

SECOND QUARTER FINANCIAL MARKET COMMENTARY  
“NINETY DAYS IN NINETY SECONDS”  
JUNE 30, 2011

THE ECONOMY AND THE ELECTION

- ♦ The key battleground issue in the upcoming presidential election is likely to be how to generate sustained growth in the economy. A consensus seems to be building on both sides of the political aisle to cut government spending and also stimulate private sector investment. Since strong economic growth will ultimately ease many of our budgetary issues, this budding trend has very bullish long term implications for stock market investors.

THE FOUR BIG POSITIVE FACTORS

- ♦ Monetary policy remains accommodative, corporate balance sheets are extremely healthy with record high levels of cash, profit growth continues to exceed expectations and valuations are attractive. These fundamental factors should continue to be positive influences on stock prices for the foreseeable future.

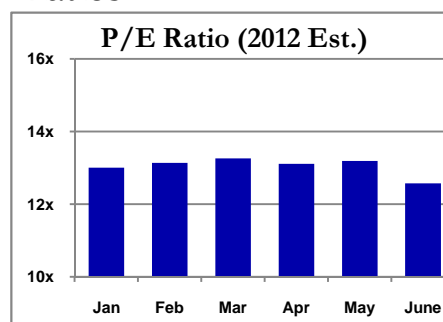
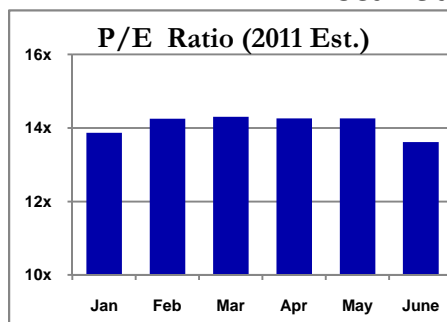
EARNINGS

- ♦ Earnings estimates continue to rise based upon global growth, increased productivity and low financing costs. Price/Earnings ratios are at their lowest level in the past six months.

**S&P 500 Earnings Estimates**



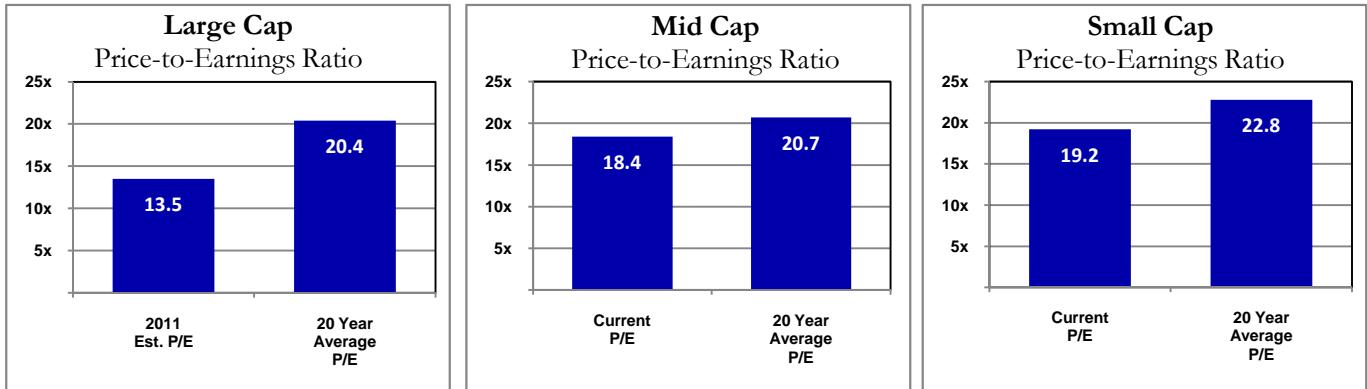
**S&P 500 P/E Ratios**



VALUATION

- Large cap stocks are undervalued relative to their historical averages and are also inexpensive when compared to mid cap and small cap benchmarks.

