There's an old saying on Wall Street that "if you put 10 economists in a room, they'll likely emerge with 11 different opinions." Good-natured humor aside, it's no small feat that last month, the National Bureau for Economic Research (the official arbiter of recession dating) declared the recession retroactively over as of June 2009. In addition to this bit of good news, investors were also encouraged in the 3rd quarter by better-than-expected economic data, favorable corporate profit growth, and supportive policy statements from the Federal Reserve. All of this positive news added up to a strong quarter in which the S&P 500 rose 11.3% and recorded its best September performance since 1939, with an advance of 9%. Results were strong across market cap and style segments as all ten sectors moved higher, eight of which rose by 10% or more.

With the mid-term elections just around the corner, there is some understandable uncertainty surrounding trade, regulatory, and tax policies. The Bush-era tax cuts are set to expire at the end of the year, and politicians will have a relatively short amount of time to act. The consensus appears to be that the current tax framework will be extended for at least another year to help stimulate the economy, but we never want to overestimate the speed or intelligence of our nation's politicians! We want to assure you that we are closely monitoring these events and will react accordingly.

Despite what we view as a positive, long-term backdrop, it's unrealistic to suggest there won't be challenges ahead, both for global economies and for stock markets. And given the fragile market psychology, it's entirely possible that we'll see a market correction in the next 12 months. At the same time, it's our job to look at a broad range of credible points of view, not just those who shout the loudest or take the most extreme positions.

On the plus side, regardless of the election outcome, stocks have historically performed very well immediately after mid-term elections. We believe this is because the cloud of uncertainty is lifted, enabling investors to allocate money to the equity markets with more confidence. In all 17 midterms since 1942, the 200 days after the election have always produced a positive return, averaging over 18%. Certainly there's no guarantee we will see similar gains this year. For all we know, this could just be a strange coincidence. But, with all the anxiety surrounding the election, it strikes us as worth noting.

"The Lost Decade"

While we're looking back at history, we'd like to discuss the concept of the last ten years as a "Lost Decade" for equity investors. With a negative return of -9.1% for the S&P 500 between January 1st, 2000 and January 1st, 2010, there is absolutely an element of truth to this for some investors. However, this has not been the case for clients of Bowling Portfolio Management. Our Large Cap Core/Value clients have experienced meaningful positive returns in an era of negative returns for the S&P 500. We are very proud to point out that over this same time period, our Large Cap Core/Value Composite earned a cumulative return of 27%, net of all fees and expenses. We attribute this advantage to the hard work and dedication of our staff and our relentless pursuit of attractive opportunities across our investment universe.

We recognize that these returns, albeit positive, are below the historical average return of 8% to 10% per year for large cap stocks. Nonetheless, a positive return over the last ten years is decidedly preferable to a negative return over the same period. We also think this is a testimony to the fact that our active management can add value versus passive index approaches over a full market cycle.

As we look ahead to the next 10 years, we see brighter prospects for equity investors. This is because sub-par trailing 10-year returns tend to be followed by 10-year periods of outsized returns. A recent Barron's article pointed out that through the first half of this year, the trailing 10-year return for U.S. equities has only been this lackluster on six other occasions dating back to 1835. In those similar instances, the subsequent 10-year average return was a staggering 248%.

Eaton Vance conducted a similar study which also examined the rarity of last decade's difficulties and the possible implication for the next ten years. The study looked at 10-year monthly returns data going back to 1926 and found that out of 776 periods, there were only 29 times (or less than 4%) that a 10-year period generated negative returns. Their study also demonstrated that subsequent 10-year returns were quite fruitful, averaging 155% over the following decade, with a high of nearly 305% and a low of 100%. Thus, ten year periods of negative equity returns have never been followed by a subsequent ten year period of negative returns. We feel good about those odds.

