WESTPORT RESOURCES

Markets Summary and Economic Outlook June 30, 2011

Second quarter 2011 results for most equity markets ended little changed compared to the first quarter, masking a growing sense of unease by some about the state of the economy. The perception of higher than expected inflation, debt problems affecting the Eurozone and Greece in particular, the U.S. debt ceiling impasse, and slowing economic and jobs growth in the U.S. were prominent issues the markets had to face down during the second quarter, some of which remain at the forefront as we head into the third quarter.

We have to take care, however, in maintaining a balanced view of the future, no matter how difficult that might be while slowly climbing back following a deep recession. In our view, the positives still outweigh the negatives, and the second half of the year could turn out surprisingly well. Even if it has slowed a bit the past three months, it's worth emphasizing that the economy continues to grow. Disposable income, retail sales, new orders for durable goods, purchasing manager data, and industrial production are doing quite well year-to-date. There has been a slight slowing in the steep rebound in corporate profits, but they have never been better even as the financial sector still struggles. We may even see material improvement in the jobs data toward year-end, something long overdue, and this has been the prime factor behind the slow recovery.

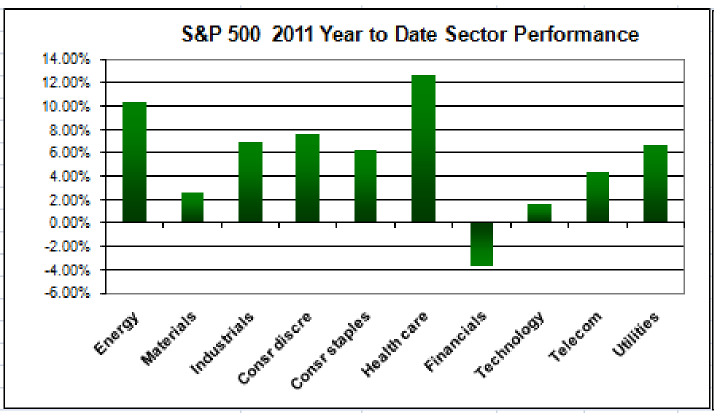
The following table summarizes the performance of the major indices the first half of 2011 compared to the full year 2010. The S&P 500, an index comprised of large and mid-size companies rose a very modest **0.1%** during the second quarter (up **6.0%** year-to-date through June 30, 2011). The NASDAQ Composite, heavily weighted in technology stocks, actually fell **-0.03%** during the second quarter (up **5.0%** y-t-d). The Russell 2000, an index of U.S. small cap stocks, dropped **-1.1%** in the second quarter (up **6.2%** y-t-d). The MSCI EAFE Index, a broad composite of non-U.S. stocks was up **1.8%**, and the MSCI Emerging Markets Index was down **-1.1**. It may seem counterintuitive given endless bad press but the European markets generally have outperformed other regions thus far in 2011.

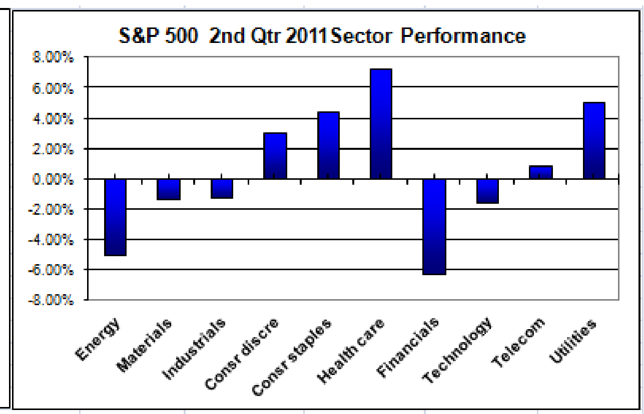
The Dow Jones Real Estate Index, comprised of real estate investment trusts (REITs), was up a remarkable **2.7%** for the quarter, and was up **10.1%** through June, and this comes on top of a **26.9%** rise in 2010. The exceptionally low interest rate environment has been highly beneficial in propping up commercial real estate and the big REITs in particular.

