CAPITAL MARKETS OUTLOOK

The Economy ♦ Fixed Income ♦ Equities

OVERVIEW … The recent statement from the Federal Open market Committee on the economy is worth repeating:

> "Information received since the Federal Open Market Committee met in April suggests that the pace of economic contraction is slowing. Conditions in financial markets have generally improved in recent months. Household spending has shown further signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Businesses are cutting back on fixed investment and staffing but appear to be making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.
> The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time. "

If the predictive powers of the stock market hold true, the economy should bottom some time in early fall. Although it will take time for a full recovery to coalesce, we continue to expect a return to growth, albeit at a modest rate, in the latter part of this year.

PERFORMANCE AS OF: 06/25/2009	June to Date	Year To Date	12-MONTH RETURN
Strategic Growth Portfolio	1.11	9.47	-24.61
Russell 1000 Growth	1.27	11.70	-26.81
Strategic Value Portfolio	1.17	-7.53	-22.21
Russell 1000 Value	-1.02	-3.14	-31.44
S&P 500 Index	0.27	3.23	-38.70
MSCI EAFE Index	-2.01	6.38	-32.85
Barclays Cap US Govt/Credit Index	0.26	1.41	5.49

The Economy

- Although GDP for the 1st quarter of 2009 contracted at a 5.5% annual rate, the economy is at an inflection point exhibiting more significant signs of stabilization.
- Due to massive government stimulus we believe GDP will improve in the latter half of 2009
- Consumption gains, stronger housing sales from modestly priced homes, and a large drop in corporate inventories are the seeds for a recovery in the second half of 2009. Durable goods orders posted gains in May.
- Unemployment, more of a lagging indicator, is 9.4%, the highest in 25 years
- We expect a period of very low inflation due to the process of worldwide deleveraging.
- Core inflation of 1.8% is at the Federal Reserve's target range of 1-2%.
- The Fed Funds and Discount Rates are at 0-.25% and .50%, respectively. We believe the Fed will maintain an easing bias until the economy mounts a recovery.
- Treasury yield curve has steepened with yield spread between 2 and 10 year maturities at all time highs and the 10-year is yielding over 3.5%; while Agency and corporate bond spreads remain at relatively high levels.

The FED

- Global central bank and Government intervention should alleviate the selling pressure on financial assets.
- The Fed's has decided to continue with "quantitative easing" by purchasing Mortgage and Government securities and this should keep rates low.

The Bond and Stock Markets

- We recommend high quality corporate bonds and government guaranteed securities in the 2 to 5 year maturity range. Emphasize high quality municipal bonds, which are attractively priced.
- The stock market will continue to focus on credit issues and anticipate improving corporate profits as the global de-leveraging process continues.
- Should the dollar continue to weaken, this will eventually provide support for large developed international stocks.

Allocation

- Consider alternative investment strategies to reduce volatility and provide absolute return.
- Stay with high quality large-caps over small- and mid-cap stocks; favor large- growth over large -value. Continue to diversify using international stocks in portfolios.
- Revisit your overall investment objective to determine if it meets your time horizon, liquidity needs, and risk tolerance.

FIXED INCOME COMMENT

Intermediate and longer-term interest rates for US Treasuries have risen significantly over the past month as investors are seeing signs of economic stabilization and inflation and are becoming less risk averse. We continue to recommend selective purchases of high quality intermediate maturity corporate bonds, and note that agency bonds are becoming increasingly more attractive.

EQUITY COMMENT

Stocks continued to rally late in the second quarter from the deeply depressed crisis lows we witnessed in early March. To date, this rally has produced a powerful recovery from the cycle lows, as the S&P 500 has now recovered nearly 44% and others, like the S&P 500 equal weighted, up over 50%. Global bourses have also witnessed strong recoveries from their respective lows, with the biggest recoveries occurring in emerging markets.

The speed and magnitude of this rally has left many investors wondering if the lion's share of returns are now behind us or if further near-term recovery lies ahead. What potentially began as a short covering rally seems to have expanded into something broader. The market has made some very volatile moves over the past 12 months, waning and waxing with the sentiment about the prospects for the future. For example, in early March the Daily Sentiment Index (DSI) reported by MBH Commodity Advisors was at just 2% bulls and recently hit 85% bulls, which was just shy of the high reading of 88% in October of 2007. This extreme action reflects the lack of confidence and consensus on the outcome for the economy and markets. Since the summer of 2007 when the FED began its accommodative stance, the economy has responded little to the massive intervention until more recently "as the pace of economic contraction is slowing."

