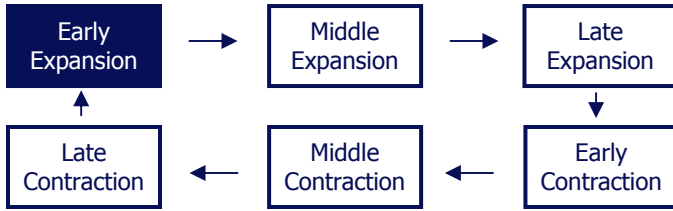


CURRENT ECONOMIC CYCLE



ECONOMIC NEWS

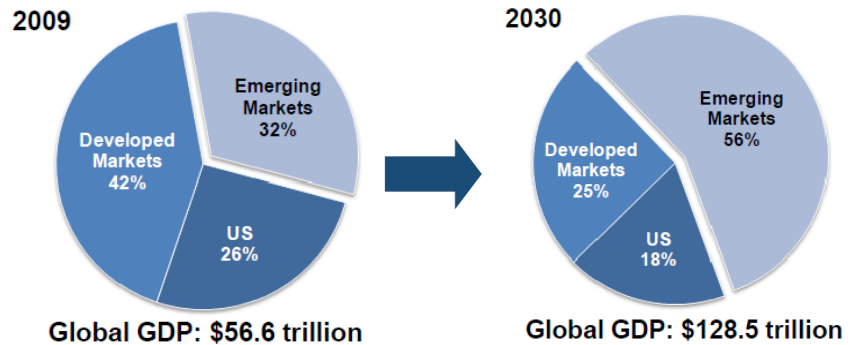
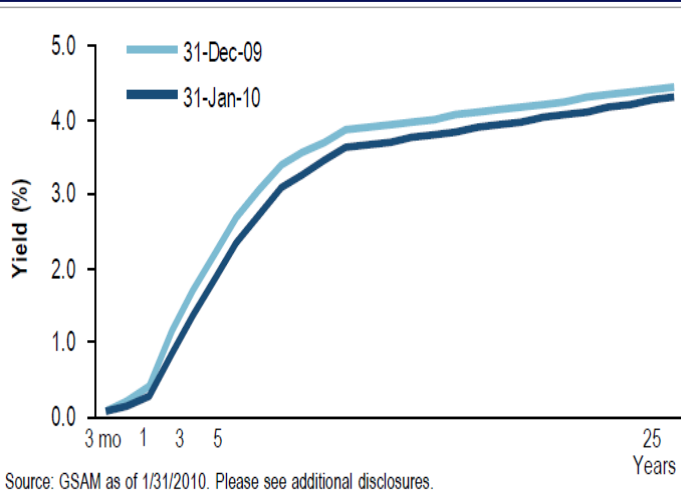
- Even though job losses continue, there has been a sharp drop in new jobless claims over the last year, indicating that labor markets are beginning to stabilize.
- However, any expectation of a sharp drop in the unemployment rate in the near future is unlikely due to the probability that the recovery will take longer due to a crisis driven recession.
- Excess capacity in the economy should keep core inflation low.

CURRENT ASSET CLASS ALLOCATIONS

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

MARKET TRENDS

- U.S. stocks remain in a trading range that has lasted since mid October of 2009, in spite of better than expected earnings.
- Companies have strong balance sheets with cash as a percent of total assets at 9.8%...a record high.
- Stocks can move higher...especially in the emerging markets... once investors can focus on strong earnings and financial fundamentals instead of global distractions coming from Europe.



The "Yield Curve" in the above graph shows the yield received relative to when Treasury Bond mature. With the Fed keeping short-term rates low, the Yield Curve is extremely steep, but historically this has been a good sign for stocks.

Global economic output is projected to double by 2030, with the Emerging Markets contribution increasing from 32% to 56%, while the Developed Markets and the U.S. will continue to grow...their impact on the global economy will be diminished. (Source: Goldman Sachs & Co)

CURRENT THOUGHTS

Improvements in the economic data for the U.S. continue, but as long as unemployment remains at or near the current levels, confidence in a robust recovery will remain fickle. The old saying of "you can lead a horse to water but you can't make him drink" sums up the current situation in the banking system. Banks are able to borrow from the Fed at historically low rates which makes them highly profitable on loans that they make. However, excess reserves for banks...money available to be loaned but still held in reserve...are at the highest levels in recent history. This indicates that capital is still not moving through the economy due to low loan demand or fear by the banks that the higher reserves will be needed in the near term. As long as interest rates remain low and excess capacity in the economy exceeds demand, inflation at the consumer level should remain in check. Although China is taking actions to cool their economy, emerging market growth should be sustainable at levels higher than the U.S..

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.