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An extremely important section of a well-prepared business valuation is a thorough and relevant economic section. First, Revenue Ruling 59-60 requires consideration of "the economic outlook in general and the condition and outlook of the specific industry in particular." Secondly, an understanding of the economic outlook is fundamental to developing reasonable expectations about the subject company's future prospects. In any business valuation, the general economic outlook as of the appraisal date should be considered, since the national economic outlook is often the basis of how investors perceive alternative investment opportunities at any given time.

In this analysis, we have examined the general economic climate that existed at the end of September 2010. This summary provides an overview of some selected economic factors that prevailed in the third quarter of 2010, as well as a discussion of the factors that are crucial over an extended period of time. Topics addressed include general economic conditions, gross domestic product, consumer prices and inflation rates, energy prices, interest rates, unemployment, consumer spending, the stock and bond markets, construction, manufacturing, real estate markets, and the future economic outlook.

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1. GENERAL ECONOMIC CONDITIONS

As the U.S. economy continues to climb out of the deepest recession since World War II, the growth remains remarkably slow, suggesting that the emergence from recession will continue to be a long and difficult struggle.

The gross domestic product (GDP), the broadest measure of the U.S. economy, grew at an annual rate of 2.0% in the third quarter of 2010. This came after a downwardly revised rate of 1.7% in the second quarter and 3.7% in the first quarter of 2010. According to the initial report, growth in the third quarter stemmed primarily from consumer spending and business inventory buildup.

Imports continued to rise faster than exports, resulting in the trade deficit subtracting two percentage points from the third quarter's GDP. Josh Bivens, an economist at the Economic Policy Institute, expects this to be a problem going forward.

"While trade flows were less of a drag on growth compared to the previous quarter, it seems clear that the trade deficit is poised to quickly regain its pre-recession level unless policy changes are made to allow the U.S. dollar to gain competitiveness against major trading partners," said Bivens.

"Given that a rising trade deficit will slow economic growth and job-growth over the next couple of years and is undesirable over the longer-run as well, this is a very troubling sign in the current recovery," continued Bivens.

The Council of Economic Advisers, an agency within the Executive Office of the President, acknowledged that "faster growth is needed to bring down the unemployment rate more quickly." The Council went on to state, "Given the depth and severity of the recession, considerable work remains before our economy is fully recovered."

Bivens noted that, at the end of the third quarter of 2010, the "GDP remains 0.8% lower than it was in the fourth quarter of 2007, the pre-recession peak. On average, the economy is 8.6% larger 11 quarters after a recession begins. While this historically low GDP recovery is largely a function of the severity of the recession, the GDP is now five quarters into recovery, and these five quarters have seen exceptionally slow growth—beating only the performance following the trough of the 2001 recession (among recoveries that lasted five quarters or more)."

1.1 GROSS DOMESTIC PRODUCT

The U.S. Department of Commerce reported that the nation's economy—as indicated by the GDP—increased at an annual rate of 2.0% in the third quarter. This was the fifth straight quarter of economic growth. The economy grew at a (revised) 1.7% annualized rate last quarter and 3.7% in the first quarter of 2010. The GDP is the total market value of goods and services produced in the U.S. economy. The GDP is generally considered the most comprehensive measure of economic growth.

Economists had expected a slightly stronger growth rate of 2.1%. The government sector added to growth this quarter, but the housing market was a renewed drag on U.S. economic activity as the stimulus boost from the homebuyer tax credit ended in April.

"Growth is not nearly as strong as we would like to see at this point," said Scott Brown, chief economist at Raymond James.

The increase in third quarter real GDP primarily reflected positive contributions from:

- personal consumption expenditures;
- change in private inventories;
- household consumption expenditures for services;
- business expenditures on equipment and software;
- nonresidential investment;
- and government consumption expenditures and gross investment.

The deceleration in third quarter real GDP primarily reflected:

- an acceleration in imports;
- and a deceleration in residential fixed investment.

Economists think that some of the inventory buildup was unintentional as goods stayed sitting longer on shelves. This suggests weaker growth in coming months.

Although both imports and exports grew this quarter, imports grew faster, resulting in a negative 2.01 percentage point contribution to the real GDP. Motor vehicle output added 0.42 percentage points to the third-quarter change in real GDP after subtracting 0.06 percentage points from the second-quarter change. Final sales of computers added 0.25 percentage points to the third-quarter change in real GDP after adding 0.03 percentage points to the second-quarter change.

Despite this quarter's growth, the economy contracted by 2.6% in 2009. The economy grew by 0.0% and 1.9% in 2008 and 2007, respectively.

(See Exhibits 1, 2 and 4 for GDP figures)

1.2 CONSUMER SPENDING

Consumer spending grew at a rate of 2.6% during the third quarter of 2010. This is up from a rate of 2.2% in the prior quarter. Consumer spending has now grown for four consecutive quarters. Consumer spending—also referred to as personal consumption—accounts for approximately 70% of the U.S. GDP.

Overall consumer spending declined by 1.2% in 2009 and 0.3% in 2008, but grew by 2.4% in 2007.

Consumer spending on durable goods—items meant to last three or more years—increased at a rate of 6.1% this quarter, compared with a rate of 6.8% in the previous quarter. Consumer spending on durable goods declined 3.7% in 2009, after decreasing 5.2% in 2008 and increasing 4.2% in 2007.

Consumer spending on nondurable goods—items such as food and gasoline—increased 1.3% this quarter, compared with an increase of 1.9% last quarter. Consumer spending on nondurable goods decreased by 1.2% in 2009, after decreasing 1.1% in 2008 and increasing 2.0% in 2007.

Service expenditures grew at a rate of 2.5% in the third quarter after increasing 1.6% in the previous quarter. Consumer spending on services declined 0.8% in 2009, compared with increases of 0.9% in 2008 and 2.2% in 2007.

This quarter's growth in consumer spending contributed 1.79 percentage points to the third-quarter GDP. This compares with a contribution of 1.54 percentage points to the GDP in the previous quarter, and 1.33 percentage points to the GDP in the first quarter of 2010.

(See Exhibits 2 and 4 for consumer spending figures)

According to the U.S. Department of Commerce, total retail and food service sales increased 0.6% during the third quarter after increasing 1.0% during the second. Total retail and food service sales are up 7.3% over the last 12 months. Automobile and parts sales grew 0.5% during the third quarter, compared to a 2.7% increase in the second. Automobile and parts sales are up 17.9% over the last 12 months. Gasoline station sales increased 0.3% in the third quarter after decreasing 1.3% last quarter. Gasoline station sales are up 8.2% over the last 12 months. Food and beverage store sales increased 0.7% this quarter after declining 0.4% last quarter. Food and beverage store sales are up 2.7% over the last 12 months.

1.3 GOVERNMENT SPENDING

Total government spending increased at a rate of 3.4% in the third quarter of 2010. Government spending grew at a rate of 3.9% last quarter but declined 1.6% in the first quarter. This quarter's growth in government spending made a 0.68 percentage point contribution to the third-quarter GDP. The previous quarter's growth in government spending had a positive 0.80 percentage point effect on the second-quarter GDP. Total government spending grew by 1.6% in 2009, 2.8% in 2008, and 1.3% in 2007.

(See Exhibits 2 and 4 for government spending figures)

Federal government spending increased at a rate of 8.8% in the third quarter, after increasing 9.1% in the previous quarter. Federal government spending grew by 5.7% in 2009, after growing 7.3% in 2008 and 1.2% in 2007.

National defense spending increased at a rate of 8.5% this quarter, after increasing 7.4% in the previous quarter. National defense spending grew by 5.4% in 2009, following growth of 7.5% in 2008 and 2.2% in 2007.

State and local government spending declined by 0.2% in the third quarter. State and local government spending increased 0.6% in the previous quarter. State and local government spending declined 0.9% in 2009, after growing 0.3% in 2008 and 1.4% in 2007.

1.4 FIXED INVESTMENTS

Business spending, also known as nonresidential fixed investment, grew at a rate of 9.7% in the third quarter. This is the third straight quarter of growth. Business spending increased at a rate of 17.2% in the second quarter and 7.8% in the first quarter of 2010. Business spending declined by 17.1% in 2009, but grew 0.3% in 2008 and 6.7% in 2007.

(See Exhibits 2 and 4 for business spending figures)

Business spending on structures (nonresidential structures) grew at an annual rate of 3.9% in the third quarter. This was the first quarter of growth after eight consecutive quarters of declines. Business spending on structures decreased at a rate of 0.5% in the previous quarter and 17.8% in the first quarter of 2010. Business expenditures on equipment and software increased at an annual rate of 12.0% in the third quarter—the sixth consecutive quarterly increase.

Residential fixed investment, often considered a proxy for the housing market, decreased at an annual rate of 29.1% during the third quarter. This quarter's decline in residential fixed investment made a negative 0.80 percentage point contribution to the third-quarter GDP. This comes after an increase of 25.7% in the previous quarter and a decrease of 12.3% in the first quarter of 2010. Residential fixed investment declined 22.9% in 2009, following decreases of 24.0% in 2008 and 18.7% in 2007.

1.5 BUSINESS INVENTORIES

Business investments in inventories rose in the third quarter, marking five quarterly increases. The change in real private inventories contributed 1.44 percentage points to the third-quarter GDP, compared with a contribution of 0.82 percentage points to the second-quarter GDP. Private businesses increased inventories at a rate of \$115.5 billion in the third quarter, following increases of \$68.8 billion in the second quarter and \$44.1 billion in the first.

1.6 TRADE DEFICIT

The trade deficit increased at a seasonally adjusted annual rate of \$514.9 billion in the third quarter. The trade deficit provided a negative contribution to the third-quarter GDP, subtracting 2.01 percentage points.

