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September 2011

In this month's Market Letter, we will review recent economic and market events, and provide insight as to the directionality of both heading into the last quarter of the year.

There is optimism that the markets have overly discounted the downside economic risks and have potential for improved growth leading up to the end of the year. We concur that equities remain attractive due to the combination of strong corporate balance sheets, solid valuations and overly negative sentiment which typically precede an upturn. Further, while we see the economic situation in Europe as a concern, it appears that most proposed solutions to stabilize their debt crisis will greatly improve the potential for global market outperformance.

Economic and Political Backdrop

Domestic economic growth has significantly slowed during the last 2 years, but we have not experienced a recession. Disappointing payroll reports have continued, with stops and starts and no sustained measured improvement. However, there are signs that third-quarter gross domestic product growth may surprise to the upside. Trade levels, credit expansion, consumer spending trends and jobless claims are no longer falling, and may show improvements, while manufacturing also continues to expand modestly. Combined, these factors should help counterbalance August's weak employment data.

President Obama last week unveiled a nearly half-trillion dollar stimulus proposal intended primarily to promote jobs creation. The proposal is concentrated on tax cuts and by comparison is over half the size of the 2009 stimulus package. Considering the US political environment, the passage of the plan in total is in question, but there are certain aspects that have a high probability of acceptance. Even though it is clear that lawmakers are polarized, our view is that it is possible that some of the proposed tax cuts and unemployment benefit extensions will survive and pass, while other proposed spending will not.

Unless there is an unforeseen event or policy blunder, the U.S. economic situation does not appear to result in a recession in our view. The worsening debt situation in Europe is the greatest risk to the Global economy. A European bank failure is in the cards, and conditions generally have deteriorated with a weakening Euro and talk of the nationalization of the banks. Each of these is a negative for global growth and would increase the potential for a US recession. However, we see a combination of European interest rate cuts, increased bond buying, guarantees for bank borrowers and the possibility of the creation of a eurozone bond, as helpful solutions that have a strong probability of being enacted, and having positive economic results.

Investments

Today, the challenge for investors is to evaluate and decide whether stocks are oversold, or if there is greater potential for them to continue to fall. Some investors perceive that stocks have been discounted, and that they will not decline further. If that is the case, then the question turns to *when* will equities rise in value, and breakout from their current trading range.

Because we believe most investors are currently uncomfortable buying stocks, they are in danger of missing an opportunity to invest in reasonably priced companies that possess long-term growth potential. Our approach has been to look for signs that stocks can deliver greater returns than Treasuries, but we have not neglected the potential benefits of bonds for a portion of investor's allocation. We are keeping watch for: surprises in US economic data; lower interest rates in Europe; major European bond purchases; a eurobond issue; additional quantitative easing from the US Federal Reserve; the US Congress agreeing to major long-term entitlement reform; and US pro-growth tax policies that encourage capital formation. While we would not expect all of these to come to fruition, there is greater likelihood than not that some will in fact materialize.

Market Performance through August 31, 2011[1]

		Last Month	YTD	One Year	Last 3 Years	Last 5 Years
Domestic Stocks	S&P 500	-5.4%	-1.8%	18.5%	0.5%	0.8%
	S&P Mid Cap 400	-7.1%	-2.7%	22.9%	4.0%	4.7%
	Russell 2000	-8.7%	-6.5%	22.2%	0.8%	1.5%
Domestic Bonds	Barclays Aggregate	1.5%	5.9%	4.6%	7.2%	6.6%
	High Yield Bonds	-4.0%	1.9%	8.4%	12.0%	8.1%
	90-Day T-Bills	0.0%	0.1%	0.2%	0.3%	1.8%
Non-US Stocks	Developed Markets	-9.0%	-6.0%	10.0%	-3.0%	-1.5%
	Emerging Markets	-8.9%	-8.6%	9.1%	5.1%	8.4%
Global Bonds	Citi World Gov't	2.1%	8.6%	9.2%	8.0%	7.9%

Generational Squeeze

The trend that each generation will be economically better-off than the preceding generation is in jeopardy. A 2004 economic study concluded that Generation X has less financial stature than its predecessor, the Baby Boomer generation. "Economic Mobility: Is the American Dream Alive and Well?" was produced in 2007 and concluded that the income of males between the ages of 30-39 in 2004 was less by 12% than their father's income in real dollars in 1974.[2]

Generation	Birth Years	Population
Baby Boomers	1946-1964	78 million
Generation X	1965-1980	42 million
Generation Y	1981-1995	72 million

Past performance is no guarantee of future results. Indexes are unmanaged, do not incur fees or expenses and cannot be invested in directly. Investing in sectors may involve a greater degree of risk than investments with broader diversification. International investments are subject to additional risks such as currency fluctuations, political instability and the potential for illiquid markets. Investing in emerging markets can accentuate these risks.

Investing involves risk including loss or principal. No strategy assures success or protects against loss. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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[1] The indexes referenced are the S&P 500 Index (Index represents the 500 Large Cap portion of the stock market, and is comprised of 500 stocks as selected by the S&P Index Committee), S&P 400 Index (Index represents the 400 Mid Cap portion of the stock market, and is comprised of 400 stocks as selected by the S&P Index Committee), Russell 2000 Index (The Russell 2000 Index includes the smallest 2000 securities in the Russell 3000), Barclays Capital Aggregate Bond Index (Market capitalization weighted index of which the securities in the index are weighted according to market size of each bond type. The index includes Treasury securities, Government agency bonds, Mortgage backed bonds, corporate bonds and a small amount of foreign bonds traded in the US.), Citi World Government Bond Index (Market capitalization weighted index of the global government bond markets. To join, countries must satisfy market size, credit and barriers-to-entry requirements.)

[2] Bloomberg Newswires; September 15, 2011.