



Results for the first quarter 2011 benefited from continued good performance from U.S. equities. Non-U.S. equities were also up for the quarter, but generally only half as much as their counterpart indexes in the U.S. Interest rates on longer maturity Treasury bonds have risen about 1% over the last several months, which had a negative on domestic bond valuations, with the exception of the high yield sector. High yield bonds continued to perform well, in line with the rise in equities. Corporate profitability and balance sheets remain extremely healthy, and we expect these trends to remain in effect the remainder of the year, assuming economic recovery trudges forward.

Most industry sectors performed well during the first quarter, but energy not surprisingly dominated the other sectors. If one were over weighted oil and gas, then portfolios were positioned to outperform. A barrel of WTI oil has risen over 15% over the past three months, some due to higher demand, but most of the rise being attributable to heightened tensions in the Middle East. Sustained high oil, for example, greater than \$120 a barrel, could have a deleterious effect on consumer demand for other goods and services, and the economy as a whole. At present, we tend to think the Middle East instability will subside in fairly short order, and oil could pull back a bit in response, to the benefit of other industry sectors as the year progresses.

We remain fairly certain that interest rates will revert to higher and more normal levels, particularly since we're starting to see significant price inflation in food, clothing, and of course, energy. This will have a negative effect on bonds, and we've anticipated this trend by maintaining fairly short portfolio durations aimed at reducing interest rate risk and while maintaining moderate income flows from bonds.

For income-oriented investors, in light of what's happening to bonds, we've placed even greater emphasis on holdings of dividend-paying equities, particularly among companies positioned to increase dividends given the cash hoards built up over the last two years. Master limited partnerships (MLPs), unusually strong performers over the past two years, remain a core holding in many portfolios, however, returns are likely to be more in line with historic norms. We're still seeing excellent opportunities to add to dividend equities within utilities, telecoms, industrials (e.g., defense contractors), and non-U.S. equity issuers from countries such as Canada, Germany, and parts of Asia/Australia. The latter should provide some secondary benefit if the U.S. dollar further weakens relative to most other currencies.

This has been an unusually slow, but steady economic recovery when compared to periods following past recessions, however we are finally seeing hints of improvement in the jobs market here in the U.S. We expect this trend to continue and any improvement is a big positive for consumer sentiment and spending. Spending held up very well the second half of 2010 and continued through the first quarter. We will watch this very closely over the coming months, and see how this balances out relative to the higher energy costs affecting most households.

Aside from the ongoing problems throughout the world, European sovereign debt, the Middle East, Japan being the most prominent, we remain optimistic about the overall direction and magnitude of improving conditions. This has led to exploring opportunities in adding to technology and consumer discretionary holdings in some portfolios, and we generally are adding to non-U.S. equities as well.

Thank you for your continued confidence in our abilities to provide you service, and rest assured we will work hard in evaluating and executing on opportunities that best meet your investment needs.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joseph Tatusko", with a long horizontal flourish extending to the right.

Joseph Tatusko, CFA