**Valuation Comparison**



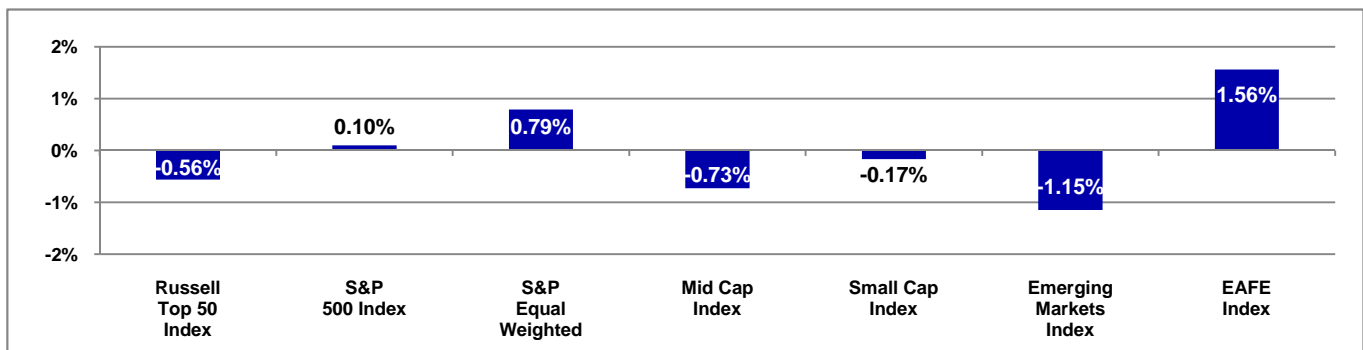
MACROECONOMIC CONCERNS

- Most of our global economic problems are not "new news", it is just that the issues have migrated to the front page. The result is a stock market tug of war between strong company-specific fundamentals and policy responses that are suboptimal and often follow the politically expedient path of "kicking the can down the road".

SECOND QUARTER PERFORMANCE

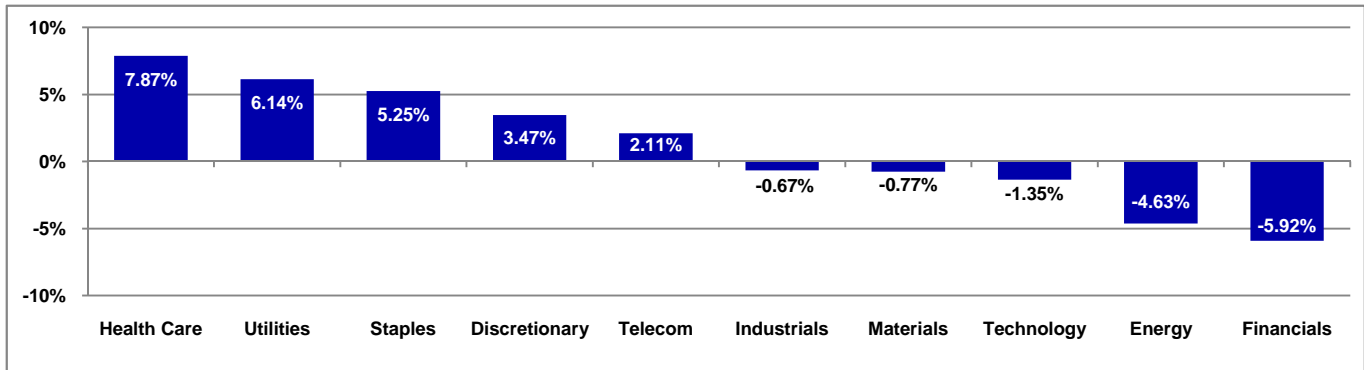
- The second quarter may have felt like a roller coaster, but by the end of the quarter stock market returns were approximately unchanged across all domestic market capitalization ranges. International indexes also ended the quarter with relatively flat performance.

**Second Quarter Performance (including income)  
by Market Capitalization and Geography**



Defensive economic sectors produced the best results, while the financial sector lagged. The energy sector took a breather after being the best performing sector over each of the prior two quarters.

### Second Quarter S&P 500 Performance (including income) by Economic Sector



### CREDIT QUALITY

- ♦ One of the ironies of this recovery is that U.S. corporations have rarely had stronger balance sheets, greater liquidity or better credit quality, while government credit quality across virtually all geographies has weakened. Perhaps so-called "junk" bonds are mislabeled and undervalued in the current environment.

### CONCLUSION

- ♦ Our outlook remains optimistic in spite of an abundance of uncertainty surrounding global events. Rising corporate profits and dividends, as well as an active merger environment, should provide positive fundamental support for stock prices.