# Cedar Hill Market Recap

October 2011

## Stock Markets

| | Month | YTD |
|---|---|---|
| S&P 500 | 10.93% | 1.30% |
| Russell 2000 | 15.13% | -4.46% |
| MSCI EAFE | 9.64% | -6.78% |
| MSCI Emerging Markets | 13.25% | -11.53% |

## Bond Markets

| | Month | YTD |
|---|---|---|
| Barclays U.S. Aggregate | 0.11% | 6.76% |
| Barclays Intermediate | 0.22% | 5.42% |
| Merrill Lynch 5 Yr. Municipal | -0.64% | 4.75% |
| Merrill Lynch High Yield Master II | 5.96% | 4.16% |

## Alternative Investments

| | Month | YTD |
|---|---|---|
| HFRX Hedge Fund Index | 0.81% | -7.68% |
| Dow Jones UBS Commodities Index | 6.62% | -7.90% |
| Dow Jones REIT Index | 14.29% | 6.77% |

## U.S. Treasury Rates

| | 10/31/11 | 12/31/10 |
|---|---|---|
| 3-month | 0.01% | 0.12% |
| 1-year | 0.12% | 0.29% |
| 5-year | 0.99% | 2.01% |
| 10-year | 2.17% | 3.30% |
| 30-year | 3.16% | 4.34% |

*All performance figures as of 10/31/11. YTD period is 12/31/10 - 10/31/11.

### Economic Highlights

- After tepid economic expansion during the first half of the year, the U.S. economy grew solidly in the third quarter. Real GDP increased at an annualized rate of 2.5 percent in the third quarter and has now finally surpassed the pre-recession peak.
- The Consumer Confidence Index, which had slightly improved to 46.4 in September, declined in October to 39.8 -- a level not seen since the recession in 2008/09.
- Global manufacturing activity showed signs of cooling in October. The ISM Manufacturing Index in the United States dropped from 51.6 to 50.8; a manufacturing gauge in the United Kingdom declined to a 28-month low; and a Chinese factory index fell to its lowest level since February 2009.

### Market Highlights

- Global equity markets surged in October as European policymakers announced steps to address the region's debt crisis, at least temporarily. Dissipating fears of a double-dip recession in the United States also helped to inject renewed confidence back into the market.
- Despite recent market volatility, corporate earnings remain robust. Two-thirds of the S&P 500 companies reported third-quarter earnings by the end of October, and roughly 70 percent of those firms posted higher-than-expected earnings during the quarter.
- After falling 15 percent in September, commodity prices began another upward ascent in October, led by a recovery in crude and copper prices. That said, the commodity price index is still down 8 percent for the year and is off nearly 15 percent from the 52-week high posted in late April.

### What We Are Doing About It

- U.S. large capitalization stocks remain well-positioned to weather the current environment. Even after October's rally, valuations remain below historical averages.
- Non-traditional equity investments in MLPs, BDCs and preferred stocks offer investors historically high income streams, relative to taxable bonds, through their dividends.
- Within international equity allocations, Latin America, India and small-cap emerging markets offer some protection against a slowdown in Western Europe.
- We have positioned bond portfolios to protect against future higher interest rates by limiting duration. As a result of Fed policy, new investments emphasize four- to eight-year bonds.