



The 2010 second quarter results for your portfolio generally felt some, but not all, of the downward draft that affected most equity markets around the world. There were relatively few bright spots amongst equities with the exception of selected utilities and most master limited partnerships (MLPs), the latter again performing very well in a difficult environment otherwise. Fixed income (bonds), being negatively correlated to equities, also performed very well. Fixed income securities provide stability and steadier returns during periods when equities' volatility escalates, and this was certainly true during the second quarter of 2010.

Earlier in the quarter, we were sellers of select bonds to capture profits and reduce most portfolios' interest rate risk, one of our stated goals from earlier in the year. Proceeds from these sales early in the quarter tended to be reinvested in domestic equities offering high dividend yields, however, sales of bonds and new purchases of equities slowed as the quarter progressed and uncertainty about the direction of economy escalated. Generally speaking, we tended to allow cash balances to grow to greater levels than normal in the face of the second quarter's difficult market conditions. Fortunately, most equity markets reverted upward in July in response to many companies posting excellent second quarter earnings reports. Earnings season also presents interesting select opportunities to purchase what appear to be relatively cheap, fundamentally very sound equities that temporarily trade down on relatively minor news or revenue/earnings misses.

The accompanying Economic and Markets Commentary, which summarizes performance in the equity and debt markets, identifies trends we're anticipating as we head into the second half of 2010 and start thinking about 2011. We continue to focus on the growth theme, but this recovery is expected to take longer and roll out slower compared to past recoveries from recession. As a consequence, we expect relatively modest market performance in light of what is likely to be tepid economic growth the remainder of the year. Dividends and interest income could be significant components to achieving acceptable returns in excess of the rate of inflation in this kind of environment, and we have positioned many portfolios to reflect this belief.

In short, we want to emphasize that the economy still remains on a growth path, but there are no quick solutions to high unemployment, a still battered housing sector, and consumer confidence still a notch or two below where we'd like to see it. Growth will benefit the markets, but in a manner that requires patience and time for healing from the hangover of the 2008-09 recession.

We are aware that many clients remain wary of the markets and encourage everyone to contact us anytime to discuss your asset allocation and to share thoughts on your portfolio or changing needs.

Sincerely,

A handwritten signature in blue ink that reads "Joseph Tatusko". The signature is fluid and cursive, with a long horizontal line extending from the end.

Joseph Tatusko, CFA