Citizens Bank & Trust Market Review

October 2011

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Economic data showing marginal improvement.

Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	59.4
Consumer Confidence	45.4
Existing Home Sales, Monthly Change	7.7%
New Home Sales, SAAR*	295,000
Personal Income, Monthly Change	-0.1%
Personal Consumption Expenditures, Monthly Change	0.2%
Non-farm Payroll Increase/Decrease	137,000
Unemployment Rate	9.1%
ISM Non-Manufacturing Index	53.0%
ISM Manufacturing Index (PMI)	51.6%
New Durable Good Orders, Monthly Change	-0.1%
Industrial Production, Monthly Change	0.2%
Capacity Utilization	77.4%
Retail Sales, Monthly Change	0%
CPI, Monthly Change	0.3%
CPI Core, Monthly Change	0.3%
PPI, Monthly Change	0.0%
PPI Core, Monthly Change	0.1%
U.S. Trade Deficit	$44.8 billion
2Q11 Non-farm Productivity, Quarterly Change, SAAR*	-0.7%
2Q11 Real GDP, Quarterly Change, SAAR*	1.3%

*Seasonally Adjusted Annual Rate
Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thompson/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

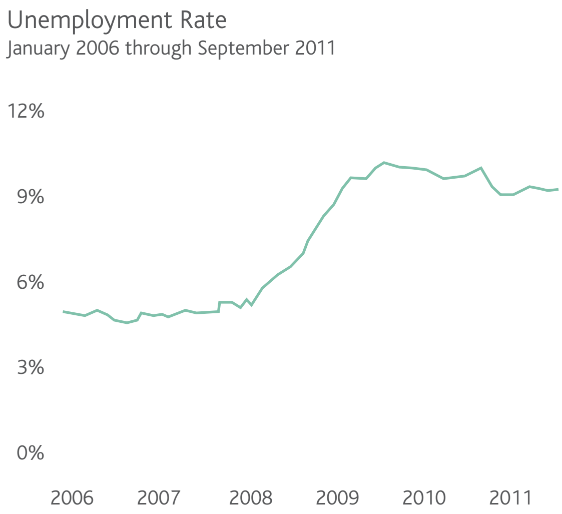
"Operation Twist" is a go, but nobody seems too excited about it. The Federal Open Market Committee (FOMC) met this month and in a much anticipated move announced it will start selling short-term Treasuries and buy $400 billion in longer maturity Treasuries by the end of June 2012 in an effort to lower long-term credit costs. They will also reinvest certain bond maturities into agency mortgage-backed securities to support the conditions in the mortgage market. The level of interest rates are not what is hindering growth, though, and it is becoming clear there is little more the Fed can do at this point to help the economy.
The statement issued by the FOMC also took a slightly more negative stance on the economy saying "there are significant downside risks to the economic outlook, including strains in global financial markets."

In a welcomed change of pace, GDP growth was actually revised up in the final estimate for the second quarter. The Commerce Department reported an annualized growth rate of 1.3% compared to the previous estimate of 1.0%. There were also a number of other better-than-expected results from various economic reports this month, including the areas of employment and business activity.

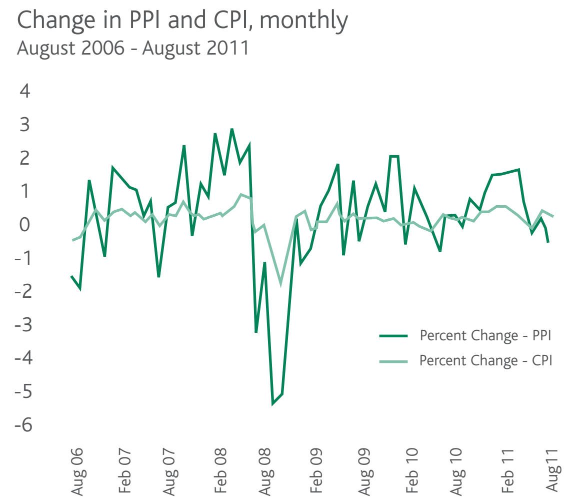
The European debt crisis continued to dominate headlines this month. Greece still needs to take additional austerity measures to balance its long-term budget, but each measure taken cuts into GDP and leads to higher unemployment as well as a smaller tax base already well known for not paying taxes anyway. It creates a downward spiral that is impossible for the country to manage without outside help. Despite pledges various European political leaders have made, a Greece default seems imminent at this point.

