



Citizens Bank & Trust Market Review

November 2011

[In This Issue]

[Economy [page 2](#)]

Economy improving, but Europe still a mess.

[Fixed Income [page 5](#)]

Riskier asset classes outperform.

[Equities [page 8](#)]

October best month for stocks in years.

[Alternative Investments [page 10](#)]

October posts positive returns for Alternatives.

[Disclosures [page 12](#)]

Economy improving, but Europe still a mess.

Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	60.9
Consumer Confidence	39.8
Existing Home Sales, Monthly Change	-3.0%
New Home Sales, SAAR*	313,000
Personal Income, Monthly Change	0.1%
Personal Consumption Expenditures, Monthly Change	0.2%
Non-farm Payroll Increase/Decrease	80,000
Unemployment Rate	9.0%
ISM Non-Manufacturing Index	52.9%
ISM Manufacturing Index (PMI)	50.8%
New Durable Good Orders, Monthly Change	-0.6%
Industrial Production, Monthly Change	0.2%
Capacity Utilization	77.4%
Retail Sales, Monthly Change	1.1%
CPI, Monthly Change	0.2%
CPI Core, Monthly Change	0.2%
PPI, Monthly Change	0.8%
PPI Core, Monthly Change	0.2%
U.S. Trade Deficit	\$45.6 billion
3Q11 Non-farm Productivity, Quarterly Change, SAAR*	3.1%
3Q11 Real GDP, Quarterly Change, SAAR*	2.5%

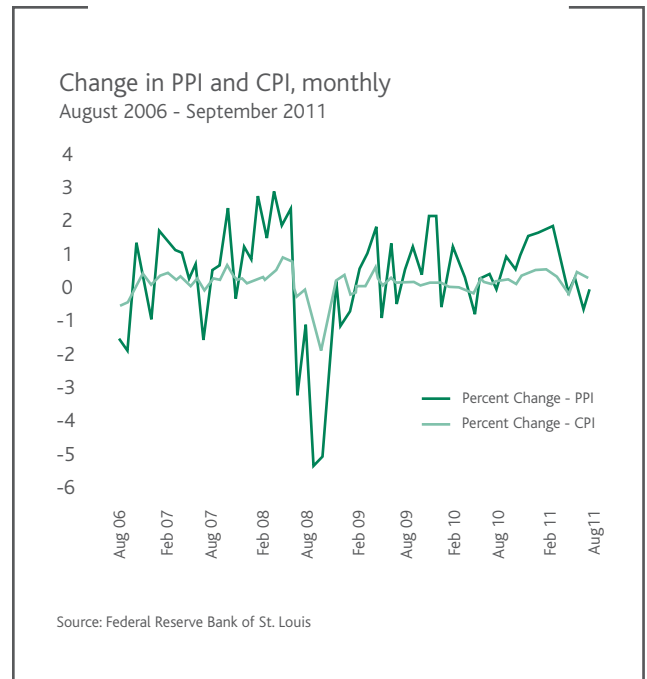
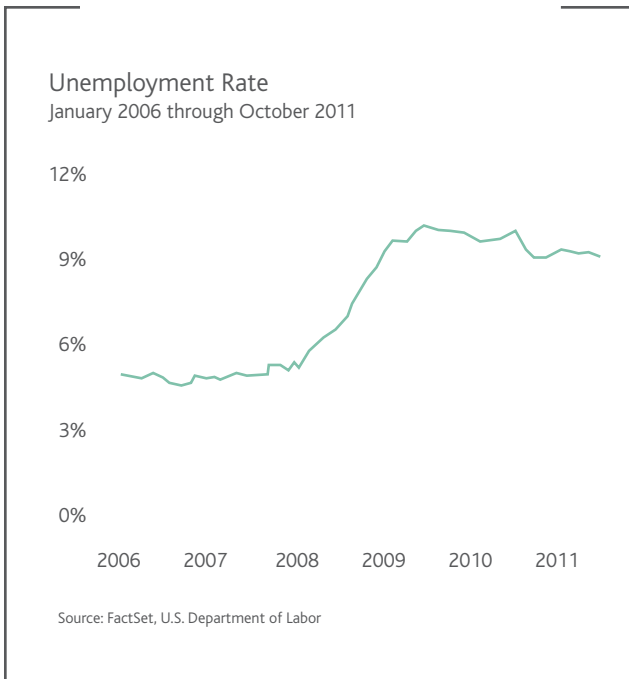
*Seasonally Adjusted Annual Rate
Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thomson/Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.
Values reflect most recent data available at time of publication.

Overview

Despite the ever-present mess in Europe still far from resolution, fears of a double-dip recession eased this month as a report was released showing U.S. economic growth nearly doubled in the third quarter. GDP growth improved to a 2.5% annualized rate from a sluggish 1.3% rate in the second quarter, according to the Commerce Department. This marked the first time the overall inflation-adjusted level of economic output topped the fourth quarter 2007 figure, the last reading before the Great Recession began.

There were no surprises out of the FOMC meeting, with the Committee retaining its language that rates will remain exceptionally low through mid-2013. The statement noted economic growth strengthened somewhat in the third quarter, but was less positive on the strength of the labor market. Earlier, the European Central Bank (ECB) decided to cut interest rates by a quarter of a percentage point, its first rate cut in two years. "What we are observing now is slow growth heading towards a mild recession by year end," said Mario Draghi, the new president of the ECB.

