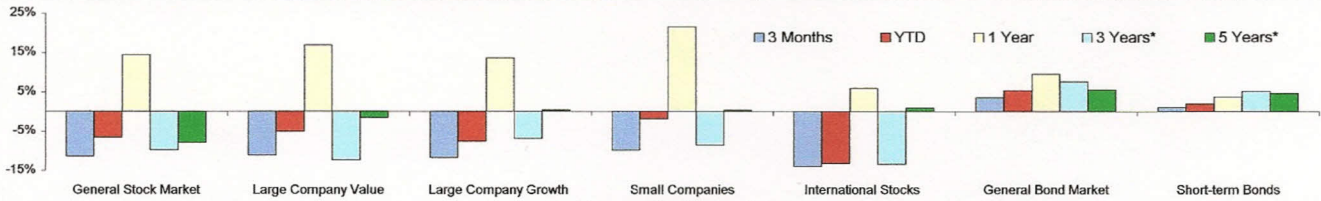


Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	-11.43%	-6.65%	14.43%	-9.81%	-7.94%
Large Company Value	Russell 1000 Value	-11.15%	-5.12%	16.92%	-12.32%	-1.64%
Large Company Growth	Russell 1000 Growth	-11.75%	-7.65%	13.62%	-6.91%	0.38%
Small Companies	Russell 2000	-9.92%	-1.95%	21.48%	-8.60%	0.37%
International Stocks	Morgan Stanley EAFE(US\$-net)	-13.97%	-13.23%	5.92%	-13.38%	0.88%
General Bond Market	Barclays Capital Aggregate	3.49%	5.33%	9.50%	7.55%	5.54%
Short-term Bonds	Barclays Capital 1-3 Yr Govt/Cr.	1.05%	1.95%	3.77%	5.13%	4.52%

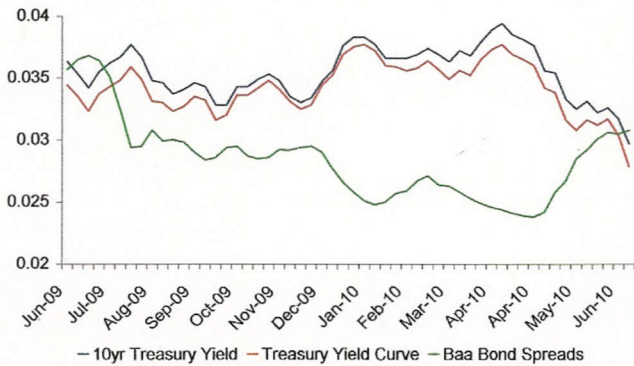


Economic Overview

Category	Statistic	Most Recent*	3-mo Prior	3-mo Change	12-mo Prior	12-mo Change
Long-term Rates	10-year Treasury Yield	2.97%	3.84%	-22.66%	3.53%	-15.86%
Short-term Rates	Effective Fed Funds Rate	0.09%	0.09%	0.00%	0.22%	-59.09%
Consumer Inflation	Consumer Price Index*	218.2	216.7	0.66%	213.9	2.02%
Producer Inflation	Producer Price Index*	185.0	183.3	0.93%	170.8	8.31%
Job Growth	Non-farm Payrolls	131456	128958	1.94%	131525	-0.05%
Average Workweek Hours	Avg. Weekly Work Hours	33.4	33.3	0.30%	33.0	1.21%
Economic Output	Industrial Production*	92.6	90.5	2.27%	85.7	8.00%

\*Economic data for certain statistics are as of the month prior to period end. Period end data was not available at time of publication. All statistics are subject to revision. Market returns greater than 1 year are annualized.