Employment

Initial jobless claims in September fell to their lowest levels in five months. The Labor Department reported the number of Americans filing for first-time unemployment benefits for the week ended October 1 rose 6,000 from the previous week to 401,000, but



Source: FactSet, U.S. Department of Labor



Source: Federal Reserve Bank of St. Louis

remained below the four-week average of 414,000. It is far too early to tell if this is the start of a trend, but it is certainly a step in the right direction. Continuing claims likewise show no conclusive change. Data for the week ended September 24 showed a 52,000 decrease to 3.700 million, but the four-week average of 3.739 million was little changed from the previous month.

According to outplacement firm Challenger, Gray & Christmas, employers announced plans to shed 115,730 workers from their payrolls in September, making it the worst month for job cuts in over two years. The report does not appear to signal a negative trend, however, as CEO John A. Challenger pointed out "80,000 cuts, or nearly 70 percent of last month's total, came from just two organizations: Bank of America and the United States Army."

The Employment Situation report from the Labor Department showed better-than-expected job growth in September. Payrolls for the month climbed 103,000 and figures from August and July were both revised up to 57,000 and 127,000, respectively. Once again the job growth was all in the private sector, adding 137,000 jobs while government payrolls fell 34,000. Despite the gains in hiring, the unemployment rate remained unchanged at 9.1% as more workers entered the labor force. The bottom line is the labor market does not appear to be as weak as earlier believed.

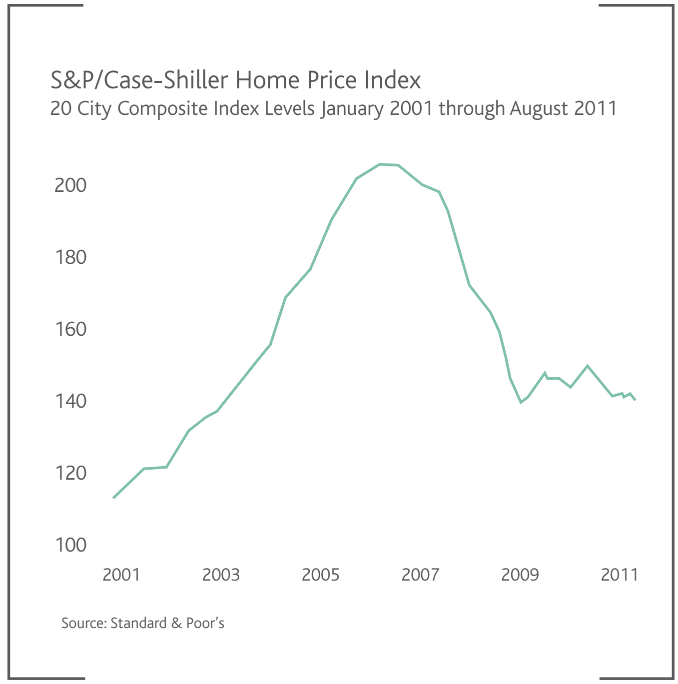
Consumer Confidence and Spending

The U.S. consumer managed to spend a little more in August despite a slight decline in personal income, according to a report from the Commerce Department. Consumer spending showed a moderate increase of 0.2% following a 0.7% surge in July, while income edged down 0.1%. Retail sales were flat in August after rising 0.3% in July. It appears consumers are being a bit more cautious with spending, although Hurricane Irene likely had a negative impact on sales. Retail sales are still up 7.2% on a year-over-year basis.

Consumer Confidence edged up very slightly in September to 45.4, according to The Conference Board's index. Consumers' pessimism about the six-month outlook eased while the current assessment of the job market worsened. 50% of the survey sample said jobs are currently hard to get, up 1.5 points from August. Lynn Franco, Director of The Conference Board Consumer Research Center said "consumers expressed greater concern about their expected earnings, a sign that does not bode well for spending."

Inflation

Inflation at the consumer level remained elevated in August, according to the Labor Department. The CPI slowed from the previous month's jump of 0.5%, but still registered at 0.4% exceeding expectations for a 0.2% increase. Energy prices continued to rise up 1.2%, and food price inflation accelerated to 0.5%. Year-over-year, CPI inflation continued to worsen climbing to 3.8% from 3.6% in July, and the core rate accelerated to 2.0% reaching the upper end of the Fed's implied inflation target range. Ben Bernanke has repeatedly stated anything the Fed does to promote economic growth will be "in a context of price stability," so continued inflation at these levels could limit the FOMC's ability for any further monetary easing. Meanwhile, inflation at the producer level eased despite a surge in food prices. PPI was flat in August, following a 0.2% increase the previous month. Import prices fell 0.4% with the help of a 2.1% drop in prices for petroleum products, while on the export side higher agricultural prices pushed prices up 0.5%.



