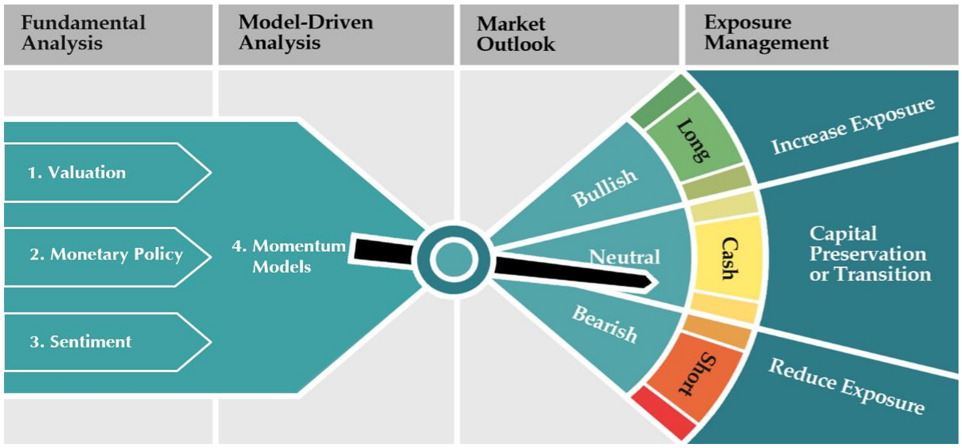
The Federal Reserve passed on a September rate hike. A further advance in equity markets, however, was dampened by the news of Deutsche Bank being subject to $14 billion in fines by U.S. regulators over questionable products during the financial crisis and the announcement from German officials that they will not bail out the bank.



Readings in the four pillars of our investment process are as follows:

1. **Valuation:** Valuation is on a path to reach the highs last attained in the late 1990s. However, on a relative basis, adjusted for interest rates, valuation is fairly cheap, as the 10 year note was 9% in the late 90s. Historically, valuation has not been a very good short or intermediate timing tool. Nonetheless, from a long term perspective, valuation is flashing warning signals, particularly if we see an increase in interest rates.
2. **Monetary factors and credit conditions:** Credit spreads have continued to narrow since February, Global Central Banks and most recently, the Bank of England, have become more accommodative. The ECB and now the Bank of England have become quite aggressive and are buying corporate bonds to inject liquidity. The banking crisis in Europe has diminished the odds of a rate hike. While the Fed passed on a September rate hike, Fed Fund futures attach a 62% probability of a December rate hike.
3. **Sentiment:** There is disdain among the public for equities, which generally is bullish. Equity mutual fund flows have actually been negative, which has historically been a positive.
4. **Momentum**: Market internals are strong. The Advance-Decline ratios continue to make new highs and the percentage of stocks trading above their 10 and 30 week moving averages indicate broad participation.

Looking ahead, credit conditions and monetary variables remain positive and momentum continues to be strong, however, stress in European Bank shares may present head winds for equities. The U.S. presidential election coupled with a likely December hike in the Federal Funds rate may also be a challenge for equities.