

<i>INVESTMENT STRATEGY OVERVIEW</i>
--

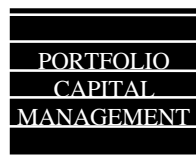
On the heels of the worst first quarter decline in percentage terms since 1939, the markets staged an impressive rally during the second quarter bringing four of the five markets outlined below into positive territory for the year.

	<u>Value</u>	<u>June</u>	<u>3 Months</u>	<u>2009 YTD</u>
DJIA	8447.00	- 0.6%	+ 11.0%	- 3.5%
S&P 500	919.32	+ 0.0%	+ 15.2%	+ 1.8%
NASDAQ Comp.	1373.64	+ 3.4%	+ 20.0%	+ 16.4%
Value Line 1700	244.80	+ 0.0%	+ 26.4%	+ 8.4%
Russell 2000	508.28	+ 1.3%	+ 20.2%	+ 1.8%

The market averages rallied sharply in the second quarter, with only the DJIA lagging the other averages as it was hindered by both General Motors and American International Group who are now no longer in the DJIA. The NASDAQ was the strongest as technology stocks led the market rally. The markets impressive performance came in the face of the long awaited “stress” test at the banks. To virtually no one’s surprise all of the banks “passed” the stress tests. Furthermore, the market grabbed hold of the new buzz word “green shoots” and almost every economic report was viewed as possessing “green shoots.” At the very least the economic reports were considered “less bad” and have economists believing the current recession is in a bottoming phase.

The GDP declined 5.6% in the first quarter as the rate of decline slowed from the dismal fourth quarter number of negative 6.2%. Most market commentators looked to the draw down of inventories and modest inflation as signs that the free fall in GDP would come to an end during the second quarter. In fact there are a few economists who believe we might even have a slightly positive second quarter GDP number. We don’t subscribe to that line of thinking however; we do believe we’ll see positive GDP in the second half of this year. While the economy is stabilizing, unemployment continues to show job losses and housing has remained very weak as foreclosure sales are depressing housing prices even further. Unemployment currently stands at 9.4%, and we’re likely to exceed the 10% threshold before the recession is over. The economy has tremendous excess capacity and when businesses begin to expand they will increase the average work week of existing employees before adding any new hires. As a result the recovery in jobs will lag the recovery in corporate profits.

Economic reports such as the Chicago Purchasing Managers’ Index showed a modest up tick to 39.9 in June versus 34.9 May. While this is an improvement, a number below 50 indicates a contraction. The Case Shiller Home Price Index showed modest improvement; however, year over year home prices declined 18.1%. The decline in prices reflects continued foreclosures and distressed sales.



We saw two auto bankruptcies in the quarter as both Chrysler and General Motors were forced into bankruptcy by the Federal Government. The Government is moving to shrink and/or break up these two companies quickly so they can emerge from bankruptcy. While we are hopeful the newly restructured companies will compete and become profitable the return of Government loans remains uncertain at best. In addition, the ability to emerge from bankruptcy quickly may be delayed by the various lawsuits brought by various States challenging the closing of local auto dealerships.

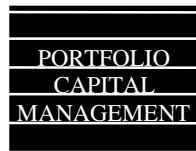
As we discussed last quarter we are in unprecedented times as the role and influence of our Government on the free enterprise system reaches levels previously thought unthinkable. The financial and auto bailouts are the most recent examples. The Obama Administration next agenda item is reforming Health Care. While the system has flaws and should be improved we remain skeptical of the cost savings the administration hopes to achieve with the plan that is being proposed. Likewise the recent passage of Cap and Trade legislation in the house is going to ultimately raise taxes and the cost of energy to the consumer over the next several years.

All of these factors discussed above leads us to the conclusion that market volatility will remain and sufficient time will be needed before a sustained advance occurs in the market. We will need to be opportunistic, taking advantage of attractive opportunities and showing a willingness to capture profits, even if those profits are short term.

Stock Market Outlook/Strategy

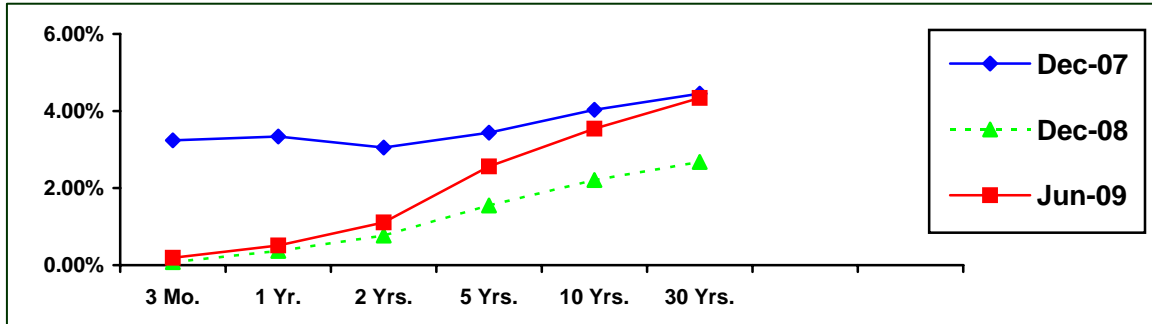
The stock market is in the midst of a strong rally. From the lows in early March the market has rallied over 30%, moving to the higher end of the trading range we envisioned earlier this year. The S&P ended the quarter at 919. We had previously indicated the market would likely remain in a broad trading range of 700-950. We continue to forecast the markets will remain volatile and market participants may be getting a little too bullish. The March lows of just under 667 on the S&P 500 was forecasting Armageddon. We believe the market needs to further consolidate this advance before moving higher. Furthermore, the market needs a strong rebound in corporate profits to support the current level of the market. We believe the improvement in corporate profits is not likely to occur until the fourth quarter of this year or early next year.

During the second quarter we made modest changes to the portfolios. We sold Thermo Scientific (TMO) and reduced our holding in Abbott Labs (ABT). We added to our positions in AFLAC (AFL), and AT&T (T) in selected accounts.



Fixed Income Outlook

The Federal Reserve has maintained the Federal Funds Rate in 0.00% to 0.25% range. The focus of the Federal Reserve has been to provide liquidity and work towards moving the credit markets back to “normalcy.” Yields have risen sharply in maturities beyond five years. The increase reflects the dramatic increase in supply and fear by investors that inflation will be higher in the future. As expected, shorter maturities have risen less than longer maturities.



	<u>12/31/07</u>	<u>12/31/08</u>	<u>06/30/09</u>	<u>2009 Change</u>
3 Mos.	3.24 %	0.08 %	0.19 %	0.11 %
1 Yr.	3.34 %	0.37 %	0.51 %	0.14 %
2 Yrs.	3.05 %	0.77 %	1.11 %	0.34 %
5 Yrs.	3.44 %	1.55 %	2.56 %	1.01 %
10 Yrs.	4.03 %	2.21 %	3.54 %	1.33 %
30 Yrs.	4.45 %	2.68 %	4.34 %	1.66 %

The yield curve shown above has become more positively sloped, forcing investor into longer maturities. Yield spreads on all other debt, Government Agency, corporate bonds, and municipal bonds have remained wide compared to Treasury's. While rates may stay low for a while longer, once investors believe an economic recovery is at hand, Treasury yields will move sharply higher. We believe this recent increase in yield spreads are providing attractive investments opportunities. As the credit markets stabilize, the opportunity to purchase attractively priced corporate bonds and municipal bonds will provide investors with good returns in these sectors.