It may seem counterintuitive, but such extraordinary rebounds in decade-long returns are possible because of the powerful pessimism that follows recessions. Prices are pushed downward due to investors' tendency to give up on the stock market. Unfortunately, this fight-or-flight mentality does not translate well to the investing world, and waiting for the "all-clear" sign is not a strategy that is rewarded in the Wall Street jungle. While our biological makeup predisposes us to focus on the short-term, we wanted to point out a few areas of optimism that could lead to outsized gains over the long-term.

The Road to Recovery

After suffering the worst profit decline in modern history during 2008, corporate earnings rebounded significantly over the past year. During the second quarter of 2010, the S&P 500 operating profits rose nearly 40% from a year earlier, handily beating expectations, with broad-based gains across all 10 sectors. As a result, after-tax profits surpassed pre-recession levels and reached an all-time high.

The strong rebound has taken many Wall Street analysts by surprise. As of October 25th, a third of all companies in the S&P 500 had reported their second quarter earnings. An astounding 85% of these companies beat analyst expectations. This compares to an average "beat rate" of 63% since 1999. This marks the 5th consecutive quarter in which earnings exceeded expectations, and if this mark holds through the end of the reporting season, it will be the highest reading in over a decade.

With profits rebounding, strong cash flows have filled corporate coffers and restored the health of corporate balance sheets. At the current level of $1 trillion, this is equal to nearly 10% of the total market capitalization of the entire S&P 500. This is the highest level in more than four decades and represents a 26% increase from the previous year. Elevated cash levels are a positive for equity investors because they provide plenty of fuel for mergers and acquisitions. A number of large, high-profile mergers have been announced in recent months, with the value of global merger and acquisition activity in August 2010 hitting its highest level in two years. A growing cash hoard also increases the likelihood that shareholders will benefit from increases in dividends or from share buybacks.

On the economic front, employment is beginning to improve, housing appears to be bottoming, and consumer spending is growing at about a 3% annualized pace. Meanwhile, capital spending and inventories have reverted to normal levels. Pessimists will point to mixed economic signals and counter that the economy still has many challenges to face. However, the mere existence of mixed economic signals is not a sufficient reason for outright pessimism. There are always mixed economic signals to be found, even during the most booming of times.

While most economic reports are backward looking, we would rather focus on where we are headed rather than where we have been. Examining the leading economic indicators is one of the best ways to do this. Seven of the ten indicators have risen on a month-over-month basis, marking the most broad-based monthly increase since March. Since 1959, every recession in the United States has occurred when three or fewer indicators were rising on a one month basis. Clearly, the current levels are comfortably above these recessionary thresholds. This does not strike us as an environment in which a "double-dip" recession is imminent. While the recovery may feel like a sluggish one, it's actually ahead of schedule when compared to other recessions triggered by a financial crisis. Typically, recessions of this type take 5.5 quarters to return to their previous output levels, and average a growth rate of 2.2% in their first year. By comparison, our current recovery is 5 quarters old and averaging a growth rate of 3%.

One of the major reasons for the economic recovery is due to the extraordinary support from the Federal Reserve. The Fed has provided a very favorable monetary backdrop for the economy (and stocks) by keeping rates at historically low levels. Many critics have decried the Fed's decisions, calling them either too strong or too weak. This has caused a paradoxical mix of hyperinflation and hyperdeflation fears amongst investors, but thus far both economic bogeymen have proved to be little more than shadows in the dark. Investors have become conditioned to believe that extreme events are likely when, in fact, they are not probable. In August, the consumer price index (CPI) and core CPI (excluding food and energy) were just 1.2% and 1% respectively, on a year-over-year basis. Levels such as these are actually ideal for equity investors. Since 1926, there have been 74 quarters in which inflation ran between 0.1% and 2%, and the average 12-month return during such periods was over 15%!

It is an oft-repeated misnomer that stocks can only perform well in periods of little to no inflation, but this is simply not true. Stocks have averaged positive returns in both deflationary and inflationary environments, ranging from deflation of 2.4% all the way to inflation of over 12%. The only true enemy of stocks is extreme deflation, defined as deflation of more than 2.5%. This is the only environment in which stocks have not averaged positive returns, and it has only happened 16 times in the last 338 quarters since 1926, or less than 5% of the time.

