

July 1, 2011

<i>INVESTMENT STRATEGY OVERVIEW</i>
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The stock market sold off during the second quarter as investors worried about an assortment of issues that included sovereign debt in the Eurozone.

	<u>Value</u>	<u>June</u>	<u>3 Months</u>	<u>2011 YTD</u>
DJIA	12414.34	- 1.2%	+ 0.8%	+ 7.2%
S&P 500	1320.64	- 1.8%	- 0.4%	+ 5.0%
NASDAQ Comp.	2773.52	- 2.2%	- 0.3%	+ 4.5%
Value Line Geom.	383.64	- 2.7%	- 2.3%	+ 3.1%
Russell 2000	827.43	- 2.5%	- 1.9%	+ 5.6%

Notes: S&P 500 and DJIA Index returns exclude reinvested dividends.

Source: Thomson Reuters Baseline

The market averages rallied sharply in the last week of June, but not enough to erase the decline which occurred in the second quarter. The market fell victim to the reduction of economic growth estimates for the second quarter, as well as the ongoing saga of debt restructuring in Greece. For the time being it appears the European Union will provide funding for Greece following the Greek Parliament's agreement to austerity measures despite wide spread citizen protest.

Economic growth in the U.S. will likely fall into the 2.0% area for the second quarter. The "soft patch" appears to be temporary as recent IMS Manufacturing Index shows a pickup in activity in June. Likewise other economic reports have shown improvement in the month. The consumer continues to tread water as fluctuating gasoline prices, and higher food prices are beginning to show up in price inflation.

Most economists expect a pickup in economic activity during the second half of the year. As production returns to normal in most of Japan, U.S. auto production is expected to see a meaningful increase in the third and fourth quarter, as supply disruptions end and parts supply returns to normal.

The administration and Congress continue to wrestle with the upcoming debt ceiling. Republicans do not want tax rates raised and the President and the Democrats see rising revenues as the only answer. Recently, some Republicans have expressed a willingness to consider the elimination of some tax deductions as a means to solve the impasse. Most experts believe an 11th hour compromise will be reached with some combination of tax increases and entitlement spending reductions.

Corporate profits are expected to continue to show improvement as we enter the second quarter earnings season later in the month. Corporate management has done a good job in controlling Wall Street analyst's estimates, so the majority of reporting companies have been able to meet or exceed consensus earnings estimates.



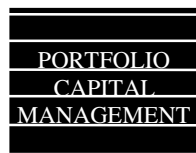
Stock Market Outlook/Strategy

The weakness in the stock market during the second quarter was concentrated in financial stocks, housing, and selective commodities. The move to defensive sectors of the market, such as healthcare, consumer nondurables, and utilities was clearly evident in the second quarter. The sharp drop in silver prices during the second quarter was clear evidence that institutional investors were reducing risk.

The correction in the market from the April 2011 highs was just under 7%. The correction moved many stocks below their 50 day moving averages, but many held above the longer term 200 day moving averages. These same conditions existed for the major market averages. The S&P 500 has held the 1250 to 1270 range successfully twice this year. The successful test in the last week of June contributed to the strong rally in the final days of the month. The rally also coincided with the Greek vote on austerity measures.

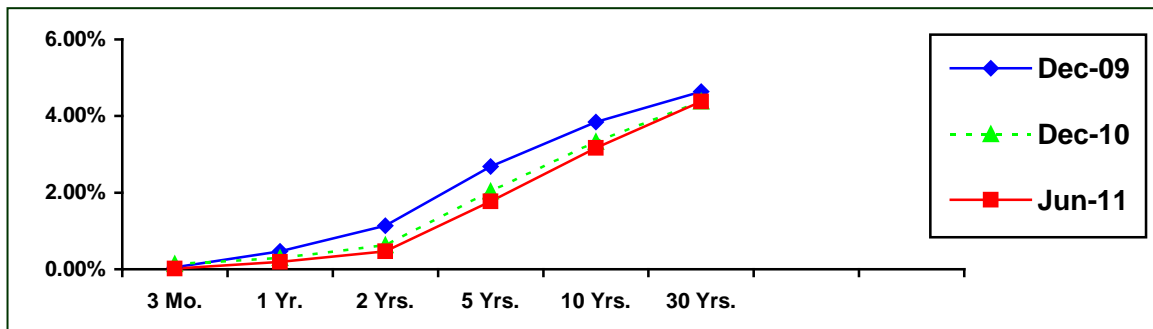
During the second quarter of 2011, we made no significant changes to the Large Capitalization Core portfolios. As we start the third quarter, however, we anticipate making several changes to the portfolio. We plan on selling Becton Dickinson (BDX) and Target (TGT). We will be replacing those names with Mylan Lab (MYL), a generic pharmaceutical company, and TJX Companies (TJX), a specialty discount retailer. Likewise, we plan on adding Joy Global, an equipment mining manufacturer. In the Enhanced Yield Portfolio in the second quarter we sold Altria (MO) and Progress Energy (PGN). We replaced the sales with McDonalds (MCD), a fast food company, and Mattel (MAT), a toy manufacturer.

During the second quarter our performance in the Enhanced Yield and All Cap portfolios exceeded the benchmarks. The Large Cap Core portfolio moderately trailed the S&P 500. The short fall was attributable to selective stocks in the financial, consumer durable and commodity industries. We are confident the change planned for the third quarter will improve the relative performance of the strategy. The strategy has performed well over the long term and we believe our disciplined investment strategy and selection process will reward our clients over the long term.



Fixed Income Outlook

The Federal Reserve, as expected, kept Federal Funds Rate in the 0.00% to 0.25% range. The Federal Open Market Committee (FOMC) reiterated their intention to keep rates “exceptionally low” for an “extended period of time.” A notable change in the Fed statement was the addition of “financial conditions have become less supportive for economic growth” due to the Europe’s debt crisis. With the end of QE2 (Quantitative Easing) at the end of this quarter interest rates moved slightly higher. The flight to quality from the Greece crisis limited the back up in yields. The Federal Reserve has indicated they have no plans for further purchase of Treasury securities to help support the markets. The Fed will continue to reinvest maturities and that will provide continued support to the bond market. Unless the economy weakens materially, we, like most experts, do not anticipate another overt move by the Fed in the coming months.



	<u>12/31/09</u>	<u>12/31/10</u>	<u>06/30/11</u>	<u>2011 Change</u>
3 Mos.	0.05 %	0.13 %	0.02 %	- 0.11 %
1 Yr.	0.47 %	0.29 %	0.19 %	- 0.10 %
2 Yrs.	1.14 %	0.63 %	0.47 %	- 0.16 %
5 Yrs.	2.68 %	2.03 %	1.77 %	- 0.26 %
10 Yrs.	3.84 %	3.33 %	3.17 %	- 0.16 %
30 Yrs.	4.64 %	4.38 %	4.38 %	+ 0.00 %

Source: Thomson Reuters Baseline

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