Business Activity

Durable goods orders came in a little better than expected, nudging down 0.1% in August following a strong 4.1% jump the previous month, according to the Commerce Department. Non-defense aircraft had another impressive month, up 23.5% following a 49.9% surge in July, while motor vehicles fell 8.5%. A 1.1% increase in non-defense capital goods, excluding aircraft, bodes well for manufacturing, which is trending up moderately despite the sluggish economy.

Manufacturing in the U.S. expanded for the 26th consecutive month in September, according to the Institute for Supply Management. The PMI rose to 51.6 with the employment component climbing two points to 53.8, indicating an increase in hiring. Non-manufacturing showed expansion at a higher rate, with the index coming in at 53.0. Despite the pick-up in business activity, hiring was slower in the services sector falling to 48.7, indicating contraction.

Housing

There were mixed reports out for the troubled housing market this month. Housing starts dropped 0.5% in August while permits rebounded 3.2%, according to the Commerce Department. The data suggests while new home construction is still very weak, it does not appear to be getting worse. Existing home sales showed surprising strength in August, surging 7.7% higher according to the National Association of Realtors. The higher sales helped bring the home supply down to 8.5 months from 9.5 months in July.

New home sales remain depressed at a nine-month low of 295,000 in August, according to the Commerce Department. The number was slightly lower than revised figures of 302,000 and 303,000 for July and June respectively. Despite supplies at record lows, median new home prices were down 8.7% for the month and 7.7% year-over-year. Meanwhile, the National Association of Realtors reported a 1.2% drop in pending home sales for August and the S&P Case-Shiller 20-City Home Price Index was flat for the third month in a row.

World Economy

Things are not looking much better on the global front. The International Monetary Fund warned "the global economy is in a dangerous new phase," and lowered its expectations for world economic output growth to 4% for 2011 and 2012. In Europe, Standard & Poor's downgraded Italy's debt to A citing weakening economic growth prospects, and fears of a Greek default were yet again in the headlines. Greece announced further budget cuts that included reducing the public employee headcount by 30,000 and cuts to pension benefits for workers. These measures are aimed at meeting fiscal targets that are necessary for the country to secure the next €8 billion in emergency funding. Without those funds, Greece would default on its obligations sometime in mid-October.

Worries about the sovereign debt crisis in Europe did ease at one point as China signaled its willingness to help, and German Chancellor Angela Merkel and French President Nicolas Sarkozy issued a joint statement saying they "are convinced that the future of Greece is in the euro zone." The Chinese financial magazine Caijing reported China is willing to buy bonds of debt-burdened European nations, citing Zhang Xiaoqiang, a vice chairman of the National Development and Reform Commission. China's premier Wen Jiabao lent his support for Europe as well, but said "Countries must first put their own houses in order."

Investors flock to safe-haven asset classes once again.

Fixed Income Current Yields		9/30/11
3 Month U.S. T-bill		0.02%
2 Year U.S. Treasury		0.25%
5 Year U.S. Treasury		0.96%
10 Year U.S. Treasury		1.92%
30 Year U.S. Treasury		2.90%

Total Returns[1]	1 Month	YTD
Barclays U.S. Aggregate	0.72%	6.65%
Barclays U.S. Govt./Credit	1.03%	7.47%
Barclays U.S. Municipal Bond	1.03%	8.40%
Barclays U.S. Corp. High Yield	-3.27%	-1.39%
Barclays U.S. Long Credit A	3.18%	13.48%
Barclays U.S. Treasury 20+ Year	12.37%	31.44%
Barclays Global Aggregate	-2.31%	5.40%
Barclays Emerging Markets	-4.49%	1.94%

[1] Month and year-to-date ending 9/30/11
Source: U.S. Department of the Treasury, Barclays Capital
Values reflect most recent data available at time of publication.

Overview

Similar to last month, safe-haven securities outperformed riskier asset classes by a wide margin. The Barclays U.S. Treasury: 20+ Year index returned a staggering 12.37% for the month, while the high yield index lost 3.27%. Treasuries finished the quarter significantly higher, posting their best three-month performance since the height of the financial crisis in 2008. Demand for safe-haven securities was driven by the combination of Europe's sovereign debt turmoil and slower than expected economic growth in the U.S. and China. Inflation expectations also waned, with the spread, or difference in yields between 10-year Treasury notes and similar maturity TIPS, a gauge of trader expectations for increases in consumer prices, falling to 1.78% compared to the 12-month average of 2.26%. Meanwhile, the eurozone's sovereign debt problems showed no signs of easing. Concerns have risen that Italy may fail to meet its deficit reduction target by 2013 and the new bailout for Greece may unravel, which prompted investors to flee government bonds in this region.

