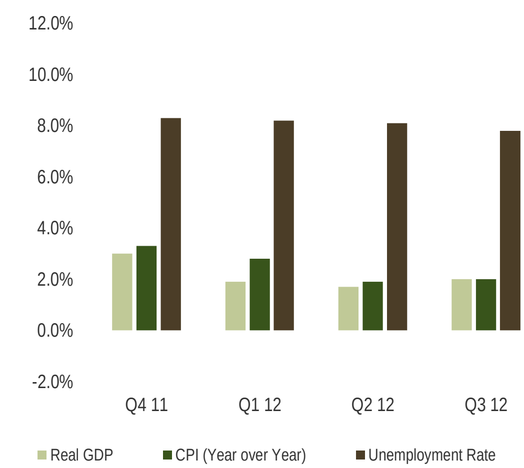
Economic Update

Ben Bernanke dropped more hints this week as to when monetary easing measures might end following a two-day meeting of the FOMC. The Fed now says it will keep its accommodative policies in place for as long as unemployment remains above 6.5%, and their one-to-two year inflation expectations remain below 2.5%. We believe this is an improvement over the previous guidance of mid-2015, as this is based on economic data and not an arbitrary timeline. The Fed also said after Operation Twist concludes at the end of the year they will begin outright buying longer-term Treasury securities at an initial pace of $45 billion, bringing their total monthly purchases to $85 billion when combined with the $40 billion of mortgage-backed securities purchases. The expanded quantitative easing program will continue to put downward pressure on longer-term rates, including mortgage rates which should help to keep the current housing recovery on track.

Inflation does not look to be threatening the Fed's plans any time soon. The Consumer Price Index (CPI) dropped 0.3% in November thanks to lower energy prices. Year-over-year headline inflation fell 0.4% from October to 1.8%. Excluding food, up 0.2% for the month, and energy which sank 4.1%, the core rate edged up a moderate 0.1%. Inflation continued to weaken at the producer level as well with PPI falling 0.8% in November, also largely as a result of lower energy prices. In today's zero-interest-rate environment inflation has become an increasingly more important leading indicator for the direction of equity markets, and lower inflation has typically signaled higher stock prices ahead.

Retail sales rebounded 0.3% in November after falling 0.3% the previous month, despite a 4.0% drop in gasoline sales. Weaker sales at the pump were offset by a 1.4% bounce back in motor vehicle sales, a 3.0% increase in nonstore retailers, and a 2.5% increase in electronics & appliances. The core number excluding both the automotive and gasoline components was up a favorable 0.7%. It looks like consumers are still spending despite the fiscal cliff and retailers are, for the most part, the beneficiaries so far this holiday season.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

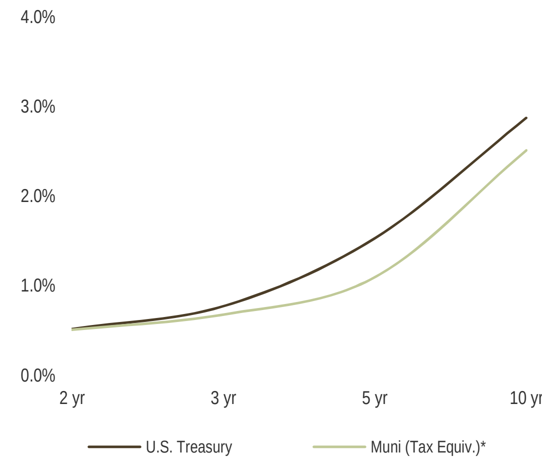
Dec. 11th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.7%
Dec. 11th	International Trade Balance Level, October	-42.2B
Dec. 11th	Wholesale Inventories, Oct. Monthly Chg.	0.6%
Dec. 12th	MBA Purchase Applications Index, Wkly. Chg.	6.2%
Dec. 12th	Import Prices, Nov. Monthly Chg.	-0.9%
Dec. 12th	Export Prices, Nov. Monthly Chg.	-0.7%
Dec. 12th	EIA Petroleum Status Report, Wkly. Chg.	0.8M Barrels
Dec. 13th	Initial Jobless Claims (week ending 12/8)	343,000
Dec. 13th	Producer Price Index, November Monthly Chg.	-0.8%
Dec. 13th	Retail Sales, Nov. Monthly Chg.	0.3%
Dec. 13th	Business Inventories, Oct. Monthly Chg.	0.4%
Dec. 13th	EIA Natural Gas Report, Wkly. Chg.	2 bcf
Dec. 14th	Consumer Price Index, November Monthly Chg.	-0.3%
Dec. 14th	Industrial Production, Nov. Monthly Chg.	1.1%