Total returns for major indexes (1)	First half 2011	2010 (full year)
S&P 500	6.0%	15.1%
NASDAQ composite	5.0%	18.2%
Russell 2000	6.2%	26.9%
MSCI EAFE	5.4%	7.8%
MSCI Emerging Markets	0.8%	18.9%
DJ Real Estate	10.1%	26.9%
Barclays Aggregate Bond	2.7%	6.5%
DJ-UBS Commodity	-2.6%	16.7%

The Barclays Aggregate Bond Index, comprised of Treasuries, agency, and investment grade corporate bonds, was up **2.3%** during the second quarter (**2.7%** y-t-d), as U.S. agency and Treasury bonds rallied in a flight to quality. The 10-year Treasury rate dropped nearly 50 basis points during the quarter (bond prices rise when interest rates fall). We continue to believe there is a high probability of higher interest rates over the next couple of years, which could result in very modest returns, or even losses, for intermediate to long-term bonds. High yield bonds have also performed well thus far in 2011, as default rates have dropped to near record lows.

Turning to sector performance during the second quarter, health care performed exceptionally well, followed by utilities, and the consumer-oriented sectors. The health care sector was driven primarily by a strong rally among the managed care companies such as Wellpoint and Cigna. The financial sector fared particularly poorly during the quarter, while the energy sector pulled back a bit as the price of oil fell over the quarter. The difficulty in the financial sector was felt across the board from large to regional banks and insurance companies. This may present opportunities down the road among some of the higher quality names within the financial sector. Technology, one of the larger industry sectors in the U.S., also took a step backward, probably out of fear that capital spending might slow. As is the case for the financials, there appear to be some interesting opportunities within technology if one holds a positive outlook on capital and consumer spending over the next year.





It might surprise some that Europe witnessed very strong performance in the equity markets (see below). France, Germany, and even Spain were among the best performing markets for the second quarter and year-to-date. The emerging markets have struggled in 2011, following a strong 5-year run. The threat of higher inflation was likely a major factor behind the relatively weak performance in the emerging world, but there appeared increasingly prominent risks affecting certain of the large emerging markets countries. China, for instance, faces substantial inflation risk and there are growing concerns that the property market may be headed for a severe downward shock, which would also cause disruptions within the indigenous financial sector. It also may not be smooth sailing for resource-rich Brazil, another of the large emerging markets countries that has demonstrated strong 5-year performance, as new worries surface about the scale of household debt and the sustainability of internal consumer demand over the next twelve months.

Best performing foreign equties 5-year annualized

Index Name	Return▼	Rela
Single Country		
MSCI Malaysia Index (07/01/2011)	+19.98%	
MSCI Brazil Index(SM) (06/30/2011)	+18.19%	
MSCI China Index (07/01/2011)	+15.67%	
MSCI Singapore Index (07/01/2011)	+14.07%	
FTSE China 25 Index (06/30/2011)	+13.33%	
MSCI South Africa Index (06/30/2011)	+12.42%	
MSCI Hong Kong Index (07/01/2011)	+10.31%	
MSCI Australia Index (07/01/2011)	+9.58%	
MSCI Korea Index(SM) (07/01/2011)	+9.23%	
MSCI Sweden Index (06/30/2011)	+8.36%	
MSCI Canada Index (06/30/2011)	+8.07%	

YTD through 6/30/2011

Index Name	Return▼	R
Single Country		
MSCI France Index (06/30/2011)	+15.54%	
MSCI Spain Index (06/30/2011)	+15.50%	
MSCI Germany Index (06/30/2011)	+14.21%	
MSCI Indonesia Investable Market Index (07/01/2011)	+13.23%	
MSCI New Zealand Investable Market Index (07/01/2011)	+12.30%	
MSCI Ireland Investable Market 25 / 50 Index (06/30/2011)	+12.24%	
MSCI Italy Index (06/30/2011)	+10.82%	
MSCI Poland Investable Market Index (06/30/2011)	+10.80%	
MSCI Korea Index(SM) (07/01/2011)	+9.89%	
MSCI Russia 25 / 50 Index (06/30/2011)	+8.99%	
MSCI Malaysia Index (07/01/2011)	+8.62%	

Worst YTD through 6/30/2011

Index Name	Return▼
MSCI Brazil Small Cap Index (06/30/2011)	-0.11%
MSCI Mexico Investable Market Index (06/30/2011)	-0.28%
MSCI Hong Kong Index (07/01/2011)	-1.37%
MSCI Brazil Index(SM) (06/30/2011)	-1.65%
MSCI Taiwan Index(SM) (07/01/2011)	-1.84%
MSCI Chile Investable Market Index (06/30/2011)	-3.30%
MSCI South Africa Index (06/30/2011)	-3.80%
MSCI Japan Index(SM) (07/01/2011)	-4.36%
MSCI Turkey Investable Market Index (06/30/2011)	-8.02%
MSCI Israel Capped Investable Market Index (06/30/2011)	-8.38%
MSCI China Small Cap Index (06/30/2011)	-10.45%
MSCI All Peru Capped Index (06/30/2011)	-23.18%