The Conference Board's Leading Economic Index for the U.S. increased 0.2% in September, slowing from a 0.3% increase in August and a 0.6% increase in July. The largest positive factor came from the rate differential between 10-year Treasuries and the fed funds rate, while a dip in housing permits held the index down. Ataman Ozyildirim, economist at The Conference Board, said "the slow pace in the LEI suggests a growing chance that this sluggish economy is going to be here for a while."



Employment

Initial jobless claims continued to trend downward at a leisurely pace throughout the month. The Labor Department reported the number of Americans filing for first-time unemployment benefits for the week ended October 29 fell 9,000 to 397,000. The four-week average is moving ever closer to the key 400,000 level, falling 2,000 during the week to 404,500. This is more than 10,000 lower than the month-ago comparison. Continuing claims for the October 22 week fell 15,000 to 3.683 million with the four-week average down 10,000 to 3.704 million. This is an improvement of roughly 40,000 from a month ago, but it is difficult to gauge how much of it reflects new hiring rather than benefit expiration.

The headline number for October payrolls was below expectations, but upward revisions to previous months indicate the labor market is stronger than originally thought. Payrolls were up 80,000 for the month, while numbers for September were revised up to 158,000 (from 103,000) and August were increased to 104,000 (from 57,000). The trend of strength in the private sector and weakness in the public sector continued, with private nonfarm payrolls up 104,000 while government payrolls declined 24,000. The household survey showed a 277,000 increase in household employment, which moved the unemployment rate down to 9.0% from 9.1%.

According to Challenger, Gray & Christmas, employers announced plans to shed 42,759 workers from their payrolls in October. The number was considerably less than the 115,730 September figure that was bloated with large cuts planned by the United States Army. While government layoffs fell significantly, we have not yet seen the full impact of federal spending cuts, according to CEO John A. Challenger who said "Anticipated cuts at the U.S. Post Office alone could result in more than 200,000 job cuts."

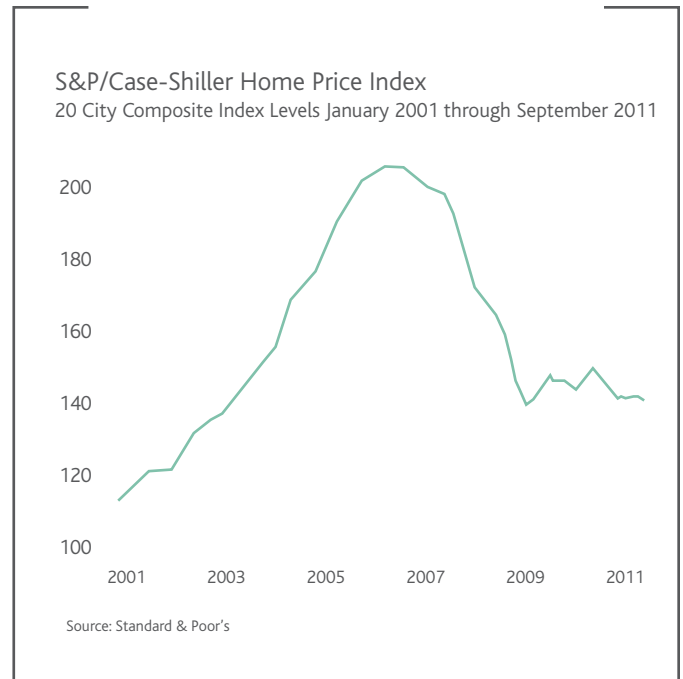
Consumer Confidence and Spending

Consumer confidence fell sharply in October dropping 6.6 points to 39.8 as concerns over business conditions, the labor market and income prospects increased. Lynn Franco, Director of The Conference Board Consumer Research Center said "Consumer confidence is now back to levels last seen during the 2008-2009 recession."

The lack of confidence does not appear to be having a negative impact on the consumer's willingness to spend, however. Consumer spending increased 0.6% for September, according to a report from the Commerce Department. Retail sales were also up a solid 1.1% for the month. The number was better than expected and well above the upwardly revised 0.3% increase the previous month. The strong number was driven by a 3.6% increase in sales of motor vehicles and parts. Retail sales are now up 7.9% on a year-over-year basis. The strength of the U.S. consumer is helping to ease fears of a double-dip recession.

Inflation

Headline inflation for the consumer remained on the high side, according to the Labor Department. The CPI followed up a 0.4% jump in August by rising another 0.3% in September. The latest number was driven by a 2.0% increase in energy, with gasoline prices jumping 2.9%. Food prices continued to climb as well, up 0.4% for the month. Year-over-year CPI was 3.9%, edging up 0.1% from the previous month. Meanwhile, prices at the producer level came in well above expectations, surging 0.8% for the month. Like the consumer index, PPI was driven higher by rising energy prices. Both figures indicate inflation is not cooling, making it difficult for the Fed to do any further monetary easing. Ben Bernanke has repeatedly stated that anything the Fed does to promote economic growth will be "in a context of price stability."



Business Activity

Manufacturing in the U.S. expanded for the 27th consecutive month, according to the Institute for Supply Management. The PMI registered 50.8% in October, down 0.8 points from September's reading of 51.6%, but the underlying data was more positive than the headline number indicated. With prices paid falling 15 points, inventories contracting and new orders improving, the manufacturing sector looks poised to expand at an accelerated rate in coming months.

Durable goods orders were down 0.8% for September after nudging down 0.1% in August, according to the Commerce Department. The weak headline number was driven by a 7.5% drop in transportation with the primary source of weakness in both defense and nondefense aircraft. Excluding transportation, durable goods orders showed broad strength and rebounded 1.7%. This should translate into continued gains in the manufacturing sector.

