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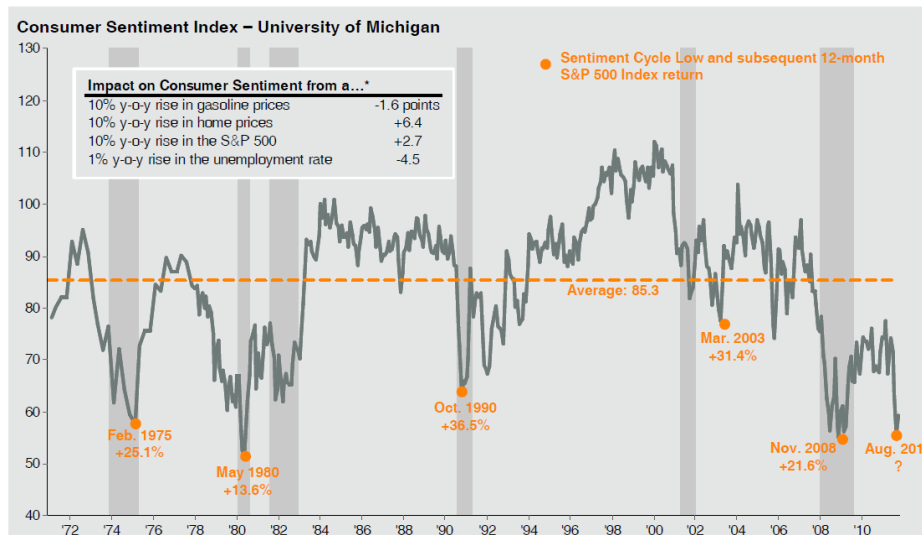
FINANCIAL MANAGEMENT, INC.

Turning Up The Dimmer Switch

As I sit to compose this quarter's overview, I find that it would be very easy to dwell on the events of the past quarter. With the fodder of the last three months (including the debt ceiling debacle, the downgrade of U.S. credit quality, Euro debt concerns, a continued decline in consumer confidence, and a precipitous drop in our presidential approval rating) it is tempting to launch a full time career as a comedian...I'd never run out of material. Indeed, if looking backward was our only guide, then going forward with the philosophy that the mattress was the only good place for money might be justifiable.

However, I'm going to try to resist the temptation to rant about the events of the past quarter and focus instead on what we see as a burgeoning opportunity in the US and global economies. We believe that we are in the early stages of an economic recovery. Now appears to be the time to re-evaluate your investment strategy and begin to consider growth-oriented alternatives to the proverbial mattress. In general, we believe the long term opportunity in global equities (while not without risk) is worth exploring. As economic indicators continue to be mixed, we suggest "Turning up the dimmer switch" or gradually increasing equity exposure over the coming quarters in a manner consistent with your objectives.

First, I want to touch on a bit of "bad" news. In previous issues, we have talked about the Consumer Sentiment Index and how low it is. Since last quarter, we have seen yet another decline...essentially moving



Source: University of Michigan, FactSet, J.P. Morgan Asset Management.

either. As noted on the chart, in orange, below each low point of the index is the subsequent 12-month return from the cycle low of the S&P 500. While we have no way of telling if August was the low for this cycle, the historical returns following such lows certainly pique my interest.*

* past performance is no guarantee of future results

this index from "very gloomy" to "very gloomier". While a move such as this doesn't necessarily portend an immediate turn around, the upside is that research shows consumer behavior doesn't actually change much between the gloomy and gloomier levels. In fact, while the economy does not appear much better than three months ago, it does not appear to be worse

Money Supply Component	\$ Billions	Weight in Money Supply
M2-M1	7,436	76.3%
Retail MMMFs	716	7.3%
Savings deposits	5,910	60.7%
Small time deposits	810	8.3%
Institutional MMMFs	1,709	17.5%
Cash in IRA & Keogh accounts	597	6.1%
Total	9,743	100.0%

Source: Federal Reserve, St. Louis Fed, Bankrate.com, J.P. Morgan Asset Management.