Exports grew at an annual rate of 5.0% in the third quarter and 9.1% in the previous quarter. Exports declined 9.5% in 2009, compared with increases of 6.0% in 2008 and 9.3% in 2007.

Foreign imports, which are a subtraction in the calculation of GDP, increased at an annual rate of 17.4% during the third quarter, after increasing 33.5% in the previous quarter. Imports decreased 13.8% in 2009, after decreasing 2.6% in 2008 and increasing 2.7% in 2007.

(See Exhibit 4 for export and import figures)

The Bureau of Labor Statistics reported that the U.S. Import Price Index decreased 0.3% in September after rising 0.6% in August, the only monthly advance since April. The index rose 3.5% over the past year, the smallest increase on a 12-month basis since a

3.4% advance for the November 2008-09 period. A 3.1% drop in fuel prices drove the September decline in import prices. In contrast, nonfuel prices rose 0.3% for the second consecutive month after recording similar declines of 0.3% in July and 0.4% in June. Despite the recent declines, import prices advanced 3.5% over the last 12 months.

The U.S. Export Price Index increased 0.6% in September after increasing 0.8% in August. The price index for overall exports advanced 5.0% for the most recent 12 months, the largest year-over-year increase since a 5.6% rise for the May 2009-10 period.

The U.S. Import and U.S. Export Price Indexes measure the change over time in the prices of goods or services purchased from abroad by U.S. residents (imports) or sold to foreign buyers by U.S. residents (exports).

2. CONSUMER PRICES AND INFLATION RATES

Inflationary pressures remained tame during the third quarter. The Federal Open Market Committee (FOMC) stated in their most recent press release that they expect inflation to “remain subdued for some time.”

According to the U.S. Department of Commerce, the price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 0.8% in the third quarter. This compares with a 0.1% increase in the second quarter. Excluding food and energy prices, the price index for gross domestic purchases increased 0.6% in the third quarter, compared with an increase of 0.8% in the second.

The U.S. Department of Labor reported that the Producer Price Index for Finished Goods increased 0.4% (seasonally adjusted) in September, following increases of 0.4% in August and 0.2% in July. The Producer Price Index for Finished Goods measures inflationary pressures before they reach consumers. On an unadjusted basis, prices for finished goods have risen 4.0% over the last 12 months.

The costs of intermediate goods increased 0.5% in September after increasing 0.3% in August. The September rise for the intermediate goods index was broad-based, with prices for foods and feeds climbing 2.1%. The index for intermediate goods less foods and energy moved up 0.2% and prices for energy goods advanced 0.7%. On a 12-month basis, the intermediate goods index increased 5.6% for September, its tenth consecutive year-over-year rise.

The U.S. Department of Labor reported that the Consumer Price Index for All Urban Consumers increased 0.1% (seasonally adjusted) in September. The index increased 0.3% in both August and July. The Consumer Price Index is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Over the last 12 months, the index increased 1.1% before seasonal adjustment. The index decreased 0.4% in 2009 after increasing 3.8% in 2008 and 2.8% in 2007.

(See Exhibits 2 and 4 for CPI figures)

3. ENERGY PRICES

As reported by the Energy Information Administration (EIA), the spot price for a barrel of West Texas Intermediate (WTI) crude oil was \$79.95 at the end of the third quarter. This is an increase from \$75.59 per barrel at the end of second quarter. A year ago, the spot price for a barrel of WTI crude oil was \$70.46.

The EIA projects that the WTI crude oil spot price will average \$77 per barrel in the fourth quarter of 2010 and \$82 per barrel for 2011.

The regular retail gas price (conventional areas) was \$2.67 per gallon at the end of the third quarter. This is down from \$2.71 per gallon at the end of the second quarter and \$2.77 per gallon at the end of the first quarter. A year ago, the regular retail gas price was \$2.43 per gallon.

The EIA forecasts that regular-grade gasoline retail prices, which averaged \$2.35 per gallon last year, will average \$2.69 per gallon over the second half of 2010. Average annual motor gasoline prices are expected to increase to \$2.90 per gallon in 2011 because of higher projected crude oil prices combined with strengthening refiner margins.

The EIA projects that the Henry Hub natural gas spot price will average \$4.54 per million Btu (MMBtu) for 2010, a \$0.60-per-MMBtu increase over the 2009 average. They expect the Henry Hub spot price will average \$4.76 per MMBtu in 2011.

Annual average residential electricity prices are expected to increase moderately, averaging 11.6 cents per kilowatt-hour (kWh) in 2010, compared with 11.5 cents per kWh in 2009, and rising to 11.9 cents per kWh in 2011.

Estimated U.S. carbon dioxide (CO₂) emissions from fossil fuels, which declined by 6.9% in 2009, are expected to increase by 3.6% in 2010. In 2011, CO₂ emissions are projected to increase by 0.4% as the expected milder summer reduces electricity use. However, even with these increases, CO₂ emissions remain below their level in any year from 1999 through 2008.

4. INTEREST RATES

The Federal Open Market Committee (FOMC or the “Committee”) met twice during the third quarter of 2010, issuing two statements on their target for the federal funds rate. The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank.

At their first meeting this quarter (August 10), the FOMC decided to keep the target for the federal funds rate unchanged at a range of 0% to 0.25%. The press release stated that the pace of recovery in output and employment has slowed in recent months. Although household spending increased, the FOMC found that it is still constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Although business spending on equipment and software had risen significantly, investment in nonresidential structures continues to be weak and employers

remain reluctant to add to payrolls. The FOMC also noted that housing starts remain at depressed levels and bank lending has continued to contract. The Committee also expected inflation to remain subdued for some time.

At their last scheduled meeting this quarter (September 21), the FOMC again left the target for the federal funds rate unchanged at 0% to 0.25%. The Committee reiterated everything they had said at their August meeting. They again noted that bank lending continued to contract, but at a reduced rate in recent months.

During the third quarter of 2010, the Board of Governors of the Federal Reserve left the discount rate unchanged at 0.75%. The discount rate is the interest rate a commercial bank is charged to borrow funds, typically for a short period, directly from a Federal Reserve Bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

The next meetings of the FOMC are scheduled for November 3 and December 14, 2010.

5. UNEMPLOYMENT AND PERSONAL INCOME

The U.S. Department of Labor reported that unemployment—which began the third quarter at 9.5%—increased to 9.6% in September. At the start of the recession in December 2007, the unemployment rate was about 4.9%. The long-term unemployed (those jobless for 27 weeks or more) made up 41.7% of unemployed persons at the end third quarter of 2010.

The consensus among economists is that the third-quarter GDP growth of 2.0% is distressing, and quicker growth is needed to help fix the country's high unemployment rate. The White House's Council of Economic Advisers acknowledged that "faster growth is needed to bring down the unemployment rate more quickly."

Slight job growth continued in mining and logging, construction, wholesale trade, retail trade, transportation and warehousing, professional and business services, education and health services, temporary help services, and leisure and hospitality. Job losses this quarter occurred in manufacturing, financial activities and government.

(See Exhibits 2 and 4 for unemployment figures)

The U.S. Department of Labor reported that average hourly earnings for production and nonsupervisory employees increased to \$19.10 in the third quarter, up from \$19.00 in the previous quarter. Average hourly earnings for all employees increased to \$22.67 in the third quarter from \$22.53 in the previous quarter. Average weekly earnings for all employees increased to \$775.31 in the third quarter, up from \$768.27 in the previous quarter.

The U.S. Department of Commerce reported that current-dollar personal income increased \$65.7 billion (2.1%) in the third quarter, compared with an increase of \$123.5 billion (4.1%) in the second.

Personal current taxes increased \$22.3 billion (2.1%) in the third quarter, compared with an increase of \$2.6 billion in the second.

Disposable personal income increased \$43.4 billion (1.5%) in the third quarter, compared with an increase of \$2.6 billion in the second.

Personal outlays increased \$85.2 billion (3.2%) in the third quarter, compared with an increase of \$59.8 billion (2.3%) in the second. Personal saving—disposable personal income less personal outlays—was \$631.0 billion in the third quarter, compared with \$672.8 billion in the second. The personal saving rate—saving as a percentage of disposable personal income—5.5% in the third quarter, compared with 5.9% in the second.

6. CONSUMER CONFIDENCE AND SENTIMENT

The Conference Board Consumer Confidence Index®, which had increased in August, dipped in September to its lowest reading since February 2010. The Conference Board, which surveys 5,000 households, reported that its Consumer Confidence Index stood at 48.6 in September—down from 53.2 in August and 51.0 in July. The Index is still well up from an all-time low of 25.3 seen during the first quarter of 2009. The Consumer Confidence Index is an indicator designed to measure consumer confidence, which is the degree of optimism on the state of the economy that consumers are expressing through their activities of saving and spending.

A month-on-month decreasing trend in the Consumer Confidence Index suggests consumers have a negative outlook on their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns. Opinions on current conditions make up 40% of the index (the Present Situation Index), with expectations of future conditions comprising the remaining 60% (the Expectations Index).

Says Lynn Franco, Director of The Conference Board Consumer Research Center:

"September's pull-back in confidence was due to less favorable business and labor market conditions, coupled with a more pessimistic short-term outlook. Overall, consumers' confidence in the state of the economy remains quite grim. And, with so few expecting conditions to improve in the near term, the pace of economic growth is not likely to pick up in the coming months."

(See Exhibit 5 for consumer confidence figures)

The University of Michigan's Consumer Sentiment Index reported a reading of 68.2 in September, which is down from a reading of 76.0 at the end of previous quarter. The index dipped slightly in July (67.8), before increasing in August (68.9) and decreasing in September (68.2). The September 2010 reading is up significantly from the end of first quarter of 2009, where the reading was 57.3. The Michigan sentiment survey is based on telephone interviews on personal finances, business conditions, and buying conditions with over 500 Americans across the country.

