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AND THAT'S THE WEEK THAT WAS…
For the Quarter Ended June 30, 2011

Market Matters…

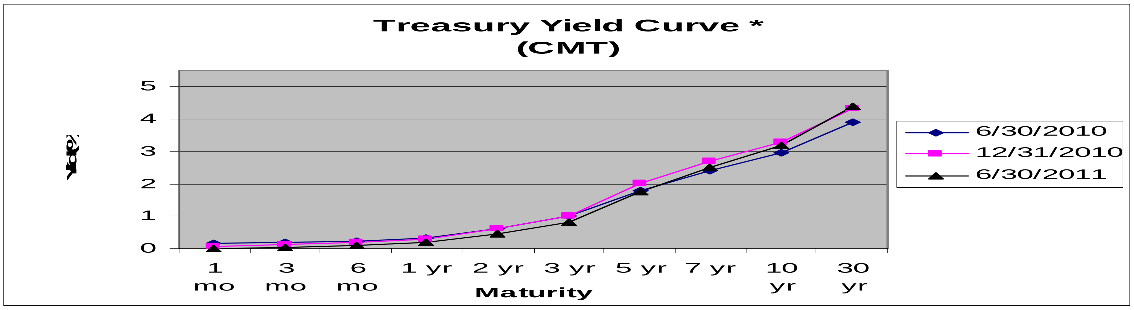
Market/Index	Year Close (2010)	Qtr Close (03/31/11)	Qtr Close (06/30/11)	Qtr Change	YTD Change
Dow Jones Industrial	11,577.51	12,319.73	**12,414.34**	**0.77%**	**7.23%**
NASDAQ	2,652.87	2,781.07	**2,773.52**	**-0.27%**	**4.55%**
S&P 500	1,257.64	1,325.83	**1,320.64**	**-0.39%**	**5.01%**
Russell 2000	783.65	843.55	**827.43**	**-1.91%**	**5.59%**
Global Dow	2,087.44	2,186.41	**2,134.29**	**-2.38%**	**2.24%**
Fed Funds	0.25%	0.25%	**0.25%**	**0 bps**	**0 bps**
10 yr Treasury (Yield)	3.31%	3.45%	**3.16%**	**-29 bps**	**-15 bps**

April 2011 picked up exactly where the strong first quarter ended as equities enjoyed their best month of the year and bulls appeared to be firmly in control. Then a funny (not "ha ha" funny) thing happened on the way to big gains (actually a few not-so-funny things)…the fallout of the Japan earthquake began to be felt throughout supply chains in the auto sector and manufacturing experienced some real weakness; the sequel to the Greek debt tragedy of 2010 was met with terrible reviews as regulators, governments, and central bankers argued over ways to handle a new bailout; domestic politicos took to their own grandstanding as the deadline for raising the debt ceiling approached and partisan bickering threatened a hit to the longstanding AAA rating. Stocks tumbled and key indexes dropped for seven out of eight weeks as the quarter neared a close and investors looked to the safe-haven of treasuries (despite the credit rating concerns). And just when all hope seemed lost…a new Greek solution emerged (to the chagrin of violent protesters), manufacturers seemed to get back on track, analysts predicted that politicos are all bark and no bite (and a deal will be reached), and the Fed ended the QE2 stimulus to little fanfare. Stocks surged in the final week of the quarter and the Dow even moved into positive territory.

Along the way, earnings season proved successful again as growth actually replaced "cost cuts" as the primary driver. Techs **(Intel**, **IBM**, **Microsoft**) posted solid results and energy companies benefited from a jump in oil prices and better refining margins. Though automakers posted nice profits, many struggled as the quarter progressed and sales slumped due to repercussions from the earthquake. Boardrooms continued their optimistic ways as **Wal-Mart** (stock buybacks) and **Target** (enhanced dividends) led a slew of companies rewarding shareholders for their confidence, though M&A activity slowed from the rapid pace of the first three months. Investors enthusiastically responded to **LinkedIn**'s initial offering and memories of the dot.com boom resurfaced (anyone remember **The Globe.com**?) along with eager calls for **Facebook**'s IPO.