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Although U.S. Treasuries rallied on Friday after a CPI report showed a larger than expected decline in November, this sector of the bond market fell for the week. The latest CPI data suggests inflation, a primary threat to the value of bonds, is well under control at this time. Reflecting this information, the spread, or difference in yields, between 10-year Treasury notes and TIPS, an indication of the outlook for consumer prices, fell to 2.44% from 2.51%. Separately, the four-week T-Bill rate fell below 0% as market participants speculated temporary FDIC insurance on some bank-deposit accounts will end as scheduled on December 31, driving demand for short-term securities sharply higher. Introduced in the wake of the 2008 credit crisis, this insurance program guarantees $1.5 trillion in non-interest bearing transaction accounts that exceed the general limit of $250,000. Should this program expire, many strategists expect robust demand for T-Bills to continue as banks look to securitize these deposit accounts. Finally, the Fed announced this week at their FOMC meeting that they would move ahead quicker than expected in using numerical thresholds to provide forward rate guidance. Specifically, they will keep rates near 0% as long as the unemployment rate is above 6.5%, provided their one- to two-year inflation forecast does not rise above 2.5%. As expected, in an effort to continue to stimulate economic growth, the Fed also announced a program to purchase $45 billion of Treasuries monthly after Operation Twist ends in December.

Yield Curves

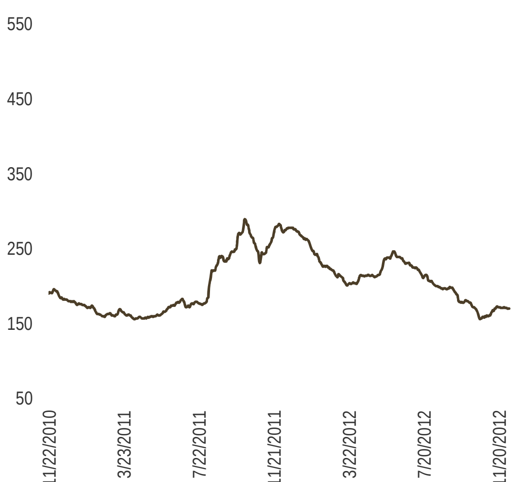


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	12.7.12	12.14.12	Change
3 month T-Bill	0.10%	0.06%	-0.04%
2-Year Treasury	0.27%	0.27%	0.00%
5-Year Treasury	0.69%	0.70%	0.01%
10-Year Treasury	1.69%	1.74%	0.05%
30-Year Treasury	2.83%	2.90%	0.07%

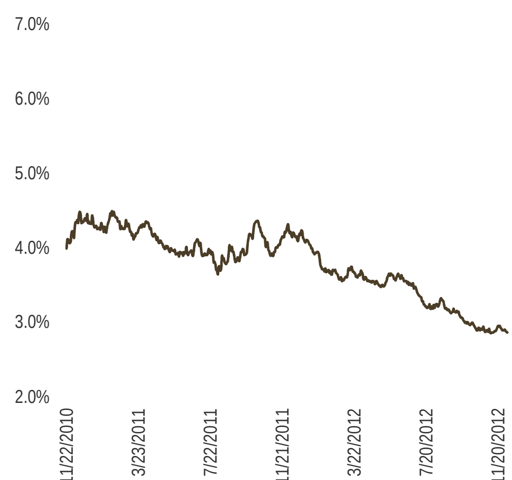
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps



Source: Merrill Lynch

U.S. Investment Grade Corporate Bond Yields (BBB-A)