(See Exhibit 5 for consumer sentiment figures)

7. STOCK MARKETS AND VOLATILITY

While September has traditionally been the market's worst month, the major indices soared this year. The Dow Jones Industrial Average experienced its best September since 1939, marking its biggest monthly point gain since October 2002. The large September gains came as modestly improving economic data helped ease fears over a double-dip recession. *The Wall Street Journal* noted that the stock market was propped up by widespread expectations that the Federal Reserve is prepared to pull the trigger on additional stimulus measures.

Regarding deteriorating economic conditions, Barry Knapp, head of equities portfolio strategy at Barclays Capital, said "All we needed was the economic data to stabilize and the Fed to raise their hand and say, 'Not on my watch,'" to prompt the stock rally.

Despite September's gains, economic and political uncertainty dominated financial markets during the third quarter, fueling a continued exodus of small investors from U.S. stocks and a buying binge of bonds and gold.

Investors pulled \$43 billion out of U.S. stock funds over the past three months and have withdrawn \$100 billion since the beginning of 2009, according to Morningstar.

Many strategists and money managers say investors are ignoring a potential catalyst for a stock rally: corporations are flush with cash. That should be good news for investors, comments *The Wall Street Journal*, because those companies will eventually have to do something with all that money. Many are now looking to the November U.S. elections to resolve uncertainties about tax policy and government regulation. That, they say, could be the catalyst for corporations to start putting that cash to work, if not through stock repurchases then through dividend increases, mergers and acquisitions, or increased capital spending.

The Chicago Board Options Exchange Volatility Index (VIX)—a popular volatility measure—began the third quarter at 34.54 (second quarter close) and ended at 22.50. The highest closing VIX reading this quarter was 32.86, which occurred on July 1. The VIX represents the implied volatility of 30-day options on the Standard & Poor's 500 stocks and has been termed by some as the "fear gauge." Accordingly, the VIX represents the expected volatility of the market, as represented by the S&P 500. Stock market professionals use the VIX to gauge investor sentiment. Investopedia says the following: "VIX values greater than 30 are generally associated with a large amount of volatility as a result of investor fear or uncertainty, while values below 20 generally correspond to less stressful, even complacent, times in the markets." For comparison, since its inception in 1990, the VIX has had a value over 80 for only two days, October 27, 2008 and November 20, 2008. It has also been over 50 for only 56 closing days—all occurring after October 6, 2008. The VIX has not been over 40 since May 2010.

The Dow Jones Industrial Average (Dow), an index of 30 of the largest and most widely held public companies in the United States, started the third quarter of 2010 at 9,774.02 and finished at

10,788.05, for a gain of 10.4%. The Dow's best month this quarter was September, where it gained 7.7%, and its worst month was August, where it lost 4.3%. The Dow is up 3.5% for the year. By the end of the third quarter, the Dow had climbed 64.8% since its five-year low of 6,547.05 on March 9, 2009, but ended 23.8% below its five-year high of 14,164.53 on October 9, 2007.

The Nasdaq Composite Index (Nasdaq), consisting mainly of high-tech stocks, started the third quarter at 2,109.24 and finished at 2,368.62, reflecting a gain of 12.3%. This follows last quarter's loss of 12.0%. The index's best month this quarter was September, where it gained 12.0%, and its worst month was August, where it lost 6.2%. The Nasdaq is up 4.4% for the year. The Nasdaq ended this quarter 17.2% below its five-year high of 2,859.12 on October 31, 2007, but is still up 86.7% above its five-year low of 1,268.64 on March 9, 2009.

The S&P 500, consisting of a representative sample of 500 leading companies of the U.S. economy and commonly viewed as a proxy for the market, started the third quarter at 1,030.71 and finished at 1,141.20, for a gain of 10.7%. This comes after last quarter's loss of 11.9%. The index's best month this quarter was September, where it gained 8.8%, and its worst month was August, where it lost 4.7%. The S&P 500 is up 2.3% for the year. The S&P 500 ended the quarter 27.1% below its five-year high of 1,565.15 on October 9, 2007, but is up 68.7% since its five-year low of 676.53 on March 9, 2009.

The Dow Jones Wilshire 5000 Index, which consists of almost all publicly traded companies based in the U.S., started the third quarter at 10,750.00 and ended it at 11,947.10, posting a gain of 11.1%. This comes after last quarter's loss of 11.6%. The index's best month this quarter was September, where it gained 9.3%, and its worst quarter was August, where it lost 4.9%. The Dow Jones Wilshire 5000 is up 3.9% year-to-date. The index ended the third quarter 74.2% above its five-year low of 6,858.40 on March 9, 2009, but finished the quarter 24.5% below its five-year high of 15,819.00 on October 11, 2007.

The Russell 2000 Index, which consists of small stock issues, started the third quarter at 609.49 and ended it at 676.14, for a gain of 10.9%. This follows last quarter's loss of 10.2%. The Russell 2000 is up 8.1% year-to-date. The index's best month this quarter was September, where it gained 12.3%, and its worst month was August, where it lost 7.5%. The Russell 2000 ended this quarter 21.0% below its five-year high of 855.77 on July 13, 2007, but is 97.0% above its five-year low of 343.26 on March 9, 2009.

(See Exhibit 6 for stock price figures)

8. BOND MARKETS

With the presence of economic and political uncertainty, many investors moved into bonds this quarter. Talk of a bond bubble was fueled by the flood of money pouring into fixed income, reported *The Wall Street Journal*. During the third quarter, bond mutual funds took in an estimated \$87 billion, according to the Investment Company Institute, bringing the total net new investments in bond funds since the start of 2009 to \$620 billion. Corporations

have taken advantage of the combination of rock-bottom interest rates and investor demand for bonds, selling a record \$190 billion of “junk” bonds. Investment-grade bond sales are down from last year’s record but have still clocked in at a hefty \$612 billion this year.

The five-year Treasury ended the third quarter with a yield of 1.27%, down from 1.79% at the end of the previous quarter. The 30-day T-bill yield was at 0.14% at the end of the third quarter, down from 0.17% at the end of last quarter.

The 10-year Treasury bond yield was 2.53% at the end of the third quarter, down from a yield of 2.97% at the end of the previous quarter. At the end of the third quarter, the 20-year Treasury bond yield was 3.38%, compared with 3.74% at the end of the previous quarter.

For corporate bonds, Moody’s seasoned Aaa and Baa ended the third quarter with a yield of 4.54% and 5.58%, respectively, compared with yields at the end of last quarter of 4.66% and 6.05%.

The prime lending rate was 3.25% at the beginning of the third quarter and remained there through the end of September. The discount window (primary credit) remained at 0.75% during the third quarter.

(See Exhibit 7 for Treasury and bond figures)

9. CONSTRUCTION

According to the U.S. Department of Commerce, privately-owned housing starts in September were at a seasonally adjusted annual rate of 610,000. This is 0.3% above the August rate of 608,000 and 4.1% above the September 2009 rate of 586,000. Single-family homes were started at an annual rate of 452,000 units in September, up 4.4% from the August rate of 433,000.

(See Exhibits 2 and 4 for housing starts figures)

Building permits for privately-owned housing units, a better leading indicator of demand for new homes, were at a seasonally adjusted rate of 539,000 in September. This is 5.6% below the August rate of 571,000 and 10.9% below the September 2009 rate of 605,000. Building permits for single-family housing units were at a rate of 405,000 in September. This is 0.5% above the August rate of 403,000.

(See Exhibit 4 for building permit authorization figures)

Overall spending on new construction during September 2010 was at a seasonally adjusted annual rate of \$801.7 billion. This figure is 0.5% above the August rate of \$797.5 billion. The September 2010 rate is 10.4% below the September 2009 rate of \$894.8 billion. During the first nine months of this year, construction spending amounted to \$612.6 billion, 11.2% below the \$689.9 billion for the same period in 2009.

Spending on private construction was at a seasonally adjusted annual rate of \$482.0 billion in September. This figure is nearly the same as the August rate of \$481.9 billion. The amount spent on private construction was \$621.8 billion in 2009, 18.8% below the

\$766.2 billion spent in 2008. Private residential construction was at a rate of \$231.7 billion in September—1.8% above the August rate of \$254.3 billion. The amount spent on private residential construction was \$252.2 billion in 2009, down 28.0% from the 2008 figure of \$350.1 billion.

10. MANUFACTURING

The Federal Reserve published that industrial production declined 0.2% in September after rising 0.2% in August and 0.7% in July. Industrial production has increased 5.4% over the last 12 months. Industrial production is the total output of factories and mines in the U.S. During the third quarter, total industrial production grew at an annual rate of 4.8%, compared with an annual rate of 7.0% in the second quarter and 7.1% in the first quarter. Industrial production dropped 3.8% in 2009, after declining 7.6% in 2008.

Manufacturing grew at an annual rate of 3.6% in the third quarter, compared with a rate of 9.1% in the second. Manufacturing decreased 4.1% in 2009, after declining 10.0% in 2008.

Capacity utilization increased to 74.7% during the third quarter, up from 73.8% at the end of the second quarter. Capacity utilization is the percentage of production capacity manufacturers actually use. Capacity utilization averaged 67.2% for 2009, down from 75.0% in 2008 and 79.6% in 2007.

The U.S. Census Bureau reported that new orders for manufactured durable goods in September increased \$6.3 billion (3.3%) to \$199.2 billion. This followed a 1.0% decrease in August. Excluding transportation, new orders decreased 0.8%. Excluding defense, new orders increased 2.9%. Transportation equipment, up two of the last three months, had the largest increase, \$7.4 billion or 15.7% to \$54.8 billion. This was due to nondefense aircraft and parts, which increased \$6.6 billion.

