The Markets:
3rd QUARTER
2012

Market Commentary by
The Archer Funds

Family Values.
Focused Investing.

www.TheArcherFunds.com

3rd Quarter 2012

Stocks moved higher during the third quarter as investors generally cheered policymakers' actions around the globe. The Standard & Poor's 500 index (S&P 500) posted a total return of 6.35% during the quarter and has returned over 16% to investors through the first three quarters of the year. European stocks outperformed the U.S. with the DJ Euro Stoxx index surging over 8% as the European Central Bank (ECB) sought to assuage the fears of an imminent collapse of the European Union. To say that the quarter was "macro driven" is an understatement. The S&P 500 rose by 78 points during the quarter, but stripping away the five days surrounding ECB and Federal Reserve (FED) announcements, the index was relatively unchanged. The ECB made clear to investors that they are willing to do whatever it takes to keep the eurozone together. Our own central bank, the FED, followed suit by announcing a new, open-ended round of so-called quantitative easing in an effort to further reduce mortgage rates and spur employment growth.

The rising tide lifted nearly all sectors as energy, materials and financial services led the way higher. Traditionally defensive sectors such as utilities and consumer staples moved slightly higher, but underperformed as investors took their cues from policymakers and added risk to their portfolios.

The economic picture remains cloudy. GDP growth continues to disappoint, unemployment remains stubbornly high and a number of companies dialed back their growth expectations as the quarter came to a close. However, some rays of hope have emerged as it appears that the domestic housing market is gaining more stable footing every day. Individuals and corporations have continued to improve their balance sheets and liquidity in the marketplace is plentiful.

In the bond markets, like the stock markets, higher risk securities outperformed. The benchmark 10-year U.S. Treasury was relatively unchanged and closed the quarter yielding approximately 1.65%. Emerging market bonds were the best performers followed closely by high-yield and long-term, corporate bonds. Mortgage backed bonds also held their own as the FED assured the market that there would be no shortage of buyers for the foreseeable future.

We remain cautiously optimistic about the markets in general. The U.S. economy continues to recover, albeit at a painfully slow pace and, as discussed above, it appears that policymakers will maintain their accommodative positions for the foreseeable future. Earnings season begins shortly and expectations have been meaningfully dialed back leaving room for potential upside surprises. The impending elections, the well publicized fiscal cliff, and the situation in Europe will likely continue to add to volatility until the resolution of each becomes clearer. Reasonable stock valuations, extremely accommodative monetary policy around the globe and relatively balanced sentiment are supportive.

As investors with a long term focus, we continue to invest in companies with sound balance sheets, strong cash flow, attractive business outlooks and inexpensive valuations. Within the fixed income markets we remain selective and take advantage of opportunities when they present themselves by focusing on both the return *of* and the return *on* principal. Based on current valuations, we continue to view equities as relatively more attractive than bonds for a long-term investor, but we believe it is prudent for investors to take a balanced approach given the uncertain climate.

We welcome your comments or questions and thank you for your continued confidence.

The Archer Funds
Steven C. Demas
Troy C. Patton CPA/ABV
John W. Rosebrough CFA
Portfolio Managers