



QUARTERLY NEWS RELEASE

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(425) 883-7990

Introduction

Given the performance of the stock market since our last communication, for the 3rd quarter and indeed for the year, we have devoted this issue of our quarterly News Release entirely to a discussion about market performance. Attempting to explain why the market behaves the way it does is a naïve and perhaps foolish endeavor, less ridiculous only than attempting to predict tomorrow's results. Even so, simply suggesting that all is fine and that this too shall pass, while likely accurate, seems insufficient. Below we do our best to add some context to what we've experienced of late and emphasize as enthusiastically as ever the importance and resilience of a well-diversified portfolio and of maintaining a long-term perspective.

Market Commentary & Investment Education

Benchmark Returns

The 3rd quarter of 2011 was extraordinarily volatile and at times didn't make much sense. The following table illustrates the returns of the benchmarks we monitor.

Benchmark	06/30/11 Close	09/30/11 Close	% Gain / (Loss)
S&P 500	1,320.64	1,131.42	(14.33%)
Dow Jones Industrial Average	12,414.34	10,913.38	(12.09%)
Russell 2000 Index	82.80	64.30	(22.34%)
MSCI EAFE Index	60.14	47.78	(20.55%)
IShares Barclays Aggregate Bond Index	106.67	110.11	3.29%
SPDR Barclays Capital 1-3 Month T-Bill	45.86	45.85	.02%

Note: Benchmark information is for illustrative purposes only. Indexes are unmanaged and cannot be invested in directly and their performance does not reflect the deduction of fees or commissions. This information is obtained from sources believed to be reliable; however, its accuracy cannot be guaranteed.

Risk Measures

Analysts and portfolio managers use, among other techniques, a measure of risk called "Beta." According to Investopedia, Beta is: "A measure of the volatility, or 'systematic risk', of a security or a portfolio in comparison to the market as a whole."

For this to make sense, we need to understand what is meant by "systematic risk". Systematic risk is "The risk inherent to the entire market or entire market segment.....Also known as 'un-diversifiable risk, or market risk'." Conversely, "unsystematic risk" is: "Company or industry-specific risk that is inherent in each investment...unsystematic risk can be reduced through appropriate diversification."

Confused yet? Don't be. Each investment contains two overarching types of risks; one is the risk of price depreciation due to national or international political and economic factors. This is systematic risk and in theory cannot be diversified away within a narrow sector or sub-asset class. The second risk is company or industry specific; for example, the risk that improper accounting practices result in inflated earnings that must be restated, or that a company may borrow too much and become "over-leveraged", or that its products or services may fall out of favor as consumer preferences change or as competitors come to market with better offerings.

What we may conclude about 2011 and specifically the 3rd quarter is that systematic, un-diversifiable risk had a greater influence on equity values than is typical. For example, according to a recent analyst report by Ms. Liz Ann Sonders, Chief Investment Strategist at Charles Schwab & Co., 2nd quarter corporate profits increased to record high of \$1.517 trillion and corporate cash flow also increased to a record high of \$1.773 trillion during the same period. Corporations entered the 3rd quarter from a position of balance sheet strength.

How then, could equity prices have declined so dramatically? General answer: systematic risk. Specific answers; The US Congress was unable to reach a timely compromise to the debt ceiling and budget issues. Concerns materialized that a default on the sovereign debt of Greece may lead to a broader financial / banking crisis in the Eurozone and possibly impact the US economy. These and other factors combined to cause paralysis in corporate hiring and capital spending, which in turn, maintains or increases unemployment, which in turn reduces consumption, which in turn reduces overall productive output – the proverbial “vicious cycle”. A decline of real GDP for two successive quarters = recession.

This is an incomplete, though not inaccurate snapshot of the factors influencing the markets today. However, all is not as dire as it may appear.

Diversification and Asset Allocation

We seem to harp on this, but for good reason. Our method is to diversify your portfolios among asset classes that do not react uniformly to the same set of economic conditions. It is nearly impossible to create a portfolio of completely non-correlated assets. In this period, called by some the “new normal”, correlations are stronger than ever. But certain types of investments do have unique characteristics. For example, a money-market mutual fund (notwithstanding today’s low to non-existent rates of return), does not behave like an emerging markets fund. Below are year-to-date returns (January 1 to October 5, 2011) for many of the investments that our TIAA CREF clients have in their portfolios right now.

