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Equity Markets Rally as Fear Subsides in October

The S&P 500 soared higher in October, adding 10.93% on a total return basis. The rally offset most of the 13.87% decline on a total return basis during the third quarter as investors' concerns about Greece and slower economic growth in the United States abated. Economic data released in October showed domestic growth stabilizing rather than slipping into a recession, while the Europeans came closer to dealing with their sovereign debt problems in a realistic manner. On October 27th, the rally culminated with the announcement that certain Greek debt-holders were accepting fifty cents on the dollar. Large capitalization stocks underperformed smaller stocks, and emerging market and developed market stocks outperformed the S&P 500. The best performing sectors were energy, materials, financial services, and industrials, while the safer sectors such as telecom services, utilities, and consumer staples underperformed the S&P 500. The indices and sectors that declined the most through September lead the rally in October, while the ones that had held up relatively well through the sell-off in September underperformed in October.

S&P 500 Sector Data as of October 31, 2011								
	Adjusted Market Cap (\$Million)	Index Level	Performance			Performance Versus S&P 500		
			Month to Date	Quarter to Date	Year to Date	Month to Date	Quarter to Date	Year to Date
TOTAL RETURNS								
S&P 500 (TR)	N/A	2,141.81	10.93%	10.93%	1.30%			
PRICE RETURNS								
S&P 500	11,418,869	1,253.30	10.77%	10.77%	-0.35%			
PRICE RETURNS BY								
Utilities	422,968	176.78	3.52%	3.52%	10.95%	-7.25%	-7.25%	11.30%
Health Care	1,314,147	388.33	5.60%	5.60%	6.46%	-5.17%	-5.17%	6.81%
Consumer Staples	1,261,760	319.89	4.30%	4.30%	5.37%	-6.47%	-6.47%	5.72%
Consumer Discretionary	1,216,571	308.06	11.81%	11.81%	4.24%	1.04%	1.04%	4.59%
Information Technology	2,247,032	421.55	11.46%	11.46%	4.20%	0.69%	0.69%	4.55%
Energy	1,401,235	517.85	16.95%	16.95%	2.19%	6.18%	6.18%	2.54%
Telecom Services	344,532	124.16	1.76%	1.76%	-3.55%	-9.01%	-9.01%	-3.20%
Industrials	1,205,536	287.77	13.91%	13.91%	-4.43%	3.14%	3.14%	-4.08%
Materials	406,853	217.03	17.60%	17.60%	-9.43%	6.83%	6.83%	-9.08%
Financial Services	1,598,234	181.58	14.16%	14.16%	-15.46%	3.39%	3.39%	-15.11%

*Source: Standard & Poor's.

European Sovereign Debt Problems

The looming Greek default has worried investors for the past several months. A Greek default would cause issuers of credit default swaps to pay off and create a liquidity squeeze as banks and other counterparties refused to lend to each other. The voluntary write-off of about 20-30% of outstanding Greek debt without triggering a credit event in the market for credit default swaps appeared to soothe the credit markets. It temporarily took the risk of financial contagion off the table, even though Greece's economy is still not competitive and carries too much debt.

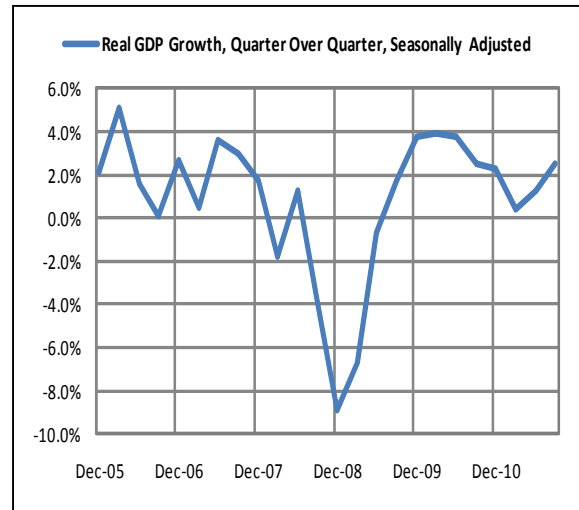
Despite the apparent "resolution" of the Greek debt problem, there is still the issue of too much debt in Europe's peripheral countries and banks, combined with too little economic growth throughout the continent. These problems have not yet been resolved and will continue to weigh down the global economy for the immediate future. European banks must be recapitalized and the peripheral European countries must stabilize their debt levels and come up with workable plans to improve their economic competitiveness and deal with their budget deficits. Until this happens, Europe cannot be expected to be a positive contributor to world growth. This is not a major concern as Europe has not been a key contributor to global growth since 2000.