Housing

Data released over the past month on the health of the housing market was mixed. Sales of new homes are improving while prices are contracting, according to a report from the Commerce Department. New home sales were up 5.7% in September bringing the current supply down to a year-and-a-half low of 6.2 months. Median prices softened for the third straight month, however, falling 3.1% to \$204,400. Housing starts rebounded nicely, up 15.0% in September after declining 7.0% the month before. The weaker August number was in part due to the negative impact of Hurricane Irene. Housing permits fell 5.0% however, indicating home builders are still being cautious.

The market for existing homes is still stuck in the doldrums. Data from the National Association of Realtors showed existing home sales fell 3.0% and the median existing home price fell 3.4%. The outlook for existing home sales was also weaker with pending sales down 4.6%. Meanwhile, the Case-Shiller 20-city index was flat for the month of August after edging down 0.1% each of the previous three months.

World Economy

European leaders met numerous times throughout the course of the month in an effort to save Greece and shield banks from the fallout of the debt crisis. European Union leaders reached an agreement on October 26 that involved leveraging up the European Financial Stability Facility (EFSF) to €1 trillion and getting banks to agree to a 50% haircut on Greek bonds. But just when we thought the Greek financial crisis would finally be removed from the front page, they find a way to stay in the headlines. Early in the following week Greek Prime Minister George Papandreou made the surprising announcement the bailout issue would be decided by a vote of the people. The lack of popularity of the austerity measures included in the package sparked fears the Greek people would vote no on the referendum, default on their debt and leave the eurozone. Papandreou then called an emergency cabinet meeting where he backed off those plans under mounting pressure from other European leaders and members of his own government. The embattled Prime Minister then agreed to resign if the bailout agreement was approved.

European leaders have underwhelmed for far too long. It has become quite clear there will be no quick resolution to the European sovereign debt crisis. Getting a plan in place to deal with Greece will only mean the attention of the media and markets will move its focus towards bigger problems like Italy, which is the world's fourth largest issuer of debt.

Riskier asset classes outperform.

Fixed Income Current Yields	10/31/11
3 Month U.S. T-bill	0.01%
2 Year U.S. Treasury	0.25%
5 Year U.S. Treasury	0.99%
10 Year U.S. Treasury	2.17%
30 Year U.S. Treasury	3.16%

Total Returns ¹	1 Month	YTD
Barclays U.S. Aggregate	0.11%	6.76%
Barclays U.S. Govt./Credit	0.12%	7.60%
Barclays U.S. Municipal Bond	-0.37%	8.00%
Barclays U.S. Corp. High Yield	5.99%	4.52%
Barclays U.S. Long Credit A	2.16%	15.94%
Barclays U.S. Treasury 20+ Year	-4.49%	25.53%
Barclays Global Aggregate	1.33%	6.80%
Barclays Emerging Markets	4.77%	6.80%

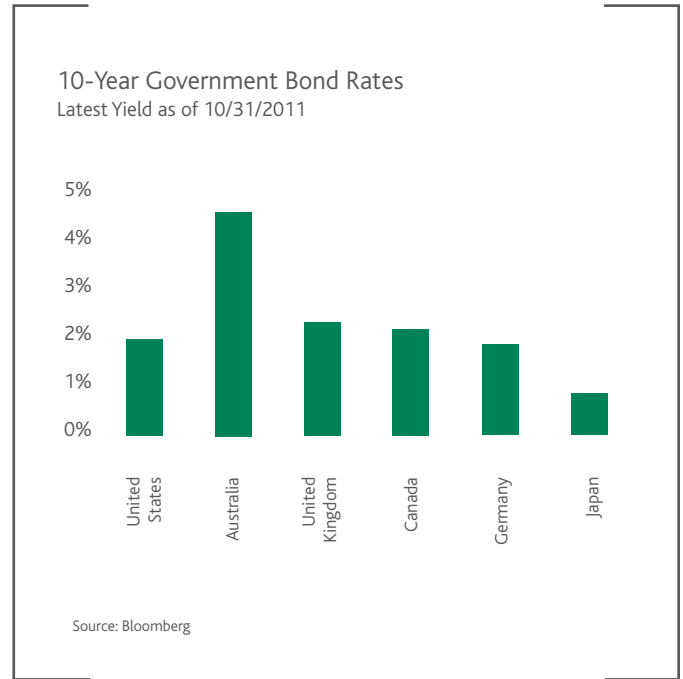
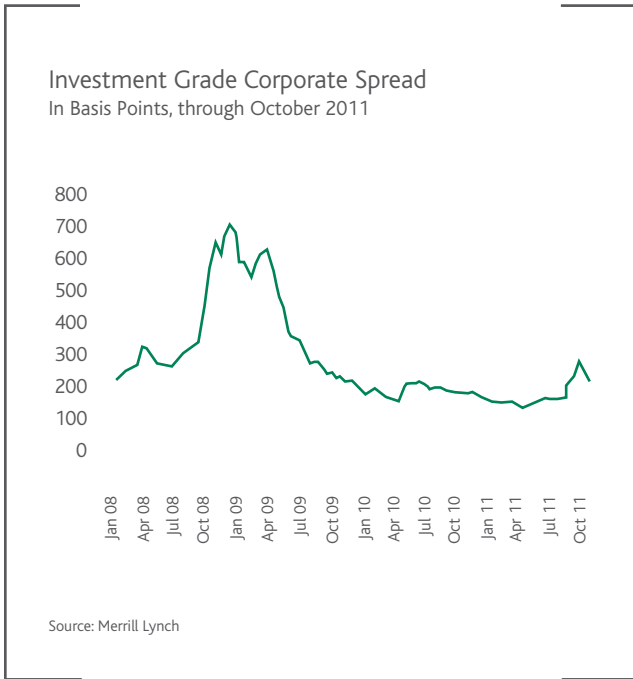
¹ 1 Month and 12 Month ending 10/31/11.
Source: U.S. Department of the Treasury, Barclays Capital
Values reflect most recent data available at time of publication.

