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DEAR FRIENDS,

- Equities continue strong for the month and year to date
- The Fed continues with QE3, aimed at shrinking the long end of the yield curve
- World economic growth estimates continue to compress for the next few years

September showed a relatively orderly ascent in the equity markets, along with significant liquidity initially caused by another round of quantitative easing. Large Cap equity indexes pushed ahead of the NASDAQ for the month, however still trail for YTD gains. Bonds continue to become more expensive as long end yields are shrinking. Liquidity continues strong in the bond markets, as many still sit on the sidelines for equities. Flows into the bond markets shrunk as equities continued with another positive performance.

Index [1]	Sept'12	2012 YTD
S&P 500	2.43%	14.52 %
Dow	2.64%	9.95 %
NASDAQ	1.73%	17.28 %
S&P 400 Mid Cap	1.8%	12.52 %
Russell 2000	2.99%	11.66 %
MSCI EAFE (Intl)	2.87%	4.87 %

Commodity price [2]	9/28/12	1/1/12	1/1/11	1/1/10	1/1/09
Crude oil	$92.06	$98.98	$73.71	$79.74	$95.98
Gold	$1771.2	$1566.30	$1066.42	$1097.48	$833.52

* Past performance is no guarantee of future results.

Christopher J. Mason
President | Chief Investment Officer

7760 France Avenue South, 11th Floor
Bloomington, MN 55435
Tel 952-715-4926
Fax 952-715-4927
Chris.Mason@fontiswm.com
www.fontiswm.com

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We are just not seeing enough growth in GDP at this point to drive any significant job or earnings growth.

US economic releases generally showed an expanding economy, with the all-important initial jobless claims numbers leading the way. Claims for unemployment benefits dropped to a four year low of 339,000. There has been a downward trend in claims for the past year. So the number of people losing their jobs has been shrinking. The next step out of the recession is to have jobs grow at a greater rate than they have recently. **We are just not seeing enough growth in GDP at this point to drive any significant job or earnings growth.** The pace at which new jobs are being created is just enough to keep up with population growth.

House foreclosures and short sales of mortgages (people walking from the mortgage and the bank taking a write-off) has also leveled off. New and existing home sales grew again on a year over year basis. Sentiment among new home builders is cautiously optimistic for the next 12-18 months. Lending continues to be tight, with refinancing of existing mortgages leading the way. Fannie and Freddie have dropped the requirement for formal appraisals, which has allowed more to take advantage of extremely low rates. We are now seeing 15 year fixed mortgages slightly below 3%, and 30 year fixed rates in the high 3% range.

We are starting to get nervous about the US equity markets. **YTD equity gains have outpaced the fundamental economy supporting them. We don't believe we are at extreme levels, just starting to get there.** The world economic releases point to a shrinking world economy in 2013 and 2014. The austerity programs in Europe are a long way from being over, which adds stress to the overall world outlook. We believe US equity markets continue to be the most attractive in the world, however prices have increased significantly thus far in 2012.

Much to our surprise and desire, the Fed instituted plans for another round of quantitative easing. In the last edition of the ReCap, we detailed of why it was important not to continue this policy. In short, the Fed lost more credibility with the timing of the Presidential election. The program is a very expensive way to create jobs and Europe's version was helping the USD. Our models have been readjusted to include the effects of QE3.

In summary, markets are continuing with reasonable volumes, very little outliers and volatility. We are keeping our eyes on advancing equity prices, particularly in sight of upcoming elections.