

Third Quarter Market Review

by Steve Gilbertson

In investing for retirement, it is essential to keep a long-term time horizon in mind, recognizing that short-term fluctuations in portfolio value are inherent when investing in securities. For those interested in tracking these short-term fluctuations and their causes, below is given a brief market summary for Third Quarter, 2004. Keep in mind when looking at this data that past performance is not indicative of future results.

As a result of economic uncertainty caused by factors such as rising oil prices and the upcoming Presidential election, investors remained cautious for much of the quarter, causing a slight downturn in domestic equity markets. All major domestic equity indexes were down for the quarter, with the S & P 500 Index (large-cap stocks) down 2.30%, the S & P 400 index (mid-cap stocks) down 2.39%, and the Russell 2000 (small-cap stocks) down 2.85%.

Due largely in part to the strengthening of foreign currency relative to the U.S. dollar, international equities outperformed domestic equities, with the MSCI-EAFE Equity Index (international stocks) relatively flat (-0.23%) for the quarter.

The debt securities market was much stronger, with the Lehman Brothers Government/Corporate Index (core bonds) up 3.56% and the Lehman Brothers Government Index (government bonds) up 2.25%. These positive returns can likely be attributed to investor pessimism earlier in the year regarding interest rate increases. While the Federal Reserve has raised interest rates, it has not done so at the aggressive pace many had expected, resulting in significant gains in the debt market.

To illustrate performance results for the securities markets, we have set-up three hypothetical portfolios: 1) Aggressive Portfolio, 2) Moderate Portfolio, and 3) Conservative Portfolio. These should not be construed as "recommended" portfolios, but rather simply as a means of illustrating market performance over historical periods. The portfolio weightings used are as follows:

<i>Aggressive</i>	
Large Cap	50%
Mid Cap	20%
Small Cap	20%
International	10%

<i>Moderate</i>	
Large Cap	40%
Mid Cap	10%
Small Cap	10%
International	10%
Fixed	20%
Government	10%

<i>Conservative</i>	
Large Cap	40%
Fixed	30%
Government	25%
Cash	5%

Below are given the performance returns of these portfolios as of the end of Third Quarter, 2004. Note that for the quarter, Conservative Portfolio outperformed both the Moderate Portfolio and the Aggressive Portfolio. This can be attributed to its more substantial weightings in debt securities, which outperformed equities over the three-month time horizon.

Performance Returns as of 9.30.04

	1 Month	3 Month	1 Year	3 Year	5 Year
Aggressive	2.25%	-2.22%	15.21%	7.07%	1.90%
Moderate	1.47%	-0.53%	11.37%	6.08%	3.50%
Conservative	0.50%	0.72%	6.27%	4.01%	2.97%

*Benchmark Indexes used are as follows: **Large-Cap stocks** – S & P 500 Index, **Mid-Cap Stocks** – S & P 400 Index, **Small-Cap Stocks** – Russell 2000 Index, **International stocks** – MSCI-EAFE Equity Index, **Broad Fixed Income** – LB Government/Corp. Bond Index, **Government Bonds** – LB Intermediate Government Bond Index, **Cash/Cash Equivalents** – 30 Day Money Market Index

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