JUNE 2010 QUARTERLY RESEARCH REPORT

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Report Overview

Headed in the Right Direction Economically, At Least for Now

US economic growth has been consistently strong the last several quarters, leading many to become far more optimistic about near term prospects and the possibility this recession is nearing an end. Such optimism is shared by Fed Chairman Bernanke who recently called for real GDP growth of around 3.5% for this and the coming year. Though we disagree with such optimism, we recognize it is possible such growth could occur. However, we cannot help being skeptical given an examination of current economic data and likely future events.

Our primary source of concern lies in the factors comprising recent growth, which was almost exclusively driven by inventories and personal consumption. Given inventories declined steadily for the first six quarters of this recession, it seems almost reflexive for them to rebound and unrealistic to expect persistence of growth at recent levels. Moreover, personal consumption appears to have been fueled by government stimulus and social benefits, which appears to be offsetting declines in wages; these payments are also unlikely to continue. So even though growth has been there, we question its sustainability in lieu of other positive indicators.

The fact of the matter is there are several forces working against the sustainability of economic growth, the majority of which is due to consumer spending. Most notably, private wages and salaries remain several hundred billion dollars below 2007 peak levels and household and non-profit net worth has declined by approximately $10 trillion over the same time. Both factors are linked to consumer spending and have been recently ameliorated by stimulus and social benefits. Continued extensions in unemployment benefits seem unlikely given recent Congressional action and wages will remain under pressure until robust job growth returns, which is unlikely near term per Fed Chairman Bernanke. Moreover, tax rates are slated to rise substantially in 2011 around the same time fiscal stimulus is ending.

We are also seeing a worsening of household finances as evidenced by mounting delinquency and pending foreclosure rates in mortgages, not to mention a concerning growth thereof amongst prime borrowers. To boot, consumer confidence is near all time lows, which is strongly linked to growth in personal consumption.

Though we want to be optimistic, we simply find little reason to be strongly so in this environment. And it appears we're not the only ones.

A Renewed Appreciation for Risk in Capital Markets

In contrast to recent quarters, capital markets demonstrated a renewed appreciation for risk in the second quarter. This was due not only to the Greek debt crisis and its potential effects on European economies, but also concerns over US economic growth. As is the case anytime markets broadly discount macroeconomic risks, we saw a flight to safety affecting all major asset class valuations. Although it was somewhat reminiscent of investors' behavior towards the end of 2008, the magnitude of this correction thankfully paled in comparison. Nonetheless, we find ourselves in a materially different capital markets environment than just one quarter ago.

The US dollar remained the world's reserve currency of choice and appreciated around 4% during the quarter, while at the same time, the 10 year US Treasury yield fell 0.80% from March and stood around 3% at quarter's end. We also saw declines in valuations for global equities which pushed theoretically implied rates of return higher by 1%-2% for developed and emerging markets. Similarly, we saw credit spreads relative to Treasuries widen, especially so for the higher end of the fixed income risk spectrum. Inflationary expectations, as implied by TIPS versus Treasuries yields, fell slightly and are now below 2% for the coming decade, which seems rather low given all the potential inflationary pressures facing the US economy.

The end result of this abbreviated flight to safety was a noticeable shift in the shape of the capital markets line (CML). As we show later in this report, the CML not only steepened noticeably during the quarter, but straightened as well. Interestingly, the CML almost looks like something out of an investment textbook in that risk premiums amongst assets are directionally in line with what one would expect for bearing various levels of investment risk.

In fact, risk premiums for bearing credit and equity risks in relation to 10 year Treasuries are well in excess of historic averages. This is most noticeable for US large cap equities whose implied risk premiums rose 1.5% and are now nearly double their average over the last 50 years.

Large premiums for bearing risk sounds great at first glance. But as we will discuss shortly, there's a catch. This is because premiums are anchored to historically low risk free rates, which is resulting in a low prospective return environment, at least in relation to most institutions' return goals.