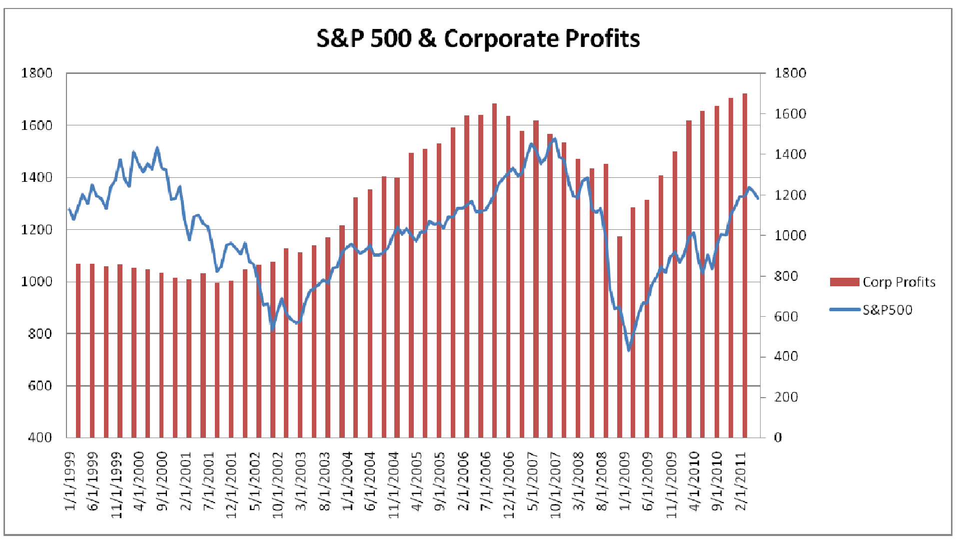
Source: Blackrock

WESTPORT RESOURCES

2011 Mid-Year Outlook

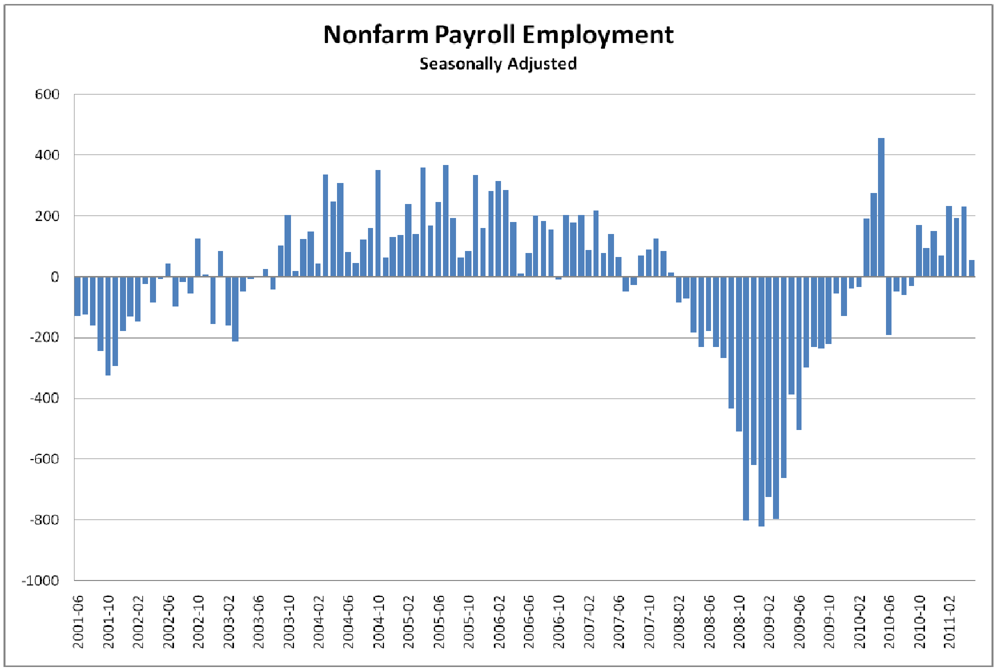
The U.S. economy slowed during the first quarter and growth appears to have remained sluggish through much of the second quarter. Real GDP grew 1.8% annualized during the first quarter, down from 3.1% for the fourth quarter 2010. We maintain a view that economic activity should pick up the second half of the year, which could provide corporate revenue surprises on the upside, helping to maintain the overall trend in corporate profits (chart below). Notice the correlation between corporate profitability and equity performance. Most times they trend together strongly, a notable exception occurring back in the dot.com days, which should have been a warning at the time. Strong current corporate profitability and future expectations for further profit growth generally bode well for the equity markets.