The Institute for Supply Management reported that its monthly Manufacturing Index (known as PMI) was at 54.4% at the end of the third quarter. This is down from a 56.2% reading at the end of the second quarter and a 59.6% reading at the end of the first quarter. Any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction. A PMI in excess of 42%, over a period of time, generally indicates an expansion of the overall economy. Therefore, the PMI indicates growth for the 18th consecutive month in the overall economy, as well as expansion in the manufacturing sector for the 15th consecutive month. The average reading for the last 12 months is 56.9%, with the high being 60.4% and the low being 53.7%.

(See Exhibit 4 for historical PMI figures)

11. REAL ESTATE

Economic growth and a recovering job market are typically good news for housing, but reports remained bittersweet this quarter. Although the economy continued to grow, it did so at a minimal rate. Unemployment fluctuated in the third quarter, ending the period nearly unchanged from last quarter. Housing starts picked up a little this quarter, but the rate of building permits decreased

substantially. According to the *2010 National Housing Pulse Survey*—an annual report released by the National Association of Realtors®—nearly eight out of 10 respondents still believe buying a home is a good financial decision, despite ongoing challenges with the economy and housing market.

(See Section 9 “Construction” above and Exhibit 4 and Exhibit 10 for more information on housing starts, building permit authorizations, and other construction figures)

Homeownership Rates, Homeowner Vacancy Rates, and Rental Vacancy Rates

The U.S. Census Bureau published that the homeownership rate for the third quarter was 66.9%, which is unchanged from the second quarter and 0.7% lower than a year earlier.

Despite historically low interest rates, HousingWire.com reported that homeownership remains at its lowest level in more than a decade as increased foreclosures and weak demand continue to weigh on the housing industry.

During the rise of the housing market bubble, the rate of U.S. households that own their home peaked at about 69.2% in the fourth quarter of 2004. Prior to the second quarter of this year, the rate had not dipped below 67% since 1999.

Home ownership in the Northeast at 63.9% and the West at 61.3% continue to pull the overall rate down. Rates in the Midwest, 71.1%, and South, 69.1%, remain higher than other parts of the country despite being down from a year ago.

National vacancy rates in the third quarter of 2010 were 10.3% for rental housing and 2.5% for homeowner housing, reported the U.S. Census Bureau. The rental vacancy rate of 10.3% was 0.8 percentage points lower than the rate recorded in the third quarter of 2009 and 0.3 percentage points lower than last quarter. The homeowner vacancy rate of 2.5% was 0.1 percentage points lower than the third quarter 2009 rate and approximately the same as the rate last quarter.

Fitch Ratings said that the current shadow inventory of foreclosed homes will take more than 40 months to cull through.

Mortgage Bankers Association®

The Mortgage Bankers Association® (MBA) reported that they “expect that the US economy will be essentially trading water over the next year, with the unemployment rate little changed, and only modest growth in economic output.” They believe the current economic environment will provide insufficient support to the housing market, which will continue its “tepid” recovery.

The MBA’s forecast this quarter negatively modifies their forecast from last quarter. They have reduced their expectations for housing starts and home sales. They have also reduced their estimates of the median future prices of existing and new homes. Regardless, they see housing starts, home sales, and prices slowly climbing over the next few years.

Mortgage Bankers Association® Forecast

	2010	2011	2012
Housing Measures (Thous)			
Housing Starts	597	659	964
Single-Family	447	531	763
Two or More	120	128	201
Home Sales			
Total Existing Homes	4,742	4,825	5,595
New Homes	326	391	544
Median Price of Total Existing Homes (Thous \$)	166.9	171.2	175.6
Median Price of New Homes (Thous \$)	213.1	212.1	218.0
Interest Rates (%)			
30-Year Fixed Rate	4.7	4.9	5.5
10-Year Treasury Yield	3.2	3.1	3.8

Housing starts and home sales are seasonally adjusted at annual rate.
Total existing home sales include condos and co-ops.

National Association of Realtors® Forecast

	4Q 10	1Q 11	2Q 11	3Q 11
Mortgage Rates (%)				
30-Year Fixed Rate	4.5	4.7	4.9	5.1
1-Year Adjustable	3.6	3.8	4.0	4.1
Housing Indicators				
<i>Thousands</i>				
Existing Home Sales*	4,531	4,765	5,202	5,391
New Single-Family Sales	332	365	397	433
Housing Starts	653	698	746	791
Single-Family Units	495	529	567	610
Multifamily Units	158	170	179	181
Residential Construction**	343	354	367	381
Median Home Prices				
<i>Thousands of Dollars</i>				
Existing Home Prices	168.6	165.9	177.0	179.2
New Home Prices	217.0	222.9	224.6	210.5
Housing Affordability Index***	178	175	159	153

* Existing home sales of single-family homes and condo/coops

** Billion dollars

*** See Exhibit 10 for more information

National Association of Realtors®

The National Association of Realtors® (NAR) reported that pending home sales have retreated after two monthly gains, signaling an uneven recovery entering 2011 with some near-term disruptions from the foreclosure moratorium.

NAR’s Pending Home Sales Index, a forward-looking indicator, declined 1.8% to 80.9 in September from 82.4 in August. The June 2010 figure of 75.7 is 18.6% below June 2009 when it was 93.0. The data reflects contracts and not closings, which normally occur with a lag time of one or two months. The index remains 24.9% below 107.8 in September 2009 when first-time buyers were jumping into the market to take advantage of the initial deadline for the tax credit last November.

The Pending Home Sales Index (PHSI) is an indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons. An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales.

The PHSI in the Northeast dropped 1.7% to 59.6 in September—this is 28.3% lower than September 2009. In the Midwest, the index fell 5.7% to 64.2, which is 33.0% lower than a year ago. Pending home sales in the South declined 3.5% to an index of 87.6 and are 19.1% below September 2009. In the West, the PHSI rose 3.5% to 104.6, but is 24.7% below a year ago.

Lawrence Yun, NAR chief economist, said there is a mix of factors in the housing market.

“Existing-home sales have shown some improvement but the foreclosure moratorium is likely to cause some disruption and contribute to an uneven sales performance in the months ahead,” he said. “Nonetheless, there appears to be a pent-up demand that eventually will be unleashed as banks resolve their issues with foreclosures and the labor market improves. However, tight credit and appraisals coming in below a negotiated price continue to constrain the market”

(See Exhibit 10 for more forecasted figures from NAR)

National Association of Real Estate Investment Trusts®

Investment returns for properties, as measured by the National Association of Real Estate Investment Trusts® (NAREIT), fared well towards the end of the quarter. After seeing strong gains in July, returns dipped in August before rising again in September.

Although the returns for Equity REITs were down in 2007 and 2008, the index posted a gain of 28.0% in 2009.

(See Exhibit 11 for more REIT return figures from NAREIT)

National Council of Real Estate Investment Fiduciaries

Property index returns, as measured by the National Council of Real Estate Investment Fiduciaries (NCREIF), were up for the quarter. Of the property type indices, Apartments posted the best gain, followed by Retail. Of the regional indices, the East Region outperformed the others. The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

(See Exhibit 12 for more property index returns from NCREIF)

Monthly REIT Returns - Reported by NAREIT

(%)	7/10	8/10	9/10
Equity REITs*	9.52	-1.39	4.47
Office**	10.73	-2.13	4.57
Industrial**	5.85	-1.68	8.83
Retail**	10.28	-0.38	4.48
Residential**	10.81	-0.33	3.48
Commercial Financing**	4.39	-5.92	1.01
Home Financing**	3.39	-0.22	4.64

* FTSE NAREIT Composite REIT Index.

** Data derived from the constituents of the FTSE NAREIT Composite REIT Index.

Yearly REIT Returns - Reported by NAREIT

(%)	2007	2008	2009
Equity REITs*	-15.69	-37.73	27.99
Office**	-18.96	-41.07	35.55
Industrial**	0.38	-67.47	12.17
Retail**	-15.77	-48.36	27.17
Residential**	-25.21	-24.89	30.82
Commercial Financing**	-48.79	-74.84	-40.99
Home Financing**	-38.23	-20.02	28.19

* FTSE NAREIT Composite REIT Index.

** Data derived from the constituents of the FTSE NAREIT Composite REIT Index.

Quarterly Property Index Returns - Reported by NCREIF

(%)	4Q 2009	1Q 2010	2Q 2010	3Q 2010
National*	-2.11	0.76	3.31	3.86
East Region*	-2.21	0.51	4.43	4.17
West Region*	-2.64	1.05	3.02	3.84
South Region*	-1.60	0.81	2.77	3.59
Midwest Region*	-1.09	0.52	1.81	3.50
Hotel*	-3.63	-0.42	2.70	3.09
Apartment*	-1.81	0.42	4.44	6.04
Retail*	-0.92	1.13	2.81	3.39
Industrial*	-2.59	0.64	2.22	2.80
Office*	-2.75	0.86	3.37	3.12

* NCREIF Property Index.

12. ECONOMIC OUTLOOK

The economy has grown for five consecutive quarters, but most economists are now pointing pessimistically at the inadequate rate of GDP growth. The GDP remains below its pre-recession peak. The Institute for Supply Management's Manufacturing Index (PMI) fell at the end of the third quarter, as did The Conference Board's Consumer Confidence Index. The Mortgage Bankers Association® revised their previous forecasts downwards for housing starts, building permits, and home prices. Unemployment remains nearly unchanged from last quarter, and will likely remain unchanged until economic growth quickens its pace.

Lynn Franco, Director of The Conference Board Consumer Research Center, believes “Overall, consumers’ confidence in the state of the economy remains quite grim. And, with so few expecting conditions to improve in the near term, the pace of economic growth is not likely to pick up in the coming months.”

