QUARTERLY MARKET UPDATE

JUNE 30, 2010

Wow, what a quarter!

The double digit declines in the most followed US market indices,(DJIA -10%; S&P 500 -12%; NASDAQ -12%) reflected the significant increase in general investment unease with the outlook for the economic future of the U.S. and its trading partners. This sentiment was displayed consistently across many equity asset classes.

Virtually all equity markets declined and the rank ordering of them would show those that increased the most through April subsequently declined the most. The second quarter also brought a reminder that index oriented investing, whether through mutual funds or Exchange Traded Funds, does not provide nearly as good protection as is generally thought. The Greek sovereign debt crisis exposed many European Banks to substantial default risk, and their stocks suffered. The BP oil spill has been calamitous on so many levels, but particularly to those investors who owned it through participations in funds pegged to its share of the UK and European capital markets.

While this was the biggest drop since the fourth quarter of 2008 (which, by the way, wasn't that long ago) the difference this time is that the rate of decline was not relatively uniform among various equity sectors, as it was in 2008. Also, at this juncture, there are a number of companies where prospects going forward look relatively bright, another contrast with the end of 2008.

Within fixed income markets, the 10 year Treasury closed the quarter at a stated yield of 2.96%, down by 88 basis points from March 31, 2010 levels. Investment grade corporate bonds declined by roughly 40 basis points, thereby widening the yield spread over Treasuries to roughly 200 basis points. Junk bonds actually rose 60 basis points in yield, widening their spread over Treasuries to 700 basis points. These are yield movements that would characterize an economy heading into a recession, something some economic prognosticators increasingly view as a probable occurrence. Gold is up 12% and the Volatility Index, or VIX, has more than doubled from its low of 15 in early April. These all indicate heightened uncertainty in the marketplace and will likely produce greater stock price volatility going forward as each piece of economic news is magnified in importance.

Our view is that fixed income markets, particularly Treasuries, are tremendously overvalued and should be minimized in portfolios. US equities, particularly large capitalization multinationals, are generally very reasonably valued versus long term averages. They possess both significant cash resources to pursue capital investment opportunities and earnings growth prospects that are at least in line with their respective long term growth averages. We were buyers of such companies in late May and again in late June. Our equity composite, after rising 300 basis points more than the S&P 500 through March 31, declined by 100 basis points less than the S&P index for the second quarter, putting us a little more than 400 basis points ahead of the index on a year to date basis (data are unaudited).

Since we have been using individual securities exclusively on behalf of clients, so far our conservative approach has allowed us to avoid the major casualties of the market's turbulence.

Raymond A. Beplat
Chief Investment Officer