Overview

The events in Europe dominated U.S. bond market activity and caused especially large swings during October. In a dramatic reversal from last month, safe-haven securities underperformed riskier asset classes by a wide margin. The Barclays U.S. Treasury: 20+ Year index declined 4.49% for the month, while the high yield index gained 5.99%. The safety Treasuries offer seems to have lost its appeal, with government debt auctions drawing little interest to recent similar sales. Adding to the selling pressure are recent signs the U.S. economy has stabilized along with rumors the Federal Reserve may initiate another round of quantitative easing, helping riskier asset classes. Strategists feel the remarks signal the Fed may be prepared to dig deeper into unprecedented monetary territory despite criticism related to expanding the nation's debt burden, as policymakers struggle to lower unemployment levels without boosting inflation. Since yields have fallen to record low levels, we recommend investors de-emphasize Treasuries, keeping only a small position as a hedge against a falling stock market or to position for an additional flight-to-quality trade.

Meanwhile, municipal bond yields topped those of similar maturity Treasuries for the second straight month, the longest stretch since 2009. Strategists are suggesting the higher muni-to-Treasury ratio could continue through the November 2012 presidential election because the Federal Reserve has said it will hold its benchmark interest rate at zero until mid-2013 and investors will likely wait to see if federal income tax breaks expire at the end of 2012. Due to an improving fiscal environment and attractive valuations, investors should continue to purchase intermediate-term, high-quality bonds.

Although we acknowledge U.S. government debt may benefit as worries persist about global economies, we feel a 2% yield on 10-year Treasuries is too low when inflation is running close to 3%. Investors should target intermediate-term investment grade corporates, high yield and international securities given stabilizing domestic economic data along with positive developments in Europe.



Corporate

The investment grade corporate sector finished considerably higher gaining 1.79% for the month, bringing year-to-date gains to 8.00%. Narrowing spreads drove performance as anxieties eased about Europe and the weakening domestic economy. Looking ahead, many strategists feel the corporate bond market remains attractive given the expectation of economic growth in the 2.00% to 2.50% range. This level of economic growth suggests the economy will avoid a recession and is not growing fast enough to justify an increase in interest rates that would generate negative returns, leading to a large-scale exodus from bonds into equities. With significant global monetary expansion resulting in negative real interest rates on the short-end of the yield curve, many investors will continue to pursue yield. Because corporate bonds offer both attractive yields relative to Treasuries and meaningful supply, strategists feel excess demand conditions will return to the sector, driving spreads considerably tighter. From a sector perspective, U.S. Banks and Financials are likely to outperform going forward after underperforming in August and September. Although revenue growth remains challenging in this sector, except for regional banks, some signs of growth in credit cards and auto loans have been encouraging. Investors should target larger, more diversified names like JPM, WFC, UBS and GE Capital.

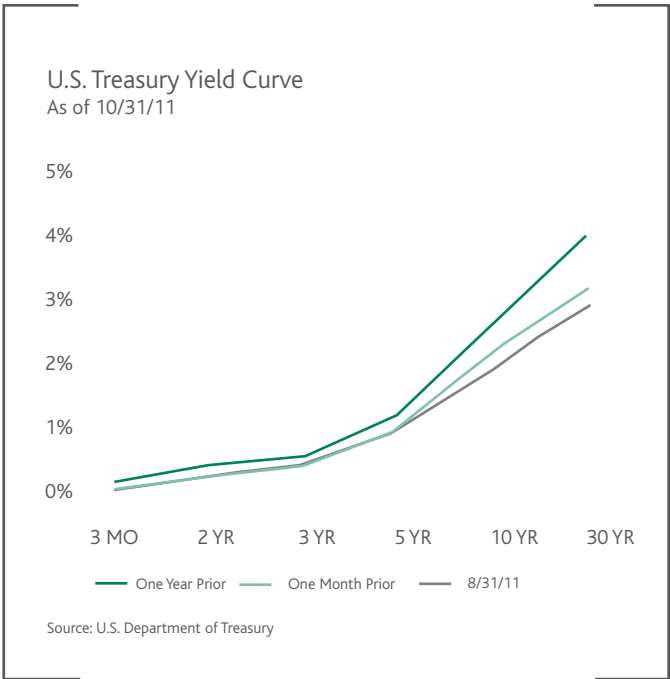
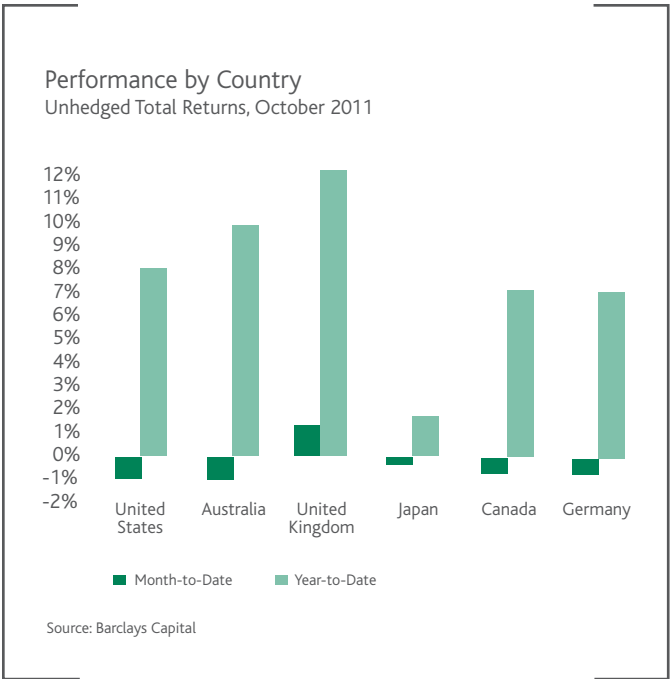
High yield bonds rallied sharply gaining 5.99% for the month, bringing year-to-date returns to 4.52% as market participants returned to riskier asset classes. Robust mutual fund flows along with an absence of new supply drove demand for secondary market bonds considerably higher.