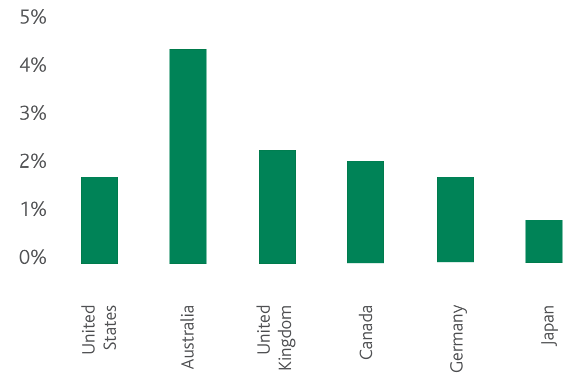
In an effort to stoke the economy, the Federal Reserve recently announced a stimulus program known as Operation Twist in which the central bank sells short-term maturities in order to purchase longer-term securities. After the announcement, 30-year bond yields dropped 0.41%, the largest move in almost three years. Over the past three months, 30-year yields fell 1.40% compared to a decline of 0.20% for two-year notes. Many strategists feel longer-term maturities will likely continue to outperform other sectors, benefiting from the scheduled purchases by the Fed in coming months.

Thanks to strong balance sheets and being one step removed from Europe, domestic investment grade bonds have continued to perform well. However, spreads have widened substantially due to concerns about the U.S. economy along with the particularly strong returns in the Treasury sector. This spread widening has also been accompanied by weak demand for new issues, which has a variety of repercussions for the credit markets. An important implication of this environment is a breakdown of relative value in which returns

Investment Grade Corporate Spread
In Basis Points, through September 2011

Source: Merrill Lynch

10-Year Government Bond Rates
Latest Yield as of 9/30/2011



Source: Bloomberg

for lower rated credits diverge considerably from high grade bonds. In light of this, we continue to recommend bonds rated "A" or better for accounts purchasing individual taxable or tax-exempt securities.

Corporate

The investment grade corporate sector finished higher gaining 0.26% for the month, bringing year-to-date gains to 6.10%. Despite positive performance, spreads have widened due to concerns about Europe and the weakening domestic economy. Specifically, industrial sector bonds widened to 1.88% relative to similar maturity U.S. Treasuries, nearly 0.30% greater than spreads at the worst point of 2010 and consistent with averages from the weak growth period of 2000 to 2002, according to Barclays. Meanwhile, Moody's downgraded Bank of America and Wells Fargo on concerns that a government bailout has become less likely if lenders face a significant financial breakdown. The downgrade questions whether the largest banks will always be "too big to fail," a status confirmed in 2008 when they received government rescues to keep the financial system from collapsing. Lawmakers have since revised regulations to stave off a repeat of the bailouts and ordered regulators to set up a system for seizing and dismantling banks that flounder. Despite these concerns, corporate balance sheets are in much better shape than at any point going into a slow growth economy. Many strategists feel this sector may be the best place to invest for the rest of the year should the U.S. economy continue its slow growth trajectory.

High yield bonds retreated another 3.27% in September, adding to the losses in August and bringing year-to-date returns to -1.39%, as market participants fled riskier asset classes. The primary market remains muted against a backdrop of volatile secondary markets and soft demand. Going forward, strategists expect demand to wane, with mutual funds continuing to witness outflows from domestic and international investors.

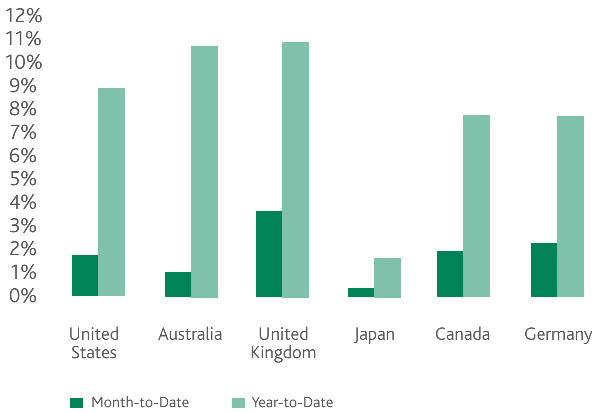
Municipals

This was supposed to be the worst year ever for municipal bonds. Instead, predictions of rising defaults failed to materialize, allowing the Barclays Municipal Bond index to rally for the sixth straight month, gaining 1.03%. Year-to-date gains have now reached 8.40%. Despite this rally in munis, the flight to U.S. Treasuries has pushed tax-exempt yields to their highest premium in more than two years, creating what many strategists feel could be a considerable buying opportunity. Attributable to the sharp rally in U.S. government debt, muni rates are now eclipsing yields on similar maturity Treasuries along the entire yield curve, according to Bloomberg. Strategists are again 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.

