June 2010

Dear Clients,

The markets began the second quarter building on the gains from the first, peaking in mid-April then trending downward with fits and starts finishing at the lowest levels of the year. As notated in the accompanying chart, the quarterly returns were dismal and all equity indexes turned negative for the year. We have seen an approximate 15% correction from the highs in April, not surprising after gaining the past twelve months. In comparison, European, Asian and emerging markets declined far greater, some in excess of 20% for the year. Worries about European sovereign debt, the gulf oil leak, and weak employment data heightened investor anxieties and many reduced their risk exposure in response. The quarter was also not without it's fireworks as the so called "Flash Crash" on May 6th provided heart palpitations to those of us fixed at our screens. The indexes declined approximately 10% intraday with individual issues suffering even greater declines before recovering much of the free fall by the close. Confidence in the actual operating systems of the market has been shaken and the trend towards program, black box, and high frequency trading seems to have the ability to overwhelm all protective measures. This does little to restore confidence in stocks as an asset class already mistrusted by the general public as evidenced by continued mutual fund outflows.

In more granular form, sectors such as Utilities, Telecom Services and Consumer Staples were down high single digits percentage-wise while Basic Materials, Energy and Financials had declines in the mid teens with our sector exposure performing comparably. We saw positive returns in our positions in gold miners, MLPs and Corporate bonds offsetting the general market decline. We maintain a defensive posture in our sector weightings and cash balances and suffered minimal portfolio declines as a result.

We were, however, not without our miscues. In the portfolio management and equity selection process one has to continually evaluate all available information to either confirm or repudiate the original investment thesis and valuation framework supporting the purchase of an individual security. The facts surrounding our recent purchase of Transocean (RIG) changed dramatically in a negative fashion. The volume of the oil leak affecting the Gulf of Mexico once estimated at 3 - 5 thousand barrels a day is now estimated to be at least 10 times those amounts. The ability of technology to curtail or seal the leak was overestimated by all experts and officials involved. Therefore, the extent of the damage that will be inflicted on the companies involved, the environment, and the economy in the gulf region, and quite possibly larger in scope will be considerably greater in scale. The financial liability is neither contained nor comparable to the Exxon spill in Alaska and could very well signal the demise of those involved. With this very real risk and the lack of clarity in the political arena regarding fault and reparations we have sold the RIG position in client portfolios in the interest of capital preservation. The damage was limited to 1% or less in portfolio assets due to our intentional diversified nature. We hope you understand neither the purchase nor the sale were executed without a great deal of thought, debate, and analysis and we continue to place the preservation of your assets above all else.

From up high on the mount the FOMC June statement indicated a bit of softening in the pace of the domestic economic recovery. In a more negative fashion they believe "the economic recovery is proceeding and that the labor market is improving gradually…Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months…the pace of economic recovery is likely to be moderate for a time…underlying inflation has trended lower." Nothing we haven't already observed directly through the media and through reported economic data points. Domestically, we have stabilized from the contracting 2009 economy however we are not making much headway in our reluctant recovery. The rather stagnant pace has had a fatiguing effect on the national psyche. We are accustomed to economic cycles that rebound with ever increasing prosperity. The recovery from the recession in 2001-2002 was similar in its muted growth profile until the FOMC flooded the system with liquidity enabling inflation driven growth along with the housing bubble. At this juncture, the Fed has limited ability for an encore with the fed funds rate at near zero and monstrous liquidity already injected into the system. The tremendous deficit limits the ability for additional stimulus packages. Our recovery will be more dependent on our global trading partners than ever before, a startling revelation for a nation that prides itself on its ability to single handedly overcome all obstacles. A new more equal economic world order is emerging.

We continue to detect a sense of uncertainty and angst from our discussions with clients and others in the investment profession. We acknowledge there are negatives and we have discussed these in our quarterly commentaries however as professional investors we are cautiously optimistic on the growth of the global economy. Fundamentally, we see improving corporate balance sheets flush with cash, competitive yields, and attractive valuations with considerable upside potential even in a slow growth environment. As political uncertainties regarding healthcare, financial reform and taxation are clarified we will see improved capital investment and job creation. Demand will continue to grow as the emerging market nations expand their economies and develop their own consuming middle class. As value oriented investors we look to put capital to work in individual companies and sectors when others discard them. The most recent sell off is beginning to present such opportunities in both equities and high yield bonds. We continue to seek out investment opportunities that will benefit from the ongoing global expansion and we anticipate continued additions to our portfolios. As always, protection of investor's principal is our paramount concern.❖

Equity Market Statistics as of June 30th, 2010

Index	*2nd Quarter*	*YTD*
DJ	***-9.36***	***-5.00%***
S&P 500	***-11.43***	***-6.65%***
NASDAQ	***-12.04***	***-7.05%***

***All performance statistics indicate price appreciation and dividends reinvested into the index during the quoted time period.**

US Treasuries

Maturity	*Yield*
2 year	***.62%***
5 Year	***1.79%***
10 Year	***2.93%***
30 Year	***3.87%***