According to Consensus Economics, Inc., publisher of *Consensus Forecasts - USA*, real GDP is forecasted to increase at a seasonally

adjusted annual rate of 2.2% in the fourth quarter of 2010, then at a rate of 2.3% in the first quarter of 2011. They reported that GDP is forecasted to grow 2.7% in 2010, 2.4% in 2011, and 3.3% in 2012. In the long term, they report that the consensus is that real GDP will grow by an average annual rate of 2.6% between 2016 and 2019. Every month, Consensus Economics surveys a panel of 28 prominent U.S. economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

The survey reports that unemployment is forecasted to average 9.7% in 2010, before averaging 9.4% in 2011.

According to the survey, consumer prices will increase 1.6% in 2010, 1.5% in 2011, and 2.0% in 2012. In the long term, the survey finds that consumer prices are forecasted to grow at an average annual rate of 2.3% between 2016 and 2019. In addition, producer prices are forecasted to increase 3.9% in 2010 and 1.2% in 2011. Real disposable personal income is expected to grow 1.3% in 2010 and 1.8% in 2011.

Interest rates on three-month Treasury bills and 10-year Treasury bonds are expected to rise over the next year. According to the survey, the three-month Treasury bill rate will rise to 0.2% by the end of January 2011, and then to 0.4% by the end of October 2011. The yield on the 10-year Treasury bond will rise to 2.7% by the end of January 2011, and then to 3.5% by the end of October 2011.

The 40 participants in *The Livingston Survey* released their newest predictions in June. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project real GDP to grow at an annual rate of 3.3% between 2Q 2010 and 4Q 2010 (this is up from their previous estimate of 3.0%). They

then expect GDP to increase at an annual rate of 3.0% between 4Q 2010 and 2Q 2011. They believe GDP will grow 2.8% annually over the next 10 years.

The survey also noted that forecasts for the unemployment rate have been revised downward for 2010, though unemployment is still expected to remain above 9% into the middle of 2011. The forecasters expect the unemployment rate will decrease to 9.5% by December 2010, down from their previous estimate of 9.9%. They expect unemployment to drop to 9.1% by June 2011.

The forecasters in *The Livingston Survey* have lowered their predictions for consumer price (CPI) inflation. They expect CPI inflation to average 1.8% in 2010, down from the previous estimate of 2.2%. They predict CPI inflation will be 1.7% in 2011. Inflation (as measured by the consumer price index) is predicted to average 2.3% over the next 10 years, slightly lower than the forecast of 2.4% estimated in the prior *Survey*. The *Survey* expects that producer price (PPI) inflation will average 4.1% in 2010—up from the previous estimate of 2.4%—before averaging 2.4% in 2011.

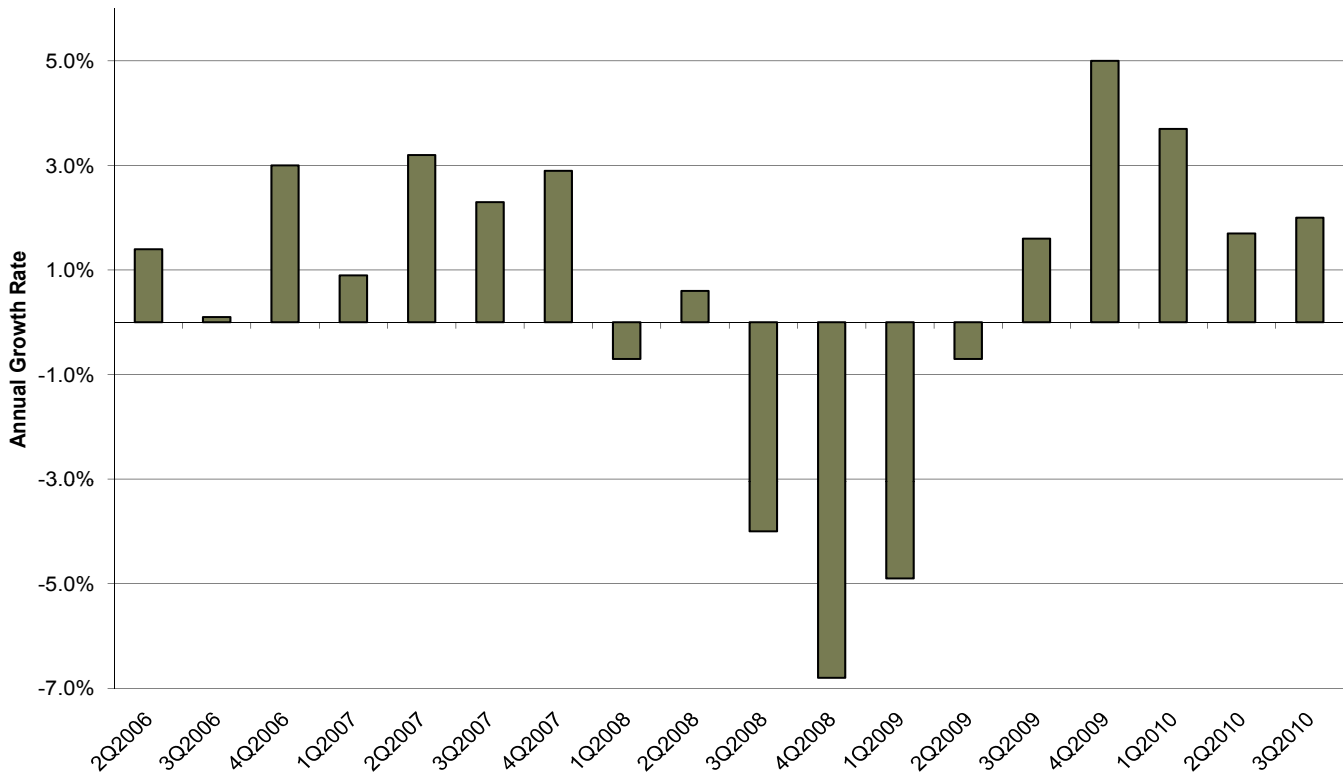
The forecasters from the *Survey* have decreased their previous projections for future S&P 500 values. They expect the S&P to rise to 1,187.69 by the end of 2010 before climbing to 1,243.5 by June 31, 2011. They believe the S&P will end 2011 at 1,280.0.

The EIA projects that the WTI crude oil spot price will average \$77 per barrel in the fourth quarter of 2010 and \$82 per barrel for 2011

The EIA forecasts that regular-grade gasoline retail prices will average \$2.69 per gallon over the second half of 2010. Average annual motor gasoline prices are expected to increase to \$2.90 per gallon in 2011.

(See Exhibits 2, 3 and 10 for more forecasted figures)

EXHIBIT 1: Real Gross Domestic Product 2Q 2006 – 3Q 2010



Source of data: U.S. Department of Commerce.

Note: Figures are seasonally adjusted at annual rates. As the Government issues revised data, some historical reported figures may have changed.

EXHIBIT 2: Historical Economic Data 2004-2009 and Forecasts 2010-2019

	HISTORICAL DATA						CONSENSUS FORECASTS**							
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016-2019	
Real GDP*	3.6	3.1	2.7	1.9	0.0	-2.6	2.7	2.4	3.3	3.4	3.1	2.9	2.6	
Industrial Production*	2.5	3.3	2.2	2.7	-3.3	-9.3	5.5	4.1	4.1	3.6	3.4	3.1	2.8	
Personal Consumption*	3.5	3.4	2.9	2.4	-0.3	-1.2	1.6	2.1	2.7	2.7	2.8	2.7	2.5	
Real Business Investment*	6.0	6.7	7.9	6.7	0.3	-17.1	5.3	8.3	8.3	7.2	6.1	5.2	4.2	
Nominal Pre-Tax Profits*	24.0	16.8	10.5	-6.1	-16.4	-0.4	28.7	6.2	7.5	6.7	6.4	5.4	4.9	
Government Spending*	1.4	0.3	1.4	1.3	2.8	1.6	0.8	0.6	NA	NA	NA	NA	NA	
Consumer Prices*	2.7	3.4	3.2	2.8	3.8	-0.4	1.6	1.5	2.0	2.1	2.1	2.1	2.3	
Unemployment Rate	5.6	5.1	4.6	4.6	5.8	9.3	9.7	9.4	NA	NA	NA	NA	NA	
Housing Starts (millions)	1.956	2.068	1.801	1.355	0.906	0.554	0.600	0.760	NA	NA	NA	NA	NA	

Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.

Source of forecasts: Consensus Forecasts - USA, October 11, 2010.

Real Business Investment is also known as Nonresidential Fixed Investment.

Notes:

*Numbers are based on percent change from preceding period, seasonally adjusted rates.

**Forecast numbers are based on average percent change on previous calendar year.

Personal Consumption includes spending on services, durable, and nondurable goods.

Government Spending includes federal, state, and local government spending.

Every month, Consensus Economics surveys a panel of prominent United States economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

EXHIBIT 3: Key Economic Variables Actual 2004-2009 and Forecast 2010-2019



Source of historical data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.
Source of forecasts: Consensus Forecasts - USA, October 11, 2010.