Although many strategists feel defaults may increase from the current low levels, the outlook for the sector remains attractive given stronger balance sheets, as companies have been able to cancel or restructure a significant portion of higher interest rate debt with yields declining since late 2008.

Municipals

Following the lead of safe-haven U.S. Treasuries, the Barclays Municipal Bond index lost 0.37% after six straight months of gains, bringing year-to-date returns to 8.00%. Municipal issuers took advantage of record-low rates to refinance debt, boosting long-term debt sales to the highest levels this year. Because supply is expected to outpace demand during the final months of 2011, strategists feel yields could increase between 0.20% and 0.30% by the end of the year. Another issue impacting the markets was the Republican Party's proposed \$185 billion of cuts to the country's Medicaid program. The magnitude of these proposed cuts would affect all states, particularly those with large Medicaid expenditures. Any adopted changes would unquestionably alter municipality budgets for next year, possibly weakening debt coverage ratios.

Meanwhile, the municipality of Harrisburg, Pennsylvania filed for bankruptcy protection from creditors after a faction of the city council rejected a state-backed plan calling for the sale or lease of assets to pay down debt. Pennsylvania lawmakers were expected to pass legislation essentially amounting to a state takeover of the city's financial recovery plan. However, the city voted to file for Chapter 9 bankruptcy protection, becoming the second city to file this year. In August, Central Falls, Rhode Island filed for bankruptcy protection after retired city workers refused to accept an offer to cut their pensions. While city bankruptcies are rare and well publicized, the \$2.9 trillion municipal bond market shrugged off the filing. Nonetheless, strategists feel individual investors may overreact, considering this a precursor to a significant increase in defaults. Fortunately, municipal bond experts consider this an isolated event, as overall market fundamentals remain robust with revenues rising faster than anticipated.



International

The Barclay’s Global Treasury ex-US index rose 1.15% on an unhedged basis, but gained only 0.25% on a local currency basis, consistent with a considerably weaker U.S. dollar against the euro and other currencies. Unlike last month, the flight-to-quality trade faded in the international markets with safe-haven countries including Germany, France, Canada and Australia posting losses in local currencies. Treasury securities from the United Kingdom and other non-eurozone nations rose as investors focused on oversold sectors.

Meanwhile, fears of a Greek default continued to escalate and raised concern the sovereign debt crisis could spread to the region’s banks. This prompted a European summit to discuss a global solution to the sovereign debt crisis. The official statement released by EU leaders later in the month made reference to an agreement reached on private sector involvement in Greece, the use of European Financial Stability Facility (EFSF) resources for stabilization purposes in primary and secondary bond markets, the enhancement of fiscal coordination, surveillance and overall governance structures in the eurozone, and further reform measures to be taken by Italy and Spain. Although short on detail, market participants felt the summit conclusions represented a comprehensive policy response, targeted relevant problem areas and provided support to overall risk sentiment in the financial markets.

However, concerns persist as evidenced by Italian borrowing rates rising above 6.0%, a level considered unsustainable for the nation and its 1.6 trillion euros of public debt. Constant pressure on long-term Italian bond yields underscores the belief the sovereign debt crisis has yet to be resolved completely. Rumors the Bank of Italy is preparing an emergency operation to swap Italian government bonds held by the nation’s banks in exchange for a pledge by the lenders to buy more debt at longer maturities have failed to quell concerns over uncertainties in the region.

TIPS and Negative Yields

Treasury Inflation-Protected Securities (TIPS) have been the best performing sector of the bond market, returning 12.65% year-to-date. Rising actual inflation, expectations of continued future inflation and the overall flight-to-quality trade have been the key contributors to the strong returns. The increase in the price of TIPS has driven their yields sharply lower, even negative for maturities out to ten years. While a negative TIPS yield does not necessarily amount to a negative return as it would for a conventional bond, it does mean investors will not be fully compensated for inflation over the remaining life of the bond. From a conceptual perspective, an investor holding a TIPS bond to maturity can expect a return of the yield on the security plus an inflation adjustment corresponding to the growth in CPI over a specified holding period. When the yield is negative, the return will fall short of inflation by the amount of this negative yield.

Surprisingly, negative yields have not impeded performance for these securities, with five-year TIPS returning over 7.0% over the last 12 months. Despite this potential impediment, we feel investors should continue to hold positions in this asset class given accommodative monetary policy, one of the primary determinants of real yields, combined with protection from an unexpected increase in inflation.

October best month for stocks in years.

