

October 2010

GENERAL MARKET COMMENTARY

This year's stock market has confused both fundamental and technical investors, as the economy has been in uncharted waters with the Federal Reserve trying to keep the ship from running aground. Fed Reserve Chairman Ben Bernanke has come up with a new, untested, plan of action for the US economy with a second round of Quantitative Easing (QE2). Since they have lowered short term rates as low as possible, their next strategy is to attempt to lower long term rates, and drive real interest rates to negative levels (when the current interest rate minus the inflation rate is less than zero). This, in theory, will stimulate loan demand and discourage saving, and directly increase the supply of lendable reserves in the banking system. What will be the impact of an inflation rate higher than the current interest rates—a potentially dangerous situation? The impact will likely be the following scenario. First, corporations will buy raw materials with cheap money and profit from the raw material price appreciation even if no products are made. Secondly, hedge funds will borrow at low interest rates to purchase raw materials in an attempt to beat inflation on a highly leveraged basis. Thirdly, pension funds will buy raw material stocks in an attempt to beat inflation and close unfunded liability gaps. The economy and prices may begin an upward price spiral which could create the same kind of asset bubble that led to the financial crisis. As soon as the inflationary spiral becomes apparent, the bond market will be hammered with sizable losses, as money flows into inflation proof investments. This is all very bearish news for the US dollar. The Fed will be the biggest buyer of its own debt, which means it is now monetizing this debt and fostering inflation, which will continue to undercut the dollar.

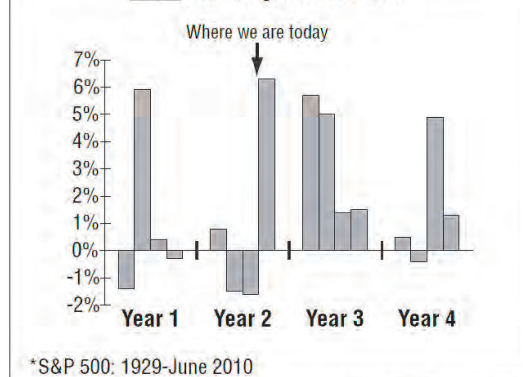
The economy continues to improve indicating higher stock prices ahead. Not only is the stock market well

established above its 200-day moving average, but the 50-day moving average has crossed above it as well, signaling a bull market scenario, and we are positioned accordingly. The bond market, which has rallied in a frenzy in the past several years, has reached an unrealistic "bubble" level, as money has avoided stocks for safety. The tide has begun to turn, and all the money in these low-yielding securities will begin to move into stocks as soon as the momentum shift becomes obvious. Additionally, there is a lot of money parked in bonds to fuel a continuing bull market in stocks.

Which stocks may benefit the most? We believe that if the inflation scenario comes into play, it will likely be natural resource stocks, income producing real estate, international emerging market stocks, and anything not directly tied to the US dollar.

When viewing quarter by quarter returns through the Four-year Election Cycle (smaller chart), the quarters just ending have suffered the two biggest losses of all 16 quarters, while the next three quarters, beginning this quarter, historically have provided three of the four biggest quarterly gains over the past 20 election cycles since 1929.

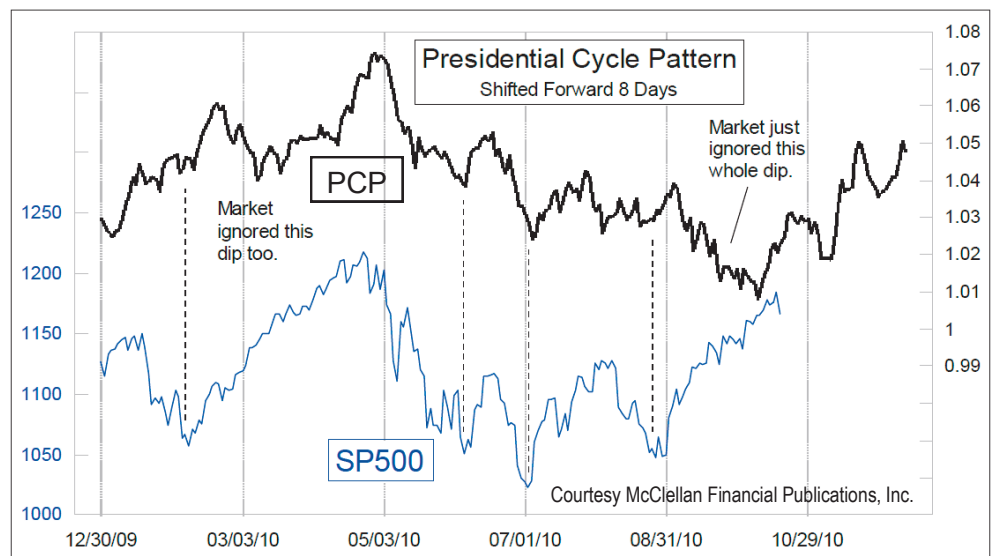
Presidential Election Cycle Gains*
Size of Qtrly Gain/Loss