Municipal bond defaults declined to approximately $1.1 billion this year, 25% of last year's total, with local general obligation bonds accounting for only 1% of all 2011 failures. Banking analyst Meredith Whitney predicted in December the next 12 months would see "hundreds of billions of dollars" of defaults. While defaults have declined, state and local government revenues rose 6.9% in the second quarter, the largest increase since the same period in 2006 and the seventh straight quarter of growth, according to the U.S. Census Bureau. These higher revenues along with low municipal bond yields are encouraging issuers to borrow for capital projects. Because of this improving fiscal environment and attractive valuations, investors should continue to purchase intermediate-term, high-quality bonds.

Performance by Country

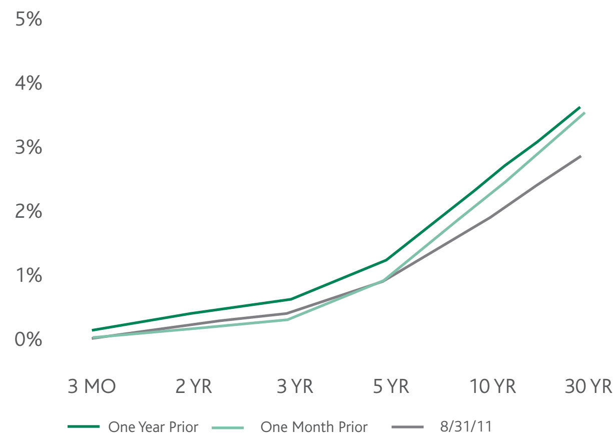
Unhedged Total Returns, September 2011



Source: Barclays Capital

U.S. Treasury Yield Curve

As of 9/30/11



Source: U.S. Department of Treasury

International

The Barclay's Global Treasury ex-US index lost 3.42% on an unhedged basis, but gained 0.80% on a local currency basis, consistent with a considerably stronger U.S. dollar against the euro and other currencies. Once again, the flight-to-quality rally extended to the international markets with safe-haven countries including Germany, France, Canada, the United Kingdom and Australia performing especially well in local currencies. Fears of a Greek default have escalated and raised concern the sovereign debt crisis may now spread to the region's banks. Adding to the gloom, European officials suggested the private sector, including banks, absorb 21% to 50% of the country's debt. After this report, Deutsche Bank said in a statement the company's earnings estimates for 2011 were no longer realistic, as the bank was forced to write down €250 million in Greek debt in the third quarter and €150 million in the second quarter.

In an attempt to relieve investor anxieties, the European Central Bank (ECB) is considering stimulus measures to cope with the region's sovereign debt crisis. These measures include reintroducing a lending facility by which banks can borrow low-rate loans for 12 months or longer, cutting interest rates as soon as October, and possibly purchasing eurozone bank debt. The ECB has already been buying government bonds and recently joined the Fed and other central banks to ease U.S. dollar funding stresses among European banks.

Meanwhile, Fitch downgraded Spain and Italy, the region's third and fourth biggest economies. Fitch cut Spain's rating to AA- from AA+ noting the deepest austerity measures in three decades have yet to convince investors the country can curtail the surge in its debt burden. Although the ratings cut was not unexpected, as Moody's and S&P have already downgraded Italy and placed Spain on "negative watch", the move reignited worries about the eurozone's debt crisis.

The impact of a stronger U.S. dollar

Concerns the U.S. is debasing its currency have failed to materialize as the U.S. dollar gained 6% in September, outperforming all 16 of its most-traded counterparts for the first time in three years. Gains for the world's reserve currency show investor confidence in the nation's creditworthiness even after S&P cut its rating on U.S. government debt two months ago. The dollar makes up 60.2% of the world's currency reserves, more than double the 26.7% position for the euro, the next largest holding. Hedge funds and other large speculators who held bets the dollar would weaken finally capitulated, buying to balance out short positions, according to Bloomberg. Investors also turned to the dollar after Switzerland and Japan intervened to stem gains in their currencies, with the Swiss National Bank announcing it would purchase "unlimited quantities" of foreign legal tender to prevent the franc from strengthening too far.