Report Overview

Setting Aside the Short Term

It's important to not get too caught up in efforts to forecast near term activity. Such pursuits are fraught with idiosyncratic risks that usually result in invoking such wonderful sayings as being "right for the wrong reasons" and "wrong for the right reasons." So we want to dedicate some time towards examining more secular issues facing investors from a long term and big picture point of view.

First and foremost in our minds are the headwinds facing US economic growth, namely massive government spending deficits, mounting debt levels, and substantial tax increases budgeted over coming years. These issues alone are serious cause for concern, but are especially worrisome when you consider these rather dismal budgetary forecasts are based on what are, in our opinion, overly optimistic assumptions for economic growth and inflation.

Second, we cannot help being highly concerned over potential inflationary threats given unprecedented levels of monetary and fiscal stimulus. The monetary base has more than doubled in the last few years, the Fed balance sheet is in excess of $2 trillion, cash rates remain around zero, and government spending as a percent of GDP has exploded.

We admit however, it is possible the government could orchestrate the orderly scaling back of these stimulus measures while fostering steady and sustainable growth, but we find such perfection an unrealistic expectation. Furthermore, we are not entirely convinced that even if the government wished to head off inflationary pressures it would be able to do so quickly enough given unprecedented levels of societal leverage and an ever increasing reliance on low interest rates and ample liquidity. We would also point out inflation (CPI) has been posting 2%+ annual rates in recent quarters and that wholesale inflation (PPI) is leading CPI to an extent not seen since the 1970's.

Our concerns also turn to macroeconomic factors in relation to other developed economies. Even though the US has experienced superior economic growth for some time, we are running higher deficits, saving less, and accumulating debt at the fastest pace of all G7 nations, many of which are heading the other direction and instituting "austerity" measures. These sorts of long term economic trends must be heeded and diversified against because ultimately it is the health of an economy that will drive investment returns.

The Crystal Ball is Always a Little Cloudy

Sure the economy appears to be growing and Fed officials are being relatively optimistic. They could be correct or are simply engaging in psychological operations. After all, the power of perception is one of their greatest tools. Still, we cannot ignore myriad barriers to growth, inflationary threats, and negative macroeconomic trends in relation to our developed counterparts. We take solace knowing many others hold these concerns, which is evidenced by some of the highest risk premiums in history. So it appears markets have priced these concerns into valuations, begging the question as to how long this uncertainty will remain. Though this is a difficult question to say the least, we believe skepticism will be warranted for some time.

Societal leverage is unlikely to decline appreciably anytime soon, nearly 12 million people are out of work (and the labor force) that need to find jobs, the Federal fiscal situation is expected to worsen, taxes will rise sharply over the near and long term, and until the Fed removes monetary stimulus, we will face the threat of inflation. So what can we do in the face of these uncertainties? And what, if anything, are we sure of? Well, one thing we do know is cash rates will inevitably rise and there will be significant implications on valuations. We envision two distinct scenarios in this regard.

The first and least likely would be a return to normal economic growth alongside mild inflation. If this occurs, cash rates would rise while risk premiums fall due to more stable economic conditions; the CML would flatten and produce strong returns for risky assets. The second and more likely scenario would be increasing inflationary expectations (and cash rates) prior to seeing normal economic growth and a resolution of uncertainties; the CML would shift parallel and upwards as risk premiums remain and valuations decline.

