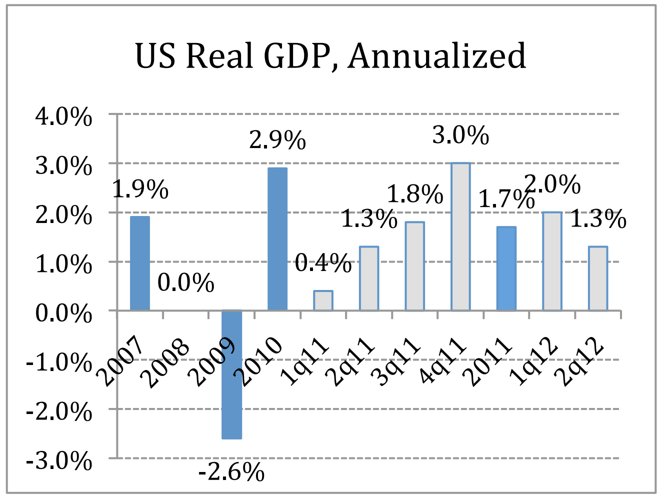
Investment Update
3rd Quarter 2012

Since our last update, second quarter US economic growth figures have twice been revised downward, from 1.7% to 1.5% and then to only 1.3% -- the soft patch was a bit softer than initially thought. In the third quarter, July and August data was decidedly mixed, while September data has showed improvement.



Consumer spending is rising, with total spending up 2% in August versus a year ago. Car and light truck sales improved 3% from August to September, to an annual rate of almost 15 million units, the highest since early 2008.

Although unemployment is still too high, the jobs picture is slowly improving, with weekly new unemployment claims declining more often than not and 100-200,000 new private sector jobs being created per month.

September's Institute for Supply Management manufacturing survey results moved into expansionary territory, after three straight months at levels that indicated mild contraction. September's service sector ISM results also improved, continuing a more-than 30-month string of expansion. In both surveys, the new orders components were particularly strong

Based on these recent strengths it is likely that US growth improved in the third quarter versus the second, though it probably will still be relatively weak.

On July 26, European Central Bank president Mario Draghi publicly committed to doing "whatever it takes" to maintain the euro, and on September 6 followed up with details of the ECB's plan to buy sovereign debt directly. This plan goes a long way to reduce the chance of more sovereign debt defaults in Europe, and in so doing reduces the risks to the global financial system. Equity market rallies and big declines in Italian, Spanish and Portuguese government bond yields since July 24 are indicative of an improved risk outlook.

While the risk of a calamitous collapse of the euro has been greatly reduced, the ECB's plan only buys time for the weaker economies to make difficult political decisions and get onto sounder fiscal footings. Under the plan, ECB purchases of a country's sovereign bonds would lower the interest rates paid by that country, but the purchases would only take place if the country's efforts to balance its books meet with ECB and International Monetary Fund approval. Austerity measures and tax increases likely to be blessed by the ECB and IMF are not going to significantly improve the region's growth prospects, and so Europe's longer-term economic prospects have not yet improved.

88 Broad Street • Boston, Massachusetts 02110
Tel (617) 624-0800 • (800) 900-4401 • Fax (617) 624-0801 • E-mail bfo@bosfam.com

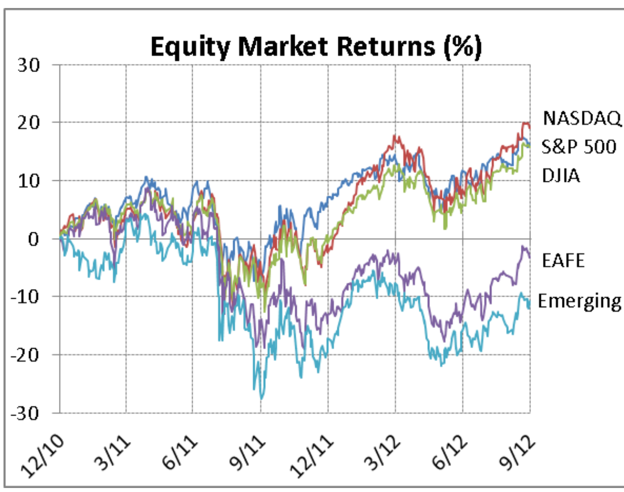
Stock and bond markets got an additional boost on September 14, when the Federal Reserve announced yet another round of extraordinary easing. This round, dubbed QE3, will focus the Fed's new bond-buying efforts on mortgage-backed securities in an attempt to put continued downward pressure on mortgage rates. The Fed's plan commits $85 billion per month to these purchases until it is sees sufficient improvement in economic data. While the Fed is obviously trying to shore up a still-weak housing market, it also clearly is aware of the positive effects that previous quantitative easing announcements have had on stock prices, and it may also be trying to give the economy a boost ahead of the possible fiscal cliff in 2013.

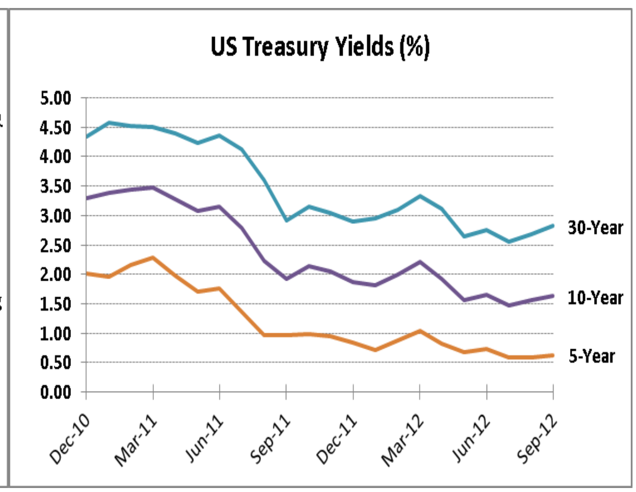
Speaking of the fiscal cliff, we still do not expect much to be done about the impending 2013 tax hikes and spending cuts until after the November elections. However, we believe that serious behind-the-scenes work is being done now on Capitol Hill to prepare for lame-duck session negotiations on a compromise.

With most of Europe in recession and the US growing slowly and facing serious uncertainties, much is riding on the emerging markets and China is particularly important. Chinese growth has slowed, and this is particularly affecting markets for the commodities that had been integral to its infrastructure building, but its growth over the next few years is still likely to be much higher than for the US or Europe. The other emerging markets, with very few exceptions, also will see decelerating growth, but growth that is still much higher than in the developed world.

Relatively high growth in such a large segment of the global economy should go a long way to offset actual weakness in Europe and potential weakness in the US.

2011 Share of World GDP (%)	
China	14
Other Emerging Asia	14
Latin America	8
Emerging Europe	7
Middle East & Africa	7
All Emerging Markets	51
US	19
European Union	20
Japan	6
UK	3
Canada	2
Source: IMF	





88 Broad Street • Boston, Massachusetts 02110
Tel (617) 624-0800 • (800) 900-4401 • Fax (617) 624-0801 • E-mail bfo@bosfam.com