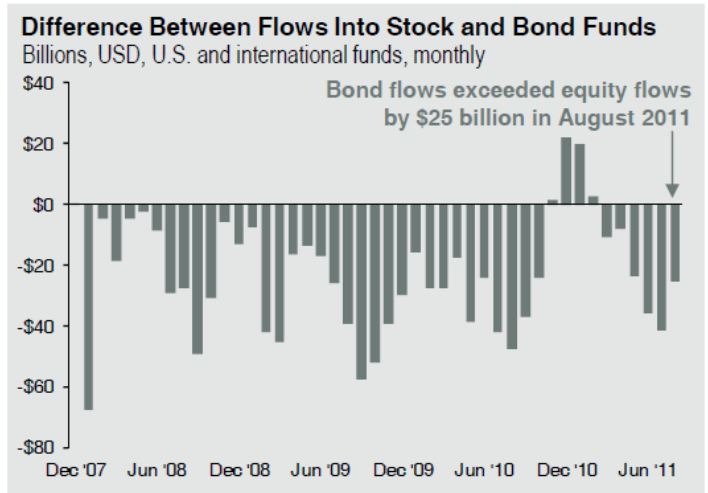
If you have been stuffing your cash in a mattress during the past year, you are certainly not alone. Indeed, the money supply component (or “cash on the sidelines”) has continued to grow and as illustrated in the table to the left, now exceeds \$9.7 Trillion. At the same time, interest rates on money market funds and cash alternatives have dropped to zero, with large depositors actually having to pay banks to hold cash deposits. Further, bond yields on the 10-year treasury have dropped to 1.92% in September, while core inflation crossed over the 2% threshold. This means that bond investors are actually losing purchasing power by investing in money markets and government bonds. At the same time, equity valuations (by many measures) are well below historical averages, indicating the value is in stocks, not bonds. So, how are investors reacting to this bit of news? They are pouring more and more money into bond investments. As shown in the chart at the bottom, every month since December of last year, investors have poured over \$25 billion more into bond funds rather than stocks. Look again at one of the valuation measures in the S&P table below: See the “Dividend Yield” number of the S&P? Currently, that dividend yield

S&P 500 Index: Valuation Measures		Historical Averages					
Valuation Measure	Description	Latest	1-year ago	3-year avg.	5-year avg.	10-year avg.	15-year avg.
P/E	Price to Earnings	10.6x	12.4x	12.9x	13.4x	15.0x	17.0x
P/B	Price to Book	1.9	2.0	2.1	2.3	2.6	3.1
P/CF	Price to Cash Flow	7.3	8.2	8.1	8.9	10.2	11.1
P/S	Price to Sales	1.0	1.1	1.1	1.2	1.3	1.5
PEG	Price/Earnings to Growth	0.8	0.6	1.1	1.2	1.2	1.2
Div. Yield	Dividend Yield	2.5%	2.1%	2.3%	2.2%	2.0%	1.9%

Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.

is 30% higher than the 10 year Treasury bond yield, without accounting for any potential return in stock prices. To me, increasing exposure to equities in this environment and in particular dividend paying equities seems logical. Perhaps the fact that the masses are doing just the opposite is the confirmation I need to be more confident.

It is important to note that increasing equity allocations at any time may lead to an increase in volatility and therefore, isn't for everyone. This should only be done as part of a comprehensive, integrated portfolio design. Further, not all advisors think like we do. In fact, on October 16th, the global investment committee of Morgan Stanley Smith Barney published what they are referring to as their “most significant change” in two years to their asset allocation and are “moving decisively from bullish to bearish”...exactly the opposite of what we suggest. You can read their recent report on their website at MSSB.com, or [click here](#) for their view. Personally, after the sharp drops of the global equity markets this summer, I think they are a little late on this call. The point being, there is obviously a difference in opinion among experts today and prudent portfolio design undertaken with your specific needs in mind is critical to assure that your investments are aligned with your personal goals.



Source: Investment Company Institute, J.P. Morgan Asset Management.

Cascade in the community:

At Cascade, our core values include being an active contributor within the communities in which we live and work. As many of you know, Cascade's office in Springfield Missouri has recently become home to a new charitable organization, Champions Committed to Kids (CC2K). The program partners chronically ill children with sports teams in: high school, college, and even semi-pro sports. The child becomes an official team member, sits on the bench with the team during home games and participates over the course of a season to the best of his or her abilities. Our advisor, Dan Scott, has taken a leadership role in the organization and has graciously provided office space and support while this fledgling organization gets off the ground. This week, Cascade was proud to be involved in bringing the efforts of Champions Committed to Kids to Denver and announced our partnership with Children's Hospital and the University of Denver in placing our first three kids with DU teams. Surprisingly, the most challenging issue the organization faces is not funding but finding families and children who are interested in participating in the program. Privacy restrictions make direct contact with the families impossible and we rely on word of mouth and professional care-givers to chronically ill children to inform the families about and encourage them to contact CC2K . We appreciate any help each of you might provide in spreading the word. This: [short video](#) does a good job in telling the organization's story.

Enjoy the upcoming holiday season!