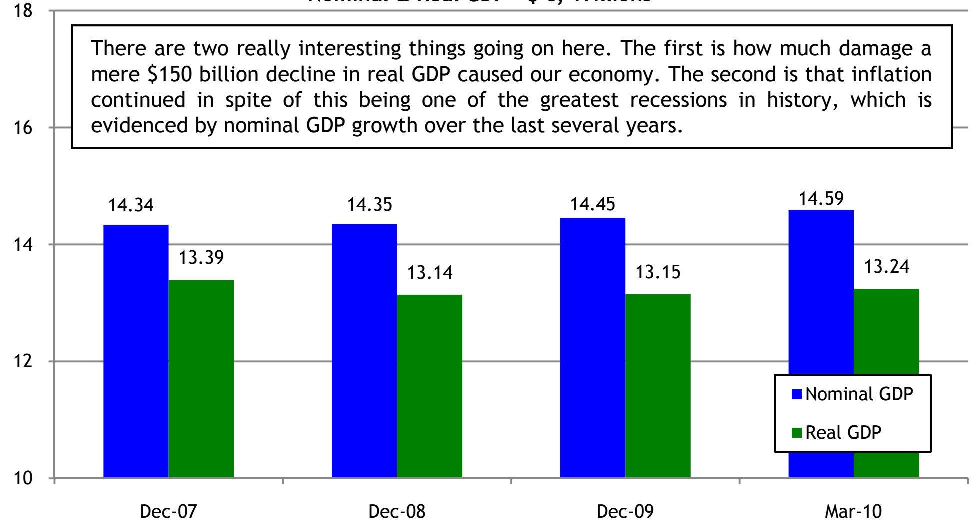
So the possibility of cash rates rising for reasons besides a return to normal economic conditions is the primary risk facing investors; a very plausible risk in our opinion. Maintaining flexibility in allocating assets will be essential going forward as markets will evolve one way or another. This could take the form of shying away from risky assets should risk premiums compress too much in an optimistic scenario, or conversely ratcheting up prospective returns as the CML shifts upwards. The beauty of the latter scenario is that markets tend to price inflation too far into the future (i.e., early '80's), opening up the possibility for future gains when inflationary expectations decline and valuations expand. Alternatively, you could do nothing and hope for the best!

II. Macroeconomics

How Far are We From Peak Economic Conditions?

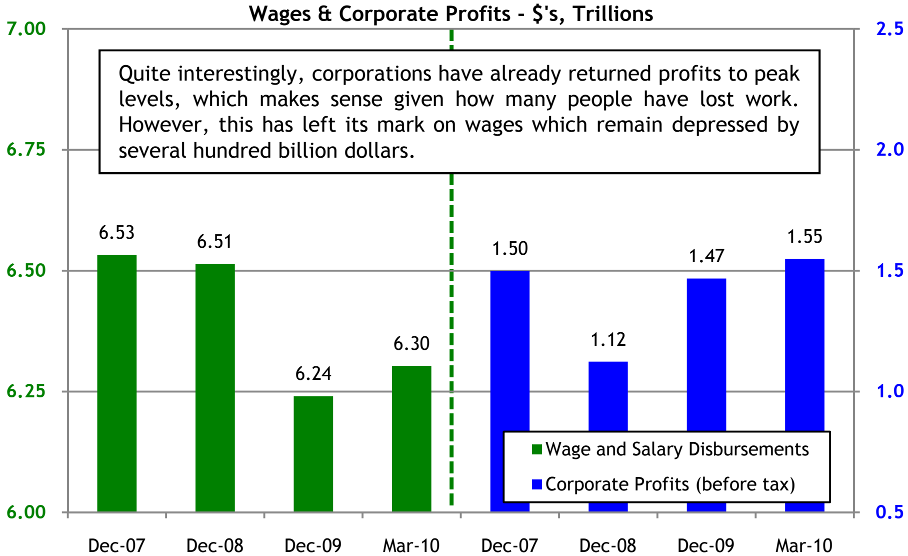
- Over the last three quarters US GDP posted quarterly annualized real growth rates ranging from 2%-6%. Although this is encouraging, we must be cautious when viewing top line growth, which has primarily been driven by consumer spending and replenishment of inventories.
- Skeptically speaking, consumer spending has likely been driven by stimulus which is slated to end soon, and growth rates in inventories are presumably a reflexive response to nearly two years of decline and are unlikely to persist.
- Even with recent growth, we remain beneath peak economic levels on a real basis and still have a long way to go with respect to employment and wages, which are necessary for a sustained economic recovery and future growth.
- So we may not be out of the woods just yet.