InvesTech Research

PRESIDENTIAL CYCLE

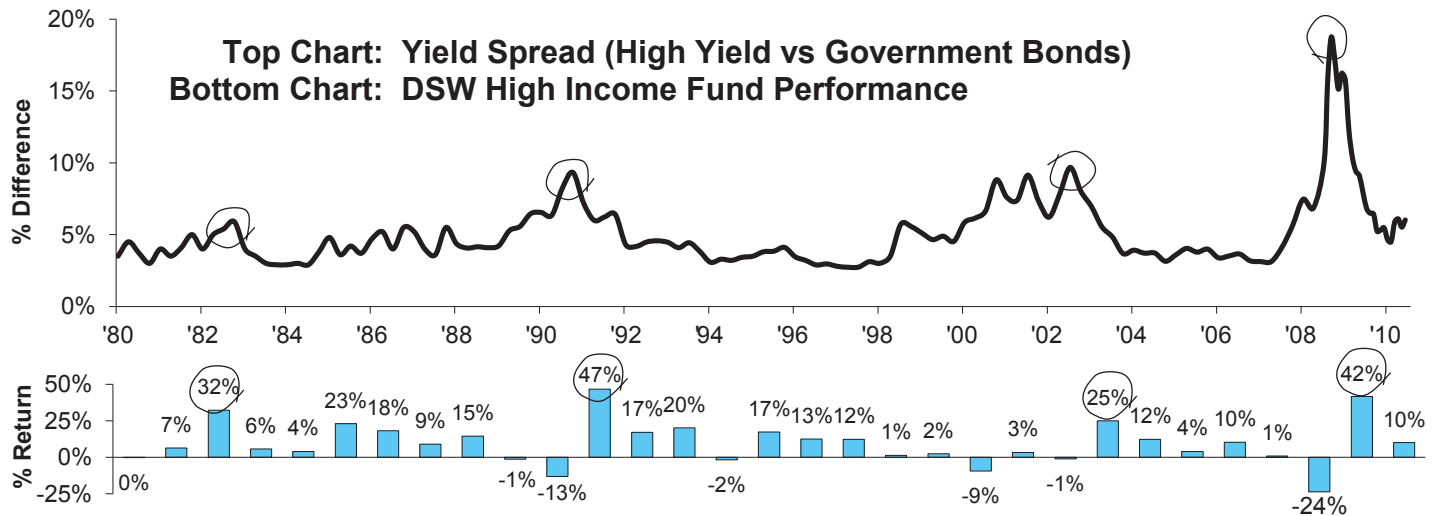
The chart to the right illustrates the Presidential Cycle Pattern (PCP) which is a graphic summary of the stock market price action in the four-year presidential cycle. As the chart illustrates, stocks may bottom with this November election and then rally very strongly into the end of this year. There is usually a dip right into elections as people are feeling insecure before the results, then a strong rally usually begins.



HIGH YIELD HISTORICAL SNAPSHOT

High yield bonds continued to provide profitable returns even after the recessions of 1983, 1991, 2002, and 2009.

This chart illustrates what happened since 1980 after the substantial gains in the year following a recession. We expect history will repeat with modest but steady gains from here as the current yield on high yield bonds is about 8%.



Annual return performance numbers for DWS High Income (KHYAX formerly Scudder-Kemper High Yield) were obtained from Bloomberg. The 2010 performance is year-to-date (9-23-2010). Dividends reinvested, sales loads not included. Past performance does not guarantee future results. A fund prospectus should be carefully read to evaluate the fund's objectives, risks, charges, and expenses before investing.

PERSONAL PERSPECTIVE by Ralph Doudera

Today I went to traffic court. Last week I filed my 2009 tax return. Next week I will vote in a very important election. Do I like to pay speeding tickets? Or Income Taxes? Or following governmental direction of someone who I don't respect or agree with? I need to have an attitude check as I evaluate my thinking. As usual, I check what my Owner's Instruction Manual has to say about my situation.

¹ Be a good citizen. All governments are under God. Insofar as there is peace and order, it's God's order. So live responsibly as a citizen. ² If you're irresponsible to the state, then you're irresponsible with God, and God will hold you responsible.

³ Duly constituted authorities are only a threat if you're trying to get by with something. Decent citizens should have nothing to fear. Do you want to be on good terms with the government? Be a responsible citizen and you'll get on just fine, ⁴ the government working to your advantage. But if you're breaking the rules right and left, watch out. The police aren't there just to be admired in their uniforms. God also has an interest in keeping order, and he

uses them to do it. ⁵ That's why you must live responsibly—not just to avoid punishment but also because it's the right way to live. ⁶ That's also why you pay taxes—so that an orderly way of life can be maintained. ⁷ Fulfill your obligations as a citizen. Pay your taxes, pay your bills, respect your leaders. Romans 13:1-7
The Message

Ouch. And what other responsibilities must I practice?

¹ The first thing I want you to do is pray. Pray every way you know how, for everyone you know. ² Pray especially for rulers and their governments to rule well so we can be quietly about our business of living simply, in humble contemplation. 1 Tim 2:1-2
The Message

Respect the authorities, whatever their level; ¹⁴ they are God's emissaries for keeping order. ¹⁶ Exercise your freedom by serving God, not by breaking the rules. ¹⁷ Treat everyone you meet with dignity.... Revere God. Respect the government. 1 Peter 2:13-17
The Message

I will need to refer to this message often.

"Steady plodding brings prosperity; hasty speculation brings poverty" (Proverbs 21:5, LB)

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