Fortunately, the Fed has pledged to fight deflation vigorously. One of the cardinal rules of investing is "Don't Fight the Fed." The Fed controls the printing press and, as a result, it can provide as much liquidity as necessary to promote economic growth. Even though banks have been reluctant to lend thus far, the Fed can bury banks in cash through one of its tools known as quantitative easing ("QE"). In November, the Fed is expected to announce its intention to make use of this tool. QE occurs when the Fed purchases Treasury bonds from bank portfolios. This leaves banks with massive amounts of cash on their balance sheets. Banks can't hold cash earning zero percent interest forever. In time, they will be forced to make new loans and the resulting cheap and abundant credit should promote economic growth. Typically QE causes asset prices (such as stocks, houses, etc.) to go up, and causes mortgage rates and other long-term borrowing costs to go down. This, in turn, stimulates the economy and helps suppress deflation.

Since the timing and the amount of the QE is unknown, we have no way of evaluating what is already baked into the market. When the final announcement is made, there may be market volatility in the short-term, but we believe the long-term benefits outweigh any short-term reaction.

Valuations

Because of higher profits and growing cash hoards, valuations are still fairly attractive for large-cap stocks. The trailing price to earnings (P/E) multiple is a common metric used to value stocks and has declined from a prior peak of 26.7x in 2009 to 16.4x in 2010. This level has historically been strong for stocks. Since 1926, when P/E ratios ranged from 14x-17x, the average 2-year forward returns have been 23%.

P/E levels look even better when considered in the context of current low levels of inflation. When inflation is tame, investors are willing to pay more for each dollar of earnings and thus a higher P/E ratio can be ascribed to stocks. For example, since 1948, the P/E ratio has averaged 22x when inflation rates have been below 2% (as they are now.) If that relationship holds, stocks would need to rise 25% before reaching their average historical P/E levels matching the current inflation rate.

BOWLING PORTFOLIO MANAGEMENT LLC 4030 SMITH ROAD SUITE 140 CINCINNATI, OH 45209
(513) 871-7776 WWW.BOWLINGPM.COM

This report is provided for informational purposes only and should not be construed as a recommendation for the purchase or sale of any security nor should it be construed as a recommendation of any investment strategy. There is no guarantee that any opinion, forecast, estimate or objective will be achieved. Certain information has been obtained from sources that we believe to be reliable: however, we do not guarantee the accuracy or completeness of such information. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions.

***Bowling's composite performance results for the Large Cap Core Value Strategy include actual total returns for all non-wrap and fully discretionary accounts in this strategy above $50,000. Prior to 2002, the composite also included wrap accounts. These gross-of-fee composite returns are calculated on an asset-weighted basis and include transaction costs and the reinvestment of dividends and income. The S&P 500 and Russell 1000 Value are unmanaged asset-weighted indices of large U.S. based companies which includes income but do not include expenses. Past Performance is not a guarantee of future results. Bowling Portfolio Management LLC claims compliance with the Global Investment Performance Standards (GIPS). Performance is expressed in US Dollars. For additional information, contact Bowling Portfolio Management LLC at 513-871-7776.**

