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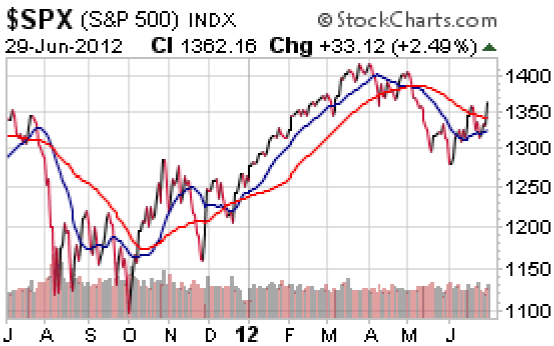

Most global stock markets pulled back in the second quarter, reversing some of the previous quarter's strong advance. The S&P 500 fell 3.3%, and the Russell 2000 Small Cap Index dropped 3.5%. Most international exchanges fared worse: the MSCI Europe, Australia and Far East Index lost 9.5%, and MSCI's Emerging Markets Index slid 13.1%.

Investor expectations were high in April, boosted by solid corporate earnings in 2011 and rising stock prices. Roughly two-thirds of S&P 500 companies exceeded analyst expectations, but this was not enough to sustain the market's rally, and stocks lost ground in April and May. For the third consecutive year, concerns over sovereign debt and bank balance sheets in Europe weighed on investors. Volatility jumped on fears that Greece might leave the Euro, and expectations rose that Spain and Italy would need largescale assistance. In addition, uncertainty about China's falling growth rate sent most commodity prices tumbling, while raising fears about global recession.

Economic indicators in the U.S., including purchasing manager outlooks and the Federal Reserve's regional manufacturing surveys, also slowed, but generally signalled continued growth. This, along with falling equity valuations, helped steady markets in June, and stocks bounced back, offsetting some of the quarter's losses. As the quarter ended, European leaders reached an agreement to provide aid directly to Italian and Spanish banks, while also laying the groundwork for future fiscal and banking cooperation. Stocks rallied strongly on the news, finishing the quarter on a positive, if uncertain note.

Most bond sectors posted solid gains in the second quarter, led by U.S. Treasuries. Investors fled risky assets for the safety of the strongest sovereign bonds, particularly the U.S. and Germany, pushing down yields to near record lows. Both investment grade and high yield corporate bonds also logged solid returns. Foreign bond returns were mixed, but generally negative for U.S. investors, as the U.S. dollar rallied against most other currencies.

U.S. Dollar Index

Commodity Price Index

The rising dollar ($USD) and falling commodity prices ($CRB) have important implications for U.S. consumers and global investors. While a strengthening dollar may crimp exporters, it also makes investments in U.S. securities more attractive to international investors. In addition, an improving dollar makes raw materials cheaper for U.S. manufacturers as well as consumers. Currently falling gasoline prices may signal future improvements in discretionary consumer spending.

Other factors indicate an improving picture for U.S. consumers. Housing prices have started to firm, and both new and existing home sales exceeded expectations during the quarter. Construction spending was also better than expected. Moreover, consumer balance sheets have continued to strengthen. FICO, the credit scoring company, reported recently that more than 18% of households now have credit scores in the highest bracket, the most since 2008. Finally, the Federal Reserve notes that the percentage of monthly income paid to service household debt is at its lowest level since 1994, and continues to improve. Taken together, these dynamics may be enough to offset slowing manufacturing and keep the U.S. economy growing. If these trends continue, U.S. stocks may add to their year to date gains, with leadership shifting to consumer-related companies. However the aforementioned concerns over Europe and China will almost add to market volatility.

We hope your summer is beginning beautifully. As always, we encourage you to call with any questions.

Sincerely,

Kenneth M. Bernard, CFA