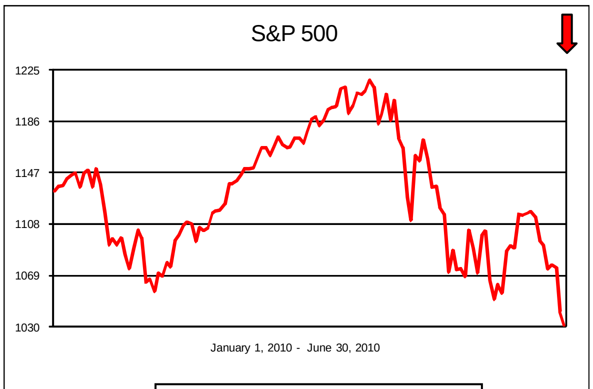
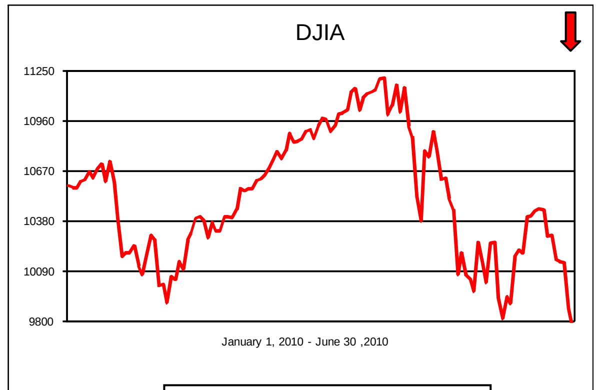
Wallington ASSET MANAGEMENT
INDEPENDENT INVESTMENT COUNSEL

QUARTERLY REVIEW | ***86th Edition*** | ***2010: Second Quarter***

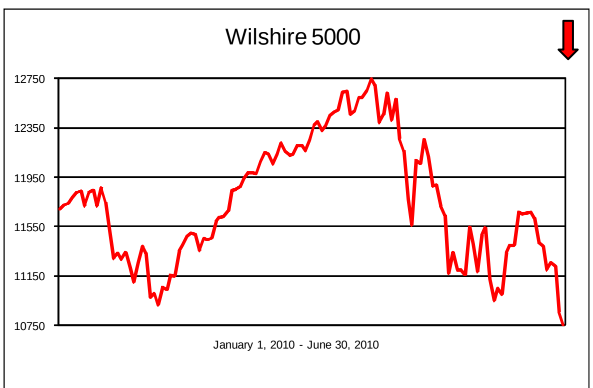
CAPITAL MARKETS SCOREBOARD
January 1, 2010 – June 30, 2010



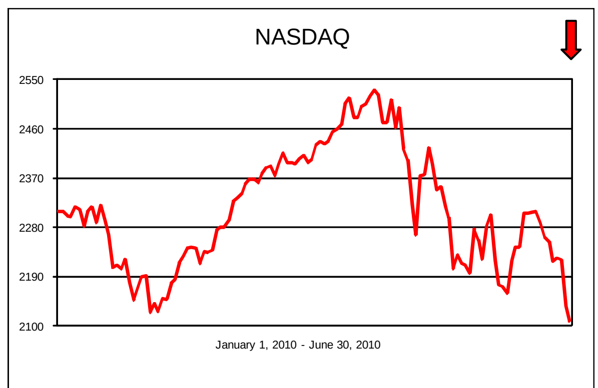
2nd Qtr -11.43% YTD -6.65%



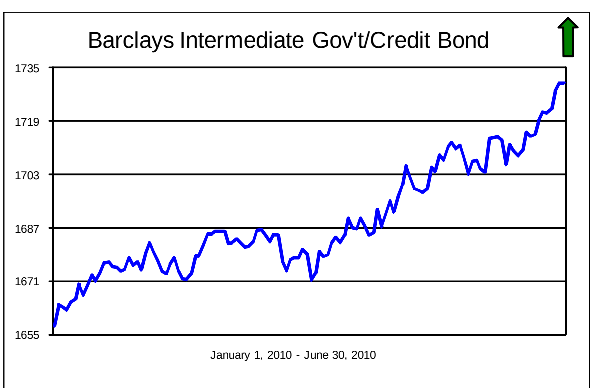
2nd Qtr -9.97% YTD -6.27%



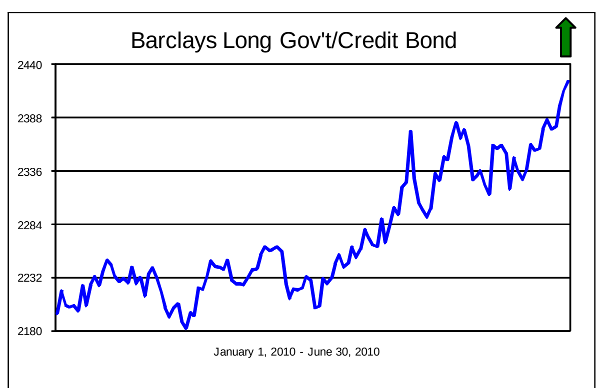
2nd Qtr -11.60% YTD -6.50%



2nd Qtr -12.04% YTD -7.05%



2nd Qtr 2.97% YTD 4.56%



2nd Qtr 8.56% YTD 10.24%

8900 Keystone Crossing, Suite 1015 • Indianapolis, IN 46240
www.wallingtonasset.com

EQUITIES

Equity Market Performance

Equities posted their first quarterly drop since the first three months of 2009 as fears surrounding the sovereign debt crisis in Europe, an overzealous clampdown in China and indications of a faltering U.S. recovery sparked renewed volatility in the financial markets around the world. In fact, six months into the year, bond returns have exceeded stock gains by the widest margin since 2001. The MSCI World Index of 24 developed countries fell 9.5% (including dividends), while the Bank of America Merrill Lynch Global Broad Market Corporate Index gained 4.2%. This 13.7% margin in favor of bonds compares to a 5.1% advantage stocks enjoyed at this time last year.

