



July 5, 2010

Second Quarter 2010

Market Overview

U.S and International equities dropped in the second quarter, on concerns about Europe, weak domestic economic indicators (including the most recent U.S. employment report) and the possibility of slowing growth around the world. The Market "flash crash" that occurred on May 6th was either coincidence or an omen for equity direction at least in the near term. As of this writing, the Dow has now been negative seven trading days in a row, as most Wall Streeter's were glad to welcome a respite from the poor tape over the recent extended holiday weekend. The DJIA lost 4.5 % alone in the most recent week ended July 2nd.

The Equity Markets

For the quarter the Dow Jones Industrial Average slumped 10% to 9774.02, its first quarterly decline since the first quarter 2009. Likewise, the Nasdaq Composite and S&P 500 dropped 12% on the quarter to 2,109.24 and 1,030.71, respectively. International developed markets were the worst segment of world equity markets declining by nearly 15%. However, the Sox Europe 600 indexes exited the month of June even compared to a 5.4% decline for the U.S. S&P 500, while worldwide emerging markets dropped barely 1 % in June. Europe, written off for dead by many, may still prove to be relevant as a weaker Euro may spurn global exports reigniting their economies. As if unwilling to be declared irrelevant, at least in soccer, Europe seems to be making a statement with 75% of the world Cup "Final Four" comprised by three developed European nations- Netherlands, Germany and Spain.

The Bond Market

The Federal Reserve again left key rates unchanged at their June meeting. The US aggregate bond index currently yields 2.83 % and the ten year treasury yields 2.93% compared to 4.12% and 3.43% respectively from a year ago.

Commodity Update

Gold ended June 30th 2009 at 934.50 per ounce. As of June 30th 2010 the "got to get" precious metal increased to \$1,243 per troy ounce or year to date return of 13% and a one year gain of 33%.




Oil price per barrel of light sweet crude closed the quarter at roughly \$75.25 dollar per barrel. However oil began the year at nearly \$80 per barrel, and despite the Gulf Oil Spill, is down nearly 6% year to date

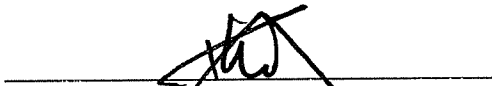
Going Forward

Barring a corporate profit collapse, United States equities look attractive. The forward P/E on the S&P 500 is below 12, the lowest since the late 1980's. Big government and lack of US jobs may be an impediment to earnings sustainability and future growth. On the flip side, stabilized energy and low interest rates should weigh positively on the United States economy. Therefore, with the 10 year treasury now yielding less than 3% coupled with the recent market decline, the market risk / reward analysis between fixed income and equities going forward should be firmly tilted towards equity outperformance.

Very truly yours,

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