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Following four consecutive quarters of advances for equity and most fixed income markets, the 2nd quarter of 2010 experienced a significant correction. Investors reflected on the same primary question they had a year earlier coming out of the most recent recession: Can the economy continue its recovery? Issues of stubbornly high unemployment, Europe's debt crisis – which morphed into concerns about how much countries have been spending to revive growth, a slowdown in China, and a fragile U.S. housing market impacted investor confidence. Furthermore, investors endured a rare phenomenon in the “flash crash” on May 6th in which the market lost nearly 10% of its value in a matter of minutes, only to recover most of it later that day. While the exact cause has yet to be determined, this also weighed heavily on investor sentiment.

% Return as of 6/30/10			
<u>Equity Indexes</u>	<u>2nd Q</u>	<u>1 Yr</u>	<u>3 Yr</u>
S&P 500	-11.4	14.4	-9.8
Russell 2500	-10.0	24.0	-8.0
MSCI EAFE	-14.9	3.1	-15.9
Emerging Market	-9.1	20.6	-4.7
DJ Wilshire REIT	-4.2	55.5	-10.3
<u>Bond Indexes</u>			
TIPS	3.8	9.5	7.6
Aggregate	3.5	9.5	7.6
Governments	4.2	6.5	7.6
Mortgages	2.9	7.5	8.2
Investment Corporate	3.4	15.9	7.4
Long Corporate	6.1	21.2	8.3
High Yield	-0.1	26.8	6.5
Municipals	2.0	9.6	5.5
<u>Cash Equivalents</u>			
3-Month T-Bill	0.0	0.1	1.6
Consumer Price Index	-0.2	1.2	1.6

On the brighter side, recent economic data, though certainly mixed, still points in a positive direction and corporate earnings continue to exceed analysts' expectations. While unemployment remains high, the economy is now creating new jobs, albeit at a nominal pace, and falling energy prices remain favorable for the manufacturing sector as well as other segments of the economy.

Overall, most investors appear to be in a cautious wait-and-see mode as of the end of the 2nd quarter, which may serve to delay a recovery in stock prices in the near term.

Domestic Equities: Stocks had their worst quarterly performance since the most recent financial crisis as concerns regarding the fragile U.S. economy continued. The S&P 500 declined 11.4% for the quarter, although the trailing twelve months was still up 14.4%. The Russell 2500, a measure of smaller domestic stocks, declined 10% for the quarter, but retained a positive one year trailing return of 24%.

International Equities: Returns of international stocks were impacted by sovereign debt concerns with the MSCI EAFE index, a measure of international developed markets stocks, down 14.9% for the second quarter, although the trailing year remained positive at 3.1%. Emerging Markets stocks turned in similar results. The MSCI Emerging Markets index declined 9.1% for the quarter but remained positive at 20.6% for the trailing year.

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Fixed-Income: As generally the case when investors become skittish on equities and seek a higher degree of safety, most bond returns were positive for the quarter. The Barclay's Aggregate, a measure of the total bond market, rose 3.5% for the quarter and 9.5% for the trailing year. Corporate bonds rose 3.4% for the quarter and 15.9% for the trailing 12 months. The Barclay's High Yield index declined 0.1% for the quarter reflecting a move to higher quality issues in a time of uncertainty but still retained a strong 26.8% return for the trailing year.

Real Estate: Investor flight to safety drove consumer interest rates sharply lower during the quarter. Over the past 3 months, the yield on the Treasury's 10 year note - a benchmark for establishing residential mortgage rates, dropped from 4.0% to 2.9%. This helped to somewhat bolster a tenuous residential market. Commercial real estate derived the benefits of lower borrowing rates as well. While under as much stress as equity investments, publicly traded REITs, as represented by the Wilshire REIT index, declined 4.2% for the quarter. For the trailing year, the REIT index remained 55.5% to the positive.

Again we find ourselves facing the challenge of remaining disciplined during times of economic stress. Accustomed to quick recoveries, market pundits are now debating the possibility of a "double-dip" recession (a recession punctuated by a brief period of growth followed by a further decline in the economy), having gone from grand optimism to extreme caution based on disappointment that the economy isn't growing as quickly as anticipated earlier in the year. This type of emotional behavior is nothing new to us, and now certainly isn't the time to overreact one way or the other.

As stewards of your wealth, we intend to continue to rationally evaluate the challenges and opportunities that uncertainty in the capital markets present. We will work with you to make any needed adjustments to your investment portfolio, always focusing on your long term goals and personal situation. In the meantime, please feel free to contact me should you have any questions or concerns. Thank you for your continued confidence.

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