JLAM does not expect Europe to start growing rapidly any time in the foreseeable future. What is needed is a conviction by investors and consumers alike that Europe will not create a meltdown similar to what occurred after Lehman Brothers declared bankruptcy. We do not expect this to happen. However, the naysayers will not be convinced until Europe has recapitalized its banks and the highly indebted European countries have restructured their entitlement payments and budget deficits.

Paradoxically, write-offs and restructurings that solve the problem are what are needed to stabilize the financial markets. Having seventeen different countries, with different constituencies within each country agree on a plan will take time. As such, JLAM is not confident that there will be an immediate solution to the debt problem, and expect volatility to persist, albeit at lower levels than the market has experienced in 2011.

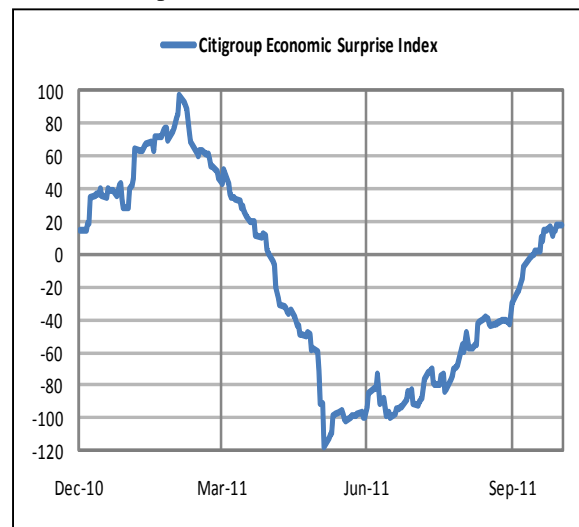
United States' Economy Stabilizes

There was economic improvement in the United States during the month of October. Analysts who worried in September about a potential double-dip recession increased their growth expectations for the American economy as job-growth increased and third quarter GDP growth accelerated.



**Source: Bureau of Economic Analysis*

Payroll data improved in October as the private sector continued to hire additional workers, and new unemployment claims declined. The Census Bureau reported that seasonally adjusted new housing starts increased. Energy costs fell from their peak levels and helped consumers' pocketbooks. The Citigroup Economic Surprise Index rose in October. This index measures actual economic data against expectations, indicating the economy was doing better than most forecasters expected.



**Sources: Citigroup Global Markets Inc and Bloomberg*

Corporate Income and Revenues Continues to Grow

Corporate earnings continue to grow, despite a choppy economic environment. As of October 31, sixty percent of S&P 500 companies had released third quarter earnings reports. These reports put the S&P 500 on track for earnings per share growth of 18.8%, and revenue growth of 11.5%. It is hard for us to become negative on the United States equity market when companies continue to report robust increases in revenues and earnings despite a very tough macro environment.

Neutral on Equity Markets

While we spend a lot of time discussing and writing about the economy, the most important decision in deciding if we should buy or sell remains equity valuations. In the prior three months, JLAM did not believe a recession was imminent. We thought the sell-off was overdone and used it as a buying opportunity. JLAM still expects the S&P 500 to end the year close to 1300. Now that the market has rallied 10.8% in October, we are still positive on the market, but nowhere near as bullish as we were a month ago.

Monthly Market Statistics							
					Year to		
				Monthly	Date	52-week	
	12/31/10	09/30/11	10/31/11	% Change	% Change	High	Low
DJIA	11,577.51	10,913.38	11,955.01	9.54%	3.26%	12,810.54	10,655.30
S&P 500	1,257.64	1,131.42	1,253.30	10.77%	-0.35%	1,363.61	1,099.23
S&P Midcap 400	907.25	781.26	887.93	13.65%	-2.13%	1,015.26	744.98
NASDAQ Composite	2,652.87	2,415.40	2,684.41	11.14%	1.19%	2,873.54	2,335.83
NASDAQ 100	2,217.86	2,139.18	2,360.08	10.33%	6.41%	2,429.50	2,038.22
Russell 2000	783.65	644.16	741.06	15.04%	-5.43%	865.29	609.49
MSCI EAFE	1,658.30	1,373.33	1,560.85	13.65%	-5.88%	1,809.61	1,301.15
MSCI EM	1,151.38	880.43	1,010.12	14.73%	-12.27%	1,206.49	831.22
U.S. Dollar Index	78.96	78.55	76.17	-3.03%	-3.54%	81.20	72.93
Gold	1,421.10	1,620.40	1,724.20	6.41%	21.33%	1888.70	1318.40
Oil	91.38	79.20	93.19	17.66%	1.98%	113.93	75.67
5 yr. Note	2.02%	0.95%	0.96%	1.05%	-52.48%	2.40%	0.78%
10 yr. Note	3.30%	1.91%	2.11%	10.47%	-36.06%	3.74%	1.72%
30 yr. Bond	4.36%	2.91%	3.13%	7.67%	-28.21%	4.77%	2.76%

*Sources: Wall Street Journal & Bloomberg

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