Total Return	Month	YTD
Dow Jones Industrial Average	9.72%	5.45%
S&P 500	10.93%	1.30%
NASDAQ Composite	11.20%	1.93%
S&P 100	9.94%	1.37%
S&P 400 MidCap	13.75%	-1.06%
S&P 600 SmallCap	15.00%	-0.86%
Russell 2000	15.14%	-4.46%
MSCI EAFE	9.65%	-6.38%

¹Month and YTD total return ending of 10/31/11

Values reflect most recent data available at the time of publication.
Source: FactSet, Zephyr StyleAdvisor, Standard & Poor's, Russell Indices, The Wall Street Journal, Reuters, Morgan Stanley Capital International, MarketWatch, Financial Times

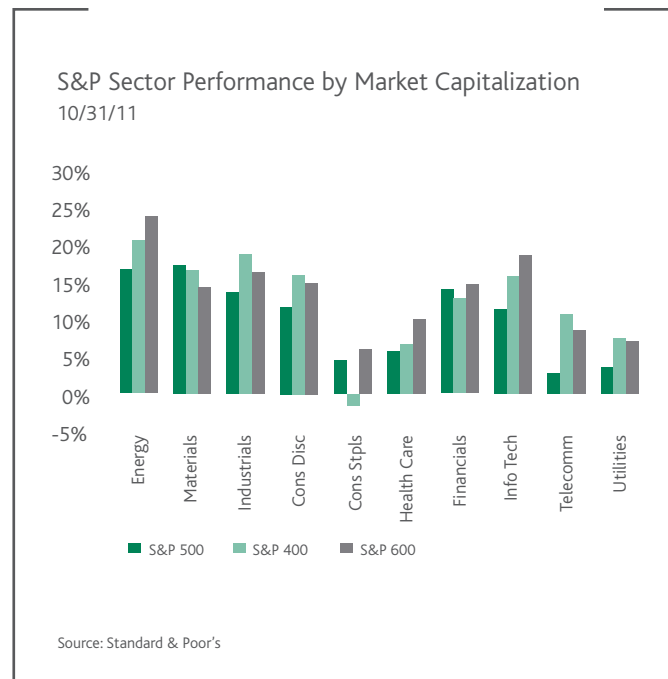
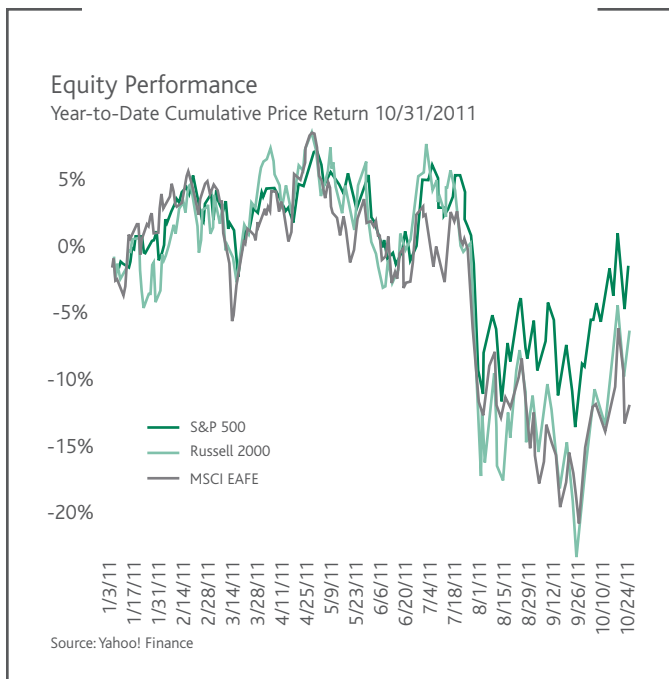
Overview

After bottoming on October 4, most major stock markets rallied back to end the month up double digits. European officials finally agreed on a plan to restructure Greek debt, corporations reported positive earnings surprises, and economic data continued to improve both here and abroad while investors searched for bargains in more cyclical sectors.

The Dow Jones Industrial Average increased 9.7% on a total return basis in October. The broader S&P 500 index rose 10.9%, while the technology heavy NASDAQ Index returned 11.2%. The Russell 2000 Index of small capitalization companies increased 15.1%. The Dow turned positive on a year-to-date basis (+5.4%), and still exceeds the performance of the S&P 500 (+2.2%) and the NASDAQ (+1.9%) through the end of October.

Third quarter corporate earnings reports were generally strong across the board, as nearly 75% of companies beat analysts' expectations. Over 85% of healthcare and technology companies were ahead of estimates, while only 55% of financial services companies showed positive surprises.

Despite uncertainty surrounding Europe, several large mergers were announced last month. Kinder Morgan agreed to pay \$21 billion for El Paso Corporation, the second largest acquisition this year. Oracle announced it would buy RightNow Technologies for \$1.43 billion, expanding its cloud computing capabilities. Managed care company Cigna agreed to purchase HealthSpring for \$3.8 billion to enable greater access to more of the Medicare population. Although the total number of merger deals declined 2.6% through the first nine months of 2011 compared to the prior year, Thomson Reuters projects a 22% increase in M&A in 2012. Stephen Wood, chief market strategist at Russell Investments, believes this demonstrates "credit and capital markets are functioning, which is a much different situation than three years ago."