S&P 500 by GICS Sector	Price Return (%)	
	2Q10	**YTD**
Utilities	-4.82	-9.21
Telecom Services	-5.65	-10.99
Consumer Staples	-8.85	-4.25
Consumer Discretionary	-11.2	-2.28
Health Care	-12.29	-9.76
Information Technology	-12.46	-11.0
Industrials	-12.79	-1.94
Energy	-13.23	-13.16
Financials	-13.56	-4.20
Materials	-15.72	-13.69
S&P 500 Index	**-11.86**	**-7.57**

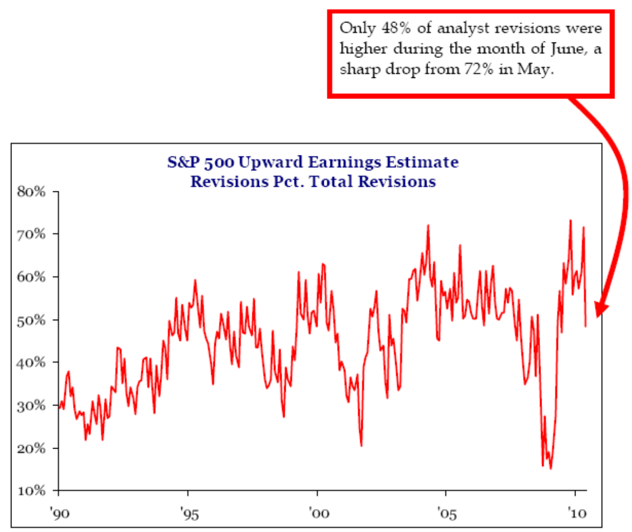
Domestically, the Dow Jones Industrial Average (DJIA) fell 10% during the quarter to 9,774.02, while the Standard & Poor's 500 Equity Index (S&P 500) gave up 11.9% excluding dividends. All ten sectors within the S&P 500 posted negative price returns for the quarter with Utilities, Telecom Services and Consumer Staples registering as the only sectors returning better than double digit percentage losses.

Markets in China remained under pressure during the second quarter after posting some of the worst performance numbers among global equity benchmarks in the prior quarter. The Shanghai Composite fell 22.9% during the second quarter and Hong Kong's Hang Seng dropped 5.2%. Several European nations experiencing the most severe sovereign debt pressures also saw their equity markets sell off. Greece's ASE Composite Index fell 30.6% for the quarter while Spain's IBEX-35 fell 14.8%, Portugal's PSI-20 dropped 12.8% and Italy's FTSEMIB was down 15.5%. Germany, viewed as one of Europe's stronger economies, saw the DAX fall a relatively modest 3.1%.

First Quarter Earnings Review and Second Quarter Preview

The first quarter of 2010 saw companies continue their trend of reporting earnings well beyond analyst expectations. According to Thomson ONE, 78% of companies in the S&P 500 reported first quarter earnings ahead of analyst estimates - an improvement from the 73% posted last quarter and just short of the recent high of 79% realized in the third quarter of 2009. The level of surprise continues to be impressive as well, with companies beating forecasts by a margin of 14.4%.

Second quarter earnings season gets underway over the next few weeks with 69% of companies within the S&P 500 reporting earnings during the month of July. Credit Suisse notes second quarter estimates of $19.61 for the S&P 500 presents the highest hurdle in some time (first quarter estimates were $17.00) and, as a result, anticipates fewer positive surprises. Given the recent selloff in the stock market, there will likely be special attention given to management's commentary on business trends - particularly in Europe - and any changes to forward guidance.