Nominal & Real GDP - $'s, Trillions



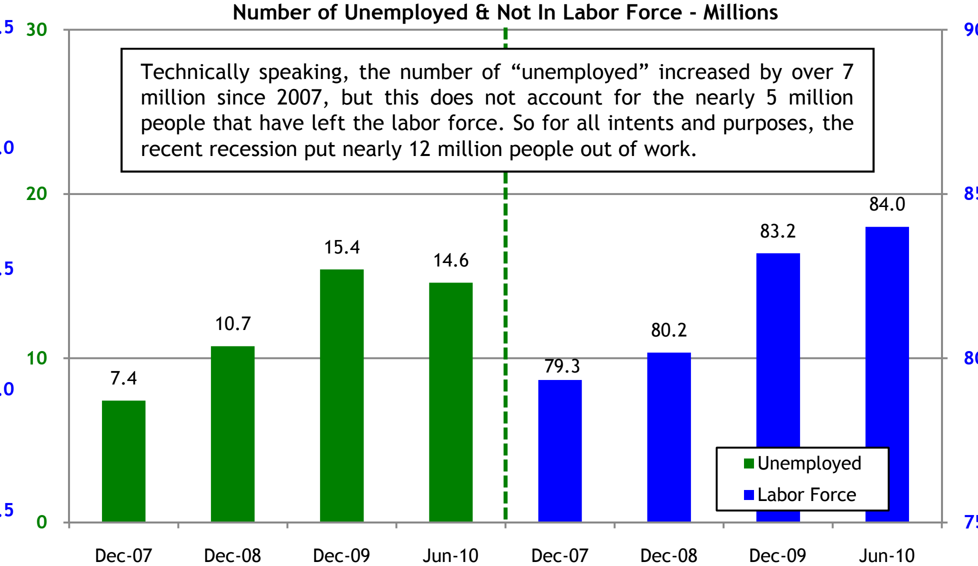
Source: BEA

Wages & Corporate Profits - $'s, Trillions



Source: Federal Reserve

Number of Unemployed & Not In Labor Force - Millions

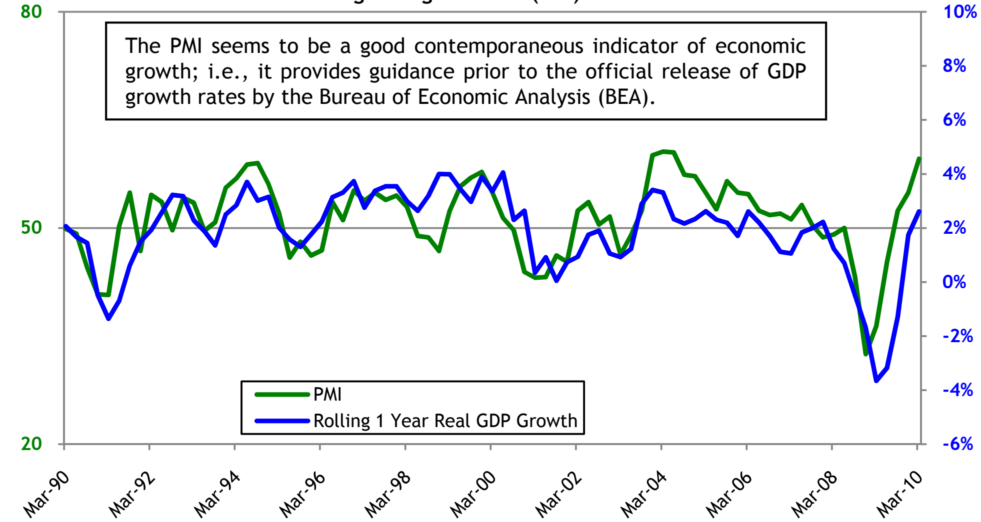


Source: BLS

Is Recent Optimism Justified?

