VERITY Asset Management

# Market Commentary and Outlook

**SEPT. 30, 2011**

**CORE ALLOCATION**

**INDEPENDENT ADVICE ACTIVE MANAGEMENT**


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Are we witnessing a replay of 2008? While serious challenges persist here at home and extremely dangerous systemic risks remain in Europe, the weight of the evidence very strongly suggests we are not. That does not mean there will not be grinding uncertainty, extreme market volatility, and the likelihood of one or more severe shocks along the path to a more favorable overall environment.

In plotting the Core strategy, we have three choices:

**Target Allocation by Asset Class / Strategy**

| | |
|---|---|
| 52.5% | Equities - Domestic & Foreign |
| 16.5% | Gold, Energy & Commodity Related |
| 5.0% | Merger Arbitrage |
| 7.0% | Equities - Short (Leveraged 200%) |
| 6.0% | Bonds |
| 7.5% | Bonds - Short |
| 5.5% | Cash |

- Retreat - to an extremely defensive position. Fortunately, we have already in place a strategy well suited for those investors whose primary objective is to tightly limit volatility and downside risk - our Moderate strategy.

- Dance - attempting to move in and out of the market as it reacts to changing news. While there are those that do so with some effectiveness, such an approach is often unsuccessful, and mistimed moves can seriously damage performance. Though we actively adjust weightings and allocations in an effort to capture opportunity and manage risk over time, dancing has never been our approach.

- Push ahead - thoughtfully searching for sound opportunities amidst the turmoil. Since there is significant uncertainty in both directions, investors seeking growth may need to begin positioning themselves for a longer term, weathering some fluctuations in the interim.

We have taken the latter course, gradually building positions in sectors and regions we favor as we look out over the next few years - at prices that are reasonable and in many cases very attractive.

Our current outlook was addressed in our March 31, 2011 Market Commentary; "As we move further into 2011, ***it is likely that we will face increasingly volatile markets.*** However, ***we believe that by continuing to seize opportunity in a disciplined manner within our targeted investments, we may be able to use market turmoil to our great advantage.*** There will be quarters where we trail various market indexes, but we believe this methodology will allow us to continue to create more reliable growth over time."

Pursuing this approach, we have been active during the turmoil of August and September on a disciplined basis, using the market upheavals as opportunities to incrementally buy additional shares in selected securities whose prices had fallen significantly. In addition, during early to mid August, we switched out of Health Care into Utilities, eliminated Banking, took partial profits in Gold, switched out of Retail into Consumer Staples, and switched from Russia into Singapore and Columbia.

During the third quarter downturn, the Core strategy outperformed the S&P 500, reducing both volatility and overall decline. By thoughtfully and intentionally pursuing a course independent of the broad U.S. equity market, the Core will almost inevitably look good relative to the markets at some points and not so good at others. As always, our ultimate focus remains on enhancing the probability of successful investment outcomes, regardless of changing market conditions that must be navigated along the way.

We have outlined in previous Market Commentaries the primary investment themes we are pursuing. We encourage you to review recent editions, which may be found on our website at http://verityinvest.com/investment_management/commentary. Please feel free to contact us for more detailed information and insight into our process and our current thinking about market risks and opportunities.