EXHIBIT 4: Economic Indicators Historical Data

	MONTHLY DATA											
	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10
Real GDP			5.0			3.7			1.7			2.0
Personal Consumption			0.9			1.9			2.2			2.6
Nonresidential Investment			-1.4			7.8			17.2			9.7
Government Spending			-1.4			-1.6			3.9			3.4
Exports			24.4			11.4			9.1			5.0
Imports			4.9			11.2			33.5			17.4
CPI (1-month % Change)	0.2	0.2	0.2	0.2	0.0	0.1	-0.1	-0.2	-0.1	0.3	0.3	0.1
Unemployment Rate	10.2	10.0	10.0	9.7	9.7	9.7	9.9	9.7	9.5	9.5	9.6	9.6
PMI	53.7	54.9	58.4	56.5	59.6	60.4	59.7	56.2	55.5	56.3	54.4	
Housing Starts (millions)	0.529	0.589	0.576	0.612	0.605	0.634	0.679	0.588	0.539	0.550	0.608	0.610
Building Permits (millions)	0.576	0.621	0.681	0.629	0.650	0.685	0.610	0.574	0.583	0.559	0.571	0.539

Notes: Real GDP and subcomponents data only available on a quarterly basis and therefore are quarterly figures. The numbers in this table are seasonally adjusted at annual rates. PMI is the Institute of Supply Management's Manufacturing Index—Any reading above 50.0% suggests growth, whereas a reading below 50.0% indicates contraction.

	QUARTERLY DATA											
	4Q 06	1Q 07	2Q 07	3Q 07	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09
Real GDP	3.0	0.9	3.2	2.3	2.9	-0.7	0.6	-4.0	-6.8	-4.9	-0.7	1.6
Personal Consumption	4.1	2.4	1.5	1.7	1.4	-0.8	0.1	-3.5	-3.3	-0.5	-1.6	2.0
Nonresidential Investment	2.3	6.8	11.1	9.4	5.7	2.0	-1.6	-8.6	-22.7	-35.2	-7.5	-1.7
Government Spending	1.1	-0.5	3.4	3.5	1.2	2.3	3.3	5.3	1.5	-3.0	6.1	1.6
Exports	17.8	6.4	6.8	15.8	11.6	5.7	13.2	-5.0	-21.9	-27.8	-1.0	12.2
Imports	-0.5	4.6	4.6	5.0	-10.6	-1.4	2.9	-0.1	-22.9	-35.3	-10.6	21.9
CPI (3-month % Change)	0.1	1.1	0.9	0.6	1.4	1.0	1.7	0.7	-3.4	0.6	0.9	0.6
Unemployment Rate	4.4	4.4	4.6	4.7	4.9	5.1	5.6	6.2	7.2	8.5	9.5	9.8
Housing Starts (millions)	1.649	1.495	1.448	1.183	1.037	1.005	1.046	0.820	0.560	0.520	0.583	0.586
Building Permits (millions)	1.638	1.596	1.407	1.261	1.149	0.967	1.180	0.797	0.554	0.523	0.600	0.605

Notes: Unemployment Rate is the rate for the last month of the quarter. Housing Starts and Building Permits are seasonally adjusted annual rates for the last month of the quarter. The numbers in this table are seasonally adjusted at annual rates.

	YEARLY DATA									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Real GDP	1.1	1.8	2.5	3.6	3.1	2.7	1.9	0.0	-2.6	
Personal Consumption	2.7	2.7	2.8	3.5	3.4	2.9	2.4	-0.3	-1.2	
Nonresidential Investment	-2.8	-7.9	0.9	6.0	6.7	7.9	6.7	0.3	-17.1	
Government Spending	3.8	4.7	2.2	1.4	0.3	1.4	1.3	2.8	1.6	
Exports	-5.6	-2.0	1.6	9.5	6.7	9.0	9.3	6.0	-9.5	
Imports	-2.8	3.4	4.4	11.0	6.1	6.1	2.7	-2.6	-13.8	
Consumer Price Index	2.8	1.6	2.3	2.7	3.4	3.2	2.8	3.8	-0.4	
Unemployment Rate	4.7	5.8	6.0	5.6	5.1	4.6	4.6	5.8	9.3	
Housing Starts (millions)	1.603	1.705	1.848	1.956	2.068	1.801	1.355	0.906	0.554	
Building Permits (millions)	1.637	1.748	1.889	2.070	2.155	1.838	1.398	0.905	0.583	

Source of data: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau The Federal Reserve Board, and the Institute of Supply Management.

Notes:

Personal Consumption includes spending on services, durable, and nondurable goods.

Government Spending includes federal, state, and local government spending.

As the Government issues revised data, some historical reported figures may have changed.

EXHIBIT 5: Consumer Confidence

	MONTHLY DATA											
	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10
Consumer Confidence Index*	48.7	50.6	53.6	56.5	46.4	52.3	57.7	62.7	54.3	51.0	53.2	48.6
Consumer Sentiment Index**	70.6	67.4	72.5	74.4	73.6	73.6	72.2	73.6	76.0	67.8	68.9	68.2

Source of data: The Conference Board, available at <http://www.conference-board.org>, and the University of Michigan, available at <http://research.stlouisfed.org>.
 Notes: *The Conference Board Consumer Confidence Index® **University of Michigan Consumer Sentiment Index

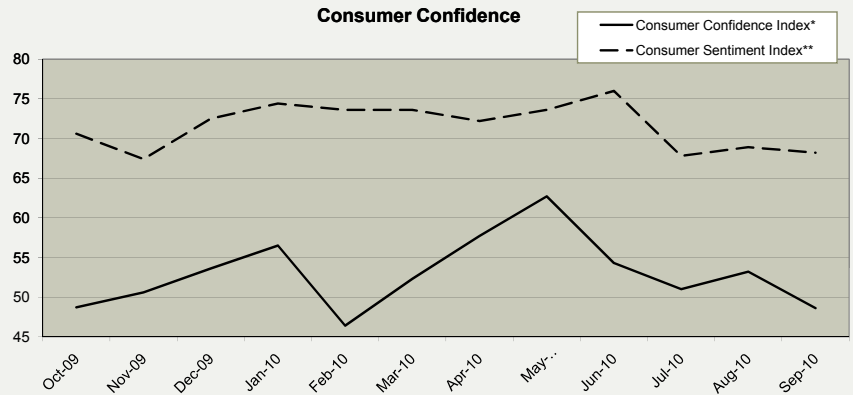


EXHIBIT 6: Stock Market Historical Data

	QUARTERLY RETURNS											
(%)	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10
DJIA	-4.5	-7.6	-7.4	-4.4	-19.1	-13.3	11.0	15.0	7.4	4.1	-10.0	10.4
Nasdaq Composite	-1.8	-14.1	0.6	-8.8	-24.6	-3.1	20.1	15.7	6.9	5.7	-12.0	12.3
S&P 500	-3.8	-9.9	-3.2	-9.0	-22.5	-11.7	15.2	15.0	5.5	4.9	-11.9	10.7
Dow Jones Wilshire 5000	-3.5	-10.0	-1.9	-9.2	-23.5	-10.7	16.2	15.8	5.4	5.8	-11.6	11.1
Russell 2000	-4.9	-10.2	0.3	-1.5	-26.5	-15.4	20.2	18.9	3.5	8.5	-10.2	10.9

	YEARLY RETURNS								FORECAST*	
(%)	2003	2004	2005	2006	2007	2008	2009	2010	2011	
DJIA	25.3	3.1	-0.6	16.3	6.4	-33.8	18.8			
Nasdaq Composite	50.0	8.6	1.4	9.5	9.8	-40.5	43.9			
S&P 500	26.4	9.0	4.7	11.8	3.5	-38.5	23.5	6.50	7.78	
Wilshire 5000	29.4	10.8	6.2	12.2	3.9	-38.7	26.5			
Russell 2000	45.4	17.0	5.4	14.7	-2.7	-34.8	25.2			

	MONTHLY DATA											
	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10
DJIA	9,712.73	10,344.84	10,428.05	10,067.33	10,325.26	10,856.63	11,008.61	10,136.63	9,774.02	10,465.94	10,014.72	10,788.05
Nasdaq Composite	2,045.11	2,144.60	2,269.15	2,147.35	2,238.26	2,397.96	2,461.19	2,257.04	2,109.24	2,254.70	2,114.03	2,368.62
S&P 500	1,036.19	1,095.63	1,115.10	1,073.87	1,104.49	1,169.43	1,186.69	1,089.41	1,030.71	1,101.60	1,049.33	1,141.20
Dow Jones Wilshire 5000	10,619.00	11,192.70	11,497.40	11,099.40	11,453.20	12,161.00	12,408.90	11,403.00	10,750.00	11,492.90	10,929.50	11,947.10
Russell 2000	562.77	579.73	625.39	602.04	628.56	678.64	716.60	661.61	609.49	650.89	602.06	676.14
VIX**	30.69	29.78	23.69	27.31	26.51	19.26	22.81	45.79	36.57	32.86	27.46	23.89

	QUARTERLY DATA											
	4Q 06	1Q 07	2Q 07	3Q 07	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09
DJIA	12,463.15	11,109.32	13,408.62	13,895.63	13,264.82	12,262.89	11,350.01	10,850.66	8,776.39	7,608.92	8,447.00	9,712.28
Nasdaq Composite	2,415.29	2,339.79	2,603.23	2,701.50	2,652.28	2,279.10	2,292.98	2,091.88	1,577.03	1,528.59	1,835.04	2,122.42
S&P 500	1,418.30	1,294.87	1,503.35	1,526.75	1,468.36	1,322.70	1,280.00	1,164.74	903.25	797.87	919.32	1,057.08
Dow Jones Wilshire 5000	14,257.50	13,155.40	15,210.70	15,362.00	14,819.60	13,332.00	13,073.50	11,875.40	9,087.20	8,113.10	9,424.90	10,911.70
Russell 2000	787.66	765.14	833.70	805.45	766.03	687.97	689.66	679.58	499.45	422.75	508.28	604.28
VIX**	12.67	19.63	18.89	30.83	31.09	32.24	24.12	46.72	80.86	56.65	32.68	29.15

	YEARLY DATA									FORECAST*	
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
DJIA	8,341.63	10,453.90	10,783.01	10,717.50	12,463.15	13,264.82	8,776.39	10,428.05			
Nasdaq Composite	1,335.51	2,003.37	2,175.44	2,205.32	2,415.29	2,652.28	1,577.03	2,269.15			
S&P 500	879.82	1,111.92	1,211.92	1,248.29	1,418.30	1,468.36	903.25	1,115.10	1,187.60	1,280.00	
Dow Jones Wilshire 5000	8,343.19	10,799.60	11,971.10	12,517.70	14,257.50	14,819.60	9,087.20	11,497.40			
Russell 2000	383.09	556.91	651.57	673.22	787.66	766.03	499.45	625.39			
VIX**	45.08	34.69	21.58	17.74	23.81	31.09	80.86	56.65			

Source of data: Yahoo! Finance, <http://finance.yahoo.com>

Index Tickers: ^DJ, ^IXIC, ^GSPC, ^DWC, ^RUT, ^VIX

Notes: Quotes are closing prices on the last day of trade for the month

*Source: The Livingston Survey, June 9, 2010

**VIX values reported are the highest value of the respective time period. VIX is a popular volatility measure-higher values correspond to greater volatility.