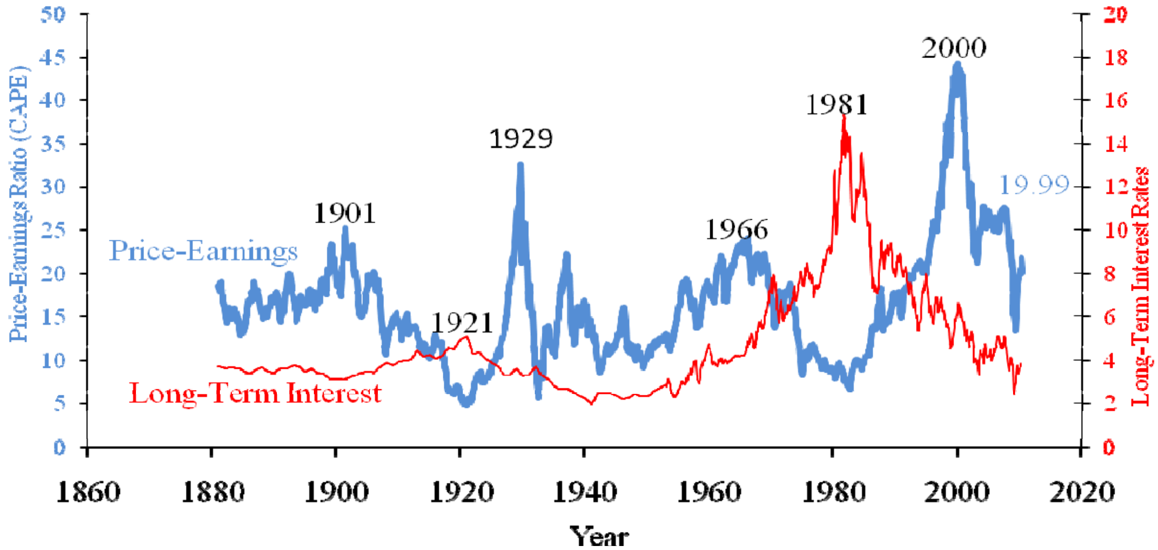
Source: Strategas Research Partners, LLC

Judging by a chart produced by Strategas Research Partners, analysts are becoming more guarded with respect to 2010 earnings. For the month of June, only 48% of analyst estimate revisions for the S&P 500 were higher versus 72% in May. Yet analysts as a whole have not significantly lowered estimates. The 2010 consensus estimate for the S&P 500, roughly $81.00 per share, remains near the highs for 2010.

U.S Equity Valuations

The S&P 500's forward price-to-earnings (P/E) multiple of 12.9X is at its lowest level since 1995. By definition, the earnings component in the forward P/E multiple is based upon analysts' forecasts for earnings over the next 12 months. If analysts' estimates for forward earnings prove to be too optimistic then the true multiple is understated.

Oppenheimer strategist Brian Belski recently noted that the 12-month returns for the S&P 500 averaged roughly 12% in all periods since 1960 when the forward P/E was between 10X and 15X. Belski dismisses the notion that earnings are vulnerable to significant downward revisions arguing that the firm doesn't "find earnings expectations out of context from a normalized growth perspective" given the propensity for earnings growth to be a bit higher coming out of a deep recession.



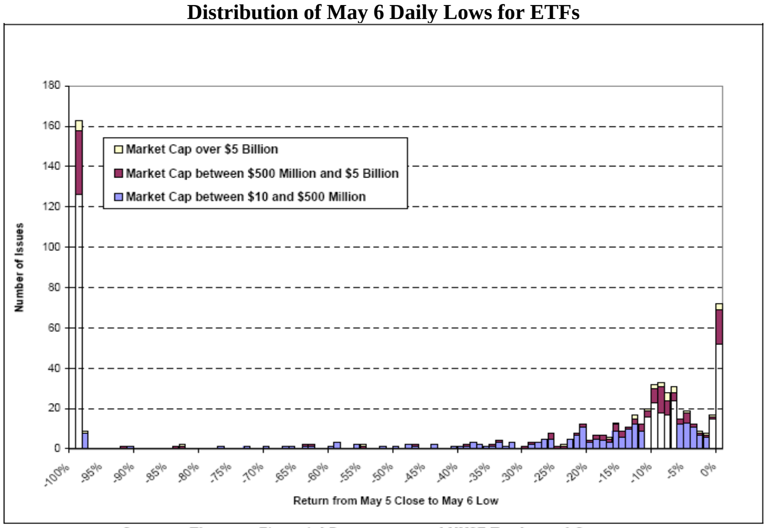
Source: www.irrationalexuberance.com

Professor Robert Shiller's Cyclically Adjusted P/E (CAPE) ratio relies on trailing earnings and attempts to smooth out these short-term earnings swings by using a 10-year average. According to Shiller's CAPE ratio, the current ratio of 20X is still 25% above the historical median level of 16X. The CAPE ratio paints a markedly more bearish picture relative to the more traditional forward P/E ratio. This dichotomy places a significant degree of importance on forward earnings and the ability of companies to meet those targets.

Flash Crash

The events of May 6, 2010 have come to be known as the "Flash Crash." Around 2:40 p.m. that afternoon markets fell over 5% in a span of 5 minutes with several securities trading as low as $.01. Stocks later recovered, but the tremendous volatility and market action left many investors shaken and searching for answers. Initial speculation surrounding the cause ranged from a "fat finger" trade error, to high frequency traders, to a high-tech terrorist attack. The U.S. Securities and Exchange Commission (SEC) swiftly launched an investigation into factors that may have caused or exacerbated the crash. As part of their preliminary findings, the SEC announced that the national securities exchanges and the Financial Industry Regulatory Authority (FINRA) would file proposed rules to impose circuit breakers on any stock within the S&P 500 Index such that trading would be halted for 5 minutes if its price moves 10% or more in a 5 minute period.