BOWLING PORTFOLIO MANAGEMENT LLC
LARGE CAP CORE VALUE COMPOSITE
ANNUAL DISCLOSURE PRESENTATION

Year	Gross Of Fee Return	Net Of Fee Return	S&P 500 Index	Number of Portfolios	Annual Composite Dispersion	Composite Assets End of Period ($Millions)	Percent of Firm Assets
2001	-1.99	-3.13	-11.88	610	3.46	314.0	82.3
2002	-20.37	-21.28	-22.10	458	1.89	183.7	66.5
2003	27.83	26.54	28.68	343	1.38	202.9	66.1
2004	19.05	17.85	10.88	398	1.37	233.4	75.6
2005	15.01	13.88	4.91	472	1.14	311.1	78.1
2006	15.85	14.79	15.79	541	1.12	392.3	75.0
2007	12.72	11.70	5.49	613	1.20	460.7	75.7
2008	-38.36	-38.95	-37.00	528	1.08	242.0	65.4
2009	27.67	26.51	26.46	500	1.05	279.3	69.3
2010	13.54	12.55	15.06	469	0.31	285.1	70.2
Cumulative *	1,632.27%	1224.45%	755.72%				
Annualized *	13.20%	11.89%	9.78%				

* Cumulative and annualized performance is calculated since inception (01/01/88) through 12/31/10.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Bowling Portfolio Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Bowling Portfolio Management LLC has been independently verified for the periods January 1, 2006 through March 31, 2011 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte & Touche, LLP.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Large Cap Core Value composite has been examined for the periods January 1, 2006 through March 31, 2011 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte and Touche, LLP. The verification and performance examination reports are available upon request.

1. Bowling Portfolio Management LLC ("Firm") is an investment management firm serving both tax-exempt and taxable clients, offering a variety of investment management strategies. The Firm is an SEC-registered investment adviser and is dedicated to the practice of professional investment management. Bowling Portfolio Management, Inc. was founded in 1982 and began managing equity accounts January 1, 1988. Effective July 1, 2001, Bowling Portfolio Management, Inc., became Bowling Portfolio Management, an independently operated division of The Renaissance Group LLC ("Renaissance"). Effective December 31, 2004, Bowling became a stand-alone entity and was no longer a division of Renaissance. The composite of Large Cap Core Value portfolios was created July 1, 1994.
2. The Large Cap Core Value Composite includes the portfolios of all clients, whether taxable or tax-exempt, for which the Firm has full discretionary authority to manage in a diversified portfolio of large cap equities. Portfolios below $50,000 are excluded from the composite.
3. Performance results are calculated both gross and net of management fees. Gross returns include the reinvestment of income and are gross of the firm's management fees; they are reduced by transaction costs and administration fees. Net returns reflect the deduction of all fees and transactions costs. Beginning January 1, 2004 the composite contained bundled fee accounts which pay a fee based on a percentage of assets. This fee solely includes brokerage commissions. The percentage of composite market value of these bundled fee accounts at the end of each period is as follows: 2004: 19%, 2005: 8%, 2006: 2%, 2007:2%, 2008:2%. Beginning July 1, 2009, all fully discretionary, large cap equity accounts participating in a wrap or bundled fee program were removed from the composite. Additional information regarding policies for calculating and reporting returns is available upon request. The fee schedule is as follows: 2% of the first $500,000, 1% of the amount above $500,000, and a flat 1% on all accounts above $1,000,000. Varying terms may be negotiated. Performance is expressed in U.S. Dollars. After-tax results will vary from the returns presented here for those portfolios that are subject to taxation.
4. Annual composite dispersion is calculated using the asset-weighted standard deviation of gross results for those accounts in the composite for the entire year.
5. The benchmark for the Firm's Large Cap Core Value Strategy is the Standard & Poor's 500 Index which is an asset-weighted index of large U.S. based companies that includes income but does not have any expenses. Prior to September 30, 2005, presentations included the Standard & Poor's 500/Barra Value and the Standard and Poor's 500 indices. The Standard & Poor's 500/Barra Value is no longer included in the presentation as the index is no longer available.
6. A complete list and description of the Firm's composites is available upon request. From January 1,2005 through January 1, 2008, the composite was named the Large Cap Equity Composite. Prior to January 1, 2005, the composite was named the Large Cap Value Composite.
7. For all periods presented, the composite contains non-fee paying accounts. The percentage of composite market value of these non-fee paying accounts is less than 1% at the end of each period listed, 2001 through 2010.
8. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.