Unfortunately, a strong U.S. dollar can have a significant, negative effect on the results earned by international stock or bond funds. All else equal, the conversion of stock and bond prices from a local currency to the dollar will influence the return earned in the U.S. because it affects the value of securities when converting from one currency to another. Specifically, a strong currency makes securities in other countries less valuable when converted to the first currency. In other words, a decline in the value of foreign currencies relative to the U.S. dollar may reduce the unhedged value of securities denominated in those currencies. Should the dollar continue to strengthen, expect further weakness in international stock and bond funds and ETFs on an unhedged basis.

September stock weakness leads markets to their worst quarterly performance since 2008.

Total Return	Month	YTD
Dow Jones Industrial Average	-5.91%	-3.90%
S&P 500	-7.03%	-8.68%
NASDAQ Composite	-6.31%	-8.33%
S&P 100	-6.20%	-7.79%
S&P 400 MidCap	-10.59%	-13.02%
S&P 600 SmallCap	-10.29%	-13.79%
Russell 2000	-11.21%	-17.02%
MSCI EAFE	-9.50%	-14.62%

[1]Month and YTD total return ending of 9/30/11

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

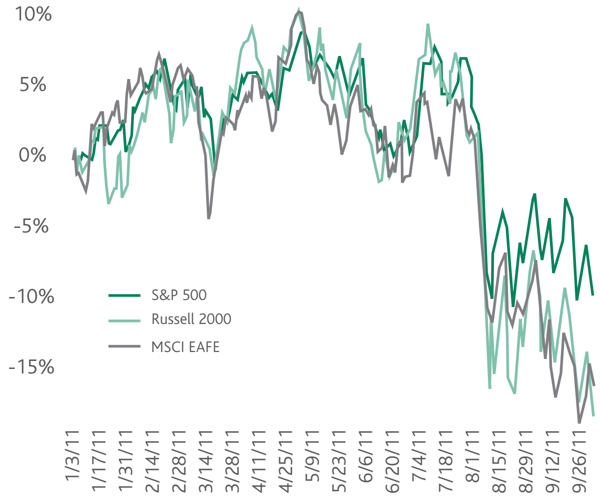
Amid few signs in Europe of progress toward avoiding Greek default, stock markets were weak worldwide for the fifth month in a row. Lack of positive news in the U.S. on the employment or housing front also weighed on investors' minds last month. Neither the announcement of President Obama's jobs plan nor the Fed's Operation Twist offered reasons for confidence in stocks.

The Dow Jones Industrial Average fell 5.9% on a total return basis in September. The broader S&P 500 index fell 7.0%, while the technology heavy NASDAQ Index declined 5.1%. The Russell 2000 Index of small capitalization companies dropped 11.2%. For the quarter, the DJIA (-11.5%), the S&P 500 (-13.9%) and the NASDAQ (-12.7%) all declined. The Dow turned negative on a year-to-date basis (-3.9%), but still exceeds the performance of the S&P 500 (-8.7%) and the NASDAQ (-8.3%) through September.

Shares of Netflix Inc. (NFLX) finished the month down 52% after the company lowered its quarterly subscriber forecasts on news it will split its DVD-rental and video streaming business into two distinct plans. Large cap banks were once again weak on concerns about the fallout from a possible Greek debt default. Bank of America (BAC) fell 25.1% and Morgan Stanley (MS) was down 22.8%. United Technologies (UTX) bid $127.50 a share in cash for Goodrich (GR), supplier of aerospace components, systems and services, allowing the stock to increase 35% for the month, the best in the S&P.