Distribution of May 6 Daily Lows for ETFs

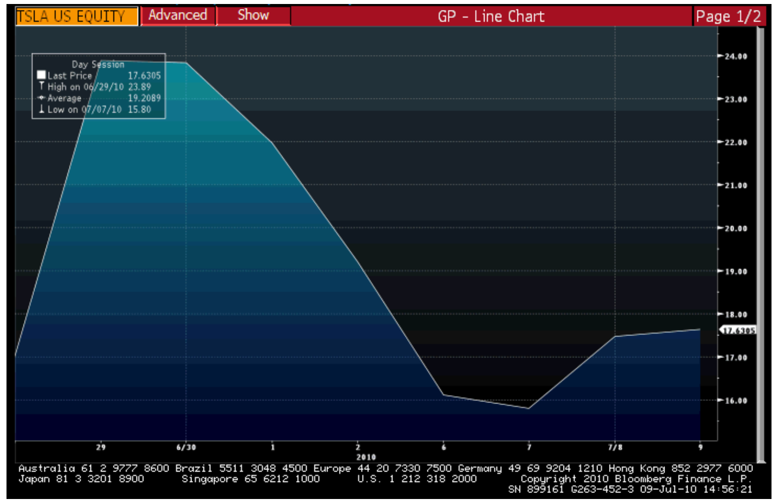


Sources: Thomson Financial Datastream and NYSE Trades and Quotes.

The exchanges, including the NASDAQ Stock Market (NASDAQ) and the New York Stock Exchange (NYSE), agreed to cancel Flash Crash trades that were deemed to be "clearly erroneous". The threshold for such action was any trade that occurred between 2:40 p.m. and 3:00 p.m. at a price at least 60% above or below that security's price at 2:40 p.m. Interestingly enough, of the cancelled trades involving U.S. listed securities, an astonishing 70% were exchange-traded funds (ETFs). As illustrated in the chart to the left, over 160 ETF issues traded between 95% and 99% lower from their May 5 close. While it isn't unprecedented for an individual stock to move 60% or more in a given day, it's certainly not expected of a security made up of a basket of stocks whose underlying holdings are down a mere fraction of that.

Tesla Motors - First Auto Industry IPO Since 1956

On June 29th, Tesla Motors became the first automobile manufacturer to go public since the Ford family floated shares of Ford Motor Company in 1956 (the family kept voting control through a special class of shares). Strong demand for Tesla's shares allowed it to add $129.5 million to its coffers, as investors paid $17 per share for the country's newest publicly traded automaker. Tesla soared 41% to $23.89 on the first day of trading, but slid 34% to $15.80 during the first three trading days of the third quarter.



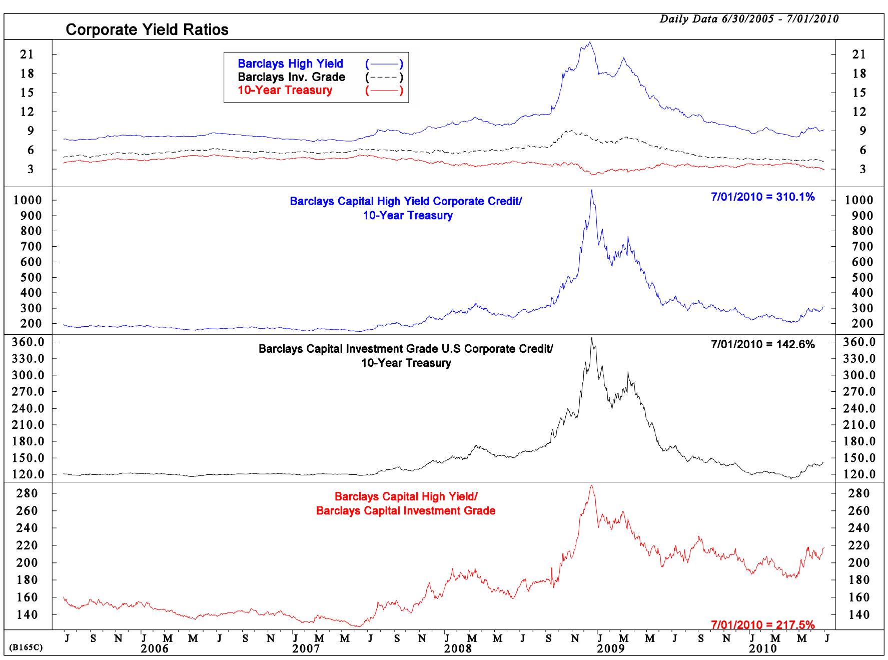
The shareholders own a stake in a company that a) has never reported a quarterly profit since its founding in 2003, b) sells just one model, the fast (0-60 mph in 3.9 seconds) but impractical Tesla Roadster and c) depleted the substantial resources of its CEO, Elon Musk, who had banked $300 million by selling PayPal and Zip2 Corp. to other companies.

These new fractional business owners joined Toyota Motor Company and the American taxpayer as partners in Tesla's future success. Toyota previously provided $50 million in funding to the company and sold Tesla a manufacturing facility in California. The Department of Energy chipped in $456 million of taxpayer dollars through a program meant to spur development of electric automobile technologies. Since profitability is not expected to arrive until Tesla's mainstream, high-volume Model S comes to market in 2012, and since the company has only sold 1,063 copies of its Roadster since 2008, the company's viability appears to be somewhat tenuous.

ECONOMICS AND FIXED INCOME

Fixed Income Market Performance

Merrill Lynch's fixed income indices provide the tale of the tape for the second quarter and the first half of the year. And the tale so far this year is titled "Flight to Safety." Of course flight to safety means different things to different investors. For instance, a fund manager with a mandate for high-yield bonds may flee CCC-rated paper and move to high-BB (high quality junk) bonds. Or an investment grade manager may reduce the fund's BBB-rated corporate bond holdings in favor of safer A-rated debt.



