July 1, 2010

INVESTMENT STRATEGY OVERVIEW

The stock market sold off during the second quarter as investors worried about an assortment of issues that included Sovereign debt in the Eurozone.

	Value	June	3 Months	2010 YTD
DJIA	9774.02	- 3.6%	- 10.0%	- 6.3%
S&P 500	1030.71	- 5.4%	- 11.9%	- 7.6%
NASDAQ Comp.	2109.24	- 6.5%	- 12.0%	- 7.0%
Value Line 1700	295.82	- 7.8%	- 11.6%	- 4.3%
Russell 2000	609.49	- 7.9%	- 10.2%	- 2.5%

Notes: S&P 500 and DJIA Index returns exclude reinvested dividends.
Source: Thomson Reuters Baseline

The market averages fell from the highs reached in the first quarter of 2010. Most averages fell over 10% from recent highs, signaling a market correction. The decline was triggered by global debt concerns, most notably in Greece and Spain. In addition, the financial reform bill working through Congress caused uneasiness as the cost and restrictions to the banks and their future profitability is uncertain. Furthermore, the Gulf oil spill added to the more pessimistic outlook as the final cost and damage to the U.S. coast line is unknown as the spill has not yet been contained. Finally, the housing market recovery continues to face obstacles as the homebuyer tax credit expired during the second quarter and the unemployment rate remains around 10%. The debt concerns enabled the dollar to rally and U.S. interest rates to fall as investors moved to the safety of US debt.

In our last strategy report we indicated economic growth suggested a gradually improving economy with little chance of a “double dip” recession. While we have not seen many economists express this concern recently, we cannot help but think the economic consequences of the “oil spill” will have a meaningful impact on growth in the second half of 2010. We may avoid negative growth in the last half of 2010; however, we expect growth to be hampered at the very least.

The strength of the dollar which began in the first quarter continued in the second quarter. The dollar has risen nearly 20% against the euro as debt concerns plagued several European countries, most notably Greece, Portugal, and Spain. Furthermore, in light of problems overseas investors are re-evaluating the strength of the U.S. economy versus other economies around the world. The prospects for U.S. growth appear to be noticeably better than Europe.

We believe the sluggish recovery will continue to delay the ultimate recovery in housing. Following the end of the new home buyer tax credit last month, new home sales were reported at 300,000, the lowest level on record. In addition initial jobless claims remain in the 450,000 range. Job growth remains anemic and unemployment will likely hover near the current reading of 9.7%. The Federal Reserve has lowered their forecast for economic growth in the second half, which was reported in the most recent statement.

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Stock Market Outlook/Strategy

In our last report we expressed some skepticism concerning the strength of the market. Events taking place during the second quarter caused investors to share our concerns. Despite generally favorable corporate earnings reports in the quarter, the European debt concerns, and the probability of slower growth both domestically and throughout the globe caused investors to sell stocks and move to the sidelines. The major markets have corrected 10% from the first quarter highs. We expect the market to remain in a trading range over the near term. Political news continues to dominate the financial headlines. When this happens it is usually difficult for the markets to make meaningful progress.

An old adage on Wall Street is that the markets like to climb a wall of worry. Although our outlook is for a range bound market for the rest of the year, we are aware that the wall of worry is pretty high and we're hopeful the markets will start to make the climb upward.

During the second quarter of 2010, we made modest changes to the portfolios. We sold Transocean (RIG) due primarily to declining off shore drilling activity, Abbott Labs (ABT), and Schwab & Co. (SCHW). We also sold part of our position in DirecTV (DTV) because the stock had appreciated in value since its purchase and was hitting a near term price target. With the proceeds from some of the sales, we purchased Becton Dickinson (BDX) which manufactures medical supplies and diagnostic equipment and Hartford Financial Services (HIG) a diversified insurance and financial service company.

In our Enhanced Yield Portfolio we sold BP Amoco (BP), Emerson Electric (EMR), Heinz (HNZ), and Paychex (PAYX). With the proceeds from the sales we purchased Bank of Montreal (BMO) a Canadian bank, Diebold (DBD) a maker of self-service banking machines, Kimberly Clark (KMB) a manufacturer of health and hygiene products, 3M (MMM) a manufacturer of tapes and adhesive products, and Sun Life Financial (SLF) a provider of insurance retirement products.

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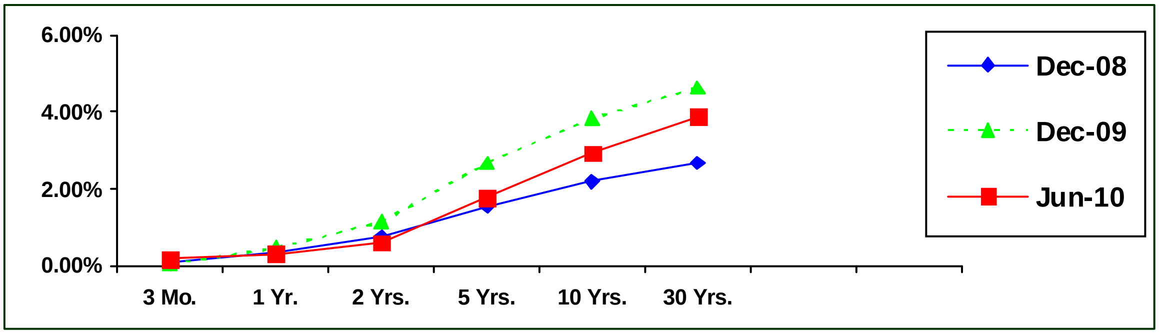
Fixed Income Outlook

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. The yields along the curve are all lower due to the flight to safety.



	12/31/08	12/31/09	06/30/10	2010 Change
3 Mos.	0.08 %	0.05 %	0.18 %	+ 0.13 %
1 Yr.	0.37 %	0.47 %	0.32 %	- 0.15 %
2 Yrs.	0.77 %	1.14 %	0.61 %	- 0.53 %
5 Yrs.	1.55 %	2.68 %	1.78 %	- 0.90 %
10 Yrs.	2.21 %	3.84 %	2.94 %	- 0.90 %
30 Yrs.	2.68 %	4.64 %	3.89 %	- 0.75 %

Source: Thomson Reuters Baseline

Our expectation is that the FOMC will leave the Fed funds rate unchanged at least through 2010 and most likely the first half of 2011. We continue to be selective in our purchase of bonds and prefer the short to intermediate term maturities.

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