Domestic Equity

Materials (+17.7%), Energy (+17.0%), and Financials (+14.3%), three of the worst performing sectors through the third quarter, had the highest total returns of the S&P 500 GICs sectors in October. Telecommunications services (+3.0%), Utilities (+3.6%), Consumer Staples (+4.5%) and Healthcare (+5.75%) underperformed the index after leading the sectors through the end of September. Within Materials, Freeport-McMoRan Copper & Gold (FCX) rebounded nearly 33%, and AK Steel was up over 27%. Morgan Stanley (+30%) led all major financial services stocks, followed closely by Aflac which increased 29%. Year-to-date, Utilities (+14.7%), Healthcare (+8.4%) and Consumer Staples (+8.0%) have had the highest total returns, while Financials (-14.4%), Materials (-7.9%), and Industrials (-2.7%) have been the weakest sectors through the end of October.

According to Russell Indices, small cap stocks outperformed large cap and mid cap stocks after underperforming for four straight months. The Russell 2000 Index of small cap companies rallied 15.1% compared to increases of 13.0% for the Russell Midcap and 11.2% for the Russell 1000 Index. Growth performance relative to value was mixed across the market capitalization spectrum. In large cap, the Russell 1000 Value Index outperformed the Growth Index, +11.4% versus +10.9%, respectively. In mid cap and small cap, growth outperformed value. The Russell MidCap Growth Index increased 13.5%, better than the 12.6% increase for the Russell MidCap Value Index. The Russell 2000 Growth Index outperformed the Russell 2000 Value Index, +15.9% versus +14.4%, respectively.

International Equity

International markets also bounced back in October. The broad MSCI EAFE Index of developed markets increased 9.7% in U.S. dollar terms for the month. The MSCI Indices for Germany (+16.1%), France (+12.9%) and the UK (+12.1%) were the strongest. Japan was the only major economy that did not participate in the rally mainly because Japanese stocks held up relatively well in the third quarter. Year-to-date the MSCI EAFE Index is down 6.4%, with individual country performance ranging from flat for the UK to down 51% for Greece.

The MSCI Emerging Markets Index increased 13.3% for the month. Brazil (+19.4%), Russia (+19.4%) and China (+15.2%) rallied back from more than 25% declines in the third quarter. In a positive sign on the Chinese economy going forward, Premier Wen Jiabao indicated the central bank may soon ease up on tightening measures. Turkey (-2.4%), Taiwan (+6.9%) and India (+8.6%) all underperformed in October. The MSCI Emerging Markets Index declined 11.3% through the first ten months of 2011.

October posts positive returns for Alternatives.

Price Change ¹	Month	YTD
Dow Jones UBS Commodity Index	6.62%	-7.90%
Oil	17.07%	-9.07%
Copper	15.23%	-19.63%
Gold	6.34%	20.88%
NAREIT- All REITS	13.31%	6.36%
NAREIT-Industrial/Office	13.57%	-0.27%
NAREIT- Residential	12.82%	15.50%
S&P Global Property Ex-U.S.	-13.70%	-16.88%
HFRI Emerging Markets Index	5.04%	-8.38%
HFRI Fund Wtd Comp. Index	2.43%	-3.50%
HFRI Equity Market Neutral	1.16%	-2.94%
HFRI Event Driven	2.71%	-2.16%
HFRI Market Defensive	-2.38%	-6.44%
HFRI Merger Arbitrage	1.30%	1.26%
HFRI Short Bias	-3.84%	0.09%

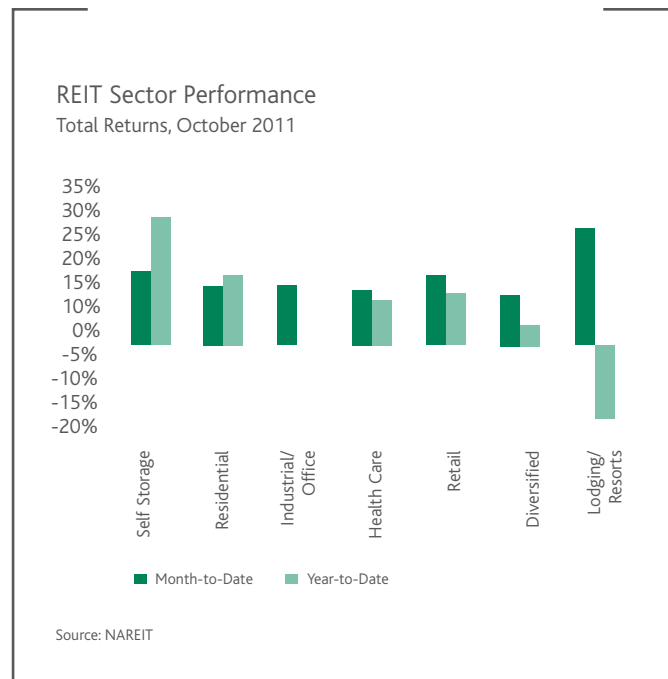
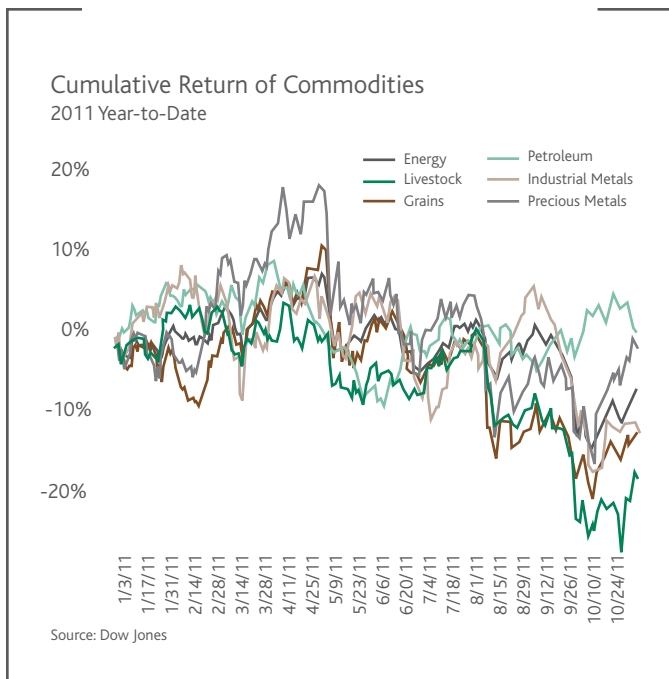
¹Month and YTD total return ending 10/31/11
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard and Poor's, wsj.com - Market Data Center, Private Equity Online, FINalternatives. Values reflect most recent data available at time of publication.