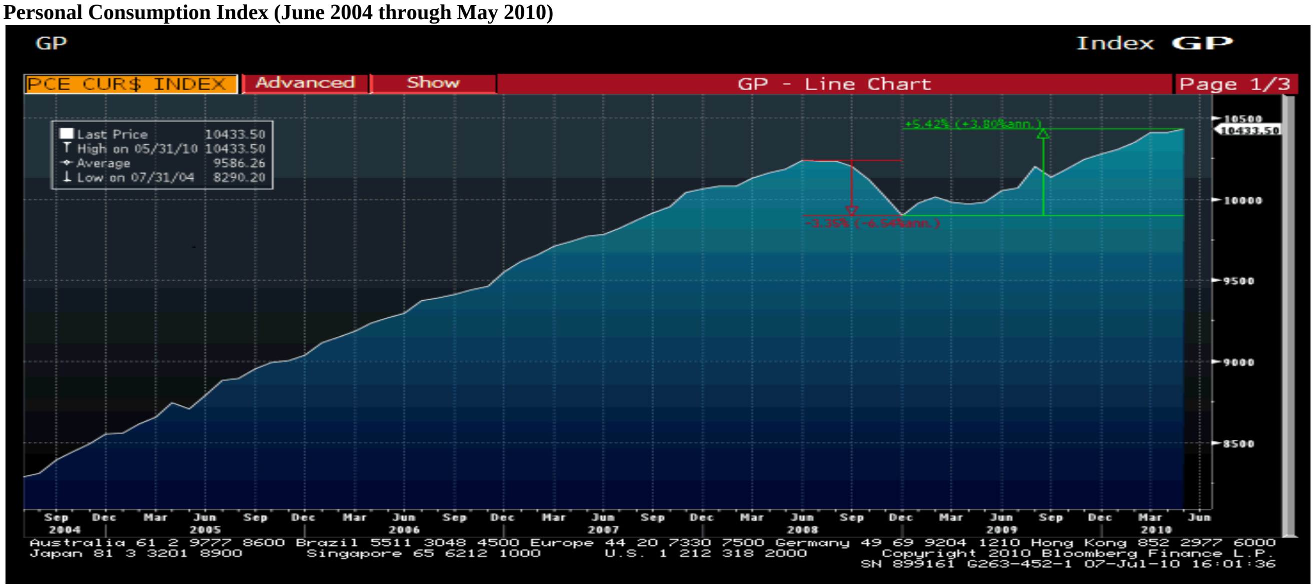
For much of the world, though, principal protection trumps all other considerations. Absolute safety leaves only a few investment options: U.S. Treasurys, German Bunds or Japanese sovereign debt. And if the investor has a sizeable sum to put to work (a few hundred billion from a populous Asian country, perhaps) then only Treasurys will fit the bill. This dynamic worked well for Treasury bond investors during the quarter - total returns steadily gained throughout the quarter posting increases of 1.06% in April, 1.72% in May and 1.87% in June, for a total increase of 4.72% in the second quarter (better than any return since 2001 except for 1Q08 and 4Q08).

Investors in other fixed income sub-asset classes also fared well. Merrill's U.S. Corporate Master Index shows that investment grade corporate bonds, in aggregate, rose 3.26% in the second quarter of 2010, while the value of the municipal bond index increased 2.02%. Muni bond returns tapered off as the quarter progressed, as sentiment turned against state and local governments and as heavy new issuance weighed on the supply/demand balance. High-yield investors endured a relatively minor setback (-0.7% quarterly return) as better-quality BB bond gains outweighed CCC bond returns by 2.0%.

Economic Pulse – The U.S. Consumer and Unemployment Rate

As the quarter closed, market participants, commentators and investment strategists were all pondering the implications of a number of mixed economic data points. For example, the Conference Board's Consumer Confidence Index declined in June to 52.9 after rising in the three prior months to 62.7. Since consumer spending accounts for approximately 70% of the U.S. economy (this figure includes all health care costs except insurance premiums), indicators of the health of the U.S. consumer remain extremely important to investors, strategists and government officials. However, personal consumption expenditures have risen well above pre-Great Recession levels despite the variable confidence readings.

Personal Consumption Index (June 2004 through May 2010)