Source: Merrill Lynch

Stock Market Update

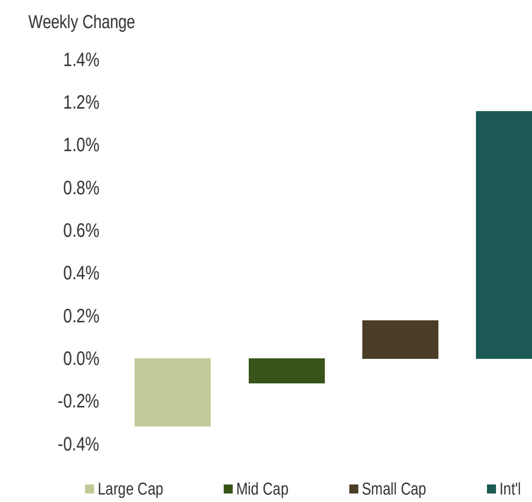
Most major domestic stock markets were generally flat this week as volatility and uncertainty continued around fiscal cliff negotiations and the Fed policy statement setting unemployment and inflation target levels. The Dow Jones Industrial Average closed Friday at 13135.01, down 20 points or 0.02% for the week. The S&P 500 Index finished at 1413.58, down 4.49 points (0.3%) over the five-day trading period. The NASDAQ Composite Index fell 6.71 points (0.2%) since last Friday to close at 2971.33 Apple was weak again as the stock fell 4.3% on Friday and over 5% for the week on news of a muted iPhone5 launch in China and reports by two analysts lowering iPhone and iPad shipments forecasts for the upcoming quarter. The stock is down 25% since late September.

European markets as measured by the Stoxx Europe 600 Index were also flat this week, snapping an eight-day winning streak on Thursday. Of note was Tuesday's positive reading of Germany's economic expectations index, indicating improving investor sentiment. Asian stocks were very strong led by China's Shanghai Composite Index which jumped 4.3% on Friday after the initial report of the December HSBC's manufacturing Purchasing Managers' Index increased to a 14-month high of 50.9. Friday's rally was the index's best single-day percentage gain in over three years. Investors in Japan were more cautious on Friday ahead of this weekend's election and after a survey of business sentiment came in below expectations, but the Nikkei Index still posted a 2.2% return for the five-day trading period.

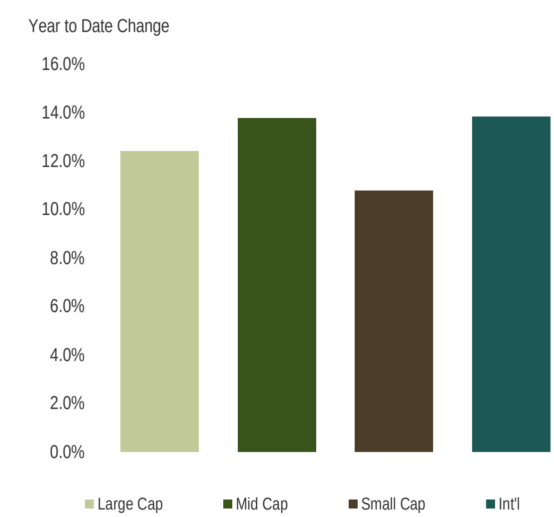
The Wall Street Journal reported this week that 92 companies in the S&P 500 have lowered guidance for fourth quarter earnings, with only 25 companies raising guidance. Compared to expectations back in January of this year when earnings were estimated to grow 18.5%, analysts are now predicting only 3.7% growth, according to Thompson Reuters. Six of the ten S&P sectors have experienced downward revisions to estimates.

Issue	12.7.12	12.14.12	Change
Dow Jones	13,155.13	13,135.01	-0.15%
S&P 500	1,418.07	1,413.58	-0.32%
NASDAQ	2,978.04	2,971.33	-0.23%
Russell 1000 Growth	655.53	651.86	-0.56%
S&P MidCap 400	1002.7	1001.53	-0.12%
Russell 2000	822.27	823.75	0.18%
MSCI EAFE	1,568.05	1,586.21	1.16%
MSCI Small Cap	1,021.26	1,042.56	1.10%

Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.