Bullish pundits point to the very positive signs of improving spreads, possible peaking unemployment claims, robust sales of lower end housing (the $8,000 tax credit is working here), an upturn in Leading Economic Indicators, and the rising cost of commodities, which implies stronger demand. And the bearish pundits point to statistics that are decelerating more slowly but not yet recovering. The point/counterpoint seems to be everywhere everyday…the current rally is encountering more supply of stock as insiders are selling at historic rates and corporate stock issuance is near record highs -- news that in the past produced significant headwinds for the markets. Additionally, the recent FED statement seemed to intentionally cool the forecasts for the FED to raise rates later this year. Clearly the FED intends to keep rates low and not take the punch bowl away too early since the economy has absorbed tremendous amounts of stimulus and it still struggles to resume a growth profile.

In this unsettled environment we would suggest that it is prudent to approach your investments with some caution and we recommend making incremental commitments to stocks, particularly on pullbacks, as we believe recovery is eventual barring some other surprising anomalies.

Large Cap Growth Strategy

The portfolio's returns relative to the benchmark fell off during the quarter due to its defensive nature, which had been the reason for its out performance up until the market bottom in March. The portfolio continues to outperform on a one-year and multi year basis however. The more defensive stocks, sectors and sub sectors all under performed as the aggressive and beaten down names in the index did well. The overweight in the defensive, health care sector accounted for virtually all of the portfolio's allocation underperformance through the end of June. Our sub sector overexposure to the biotech industry played a major role in the health care sector's underperformance. In addition, other defensive names in our portfolio like Gamestop, Wal-Mart, Peoples United Financial and ITT Educational Services detracted from returns. Stock selection continues to be the major factor in portfolio returns. Brocade Communications, Apple, General Dynamics and Disney were major contributors to performance. More so than in other quarters returns were positively impacted by avoiding under performing companies in the index like Monsanto and Abbott Labs – both of which are quality stocks that we just added to our holdings since their relative values are now compelling.

Government efforts have brought stabilization of the credit markets and improvement within the equity markets as extreme volatility has abated with current financial conditions reflecting a recessionary economy but not one of systemic failure. The portfolio recently realigned to take advantage of these developments by somewhat reducing its defensive nature. As stated in our April issue, because economic recovery appears on the horizon, the portfolio reduced its overweights to health care and consumers staples stocks and increased its exposure to the industrials, materials and energy sectors. These changes position the portfolio quite close to the benchmark weightings in most sectors with only small overweights in energy and materials. Numerous changes were made in the individual holdings with notable additions of MMM, Qualcom and Express Scripts. Colgate, CVS and Cephalon were removed from the holdings.

SECTOR COMMENTS

Finance -Currently we are market neutral on the financial sector. Having been the most oversold of all the sectors since the beginning of the recession, we have subsequently witnessed the largest gains within this space during the current three-month rally. One of the most anticipated and debated policy issues of late has been the result of the stress tests on the nation's 19 largest banks that indicated additional capital raises were necessary for many of these institutions. Some $85 billion in new capital has now been raised successfully, which is a major positive step on the road to recovery, as it was in the early 1990's.

There have been other positive developments as well. Credit spreads have come in substantially from the beginning of 2009; this downtrend in corporate bond yields is historically bullish for financials. Another favorable trend is the steepening of the yield curve, which should help the big banks net interest margins. As the deleveraging process continues there are some obvious winners. Within the financial sector we are favoring sub-industries such as Diversified Banks and Investment & Brokerage firms. The dislocation in the credit markets has allowed companies such as Goldman Sachs to take advantage of trading arbitrage within the fixed income and foreign currencies markets. Expecting earnings growth in 2010.

Although we have highlighted some positive developments within the financial sector, there are many obstacles to overcome until we take a more favorable view. One of the biggest obstacles looking ahead would be commercial real estate conditions worsening. These issues could negatively impact bank loan portfolios significantly going forward. The housing sector is still hurting as delinquencies and foreclosures are yet to hit their peaks. Strength in the economy will be impacted significantly as existing home prices increase, which has yet to happen. Deteriorating credit card related issues could impact balance sheets further.

Energy -About 3 months ago the price of a barrel of oil was in the low 50's after a recovery from below $40 earlier in the year. Oil has recently climbed into the low 70's before retreating to the current price of $67. A number of factors have driven prices higher including investor confidence in economic recovery, dollar weakness, investor speculation, geopolitical concerns, and a strong increase in China's oil imports. Also, OPEC had its largest production cutback in December and they have not shown any sign that current production quotas will be changed in the near future. However, the surge in prices is little supported by the basic fundamentals, which show sluggish demand and plenty of spare capacity.