EXHIBIT 7: Bond Market Historical Data

PERIODIC DATA

(%)	7/10			8/10			9/10		
	BM	MM	EM	BM	MM	EM	BM	MM	EM
30-day Treasury Bill (1)	0.16	0.16	0.14	0.14	0.15	0.16	0.16	0.11	0.14
5-year Treasury Note (1)	1.80	1.76	1.60	1.64	1.40	1.33	1.41	1.46	1.27
10-year Treasury Bond (1)	2.96	2.96	2.94	2.99	2.58	2.47	2.58	2.74	2.53
20-year Treasury Bond (1)	3.71	3.77	3.74	3.82	3.42	3.23	3.35	3.55	3.38
Prime Lending Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Federal Funds Rate	0.17	0.19	0.18	0.19	0.20	0.21	0.19	0.21	0.15
Discount Window Primary Credit Rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Corporate Bonds Moody's Seasoned Aaa (4)	4.62	4.68	4.70	4.78	4.36	4.26	4.38	4.59	4.54
Corporate Bonds Moody's Seasoned Baa (4)	5.98	6.02	5.85	5.89	5.58	5.48	5.59	5.74	5.58

Notes: BM=beginning of month, MM = mid-month, EM = end of month

MONTHLY DATA

(%)	7/09	8/09	9/09	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10
30-day Treasury Bill (1)	0.15	0.12	0.06	0.04	0.05	0.03	0.02	0.06	0.12	0.15	0.15	0.08
5-year Treasury Note (1)	2.46	2.57	2.37	2.33	2.23	2.34	2.48	2.36	2.43	2.58	2.18	2.00
10-year Treasury Bond (1)	3.56	3.59	3.40	3.39	3.40	3.59	3.73	3.69	3.73	3.85	3.42	3.20
20-year Treasury Bond (1)	4.38	4.33	4.14	4.16	4.24	4.40	4.50	4.48	4.49	4.53	4.11	3.95
Prime Lending Rate (2)	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Federal Funds Rate (2)	0.16	0.16	0.15	0.12	0.12	0.12	0.11	0.13	0.16	0.20	0.20	0.18
Discount Window Primary Credit Rate (2)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.59	0.75	0.75	0.75	0.75
Corporate Bonds Moody's Seasoned Aaa (4)	5.41	5.26	5.13	5.15	5.19	5.26	5.26	5.35	5.27	5.29	4.96	4.88
Corporate Bonds Moody's Seasoned Baa (4)	7.09	6.58	6.31	6.29	6.32	6.37	6.25	6.34	6.27	6.25	6.05	6.23

YEARLY DATA

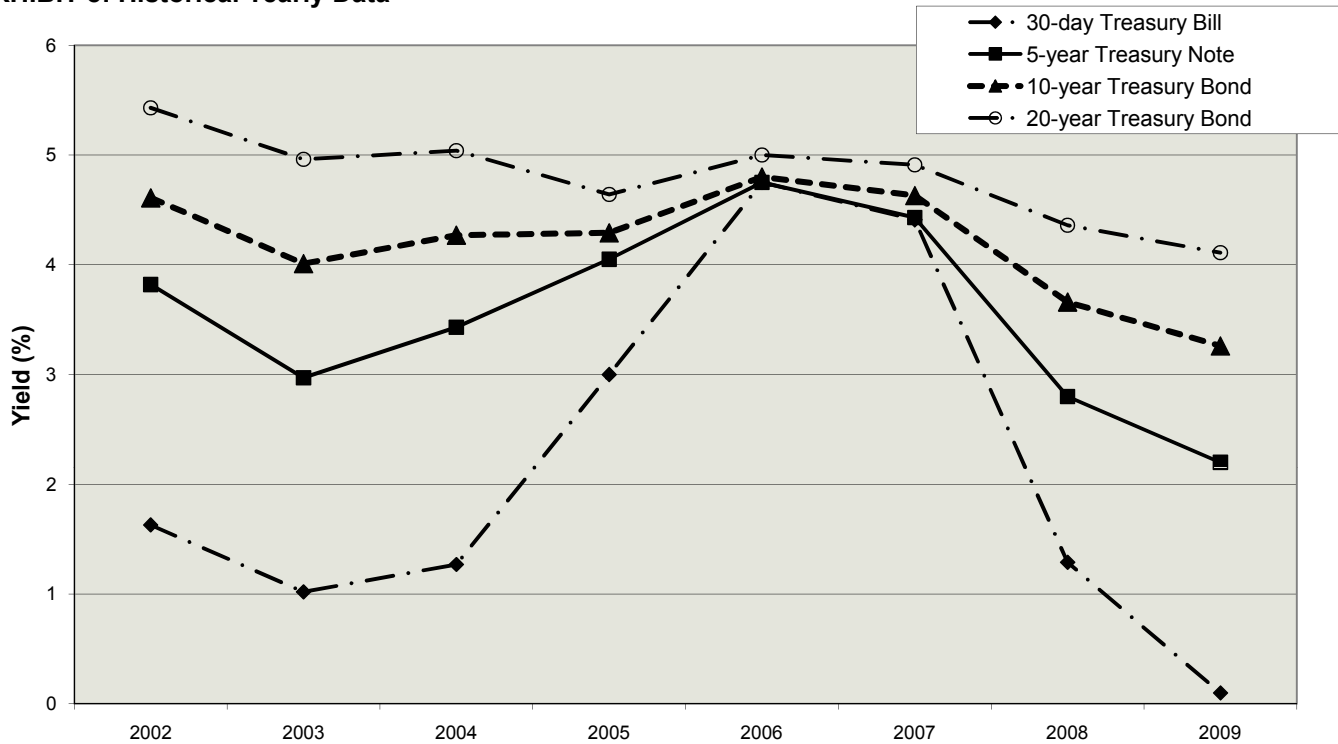
(%)	2002	2003	2004	2005	2006	2007	2008	2009
30-day Treasury Bill (1)	1.63	1.02	1.27	3.00	4.75	4.41	1.29	0.10
5-year Treasury Note (1)	3.82	2.97	3.43	4.05	4.75	4.43	2.80	2.20
10-year Treasury Bond (1)	4.61	4.01	4.27	4.29	4.80	4.63	3.66	3.26
20-year Treasury Bond (1)	5.43	4.96	5.04	4.64	5.00	4.91	4.36	4.11
Prime Lending Rate (3)	4.67	4.12	4.34	6.19	7.96	8.05	5.09	3.25
Federal Funds Rate (3)	1.67	1.13	1.35	3.22	4.97	5.02	1.92	0.16
Discount Window Primary Credit Rate (3)	1.17	NA	2.34	4.19	5.96	5.86	2.39	0.50
Corporate Bonds Moody's Seasoned Aaa (4)	6.49	5.66	5.63	5.23	5.59	5.56	5.63	5.31
Corporate Bonds Moody's Seasoned Baa (4)	7.80	6.76	6.39	6.06	6.48	6.48	7.44	7.29

Source of data: The Federal Reserve Board, www.federalreserve.gov

Notes:

- (1) Yields on actively traded issues adjusted to constant maturities, not seasonally adjusted
- (2) Monthly figures are averages of each calendar day in the month
- (3) Annualized figures use a 360-day year or bank interest
- (4) Average yield to maturity on selected long term bonds

EXHIBIT 8: Historical Yearly Data



Yields on actively traded issues adjusted to constant maturities, not seasonally adjusted

