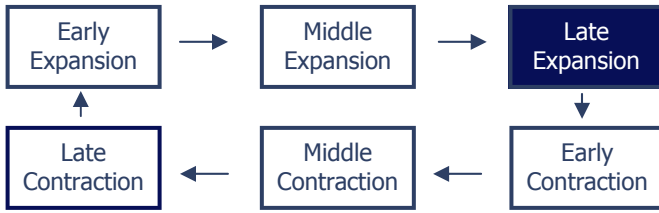




CURRENT ECONOMIC CYCLE



ECONOMIC NEWS

- There is a growing disconnect between the profits on Wall Street and the attitudes on Main Street, with near 70% of those polled believing that the U.S. is on the wrong economic track.
- Consequently, we continue to see mixed signals coming from the financial data as the economy tries to “muddle through”.
- The debt ceiling debate now casts a shadow over positive news.

CURRENT ASSET CLASS ALLOCATIONS

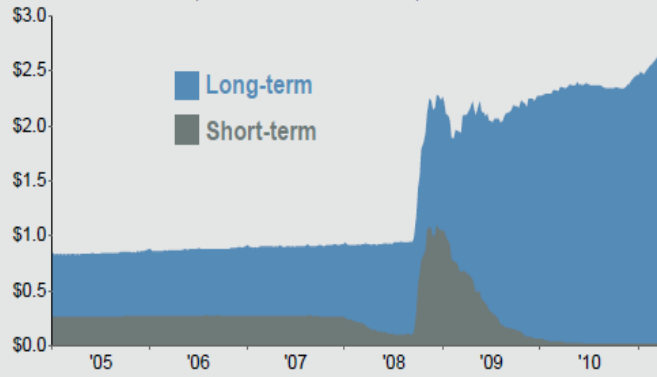
Cash & Equivalents	<i>Underweight</i>
Fixed Income	<i>Underweight</i>
Equities	<i>Overweight</i>

MARKET TRENDS

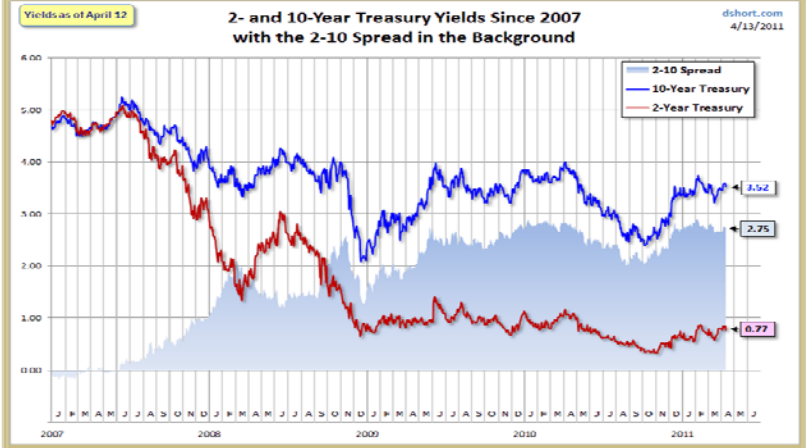
- After moving to new highs for the year in May, the stock market has retreated and is up only marginally for the quarter.
- A rally in the value of the U.S. dollar has caused the commodity price index to drop almost 9% in two weeks.
- Bond prices have risen as yields have dropped, due to funds beginning to move out of risk assets like stocks and commodities in anticipation of the end of the Fed’s quantitative easing.

Federal Reserve Balance Sheet

U.S. Federal Reserve, total reserve bank credit, \$ trillions



As we revisit this chart, we see the continued growth in the Fed’s balance sheet as Bernanke continues to purchase U.S. Treasuries and force investor dollars into riskier investments due to abnormally low interest rates on cash and savings.



This chart illustrates the gap between short-term interest rates and the 10 year Treasury rate. Even though the yields on the 10 year have dropped slightly, the trend remains up as the bond market apparently believes that over time the dollar will remain weak and inflation will move higher.

CURRENT THOUGHTS

There are many moving parts that impact the financial markets, ranging from earnings to interest rates to currency valuations. As the complexity of these factors grow, the result is often the return of increased volatility as investors try to react to shifts in these areas over the short-term. The first quarter saw interest rates rising, the dollar falling, and earnings growing, which resulted in higher stock and commodity prices. With a quick reversal of those trends in May, we have seen stocks retreat and commodities fall sharply. The issue we face is whether this is a simple correction within a trend or something more significant. The answer may lie in the impact of the end of quantitative easing (QE II) by the Fed in June, as well as the outcome of the European debt crisis that has raised its head again. If a trend shift becomes apparent, a more defensive posture is warranted.

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. Charts and tables shown above are for informational purposes, and are not recommendations for investment in any specific security.