The price of natural gas, however, has stayed at relatively low levels due to a supply glut from over production and a recession-lead fall in demand. As of the end of May, the price of natural gas was still down 71% over the last 11 months. Oncoming supply should slow as the drilling rig count has dropped 56% from the 2008 peak. Demand should improve as the economy improves, and natural gas prices should begin drifting higher.

The price of oil and gas is seldom rational and short-term spikes and troughs will continue to surprise. We continue to maintain a neutral weight for the Energy Sector with a diversified approach to the energy sub-sectors.

Industrials -The Industrial Sector has bounced back strongly from the March lows reflecting evidence of an economy that has seen the worst and is slowly on the mend. Mean reversion was also quite evident, as global equities that were the worst performers in 2008 have become some of the best so far this year. Looking forward, we expect major exporters of goods and services will benefit from a weaker dollar, and strong growth in China and other emerging markets. Government funds for infrastructure projects should benefit many industrial companies and we currently like the prospects for Deere, Fastenal, Flour, ITT, Jacobs Engineering, and United Technologies. But persistent tight credit conditions (especially for equipment leasing) will be a headwind, thus we remain neutral weighted for the Industrial Sector

Materials and Utilities -We are overweight the materials sector. Although there is no way currently to tell if a market bottom has been reached, historically commodity driven stocks tend to out perform the equity market off that bottom. Commodity prices have been driven down sharply because of the recession but there are reflationary headwinds as we look out to the future. With interest rates close to zero with little room to fall, we expect future inflationary pressures to help drive commodity prices upward in the long term. Coupled with the infrastructure stimulus plans on the behalf of the United States and China, the sector looks to have strong growth potential heading out of the recession. We like sub-industries such as Metals & Mining that will benefit from the stimulus plans and Fertilizers & Agricultural Production companies with global exposure to emerging markets.

Consumer Staples -The consumer staple sector has under performed the market as investors have turned to other groups in anticipation of an economic rebound. The sector is typically viewed as a defensive haven in periods of economic distress and that theory has held up during this recession. Hypermarket retailers such as Wal-Mart and Costco have taken market share by offering value to cash-strapped consumers. Value-oriented grocery store chains have benefited as those consumers eat more meals at home, instead of at restaurants. Many branded food, beverage, and household products companies have been hurt by increased consumer tradedown and private-label competition as well as inventory destocking. We moved to an underweight position as the sector’s profit margins are coming under pressure from the value-conscience consumer.

Consumer Discretionary -The sector is always in the news; whether the developments are related to housing prices, auto sales, and consumer spending or advertising. Lately, the major news has been the bankruptcy of General Motors and its impact. Forecasts expect consumer spending to decline, as households appear to have hit a debt wall. Massive wealth destruction, rising unemployment and tighter credit point to an extended period of consumer credit restraint and balance sheet repairing. Fundamentally earnings are expected to fall around 30% in 2009 before rebounding 200% in 2010. Debt levels are also high than usual with Eddie Bauer being the latest victim in the retailing business. We recommend a marketweight as the discretionary sector is one of the first sectors to bottom in a recession and has historically been an early cycle group performing relatively well after a bear market bottom. We favor those companies with strong balance sheets, management and a competitive advantage.

Technology -A healthy reduction in inventories over the trailing six to nine months creates the possibility of a rebuilding period with signs of an improving economy, although companies will remain lean as efficient inventory management means products can get to buyers quickly upon purchase requests. Predicting the recovery will be difficult and therefore influence the ability of analysts to accurately estimate revenues and earnings. Corporate surveys tell us that tech budgets will favor Software over Hardware. Consumer driven demand for mobile email, messaging and web searches has led us to new investments in Research in Motion, the designer of the Blackberry. This investment compliments our existing holding in Apple Computer, which recently sold one million units of its third generation iPhone. We remain focused on firms with strong balance sheets, meaningful market share, seasoned management teams and the cash to invest in their businesses while their weaker competitors are unable to do so.

Healthcare -We are underweight relative to the growth index due to the specter of increased regulation, less favorable effects of foreign exchange because of a stronger dollar; and most big Pharma companies are patent challenged through 2011. The primary growth drivers for the industry are: cancer therapeutics; diabetes management followed by solid demand for biotech drugs. We are overweight the Biotech sub sector due to their consistent earnings and strong pipelines. A positive for large pharma is they are actively pursing cost restructurings and instituting common share buybacks. Another catalyst for the healthcare sector is the prospect of drug partnering and acquisition activity as big pharma and large biotech companies look to refresh their pipelines. We recommend investors concentrate their holdings on established, profitable companies with solid growth prospects.