



Third Quarter 2010

Market & Economic Conditions

Major Indices	3Q 2010 Returns
S&P 500	11.3%
Dow Jones	11.1%
NASDAQ	15.1%
Russell 1000-Growth	13.0%
Russell 1000-Value	10.1%
Russell 2000	11.3%
MSCI EAFE	16.5%
BarCap Aggregate	2.5%
BarCap 2% Issue Constrained High Yield	6.6%

At the close of the second quarter of 2010, the then 14-month old equity recovery had been noticeably bruised in a sharp decline during May and June. Equities regained their footing after the Fourth of July holiday and rallied through the rest of the month. August was met with a fair amount of consolidation and retracement as economic news soured to some extent. However, when September arrived, investors flooded back into risky assets and sent stocks sharply higher through the close of the quarter.

Despite the strong equity results, the economic landscape in the US and abroad remains uncertain and the recovery fragile. While corporations appear fairly healthy and earnings expectations have returned close to 2007 highs, companies remain reluctant to begin hiring at a meaningful rate. Joblessness remains at multi-year highs and new jobs are being created at a rate that is struggling to just keep up with labor force growth, let alone begin chipping away at the 10% unemployment rate.

Within the U.S. equity markets, results were strong across the board. Style results varied more than capitalization as growth eclipsed value (Russell 1000 Growth: +13.0%, Russell 1000 Value: +10.1%). From a capitalization perspective, midcap issues performed best while large and small were roughly equal (S&P Midcap 400: +13.1%, S&P 500: +11.3%, Russell 2000: +11.3%). Within the GICS classification of the S&P 500, Materials stocks performed best with a rise of more than 17% while Financials were the laggards at a 4% return.

Foreign equity markets also rose after their second quarter retreat. In addition to strong equity market results overseas, most currencies rose versus the dollar thereby adding to non-U.S. equity results for U.S. investors. The MSCI EAFE rose 7% in local currency terms but topped 16% in US dollars. Norway (+29.4%) posted the strongest performance within the developed world while Ireland (-3.5%) continued to struggle under the weight of its debt woes. Emerging markets topped all other equity results (MSCI Emerging Markets: +18.2%). Poland's 35% rise led the emerging markets while Morocco's market rose just 8%.

To round out equity performance, securitized real estate performed just slightly ahead of the broad US equity markets. The NAREIT Equity Index rose 12.8% in the quarter.

Ever falling yields and narrowing credit spreads continued to propel fixed income returns. The Barclays Capital Aggregate Bond Index rose another 2.5% bringing the year to date results to nearly 8%. Investors also continued to flood into credit sectors and the BBB slice of the Barclays Capital Aggregate was among the strongest areas of the intermediate duration markets. Further down the credit quality spectrum, High Yield bonds (Barclays Capital 2% Issue Constrained High Yield: +6.6%) enjoyed another rally as credit spreads tightened further.

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Mutual of Omaha Retirement Program Product (0.00% Class as of 09/30/10)

- For the quarter, all of the investment options in the product produced a positive return, led by the International Emerging Markets Fund (+19.49%). Year to date, Cohen & Steers Institutional Realty Shares (+17.45%) has produced the strongest return.
- The Small Company Fund (+13.41%) continued its recent outperformance of the Russell 2000 Index, besting its benchmark by 2.12% for the quarter. For the year to date and 1-year periods, the Fund has now outperformed the benchmark by 7.38% and 8.53%, respectively.
- All of the actively managed international stock investment options have outperformed the MSCI EAFE Index over each the 1, 3, 5 and 10-year periods.
- Both of the intermediate-term high quality fixed income investment options have outperformed the Barclays Capital Aggregate Bond Index over each the 1, 3, 5 and 10-year periods.
- Consistent with the theme of long-term investing, for the actively managed stand-alone equity investment options that have at least a 10-year performance record, 87% have outperformed their benchmark over that time period.
- Mutual Directions, the series of five risk-based asset allocation models, continues to offer investors the possibility of excess return for incremental levels of added risk. For the quarter, the most aggressive Mutual Directions 5 (+12.75%) outperformed the most conservative Mutual Directions 1 (+3.50%) by 9.25%.
- Mutual GlidePath, the series of eleven time-based asset allocation models, invest in a diversified mix of asset classes and styles, become increasingly conservative over time and continue along the glidepath for an additional 20 years beyond the target retirement date. For the quarter, the most aggressive Mutual GlidePath 2055 (+11.72%) outperformed the most conservative Mutual GlidePath 2005 (+6.77%) by 4.95%.

At The Close...

The nearly 9% gain of the S&P 500 was the Index's best September showing since 1939. When markets start trending upward, investors are often enticed to take a more aggressive approach and chase the performance of the latest "hot" asset classes. However, recent fund performance is no guarantee of future performance and investing for retirement is a long-term process that is deserving of a well-planned approach. Developing a well-balanced approach that considers both an investor's ability and willingness to take risk paired with their requirement for return has been and remains a prudent approach to retirement savings.

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Figures are reported on a total return basis, which is the change in value of an investment over a given period, assuming reinvestment of any dividends and capital gains. Investments assume a lump sum is invested at the beginning of the time period shown. The results for individual accounts and for different time periods may vary.

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