Source: Standard & Poor's, Russell Investment Company, MSCI

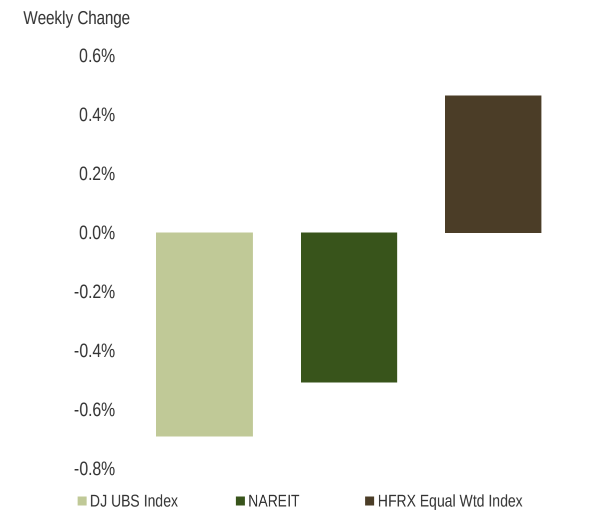


Source: Standard & Poor's, Russell Investment Company, MSCI

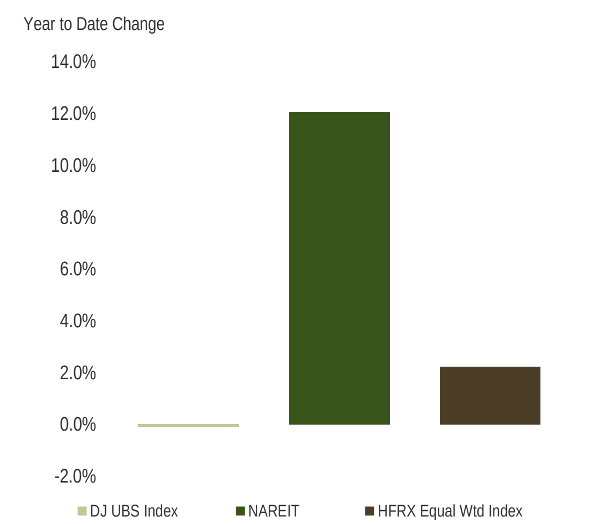
Alternative Investments Market Update

Gold slipped below $1,700 an ounce on Friday as the metal fell for the third straight week amid continued uncertainty over stalled U.S. budget negotiations to avoid the “fiscal cliff”. The demand for the safe haven precious metal is not as high as it used to be, with gold settling at $1,695.40 an ounce. According to analysts, the short-term market participants who used to be very bullish on the metal are now weighing prospects of investing in such a risk asset. Crude oil settled higher Friday, over positive macroeconomic data out of China and the U.S. On the economic front, China's manufacturing activity expanded at the fastest pace in more than a year, while industrial production in the U.S. increased more than anticipated in November. The U.S. and China, the world’s biggest and second-biggest consumers of the energy commodity, respectively, played a major role in pushing crude up 0.90% this week, to close at $86.79 a barrel.

Although hedge fund liquidations continued in Q3, the industry was able to chug along as both the total number of hedge funds and their total assets hit record highs. Hedge funds globally manage $2.2 trillion, spread among 9,764 hedge funds and funds of hedge funds, according to Hedge Fund Research (HFR). While that figure is down from the record of 10,096 total funds set in 2007, it can be attributed to the continuing decline of funds of funds. According to HFR, 74 funds of funds closed their doors so far this year, leaving just 1,897, a level not seen since 2005 and down from the record 2,462 in 2007. This trend occurs as the industry is poised to suffer the most erosion since 2009 when more than 1,000 hedge funds closed their doors. Another 211 liquidated in Q3, bringing the total number of hedge fund closures to 635 on the year, on pace to top last year's 775 and 2010's 743. But new launches have more than kept pace, as Q3 welcomed 275 new hedge funds, up from 245 in Q2; a total of 824 hedge funds have debuted this year.



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research



Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

Issue	Previous Week	Current[1]	Change
Gold	1,703.45	1,695.40	-0.47%
Crude Oil Futures	86.02	86.79	0.90%
Copper	366.50	367.35	0.23%
Sugar	19.21	19.01	-1.04%
HFRX Equal Wtd. Strat. Index	1,116.74	1,121.93	0.46%
HFRX Equity Hedge Index	1,044.66	1,048.15	0.33%
HFRX Equity Market Neutral	933.63	935.92	0.25%
HFRX Event Driven	1,362.91	1,371.89	0.66%
HFRX Merger Arbitrage	1,491.66	1,505.48	0.93%
Dow Jones UBS Commodity Index	141.51	140.54	-0.69%
FTSE/NAREIT All REIT	155.69	154.90	-0.51%

1 Prices reflect most recent data available at the time of publication
Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal, The International Monetary Fund.

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