Crude encountered dramatic volatility as a weak dollar pushed prices above \$110/barrel early until the government announced the tapping of the Strategic Reserves to counter the inaction of OPEC and make up for lost production in violence-stricken Libya. Oil plunged below \$90/barrel (briefly) before settling around \$95. Gas, on the other hand, fell sharply from late May and vacationers enjoyed a nice reprieve at the pumps. Corporations took advantage of the low borrowing costs by issuing debt with **Google**, **TI**, and **Johnson & Johnson** among the big players. When the dust had settled after all the wild swings, the Dow closed higher for the fourth straight quarter and other key indexes ended basically flat. Investors gravitated to more defensive sectors like health care and utilities and shied away from financials and energy. Dividend payers were also back in vogue. Global markets were mixed as Germany (DAX) managed to put up a nice gain despite the ongoing challenges in Greece and the potential for contagion. Uncertainty blanketed Asia as China's, Hong Kong's and India's key indexes each fell on concerns about continued growth. Oh yeah, Osama bin Laden was killed, a positive in any environment.

Economically Speaking…



Tiny Greece continued to steal world headlines as everyone with a rooting interest (International Monetary Fund, European Central Bank, European Union) had ideas about the best way to tackle the fiscal challenges. With its credit ratings dropping well into junk status and fellow European Union cohorts (Portugal) moving to bailout mode, the Greek parliament approved a 28 billion euro austerity plan that (practically) guaranteed new funding from the parties-that-be. Even with the struggles in certain countries, the ECB raised interest rates in April to combat fears of inflation and analysts expect another similar move in the near future. Interestingly, Germany and France have helped the 17-country euro-zone experience its strongest combined GDP in over three-and-a-half years. Across the globe, China continued to take steps to slow its "overheating" economy by raising the reserve requirements for banks on a few more occasions.

Closer to home, the domestic economy suffered some weaker data and analysts worried about prospects for the coming quarters. GDP slowed to a growth rate of 1.9% (from 3.1% in 4th quarter 2010) and ISM index and industrial production revealed a slowdown in manufacturing. However, late on the quarter, a favorable durable goods release quieted some of the naysayers. Though corporate earnings have been strong thus far in 2011, biz remain hesitant to hire and unemployment climbed back above 9% in May. Fearful of the labor uncertainties, consumer confidence fell to a seven-month low in June and May retail sales actually dropped for the first time in 11 months. Despite the low interest rate environment, housing has shown no signs of rebounding as home sales (existing and new) continue to decline, even in months generally perceived as strong for home buying activity. Though commodity (oil) prices have moved to elevated levels over the year, inflation remained in check and falling gasoline prices have provided a nice windfall for consumers who may have other financial problems on their hands.

Dr. B. and friends admitted that the economy may not be growing quite as fast as desired and reduced their estimates for the remainder of the year. Still, some policymakers feel that the current challenges are temporary and reflective of Japanese turmoil, a dynamic that could reverse course as the rebuilding process begins. The Fed decided to end its controversial QE2 bond buying stimulus as scheduled in late June and now seems content to watch capitalism work as the central bank gets out of the business of funding the nation's debt (let the Chinese be responsible for that again). Still, the Fed will reinvest proceeds from maturing debt to buy treasuries and will continue to be a major player in the bond market. Fed watchers expect the funds rate to stay near 0% for a while, though the yield on the benchmark 10-year drifted higher as QE2 came to a close.

On the Horizon…Can the economy survive without additional Fed stimulus? Will housing and labor ever rebound? Is manufacturing dead or can it return to being an economic catalyst? Will rebuilding in Japan prove helpful? Will oil supply meet demand even without further tapping of the strategic reserves? How soon will we be talking about Greek bailout III and who will follow suit? Will politicos put partisanship aside to find a solution to the US's debt woes and force the ratings agencies to look elsewhere for serious cuts? Serious questions…any serious answers?