The Swarthmore Group
Investment & Financial Advisors

The Swarthmore Group, Inc.
3rd Quarter 2011

The path remains treacherous for equity market participants these days. A lack of route markers and limited visibility has made navigation of the trail extremely challenging. During the third quarter there was simply very little ability to gain any solid foothold as the pathway deteriorated precipitously. September proved to be the most difficult month as equity prices could not find any firm ground, pushing the S&P 500 Index down -7.03% and the Russell 1000 Index off a greater -7.37%. These declines contributed to a plunge of -13.87% in the S&P 500 Index and a similarly painful -13.14% drop in the Russell 1000 Growth Index in the third quarter.

The predominant theme weighing on investors psyche is the ongoing drama plaguing Greece and other members of the European Union. The question as to whether Greece will be allowed to default and what the resultant impact will be on not only European financial institutions but global financial institutions has left investors wanting to be less exposed to equity markets. The threat of broader financial contagion leading to global economic stress and the potential for the US economy to fall back into recession has amplified the de-risking of investment positions. Further adding to investor distress is the uncertainty surrounding the deficit reduction deliberations and the seeming unwillingness of Congress and the Administration to act in a bipartisan manner to develop a solution to spending and tax reform and support jobs action. Consumer and business confidence is suffering from the Washington bad theater which has led to a slowing in investment and also sapped investor enthusiasm.

There is no doubt the global economy is on tenuous footing. Manufacturing has slowed around the globe with the Global PMI slipping below 50% in September. The US housing market remains depressed and shows no sign of near term acceleration as prices continue to weaken and demand is lacking despite low mortgage rates. The employment environment is not improving as many companies are still cutting jobs in an effort to better manage the cost structure while others are loath to hire given the uncertain business climate. Yet not all is bleak. While consumer confidence has certainly been damaged, consumer spending has not deteriorated significantly. However, the spending is being driven more at the tails than in the middle, the high end consumer continues to spend, while the middle to lower end are

The Swarthmore Group, Inc.
1717 Arch Street, Suite 3810 · Philadelphia, PA 19103
TEL: 215.557.9300 · FAX: 215.557.9305

searching for more bargains and moving downstream, while tailoring their discretionary spending. Lower energy prices should be a positive for the consumers' wallet as the fourth quarter unfolds. From a corporate perspective, a lack of wage pressure has supported margins, while balance sheets have benefited from low interest rates and an increase in cash, which is being increasingly utilized to boost dividends and share repurchase.

The volatility of the equity markets has made it difficult for investors to gain traction and the continued uncertainty of the economic and political environment is not likely to minimize the instability in the short term. The Swarthmore Group believes those companies with the ability to manage input costs, attract consumer spending and gain market share, and utilize cash to support and grow share buybacks and dividends are best poised to better perform given current market conditions.

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