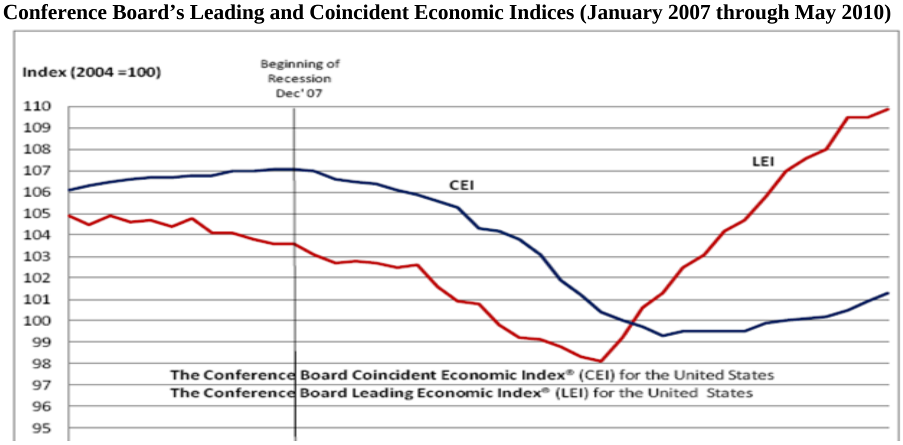


Consumers obviously need work to generate income, so the nation's unemployment rate is another closely-watched figure. The most recent reading from June indicated that unemployment had declined 0.2% to 9.5%. However, a number of observers denigrated the improvement because 842,000 people dropped out of the Bureau of Labor Statistics' (BLS) workforce calculation. That is, a materially lower denominator in the BLS' unemployment calculation (*the number of unemployed/the civilian labor force*) drove the better unemployment number. These observers consider the lower unemployment rate "low quality" and therefore dismiss its significance.

Although looking at the numbers behind the headline number is laudable, a bit more research shows that the BLS' labor force estimates vary significantly every month. For instance, its *Not in Labor Force (NLF)* estimate, which is where those 842,000 people are categorized, increased by 1.34 million in May and June; NLF also decreased by 635,000 in March, by 238,000 in February, by 176,000 in January and by 202,000 in December. In other words, the unemployment rate would have been lower in each of those months if all else were held equal.

Given all this, the question is: Has the unemployment rate been improving or not? The data from November 2009 offers telling insight. In that month, all of the major inputs for unemployment

Conference Board's Leading and Coincident Economic Indices (January 2007 through May 2010)



(Labor Force Participation Rate, Not in Labor Force, etc.) were statistically similar to June 2010, but the unemployment rate was 10% versus today's 9.5%.

Gauging the health of the broader economy requires just as much judgment as analyzing the U.S. consumer. On the plus side, corporate America continues to spend for equipment, expansions and acquisitions. Also, May's assessment of disposable personal income was 1.7% higher year-over-year (y/y) and industrial production, as measured by the Purchasing Managers Index (PMI) in June, remained in expansion territory despite a slower rate of improvement. Finally, the Conference Board's Leading Economic Indicators Index rose again in May, by 0.4%, and the Chicago Federal Reserve Bank's National Activity Index (CFNAI-MA3) continued to point towards above-trend economic activity.

On the other hand, pending home sales slid 30% month-over-month (m/m) in May, private sector job creation was tepid at 83,000 in June (preliminary value), average hourly earnings declined 0.1% m/m in June(p) and hours worked ticked down 0.1 points, which equals a loss of 380,000 jobs. After considering all the data, consensus estimates for U.S. economic growth have been revised lower, with most forecasting growth will slow in the second half of 2010 relative to the first half, but will continue to rise at a slower-than-preferred rate of 2% - 2.5%.

Know Your Statistics

When the broad market indices like the S&P 500 and the Wilshire 3000 declined sharply on June 29th, many market commentators were quick to attribute the sell-off to the Conference Board's release of a downwardly revised April reading for its Chinese leading economic indicator (LEI) series. It made for great copy because China is widely regarded as the country most capable of creating, sustaining or quickening a virtuous global economic cycle. Unfortunately only a few noted that this was the first release for the series, that the number had to be revised because of a calculation error and, worst of all, that the Chinese LEI is based on "second division" data. Not quite garbage in, garbage out, but the Chinese LEI should probably be taken with a large grain of salt.

Redwood Trust Completes First Private-Label MBS Deal Since 2008

If our elected officials push to "tax the rich", a certain segment of people will refer to it as class warfare. On the other hand, if the two government-sponsored entities known as Fannie Mae and Freddie Mac (with an assist from the Federal Reserve) overtake and subsidize the U.S. mortgage securitization market to the benefit of middle-income borrowers, class distinctions will not even be considered. Recognized or not, the value of the tax break for those of lesser means is real, as anyone who has paid the premium for a "non-conforming" or "jumbo" loan (typically $417,000 or more) in the past 24 months will attest.

Redwood Trust (RWT) stepped into this marketplace void in April 2010 when it successfully completed the first private-label residential MBS deal since 2008. However, the structure of Redwood's Sequoia Mortgage Trust 2010-H1 will dissuade investors and onlookers from concluding that the halcyon days of yore have returned to the private MBS market. For instance, the loans in RWT 2010-H1 are fully documented and the down payments average 45% of the aggregate home values. In addition, the "average" borrower of the underlying loans makes $54,000 per month (that is not a typo), while the monthly mortgage payment represented less than 30% of the borrower’s income. Finally, Redwood funded the riskiest tranches of the deal itself and kept 5% of the AAA-rated top tranche. In short, RWT 2010-H1 was "over-engineered" and qualifies as a sign of the times. It also provides tangible evidence that green shoots can appear even in hard hit areas of the nation's economy.

China and the Yuan Revaluation

Source: Bloomberg

China grabbed headlines when it announced a week prior to the June 26-27 G-20 summit that it would be returning the yuan to a managed float against a basket of securities. The strategic timing of the announcement was meant to deflect rising protectionist pressure from the U.S. and other nations prior to the meeting. In addition to the timing of the G-20 event, surging exports and rising inflation meant the economy was likely healthy enough to accommodate a modestly stronger currency. Collectively, the G-20 economies comprise 85% of global gross national product, 80% of world trade and two-thirds of the world population.

