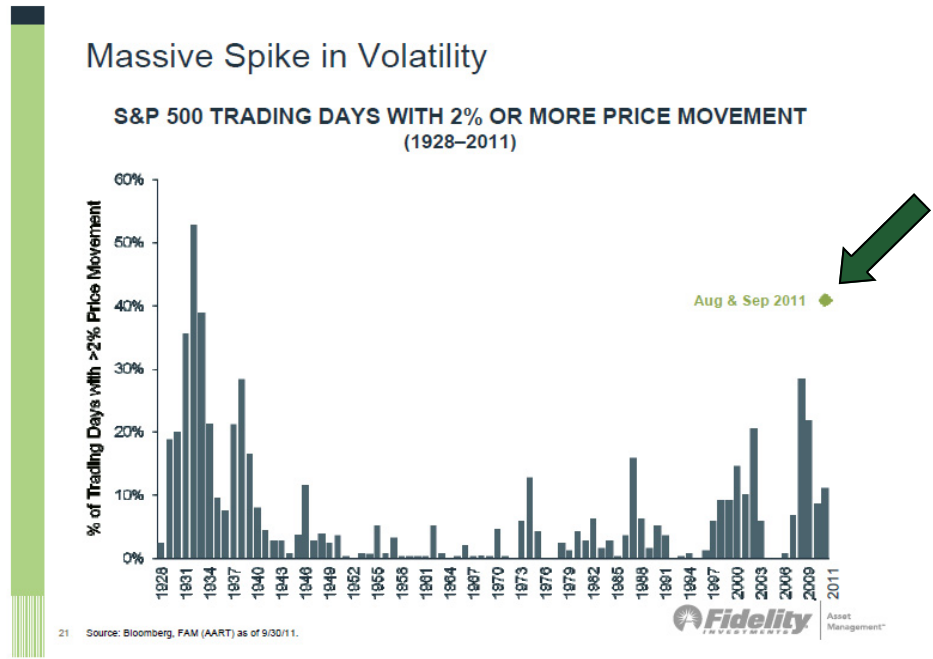
The SOL Capital Management Team

“The recent turbulence in the markets reinforces our belief that successful long-term investing requires patience.”

Please note that past performance is neither an indication nor a guarantee of future returns and that diversification does not ensure profits or guarantee against a loss.

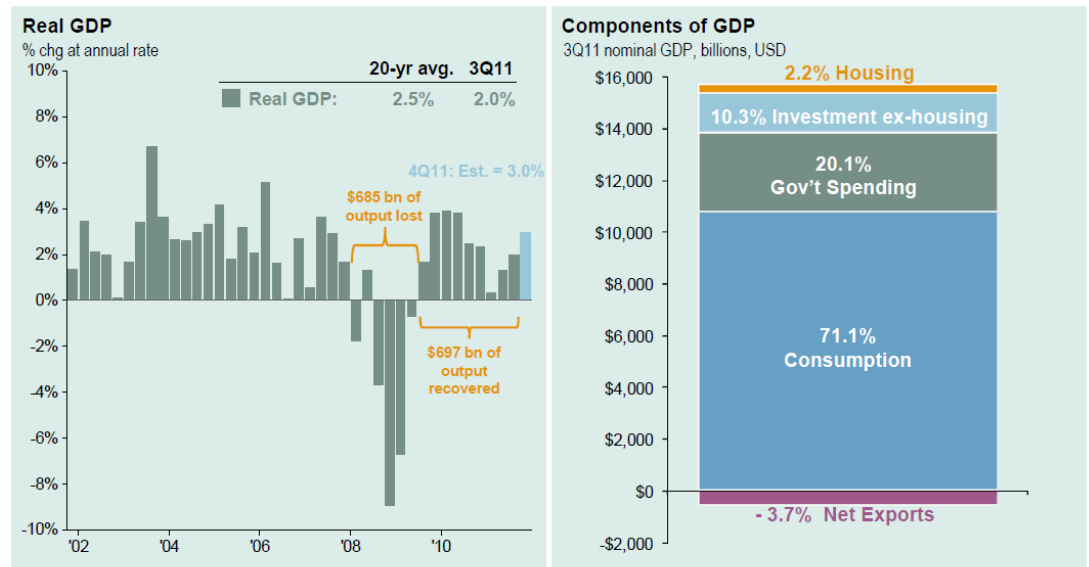
Appendices

Appendix A Market Volatility



Source: "Massive Spike in Volatility," Q3 2011 Market Update, Fidelity Asset Management, page 21