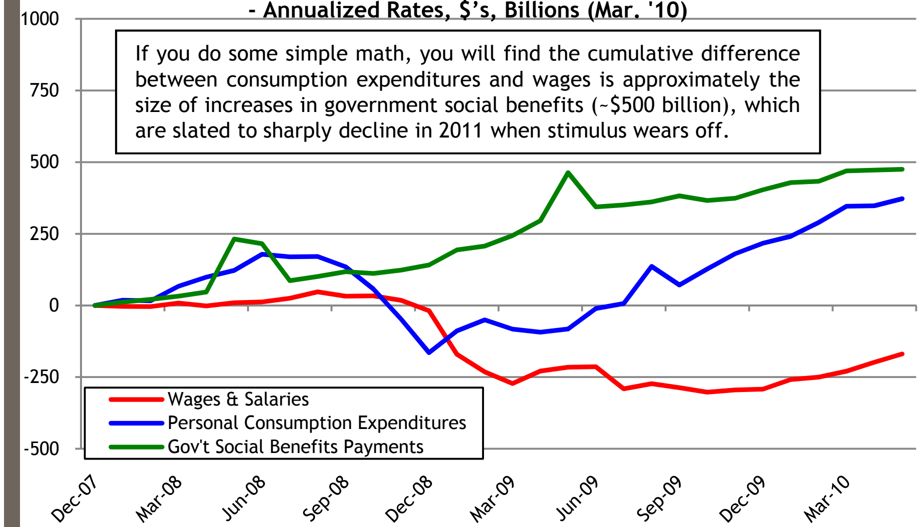
- Although our macroeconomic focus tends to be long term in nature, we must not ignore some of the short term indicators that have recently been the cause of optimism.
- The Institute of Supply Managements' (ISM) Purchasing Managers Index (PMI) has not only spiked from recent lows, but is also indicating expanding economic activity.
- Initial unemployment claims have dramatically declined and are approaching more normative values, which may be a sign the employment situation is stabilizing.
- Another ray of hope has been growth in personal consumption expenditures which drive the preponderance of GDP. However, we believe there is cause for concern in these numbers in that social benefits may be at the heart of this growth, as it is unlikely to be the result of declining wages!

ISM Purchasing Managers Index (PMI) & Real GDP Growth



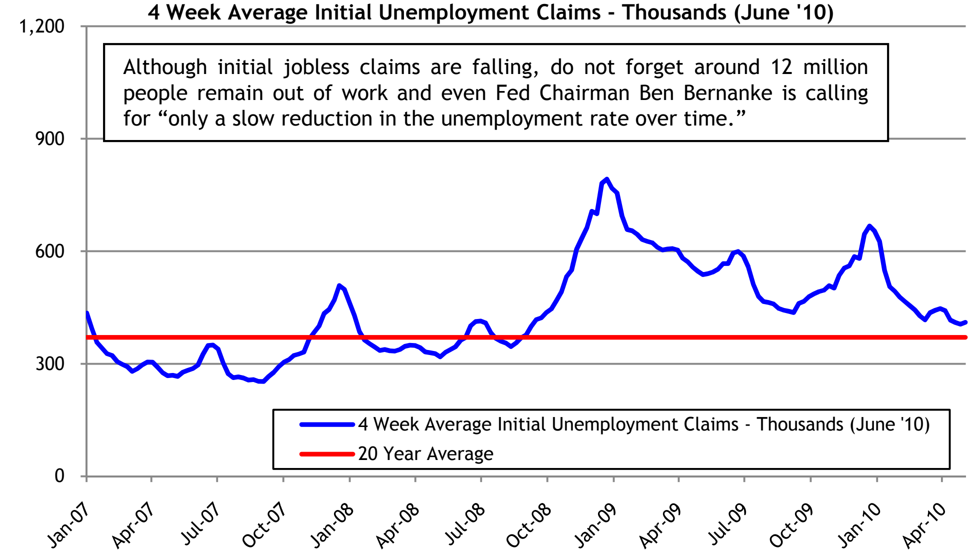
Source: ISM, BEA, Wurts & Associates

Cumulative Change in Wages, Social Benefits, and Consumption - Annualized Rates, $'s, Billions (Mar. '10)