EXHIBIT 9: Historical Yearly Data

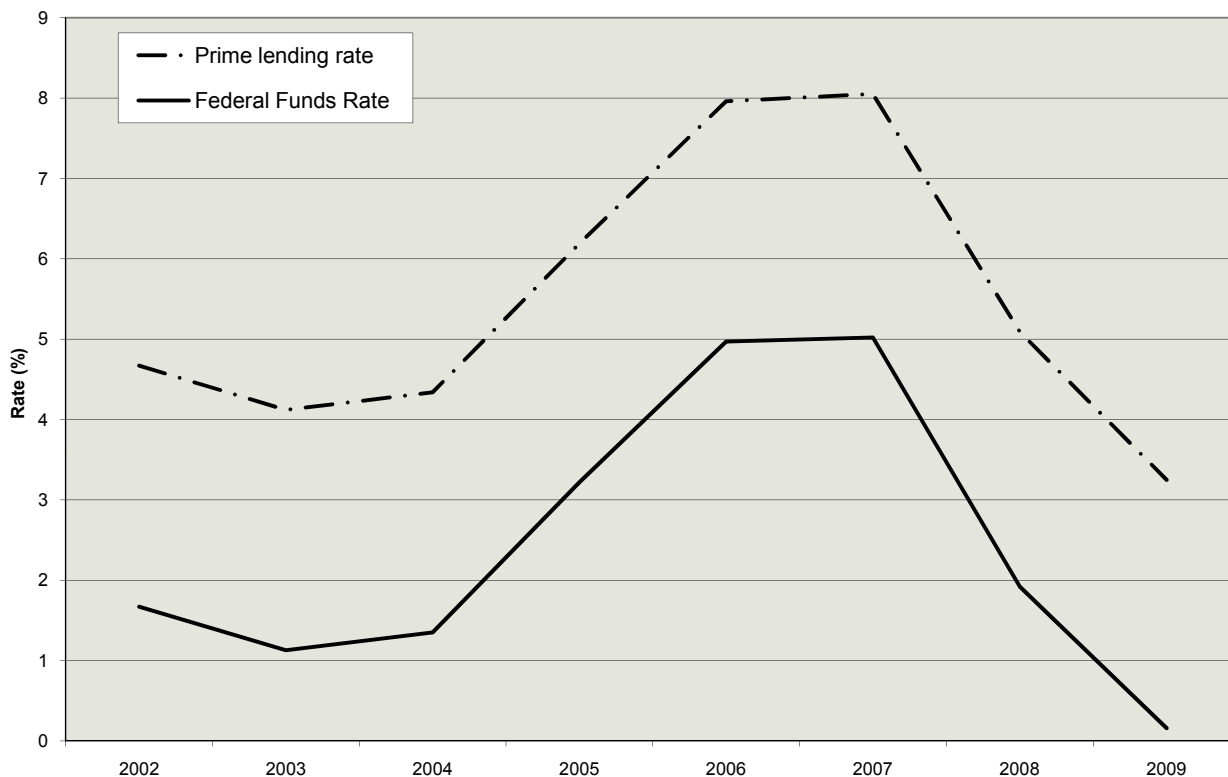


EXHIBIT 10: Real Estate Market Forecast

	Quarterly										Annual			
	1Q 10	2Q 10	3Q 10	4Q 10	1Q 11	2Q 11	3Q 11	4Q 11	1Q 12	2Q 12	2009	2010	2011	2012
Mortgage Rates (%)														
30-Year Fixed Rate	5.0	4.9	4.5	4.5	4.7	4.9	5.1	5.4	5.6	5.8	5.1	4.7	5.0	5.9
1-Year Adjustable	4.3	4.0	3.6	3.6	3.8	4.0	4.1	4.4	4.8	5.0	4.7	3.9	4.1	5.0
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	5,140	5,570	4,150	4,531	4,765	5,202	5,391	5,188	5,103	5,358	5,156	4,824	5,166	5,388
New Single-Family Sales	360	336	286	332	365	397	433	471	492	560	376	325	420	537
Housing Starts	617	602	594	653	698	746	791	843	875	979	554	617	769	1,013
Single-Family Units	524	491	445	495	529	567	610	654	684	778	442	489	590	808
Multifamily Units	93	111	149	158	170	179	181	189	191	201	112	128	179	206
Residential Construction**	331	350	341	343	354	367	381	395	408	427	359	341	374	441
<i>Percent Change - Year Ago</i>														
Existing Home Sales	11.5	16.5	-21.4	-24.1	-7.3	-6.6	29.9	14.5	7.1	3.0	4.9	-6.4	7.1	4.3
New Single-Family Sales	2.0	-8.7	-28.7	-11.1	1.3	18.2	51.4	42.0	35.0	41.1	-22.6	-13.4	28.9	28.0
Housing Starts	16.5	12.2	1.3	15.6	13.1	24.0	33.1	29.1	25.4	31.2	-38.7	11.3	24.8	31.7
Single-Family Units	45.0	16.1	-10.4	1.4	0.8	15.6	37.2	32.2	29.4	37.2	-28.9	10.5	20.8	36.9
Multifamily Units	-44.8	-2.4	66.4	106.9	82.8	60.6	21.2	19.4	12.9	12.3	-60.3	14.1	40.4	14.6
Residential Construction	-6.2	4.9	-0.4	0.4	7.2	4.9	11.8	15.2	15.2	16.1	-20.5	-5.0	9.7	17.7
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	166.4	176.6	177.6	168.6	165.9	177.0	179.2	170.4	168.6	180.1	172.5	172.9	173.8	177.8
New Home Prices	221.6	218.9	204.9	217.0	222.9	224.6	210.5	224.4	231.8	234.0	215.9	215.0	220.2	231.0
<i>Percent Change - Year Ago</i>														
Existing Home Prices	-0.7	1.3	-0.3	-1.3	-0.3	0.2	0.9	1.1	1.6	1.8	-12.9	0.2	0.5	2.3
New Home Prices	6.6	0.1	-3.6	-0.8	0.6	2.6	2.7	3.4	4.0	4.2	-7.0	-0.4	2.4	4.9
Housing Affordability Index***	175	165	168	178	175	159	153	150	147	132	172	172	160	138

Source of data: National Association of Realtors®, www.realtor.org

Notes:

* Existing home sales of single-family homes and condo/coops

** Billion dollars

*** The NAR Housing Affordability Index (HAI) measures whether or not a typical family could qualify for a mortgage loan on a typical home. A typical home is defined as the national median-priced, existing single-family home as calculated by NAR. To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment. For example, a composite HAI of 120.0 means a family earning the median family income has 120% of the income necessary to qualify for a conventional loan covering 80% of a median-priced existing single-family home. An increase in the HAI, then, shows that this family is more able to afford the median priced home.

Shaded areas represent historical data. Non-shaded areas represent forecasted data.

Quarterly figures are seasonally adjusted annual rates.

EXHIBIT 11: REIT Return Historical Data**MONTHLY DATA**

(%)	10/09	11/09	12/09	1/10	2/10	3/10	4/10	5/10	6/10	7/10	8/10	9/10
Equity REITs*	-4.50	6.91	7.15	-5.21	5.34	10.18	6.94	-5.55	-5.02	9.52	-1.39	4.47
Office**	-7.21	6.76	8.23	-4.98	3.69	10.43	4.85	-5.40	-6.64	10.73	-2.13	4.57
Industrial**	-5.02	10.82	6.48	-5.57	1.86	7.51	1.79	-9.97	-9.02	5.85	-1.68	8.83
Retail**	-4.30	5.63	7.91	-6.45	9.82	8.71	6.23	-5.55	-5.82	10.28	-0.38	4.48
Residential**	-6.33	8.01	8.69	-5.41	8.12	7.36	15.59	-2.78	-6.24	10.81	-0.33	3.48
Commercial Financing**	-16.47	-10.84	-13.92	-0.96	6.63	4.42	14.76	-15.87	-6.69	4.39	-5.92	1.01
Home Financing**	-6.78	7.69	-0.44	-0.11	1.89	0.30	0.86	-0.96	1.98	3.39	-0.22	4.64

YEARLY DATA

(%)	2002	2003	2004	2005	2006	2007	2008	2009
Equity REITs*	3.82	37.13	31.58	12.16	35.06	-15.69	-37.73	27.99
Office**	-6.82	34.01	23.28	13.11	45.22	-18.96	-41.07	35.55
Industrial**	17.32	33.14	34.09	15.42	28.92	0.38	-67.47	12.17
Retail**	21.07	46.77	40.23	11.80	29.01	-15.77	-48.36	27.17
Residential**	-5.97	25.90	32.72	13.67	38.93	-25.21	-24.89	30.82
Commercial Financing**	38.50	84.67	7.45	-16.06	30.31	-48.79	-74.84	-40.99
Home Financing**	28.25	42.73	24.91	-25.95	14.75	-38.23	-20.02	28.19

Source of data: National Association of Real Estate Investment Trusts® (NAREIT)

Notes:

* FTSE NAREIT Composite REIT Index.

** Data derived from the constituents of the FTSE NAREIT Composite REIT Index.

EXHIBIT 12: Property Index Return Historical Data**QUARTERLY DATA**

(%)	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09	1Q 10	2Q 10	3Q 10
National*	3.21	1.60	0.56	-0.17	-8.29	-7.33	-5.20	-3.32	-2.11	0.76	3.31	3.86
East Region*	3.12	1.58	0.39	-0.10	-9.70	-8.43	-5.21	-2.44	-2.21	0.51	4.43	4.17
West Region*	3.80	1.47	0.58	-0.59	-8.19	-7.65	-5.75	-4.49	-2.64	1.05	3.02	3.84
South Region*	2.39	2.14	0.90	0.11	-6.79	-5.79	-4.60	-3.15	-1.60	0.81	2.77	3.59
Midwest Region*	3.23	1.00	0.39	0.13	-6.70	-5.63	-4.46	-2.43	-1.09	0.52	1.81	3.50
Hotel*	4.03	1.35	0.42	0.02	-10.92	-8.55	-5.46	-4.47	-3.63	-0.42	2.70	3.09
Apartment*	1.85	1.26	0.29	-0.36	-8.39	-8.70	-5.13	-3.00	-1.81	0.42	4.44	6.04
Retail*	3.91	1.44	0.69	0.18	-6.30	-4.31	-3.03	-3.14	-0.92	1.13	2.81	3.39
Industrial*	2.64	1.44	0.94	-0.01	-7.96	-7.50	-5.09	-3.94	-2.59	0.64	2.22	2.80
Office*	3.82	1.96	0.52	-0.31	-9.26	-7.97	-6.52	-3.30	-2.75	0.86	3.37	3.12

Source of data: National Council of Real Estate Investment Fiduciaries (NCREIF).

Notes:

* NCREIF Property Index.

The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

Economic Outlook Update 3Q 2010 Data Sources

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