VERITY INVESTMENTS INC.

Market Commentary and Outlook

SEPT. 30, 2010

CORE ALLOCATION

INDEPENDENT ADVICE ACTIVE MANAGEMENT

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Target Allocation by Asset Class / Strategy

%	Asset Class / Strategy
55.0%	Equities - Domestic & Foreign
16.5%	Gold, Energy & Commodity Related
5.0%	Merger Arbitrage
8.5%	Equities - Short (Leveraged 200%)
4.0%	Bonds
7.5%	Bonds - Short
3.5%	Cash

The second quarter of 2010 ended with markets in decline; third quarter ended with them rebounding. Yet, as we move through the year, the major themes have not changed.

• Our reality is a staggering and seemingly out of control mountain of debt accumulated over time through the cumulative actions of individual consumers, financial firms, ratings agencies, Fed chairmen, and the occupants of both political parties across multiple Congresses and administrations. As a society, we are all to blame.

• The Federal government in various manifestations has taken it upon itself to solve the problems, assuming center stage. It is engaged in experimentation on a scale that has entered previously uncharted territory. Even for those who believe the chosen course is the lesser of evils, it has to be unnerving to witness an effort to solve a debt crisis by piling an overwhelming volume of debt onto the government balance sheet with no painless resolution anywhere in sight.

• The entire world is, in one way or another, caught up in the struggle, and currency movements, more than market fundamentals, appear at certain points to be the forces driving most markets.

• Any attempt to "forecast" market performance in anything other than the broadest conceptual terms seems laughable in the face of such systematic uncertainty.

This is a world unlike one any of us have ever witnessed, one in which investors and money managers face a different kind of complexity. Market structure has changed, demanding careful thought and an ability to think outside of the traditional box. Many strategies that "worked" under traditional conditions have become dangerous and potentially dysfunctional under such extreme circumstances. What does retain value is a set of principles that provides both structural stability and a process for identifying sound opportunities that continue to emerge.

At present, powerful debt deflationary forces are at work in substantial elements of the economy, and may remain so for some time to come. However, simmering beneath the surface, there are also elements of real inflation. Base metals, precious metals, and grains suggest an inflationary reality. Implementation of a balanced strategy demands portfolio postioning that provides a chance to stay abreast of any real inflation that may emerge in order to maintain standards of living amidst the challenges of such uncertain times.

As one element in our approach to this issue, the position in grains built through the severe price weakness of early 2010 delivered strong gains during the third quarter as grain prices moved up sharply, also boosting the agricultural stocks that comprise the other facet of this dual strategy. Opportunities in tangible assets will be a continuing focus, with a goal of accumulating positions during periods of weakness.

Gold, while contributing strongly to year to date performance, trailed the market during third quarter. As an investment, gold is a subject of unending debate, but we continue to view the dual exposure to mining shares and a direct gold ETF as a unique combination of opportunity, portfolio diversification, and a potentially important hedge against the currency debasement that is permeating much of the developed world.

Equity strategy continues to balance the importance of navigating both falling and rising markets. Targeted sectors and regions collectively outperformed the S&P 500, with particular strength in emerging markets, retail, and agricultural stocks. Our short against the developed foreign equity markets naturally lost value in the market surge, but the hedge continues to appear well positioned. The portfolio manager has added value and maintained the consistency of the hedge throughout the year by selling shares at higher prices when the position expanded and buying them back at lower prices when the position declined.

Comprehensive portfolio strategy has been successful, particularly during second and third quarters, in its objective of tempering the impact of market declines while still capturing much of the market's periods of growth. From this year's peak in the S&P 500 on April 23 through the end of third quarter, the Core model was just short of break-even (-0.85% in a representative account*), while the S&P 500, despite the September rebound, was -6.24% over the same period.

As has been our norm, the goal is not mere performance, but the financial success and security of each investor. Though the difference may seem subtle, the approach and thought process is materially different in the *probability* of success that results. Over time, properly executed, the performance follows.

*While there are small differences in performance among accounts participating in the Core Composite, performance for fully invested accounts is typically very similar, and the account used for illustration is believed to be representative of the composite as a whole. Please review the Core Composite: Performance Summary for more detailed performance information.