Source: BEA, Wurts & Associates

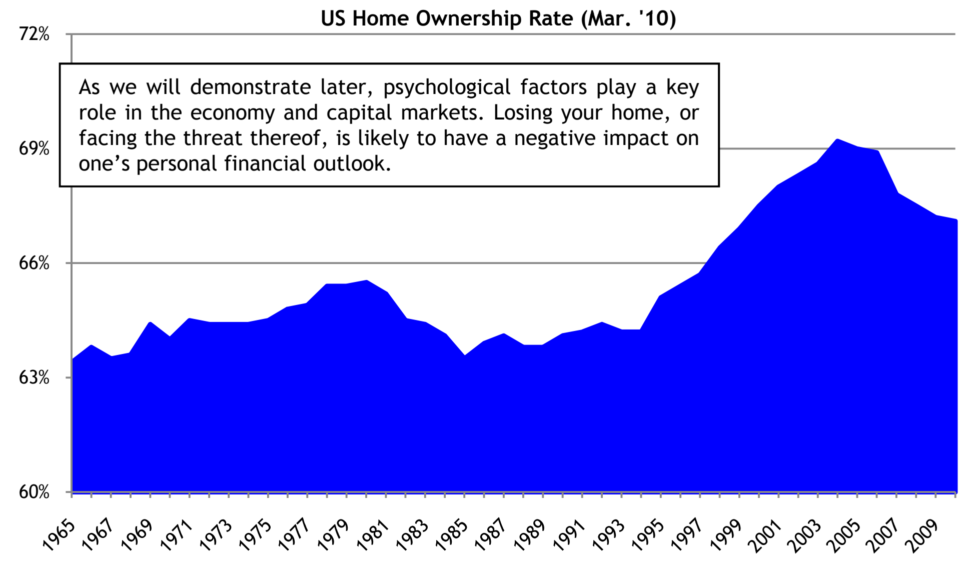
4 Week Average Initial Unemployment Claims - Thousands (June '10)



