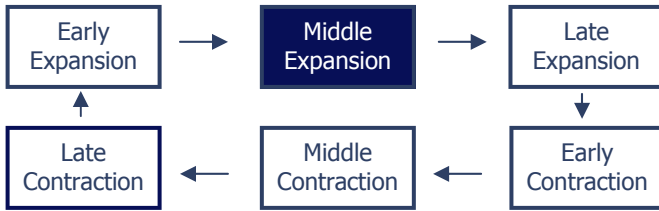




### CURRENT ECONOMIC CYCLE



### ECONOMIC NEWS

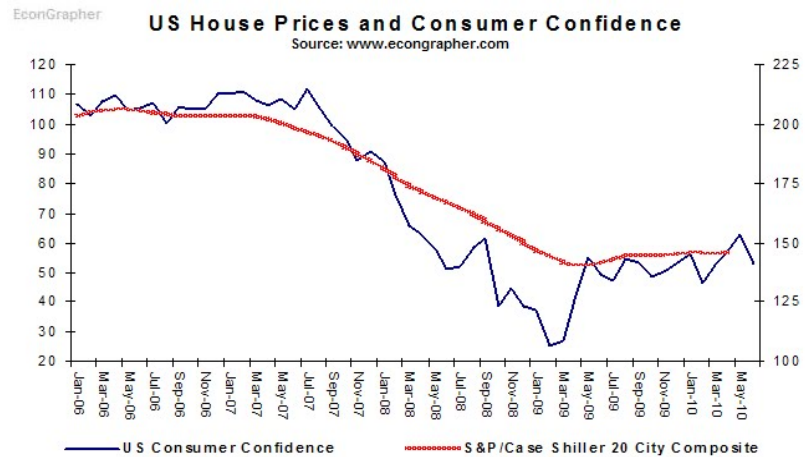
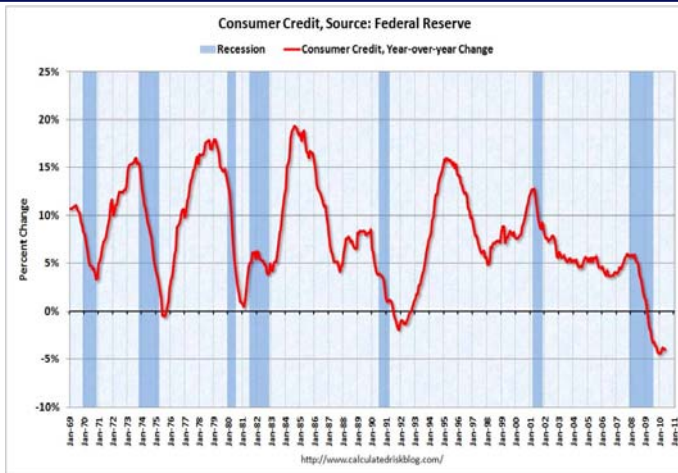
- There is growing concern that the recovery of the economy is beginning to slow as consumer spending is softening and unemployment remains stubbornly high.
- The stimulus from government spending has had its impact and Congress is shifting towards austerity due to public pressure.
- Inflation remains in check with deflation concerns increasing.

### CURRENT ASSET CLASS ALLOCATIONS

Cash & Equivalents	<i>Looking to Over Weight</i>
Fixed Income	<i>Looking to Over Weight</i>
Equities	<i>Looking to Underweight</i>

### MARKET TRENDS

- After reaching their highs in April, stock prices have been correcting which raises the issue of if we have seen the end of the "bull market" and the beginning of a new bearish trend.
- Earnings should continue to improve but the bigger question is what guidance will be for the quarters ahead.
- A more defensive posture is prudent until the direction of stock prices is resolved as future earnings are priced into the market.



The U.S. consumer continues to pay down debt and spending is coming from disposable income. With personal income only growing slightly, it will be difficult to grow retail sales dramatically until there is a greater appetite for debt.

Since this recession has been the result of the loss of asset values, triggered by the decline in housing, the strength of the recovery will be directly relational to the perspective of the consumer. With savings going up and debt coming down, this is not a liquidity issue...it is confidence.

### CURRENT THOUGHTS

The current headlines concerning the economy are dominated with the question of whether we are going to fall back into a recession..the "double dip"...or continue the recovery. Historically, the double dip recession is rare, happening only once since World War II in 1982 when then Fed Chairman Paul Volker intentionally raised rates to a level that another recession was inevitable in his quest to stop hyper-inflation. Although another recession is not out of the question, we believe that the economic data points to a period of slow growth and low inflation until the liquidity in the economy begins to move. There has been much written recently about the amount of cash on corporate balance sheets with some claiming that the log jam is the reluctance of corporations to spend. With excess capacity in the economy, capital spending will occur when customers return.

*The purpose of update is to share some of our current views and research. Although we make every effort to be accurate in our content, data are derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity.*