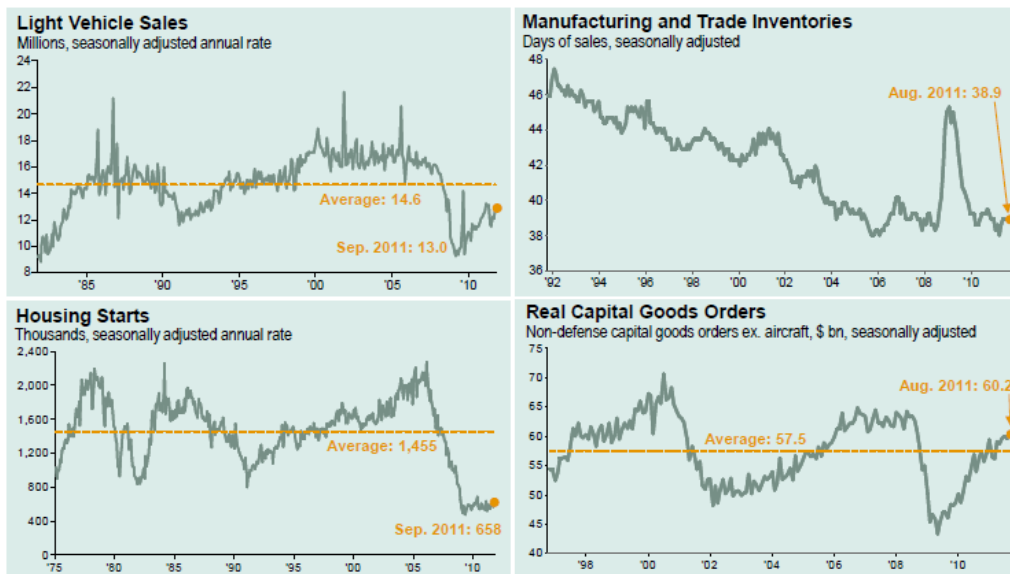
Appendix B Economic Growth & the Composition of GDP



Source: BEA, FactSet, J.P. Morgan Asset Management.
GDP values shown in legend are % change vs. prior quarter annualized and reflect revised 3Q11 GDP.
Data reflect most recently available as of 11/22/11.

Source: "Economic Growth & the Composition of GDP", Market Call, November 29, 2011, Dr. David Kelly, J.P. Morgan Asset Management, page 2

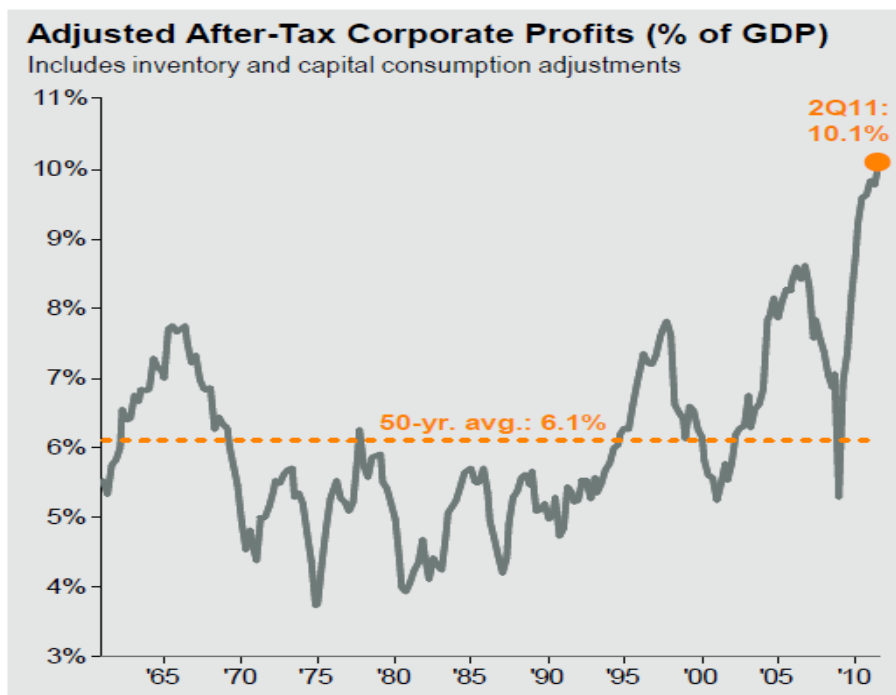
Appendix C
Cyclical Sectors



Source: (Top left) BEA, FactSet, J.P. Morgan Asset Management. (Top right) Census Bureau, FactSet, J.P. Morgan Asset Management. (Bottom left) Census Bureau, FactSet, J.P. Morgan Asset Management. (Bottom right) Census Bureau, FactSet, J.P. Morgan Asset Management. Data reflect most recently available as of 10/24/11.

Source: "Cyclical Sectors," *Europe, Earnings and the Recession Question*, October 27, 2011, J.P. Morgan Asset Management, page 3

Appendix D
Adjusted After-Tax Corporate Profits



Source: BEA, FactSet, J.P. Morgan Asset Management.

Source: "Adjusted After-Tax Corporate Profits (% of GDP)," *Guide to the Markets 4Q 2011*, J.P. Morgan Asset Management, page 25

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