As indicated in the announcement, China explicitly ruled out a large one-off appreciation. Rather, it would increase the yuan's 'flexibility' while maintaining the 0.5% intraday cap on either side of the central parity rate. This soft language, coupled with the lack of any specific time commitments, led many to question the genuineness of the move. China made a similar announcement in 2005 before returning to a pegged exchange rate in 2008. Yet, it should be noted that the global economic landscape of 2010 is much different than it was in 2005 when the Western economies were in the middle of inflating their credit fueled bubble and world output growth was much more stable. During that 2005-2008 time period, the yuan rose against the dollar by only 7% per year with little visible impact to China's exports and growth. Again, things were different over that period and the limited 12 quarter duration of the managed float makes it difficult to extrapolate the effects of that policy move with the one recently enacted.

There are, however, some broad generalizations that can be inferred from a modest appreciation in the yuan versus the dollar. Retail analyst Richard Jaffe of Stifel Nicolaus estimates that a 5% appreciation in the yuan versus the dollar would result in 2%-15% hit to 2011 earnings for those retailers sourcing goods from China. Secondly, as the world's second biggest energy consumer, a stronger yuan would make energy cheaper for China. Higher demand out of China would likely drive up the price of oil for the rest of the world. Finally, the U.S. could see higher borrowing rates as the incremental buyer of Treasurys, China, pulls back from the market.

10-Year Treasury Yields Fall Back Below 3.0%

The yield on the 10-year U.S. Treasury dropped below 3.0% for the first time since April 2009, ending the quarter at 2.93%. Bill Gross, manager of the world's largest bond fund at Pacific Investment Management Company, was on record as buying Treasurys in the second quarter after having avoided the Treasury market earlier in the year. He was quoted in a June radio interview with Bloomberg's Tom Keene as saying, "The U.S. is the least dirty shirt. The world is full of dirty shirts in terms of excessive debt, and the United States is one of those countries, but it still remains the reserve currency and still remains the flight-to-quality haven."

The lower yields should benefit the government at a time when it is issuing large amounts of debt. Facing a forecasted deficit of $1.5 trillion for the current fiscal year ending September 30th, the government is planning to issue $1.7 trillion in debt. The benefits of the lower borrowing costs will accrue over time as the government locks in lower longer-term interest rates.

Another benefit of lower Treasury yields is lower mortgage rates. Mortgage rates are keyed off the 10-year Treasury yield and, with the drop in the 10-year, have fallen back below 5.0%. According to Freddie Mac, the average rate on a typical 30-year home loan fell to 4.58% in the week ending July 1 from the year's high of 5.21% in April. Strategists surveyed by the Wall Street Journal say 2.8% is the key threshold level for 10-year yields. A breach of the 2.8% yield level would likely drive mortgage rates below 4.5%, enticing homeowners who have taken out loans at 5% to 6% over the last 12 to 18 months to consider refinancing.

The Euro and the European Banks Stress Tests

The escalation of the European sovereign debt crisis was arguably the most significant event of the quarter. As the Eurozone struggled with liquidity challenges facing some of its member nations, and as fears of contagion gripped global markets, the euro suffered a quarterly decline of over 12% versus the U.S. dollar. At one point in early June the euro was down over 20% versus its December peak.

The next major challenge for the currency will likely take place on July 23 with the release of the European bank stress-test results. This round of tests will greatly expand upon the 22 top banks tested a year ago. According to European officials, the scope of the tests will be widened to 91 banks and the worst case scenario that will be used to judge the banks is an assumed 2% decline in 2010 GDP and a 1.25% decline in 2011. This compares to current expectations of modest positive growth in both years.

There continues to be quite a bit of criticism directed at the transparency of the tests. Unlike the 21-page 'white paper' released by the U.S. detailing the results of their stress tests conducted in May 2009, the Committee of European Banking Supervisors intends to limit the disclosure about the tests' criteria to a 2-page release listing one macro-economic assumption and not disclosing loss rates. If investors do not receive a satisfactory level of disclosure, the exercise may do little to restore confidence in the Eurozone.

COMMENTARY: Managing Risk in an Uncertain World

The first half of 2010 ended with significant questions about the economy, especially in the U.S. and Europe, and whether stocks can regain the momentum of 2009. After a minor downtrend in January, stocks rallied until the last week of April, at which point a major correction (a market drop of between 10 and 20 percent) began, lasting through June. The equally important question is whether this correction, which is normal in a bull market, remains a correction or turns into a more serious bear market, defined as a stock market decline of 20% or more.

Given the questions in the economy and fragile state of the stock market, managing risk carefully is certainly as important as ever for investors. However, it is nearly impossible to effectively move in and out of the stock market based upon perceived short-term movements in prices with the expectations of significantly adding more return. The odds are heavily stacked against such a strategy for a number of reasons; one of which is stock prices often achieve much of their upward performance in very short periods of time. Another reason is in the short term, prices are driven by investor psychology which reflects aversion to risk. As aversion to risk declines, prices in the stock market rise and vice versa. The difficulty in the short term is that human emotions of fear and greed can cause investor psychology to turn quickly. Further, these changes in risk aversion sometimes prove correct while other times they do not. Sometimes fear and greed grow to extremes and risk aversion rises and falls accordingly. Obviously risk aversion increased dramatically in 2008 as prices tumbled. The same thing happened in late April on a lesser scale as fears about Europe, a double dip recession in the economy and inflation caused risk aversion to increase, thus the 10% correction in the stock market.

