QUARTERLY MARKET UPDATE

JUNE 30,2011

Second quarter investment returns were remarkably benign on their face with a small decline in the S&P 500 and Nasdaq indices, and a very modest increase in the Dow Jones Industrials, ten year US Treasuries and emerging market equities. Inflation was a rising concern within many Emerging Market economies, less so in Developed International economies and non-existent in the United States.

The U.S. economy hit a "soft patch" during the quarter, meaning almost all economic indicators signaled a slowing of activity. Job growth has been particularly anemic, with overall economic activity insufficient to meaningfully reduce unemployment rates. Consumer spending has continued to be cautious with households intent on repairing their personal balance sheets. State and local governments are continuing to cut both jobs and support for things like education.

Within this quarter of economic doldrums, two distinctly different scenarios are playing out. The first is with the Federal Government, facing a showdown over raising the debt ceiling, was rather suddenly acting as if deficits and debt burdens mattered. Meanwhile, capital markets were reacting (correctly in my view) as if there was a negligible risk that the U.S. would not raise the debt limit. These ongoing negotiations between Democrats and Republicans will continue, very loudly, right up until August 2nd, when all concerned will take credit for their bi-partisan concern for the American taxpayer and future generations.

The second scenario occurred within the corporate sector, and in particular with large multinational companies. These companies' common stocks were lagging behind most other segments of the equity market, with valuations, both relatively and absolutely, at some of the lowest levels in 30+ years. The continued strong earnings reports for the second quarter of 20011 will continue this trend. These companies have learned how to prosper in a slow growing U.S. economy by shifting emphasis towards faster growing markets. They seem, as a group, to be mostly interested in keeping a relatively low profile, lest they become targets for "revenue raising opportunities" from our nation's political leaders.

In consideration of the current economic environment, we continue to emphasize large blue-chip companies as the best way to achieve solid investment returns. It is also worth noting that 10 year US Treasury yields are slightly higher than they were a year ago at this time. That means that a bond investor earned 2-3% over the past 12 months, while equity investors continued to earn double digit returns. We do not expect future fixed income returns to come anywhere close to future equity returns for at least the intermediate term (2-3 years).

Raymond A. Beplat, CFA
Chief Investment Officer