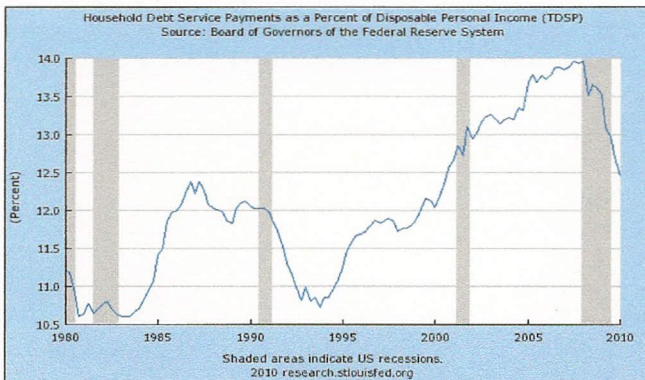
\*Annualized



**Bond Market Indicators.** The bond market is indicating increased risk. Demand for the safety of 10-year Treasuries have driven rates lower (blue). The yield curve (the difference between the 10yr and 3mo Treasury yields) has become less positive (red). Positive remains a positive economic indicator but it has become less optimistic. Bond market spreads (the difference between the 10yr Treasury yield and Moodys Baa yield) have widened (green) meaning investors are expecting more risk and demanding more return for the risk being taken. Data source: Federal Reserve Bank of St. Louis



**Inventory to Sales Ratio:** Inventory levels remain very lean. This remains a bullish condition for the recovery and business conditions.



**Household Debt Service as a Percent of Disposable Income:** Much has been said about the indebtedness of the American consumer. As right as this is, it also appears to be a fact that this condition is correcting very quickly. Within this, two forces are at work. People are paying down debt and financial institutions are writing off debt while maintaining tight credit standards. This is not helping the recovery right now but it is a condition that may become a positive within the near future.



The second quarter of 2010 is a reminder that the road to recovery is going to be a long one full of twists and turns that will be difficult to measure and time. Add to this a developing array of expansionary government policies and the result was a weak and volatile quarter for equities.

Within 2q10, European sovereign debt issues emerged with Greece in particular being the source of greatest worry. Not only was the repayment of debt at issue, the strength and willingness of the European Union to support fellow members was also being tested. While a bailout plan was put together, its success is not certain and the future of the Euro came under question with healthy countries asking why they should have to pay for the bad behavior of others. For the United States, direct credit exposure appears to be limited but its developing recovery found uncertainty with the weakening of an important export market. Another new development, the BP oil spill, is nothing short of a disaster but there are some deep pockets that will go a long way in mitigating the adverse economic impact along with hope that relief wells will be successful by August. In addition to this, oil-producing gulf states are adamant about maintaining production and jobs despite Federal efforts for a drilling moratorium. Real estate was not a new development except for the expiration of the Federal tax credit that further exposed the fact that homebuyers remain very reluctant unless they get a good deal. Employment numbers were better but weak, and consumers remained cautious. Government was busy making or working on reforms in health care, energy, and finance along with higher taxes considered as a means to address deficit spending. In the end, the S&P 500 was down -11.43% which was generally indicative of most other major equity classes as well. In the fixed income area, returns were positive as Treasury rates declined (valuations went up) with investors making a strong move toward safety.

Economic predictions are never easy especially when considering the potential for random events like the BP oil spill or a volcano in Iceland. This caveat aside, I do believe this upcoming quarter does have potential to be a big mover. As mentioned, expectations have moved lower but inventories remain lean, corporate balance sheets and expense controls are strong, orders look good, rates are low, and banks are becoming healthier with improving credit quality and margins helped by a positive yield curve. On top of being a good thing for banks, a positive yield curve (where long-term rates are higher than short-term rates) has been a positive leading indicator for the economy with a good track record. An area of significant fear, European contagion, does not appear to be severe based on company commentaries so far. The upcoming elections could be another catalyst where powerful anti-incumbency feelings may bring a more balanced leadership profile that the markets will probably welcome. Studies indicate that the stock market often accurately anticipates the outcome of important elections by the end of September. Lastly, low expectations that we have now often provide a strong basis for a good market move but the timing of such a move is tough to predict.

Overall and in summary, I believe the recovery will move forward but its progress will be lumpy, slow, and frustrating at times. This may not be the best scenario for someone looking for a job but for investors, the positive direction, lean cost structures and inventories, low rates, and political outlook are, I believe, constructive for long-term returns. Please feel free to contact me with any questions and thank you again for the opportunity to be of service.

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