Longer term, the direction of stock prices is driven by the outlook for the economic cycle, which drives earnings. Bear markets anticipate and price in economic recessions and fear. Bull markets anticipate and price in economic recoveries and economic growth. The economic cycle can be portioned into four phases:

1) Economic growth is negative and deteriorating;
2) Economic growth is negative but improving (may be less negative);
3) Economic growth is positive and accelerating; and
4) Economic growth is positive but decelerating.

Financial markets and asset classes will be impacted differently by each of these phases. In Phase 1 bonds tend to perform very well as short-term interest rates are cut. Long-term rates also decline because of less inflationary pressures and financing demands. Stocks usually do not perform well in this phase as earnings growth declines. In Phase 2, however, stocks tend to perform much better as most of the bad news has been incorporated into stock prices and investors begin to anticipate an economic recovery. For example, stock prices improved before the economy in 1991, 2003 and 2009 because the fear factor and risk aversion decreased as investors anticipated a better economy. As economic growth moves to positive from negative and is accelerating (Phase 3), stocks also tend to do well. Commodities often perform very well in this phase, sometimes better than stocks, because of increased inflationary expectations and demand. Bonds do not perform as well in this phase as the Federal Reserve (Fed) raises interest rates to slow the economy and lessen inflationary expectations. Once economic growth peaks and begins to decelerate (Phase 4), stocks begin to anticipate and price in a potential recession. The magnitude of the economic slowdown and the ultimate decline in earnings will dictate how far the stock market declines in this phase. These are the phases of a *normal* business cycle and how different asset classes should react in each.

For investors the challenge in deriving action-oriented decisions based upon this information is more difficult because so much of what happens with security prices in the financial markets is anticipatory and, as mentioned, is not always accurate. Compounding the difficulty today is an environment that is anything but *normal.* Certainly 2008 can be classified as a Phase 1 economic cycle. Beginning in March 2009, the metamorphosis to Phase 2 ensued and the stock market improved dramatically. In a normal economic cycle, Phase 3 would likely appear this year. However, recessions caused by the financial system sometimes do not play out as expected. Economic growth may stay positive but not accelerate as in past economic recoveries, or the economy could move quickly into Phase 4 and then back into Phase 1. Should the latter scenarios play out, a positive outlook for the stock market might be called into question. To date, this has been an atypical economic cycle as the Fed has not found it necessary to tighten monetary policy to temper economic growth by raising interest rates. If we were to move into

Phase 1 at this point, contrary to what is typically seen, bonds could very likely produce sub-par returns as short-term and long-term rates are already at low levels.

Further complicating the matter is the global nature of the economic dislocations currently being experienced. At the recent G-20 meeting the member countries agreed to cut fiscal deficits in half by 2013. This could pull the props out from under a global economic recovery. The U.S. wanted to maintain a fiscal stimulus and not worry about deficits while European countries wanted fiscal austerity and smaller deficits. This coordinated effort to cut deficits could cause a double-dip recession, harm the banking system and create a period of deflation much like Japan has experienced. The U.S. position could create inflation. The easiest way to reduce deficits would be to experience robust economic growth, which means world economies would need to remain in Phase 3 for several years. Only time will tell if the G-20 decision was right or wrong. The actions of the markets to-date suggest it was the wrong decision, but the markets have been wrong in the short term many times.

To be sure, there is plenty of conflicting data that renders forecasting market direction nearly impossible. For example, falling treasury rates can be a signal of a weakening economy, but a recession has never occurred when the yield curve is as steeply positive as it is now. The Baltic Dry Index (measuring the daily shipping rates for dry bulk vessels that carry cargoes of iron ore, crude oil and other commodities) indicates shipping has declined to levels last seen in May of 2009, but at the same time the decline may be caused by congested ports and a surplus of ships becoming available for transport. The market has declined for the first time in quite a while ahead of earnings announcements. This could indicate the market's belief that earnings expectations are higher than they should be. However, because earnings announcements typically exceed estimates, it may be the recent sell off was too steep and a move higher is in order. (Corporate earnings are still growing robustly and S&P 500 earnings are forecast to grow by 22% in 2010. Even after the higher first quarter 2010 earnings announcements were made, analysts increased their estimates for the remainder of the year.)

These are just a few examples of the conflicting data and the complex nature of the economy that face investors today. Portioning the economic cycle into four phases seems simple in theory, but in practice identifying the current phase and transition points is much more difficult. The past is rarely prologue to the future and as such investing in the financial markets is inherently difficult. To be successful, particularly in this environment with so much uncertainty, requires the ability to understand and see past current conditions, all the while maintaining the conviction necessary to make modifications to or adhere to decisions within the framework of a well developed investment policy and a well thought out and long-term investment process.

"For an athlete to function properly, he must be intent. There has to be a definite purpose and goal if you are to progress. If you are not intent about what you are doing, you aren't able to resist the temptation to do something else that might be more fun at the moment." – ***John R. Wooden*** *(October 14, 1910 – June 4, 2010)*

July, 2010