Equity Performance

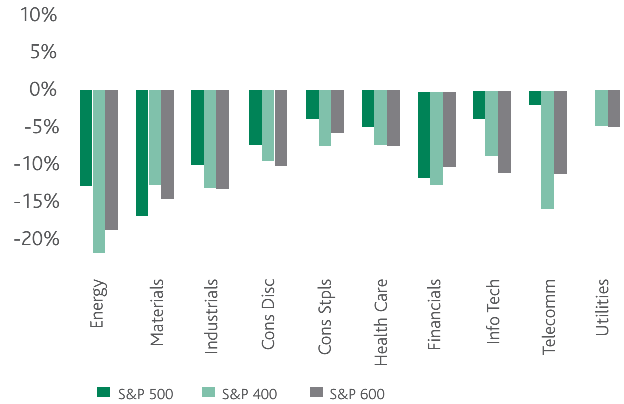
Year-to-Date Cumulative Price Return



Source: Yahoo! Finance

S&P Sector Performance by Market Capitalization

10/1/11



Source: Standard & Poor's

Domestic Equity

Materials (-16.4%), Energy (-12.6%) and Financials (-11.5%) had the worst total returns of the S&P 500 GICs sectors in September. Telecommunication Services fell only 1.2% while Utilities were flat for the month. Materials and Energy stocks were negatively impacted by large declines in commodity prices. Freeport-McMoRan Copper & Gold (FCX) and CF Industries (CF) both declined over 30% and US Steel (X) alongside AK Steel (AKS) fell more than 25% for the month. Verizon (VZ) increased 1.8% and AT&T (T) was flat, most likely due to investor interest in high dividend paying stocks. Year-to-date, Utilities (+10.6%), Consumer Staples (+3.4%) and Health Care (+2.5%) have had the highest total returns, while Financials (-25%), Materials (-21.8%) and Industrials (-14.7%) were the weakest sectors through the end of September. Several Utilities stocks reached 52-week highs in the last month of the quarter.

According to Russell Indices, large cap stocks outperformed mid and small cap stocks in September on a total return basis for the fourth month in a row. The Russell 1000 Index was down only 7.5% compared to declines of 9.6% for the Russell Midcap and 11.2% for the Russell 2000 Index of small cap companies. Growth performance relative to value was mixed across the market capitalization spectrum. In large cap, growth and value performed in-line. The Russell MidCap Value Index declined 9.2%, better than the 10% drop for the Russell MidCap Growth Index. The Russell 2000 Value Index fell slightly less than the Russell 2000 Growth Index, -10.9% versus -11.5%, respectively.

International Equity

International markets declined significantly more than domestic markets. The broad MSCI EAFE Index of developed markets declined 9.5% in U.S. dollar terms in the month of September. The index was led lower by Greece (-20.3%), France (-14.5%) and Germany (-11.8%). German and French banks were especially hard hit due to their exposure to Greek debt. Japan outperformed all major indices, falling only 1.6%, while the UK (-8.8%), Ireland (-8.5%) and Spain (-8.2%) also fell less than the Index. The International Monetary Fund (IMF) revised its GDP estimates slightly upwards for Japan from -0.7% to -0.5%. Japanese manufacturing confidence improved for a fifth straight month in September, according to a Reuters survey. Year-to-date the MSCI Index is down 14.6%.

The MSCI Emerging Markets Index declined 14.6% for the month. China (-16.8%), Russia (-21.9%) and Brazil (-18.4%) continued to be weak on general global recession fears. The purchasing manager surveys out of China showed Manufacturing PMI dropped to a two-month low, indicating a slowdown in the Chinese economy. Turkey (+3.5%), India (-6.5%), and the Philippines (-9.2%) all outperformed in September. Turkey was positive despite the fact that the IMF warned the country needs to raise interest rates to ward off inflation. Year-to-date the MSCI Emerging Markets Index declined 21.7% through the first three quarters of 2011.

Alternatives struggle at the end of the quarter.

Total Return	Month	YTD
Dow Jones UBS Commodity Index	-14.73%	-13.62%
Oil	-11.17%	-22.33%
Copper	-25.03%	-30.25%
Gold	-11.43%	13.67%
NAREIT- All REITS	-10.41%	-6.14%
NAREIT-Industrial/Office	-12.72%	-12.19%
NAREIT- Residential	-14.59%	2.38%
S&P Global Property Ex-U.S.	-6.83%	-3.68%
HFRI Emerging Markets Index	-5.03%	-4.91%
HFRI Fund Wtd Comp. Index	-2.97%	-1.93%
HFRI Equity Market Neutral	-1.28%	-0.17%
HFRI Event Driven	-3.67%	-0.86%
HFRI Market Defensive	-0.79%	-3.81%
HFRI Merger Arbitrage	-1.18%	0.58%
HFRI Short Bias	3.88%	-0.24%

[1]Month and YTD total return ending 9/30/11
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

September was a brutal month for commodities as most of the major indicators had double-digit declines and the Dow Jones UBS Index fell 14.73%. Real Estate Investment Trusts (REITs) were also hard hit, with the NARIET All REIT index and the NAREIT All Equity REIT index declining 10.41% and 10.97%, respectively. After dropping 3.4% in August, the average hedge fund dropped 3.7% for the month of September, closing out one of the worst quarters in industry history.