TIAA CREF Growth and Income Fund:	-6.81%
TIAA-CREF Large Cap Value Fund:	-15.58%
CREF Stock:	-12.82%
*TIAA Traditional:	As high as 4+%, depending on account
TIAA Real Estate Fund:	+10.10%
TIAA CREF Bond Plus Fund:	+3.49%
Cash:	Effectively Zero

During the same period, the S&P500 is down 12.41%.

As is clear, a portfolio comprised of only the three equity funds listed above would be taking a bit of a beating. But a portfolio comprised of 50% exposure to these funds and 50% to fixed income and real estate (as would be the case with a PIM “growth” investor), would be doing much better. Moderate and Conservative portfolios, those with 40% equity exposure or less, may be maintaining value, depending on the remainder of the asset mix. The key to survival during periods of uncertainty is to have a firm grasp on your level of tolerance for volatility and expectations for returns; when aligned, times like these are not so worrisome.

Custodians: Limitations and Opportunities

As you are all aware, TIAA CREF is a ‘closed’ environment with limited investment choices. This is by no means a suggestion that the investment options that are available are bad. Quite the contrary, some TIAA CREF proprietary investments are interesting and valuable. For example, the TIAA Real Estate Fund is unique, unavailable elsewhere and historically a strong performer (according to the Pensions & Investments publication of October 3rd, 2011, TIAA CREF is the largest institutional tax-exempt real estate manager in the United States, with in excess of \$33 Billion in assets). TIAA Traditional, in certain circumstances, for certain clients, provides a return that far surpasses today’s cash / cash equivalent rates. And the TIAA CREF Growth and Income mutual fund has historically delivered respectable performance relative to the universe of mutual funds in the same category – sufficient to have been rated a 5-Star Mutual Fund by Morningstar.

By contrast, Charles Schwab & Co., (CS & Co.), is an “open-architecture” platform with in excess of 10,000 no-load, no-transaction fee mutual funds, all or nearly all Exchange Traded Funds and that accepts custody of structured products like the Commodity-Index CDs and the S&P500 Buffered Notes that are in many of our clients’ portfolios today.

As such, our work with TIAA CREF portfolios is focused on identifying and utilizing the best available investment vehicles and using these in the right proportions. Our work developing and maintaining investment portfolios at CS & Co. includes ongoing monitoring of our selected managers and periodically searching the rest of the universe for other unique or timely opportunities. At present, we are performing due diligence on a short-list of 3 new mutual funds for possible inclusion. One of these would replace an existing fund.

The other two would add new elements to the asset mix. If we move forward with any or all of these, CS & Co. clients will see changes, perhaps prior to year-end.

Parting Thoughts

On March 9th, 2009 the S&P500 closed at 676.53. Slightly more than one year later, on April 22nd, 2010, the S&P500 closed at 1,208.67. On July 1st of this year, the S&P500 closed at 1,339.67. On October 7th, 2011, the S&P500 closed at 1,155.46. Markets always correct. Prices always reset after a period of profit taking. This dynamic is frequently explained as having been caused by some external news event. Just because events are concurrent with market price fluctuations, even noteworthy downward movements, there is not always a cause and effect relationship. It is certainly possible that the depreciation of the index since July 1st is a normal, though pronounced correction regardless of what happens to be taking place.

As we have so many educators in our ranks, let's conclude with a lesson from ancient mythology. The Siren Song of the Greeks offered not physical pleasures but intellectual rewards. Odysseus, you will recall, ordered his men to bind him to the mast of his ship so that he would be unable to act upon what he knew would be irresistible temptation leading to certain disaster.

While a dramatic example, the experience of Odysseus is easily transferrable to our world of 24-hour newsfeeds and non-stop sensationalist headlines. For anyone who doesn't manage investment portfolios for a living, it may be difficult at times to avoid overreacting to the Sirens in the financial media. Becoming enveloped by the noise can lead to the intuitive but incorrect decision to sell low and buy high, a strategy surely as fatal as rushing toward the Siren's rock of Anthemoessa in search of wisdom.

Of the services we at PIM provide our valued clients, perhaps the most important is maintaining our objectivity and discipline through market and news cycles. As long as your tolerance for volatility and expectations for performance are aligned, we'll do our best to position you appropriately for long-term economic success.

Thank You

As always, we sincerely appreciate and are humbled by the trust that you have placed in PIM. Should you have any questions about this News Release or anything else that touches the sphere of your financial life, please contact your PIM representative.