Much has been written that recent record profitability has come about mainly from cost cutting rather than revenue growth. The reality is that increased profitability has come about from both higher revenue and lower costs, contributing to excellent operating margins for many U.S. companies, an exception being the financial sector. It is true that little low hanging fruit remains in the form of future cost savings, therefore the driver of future profits growth will have to come from improvement in top line revenue.



Corporate profits with IVA & CCADJ source: Bureau of Economic Analysis

We're also very focused on the monthly jobs growth numbers. Jobs growth and losses are closely tied to the business cycle (period spanning economic growth to contraction), and ultimately to corporate profits. With more jobs comes greater disposable income, increased consumer confidence, an incentive for corporations to increase capital spending which eventually triggers higher revenues. Consider the next chart. We started to see sustained monthly job losses beginning in early 2008, mainly in the construction sector as the housing boom collapsed, which quickly spread to most other sectors over the succeeding months. Jobs growth since 2009 has been relatively weak compared to past recoveries. We were on track to add about 200,000 private sector jobs on a monthly basis, but jobs growth slowed to 54,000 in May. Monthly jobs growth would have to be over 300,000 to make a dent in the unemployment rate, which stands at a very sticky 9.1%, and this task is even harder when you consider that state and local government headcount is likely to drop 30,000 a month the next few months.



Source: Bureau of Labor Statistics

What this demonstrates is that out of all the daily noise, there are really just a few factors on which we place special emphasis while monitoring magnitude and direction. Right now, our belief is that future jobs growth holds the key to how well the economy and the markets perform over the next couple of years. It's not what happens in Greece or Portugal (and exactly what effect does this have on the U.S. consumer?), when and by how much the debt ceiling will be raised (it will be by the way), or the threat of Weimar Republic-like hyperinflation (periodic spikes in commodity prices mean revert and are not a major factor determining future inflation rates), it's jobs and only jobs.

Portfolio Implications for mid-2011

- Equity valuations for the most part appear very reasonable, based on both current and future estimated earnings. Future earnings are obviously not predictable, but the outlook for at the least the next six months looks reasonably good. Volatility is well down (running around 15 at the moment), indicating that near term there really isn't much fear in the markets. From a valuation standpoint there are several sectors that appear attractive and may present interesting opportunities, a few of which include pockets of technology, industrials, health care, and even retail.

- Income oriented investors would do well to stick with a mix of domestic and non-U.S. dividend paying equities and very selective fixed income holdings. Our belief is that fixed income should focus on relatively short average duration to minimize interest rate risk. Rates on bonds have risen the last couple of weeks and a 4% 10-year Treasury bond may not be too far off, especially if the second half economic activity gathers steam. Some of our traditional distribution-centric holdings, like master limited partnerships, have pulled back recently and may offer opportunities to gain additional exposure to gain some very attractive yield if the price is right. , Some MLPs we like are back in the 7.5% to 9% yield range.

- Over the near term, our bias is to favor the developed markets over emerging markets when considering exposure to equities. The emerging markets may have some growing pains as we mentioned above For example, what might happen to property values in China?

- We are just getting started with the second quarter earnings season, so slight misses off of consensus expectations may also provide unique opportunities to acquire quality holdings at especially attractive price points.

Joseph Tatusko CFP®, CFA

jtatusko@westportresources.com

(1) Total returns include capital gains and losses plus dividend and interest payments received and reinvested over the periods described. S&P 500 is an index of U.S. large and mid cap stocks; NASDAQ is the NASDAQ Composite Index; Russell 2000 is an index of U.S. small cap stocks; EAFE is the MSCI index of stocks from Europe, Australia, and Far East; Emerg Mkts is the MSCI Emerging Markets Index; DJ Real Estate is an index of traded U.S. REITs (real estate investment trusts); Barclay's Aggregate is an index of U.S. Treasury, agency, and investment grade corporate bonds; DJ-UBS Commodity is a total return index of futures contracts on metal, agricultural, and energy commodities. Sources for all returns data include Barclays, Bloomberg, Dow Jones, Russell Investments, Standard & Poor's, and Thomson Reuters. Currency return data was obtained from the Federal Reserve.

315 Post Road West • P.O. Box 3089 • Westport, CT 06880 • (203) 226-0222 • Fax: (203) 454-4706
WESTPORT RESOURCES MANAGEMENT, Inc an Investment Advisor, registered with the SEC and The State of Connecticut