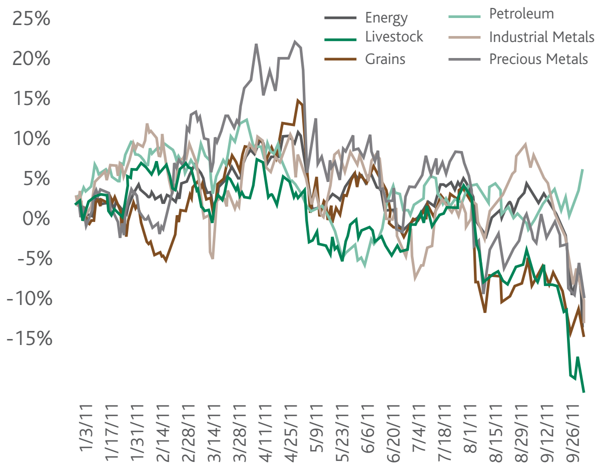
Commodities

Commodities took a major hit in September, falling to 14-month lows, with the U.S. commodity markets seeing outflows of $34 billion in the last two weeks of the month as big speculators retracted their bullish outlooks. The Dow Jones UBS Commodity Index fell nearly 15%; Agriculture, Grains and Industrial Metals each fell nearly 20%, fueling the slide for the index, while Energy and Precious Metals also posted losses in the double digits. This plunge in commodity prices was fueled by increased worry and speculation about the European financial situation. It seems the major powers involved cannot come to an agreement about the best course of action, which is sending reverberations of worry about the future of commodity prices through the markets. Many believe additional time will allow European banks to properly prepare for this situation, but, regardless of speculation, fear the demand for commodities may plunge if Europe does not solve this issue in a way that can protect banks and investors alike is prominent.

Continuing the trend from August, the S&P Volatility Index remained quite high – nearly at 2008/2009 levels – but then fell significantly towards the end of the month, signaling a potential settling of the equity markets. This fall was met with a predictable slump in gold prices, a fall of over 10% for the month, as investors begin to view equity markets as less risky, and, therefore, have less motivation to use gold as a safe haven investment.

Cumulative Return of Commodities

2011 Year-to-Date



Source: Dow Jones

REIT Sector Performance

Total Returns, September 2011

Source: NAREIT

Some analysts believe a significant fall in commodity prices will actually help kick-start growth in some areas, as settling levels mean more supply-and-demand driven prices rather than pure speculation; this would greatly help the consumer with regard to prices of basic goods.

Real Estate

Experts claim a slowing economy combined with low confidence and overstretched balance sheets threatens to impede the seemingly inevitable real estate recovery from the recession. In a recent report from REIT.com, the type of discretionary spending on which many REIT-owned properties depend is likely to be constrained for quite some time due to falling consumer confidence. For the month, the NARIET All REIT index declined 10.41% and is down 6.14% on the year. Coinciding with the volatility in the market, the FTSE NAREIT All Equity REIT Index, not surprisingly, dropped 10.97% for the month, down 6.05% on the year.

In terms of sectors, residential was the hardest hit, dropping nearly 15% in September, but still up 2.38% year-to-date. The Lodging/ Resorts sector continues to suffer the most from the weak economy, falling 7.20% for the month and down 33.71% year-to-date. Despite the negative performance, many experts believe this is an opportune time to invest in REITs, given low interest rates and a strong demand with tight supply. However, as noted in an article from The Wall Street Journal, REIT investing is complicated because the portfolios specialize in a variety of real estate properties, from hotels to corporate data centers. One way for investors to evaluate different portfolios is to compare lease periods for the properties they hold. When leases are short, cash flows change more quickly in response to economic conditions.

Hedge Funds

Hedge funds closed out one of their worst quarters ever – the average fund lost roughly 5% in Q3 – with one of their worst months ever. Many in the industry thought the storm had passed after three-year lows in August, but this was not the case. According to Hedge Fund Research, July, August and September now rank as the fourth worst quarters in industry history, trailing only Q3 and Q4 of 2008 and Q3 of 1998. The Dow Jones Credit Suisse Core Hedge Fund Index dropped 4.23% for the month, adding to the 2.88% loss from market volatility in August; the index is down 7.84% on the year. The HFRI Fund Weighted Composite Index slipped roughly 3% for the month, bringing it down 1.93% year-to-date. One of the few bright spots was the HFRI Short Bias index, which maintains consistent short exposure with the expectation of outperforming traditional equity managers in declining markets, up 3.88% in September, but still slightly in the red for the year. Hedge fund managers continue to be faced with erratic markets affected by fears regarding Europe's debt crisis, sluggish growth as well as high unemployment in the United States. In conversations with clients, an article from Bloomberg noted some managers complained that a sense of fear, with investors simply dumping stocks, hurt their performance during the month. Despite their overall poor performance, hedge funds still outperformed the S&P 500, which lost 5.92% in September.

Citizens Bank & Trust
Trust & Investment Division
222 State Road 60 East
Lake Wales, FL 33853
863.676.7631