Overview

October provided a much needed breather for alternatives. The major components, commodities, real estate investment trusts (REITs) and hedge funds, all posted gains last month, with the Dow Jones UBS Commodity Index rising 6.62%, the NAREIT All-REIT index gaining 13.31% and the HFRI Fund Weighted Composite index increasing 2.43%.

Commodities

The steps taken in October by European leaders to address the eurozone debt crisis welcomed increased confidence in the commodity markets. The Dow Jones UBS Commodity Index rose 6.62% but remains in the red on the year, down 7.90%. Copper and crude oil were the best performers last month, gaining 15.23 and 17.07%, respectively. Copper's rise was attributed to declining production in Chile as well as an ongoing labor dispute in Indonesia, which raised supply concerns. Output in Chile, the world's top copper-mining nation, fell 1.9% to 436,734 metric tons in September from a year earlier, states the National Statistics Institute. In Indonesia, about 8,000 workers at the Grasberg mine owned by Freeport-McMoRan Copper & Gold Inc. have been on strike since September 15, significantly limiting its production. Crude oil rose in October primarily because Libyan outputs offset the cuts made in Saudi Arabia, Nigeria and Venezuela. In a statement from the Organization of Petroleum Exporting Countries (OPEC), the global oil market is "balanced as reductions were being made to accommodate increasing supplies from Libya. Saudi Arabia cut output by 0.7% to 9.47 million barrels a day last month, Nigeria reduced supply by 3.4% to 2.01 million barrels, while Venezuela trimmed supply by 1.5% to 2.38 million barrels." The 11 members of OPEC bound by quotas produced 27.27 million barrels a day in October, a climb in production from 27.18 million barrels in September.



Gold also posted positive returns for October, gaining 6.34%, for its third straight monthly gain, and is now up 20.88% on the year. October was a good month for crops with cotton, soybeans, sugar and wheat all posting positive returns. Soybeans in particular jumped 12%, its highest monthly increase since May 2009, as China, the biggest buyer, boosted imports. October marked the fourth straight monthly gain for the crop, the longest streak since February 2008.

Real Estate

October was a great month for real estate investment trusts (REITs), with the NAREIT All-REITs index gaining 13.31% and 6.36% year-to-date. Diving deeper into strategy-specific performance, the NAREIT – Industrial/Office index rose 13.57% in October and 0.27% for the year, finally getting out of the red. The NAREIT – Residential index was up 12.82% last month, and is now up 15.5% year-to-date. In other real estate news, commercial real estate continues to push U.S. banks to, and evidently past, the brink of collapse. According to Trepp LLC, a commercial mortgage data firm, troubled commercial real estate loans accounted for more than 65% of problem loans among the 11 banks that failed in October. Trepp further reported troubled commercial real estate loans accounted for \$617 million in problem loans of which \$401 million were nonperforming commercial real estate loans, \$254 million were construction and land loans made to commercial developments and the remaining \$147 million were commercial mortgages. While the number of failures was up month-over-month in October, the percentage of troubled commercial real estate loans was lower as the six failing banks in September saw 82% of all problem loans coming from commercial loans. Last month's failures bring the year-to-date total of failed banks to 85, with many experts pointing to the commercial real estate market as the primary source.

Hedge Funds

Riding on the strong rebound in the equity markets, hedge funds posted their strongest monthly gains so far this year with the HFRI Fund Weighted Composite Index up 2.43% in October. This was a needed, positive development as hedge funds have suffered two straight months of decline and posted a Q3 loss of 6.5%, the fourth worst calendar quarter performance of all time, according to Hedge Fund Research (HFR). Despite the industry's solid performance last month, it still was well behind the S&P 500's 10.92% rise during this period and merely offset earlier losses as the average fund remains in the red for the year. According to HFR, the fact that these funds underperformed a major equity benchmark underscores managers' conservatism in maneuvering around volatile macroeconomic issues, such as the European sovereign debt crisis and the possibility for developed countries, like the U.S., to slip into recession.

Equity hedge strategies made the largest positive contribution to index performance, gaining 5.2% in October, but are still down 5.2% year-to-date. October marked the best single-month gain for equity hedge funds since May 2009, ending a volatile five-month decline for the strategy. According to HFR, when breaking down the equity hedge category into its sub-strategies, the energy/basic materials strategy rose 8.11%, technology/healthcare strategies added 3.87%, and emerging markets gained 5.04% last month. Event-driven funds had their best monthly gain in 2011, increasing 2.71%, with positive contributions from special situations and activist funds. However, like most strategy-specific funds, event-driven funds remain negative for the year, down 2.16% year-to-date. A few downers in October were the HFRI Short Bias alongside the HFRI Market Defensive, posting negative returns of 3.84% and 2.38%, respectively.



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