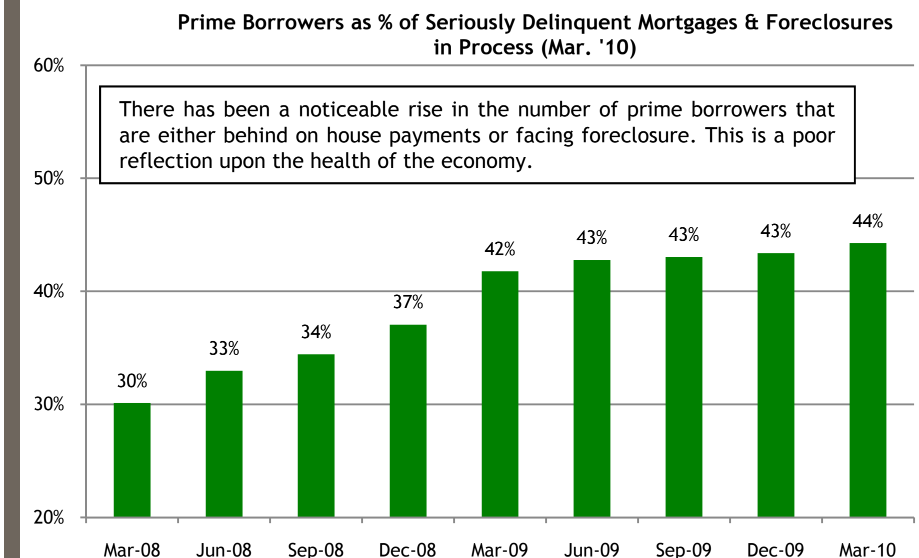
Source: DOL, Wurts & Associates

Mortgages Indicate Cause for Concern

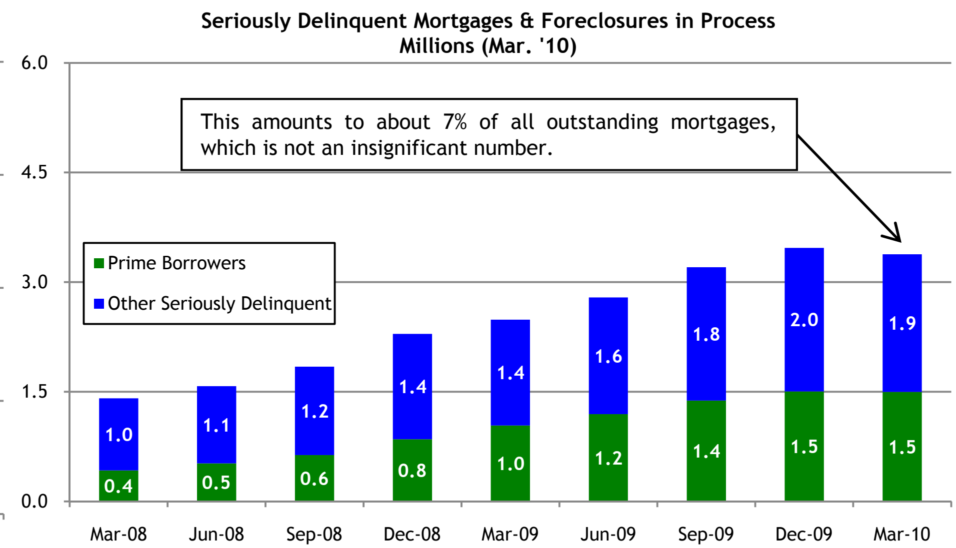
- Recent government actions vis-à-vis the Home Affordable Modification Program (HAMP) were designed to "kick the can down the road" by delaying home foreclosures through various forms of refinancing and principal reduction.
- Anecdotally, it seems this program has worked alongside the tax credits to mitigate price declines in the housing market. However, it has not solved the underlying problem.
- In the last two years, the number of households that are seriously delinquent on payments or in the foreclosure process has more than doubled to around 3.4 million.
- Not only does this imply potential downward pressure on prices, but a drag on consumer spending as housing comprises a significant portion of household net worth and therefore growth in spending. *(Anyone remember HELOCs?)*



Source: US Census Bureau, Wurts & Associates



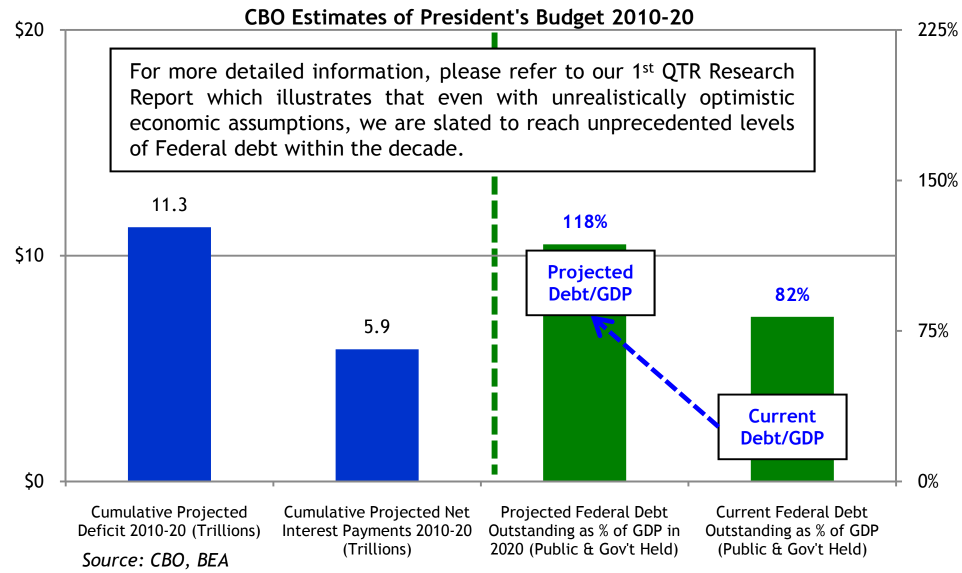
Source: OCC, Wurts & Associates



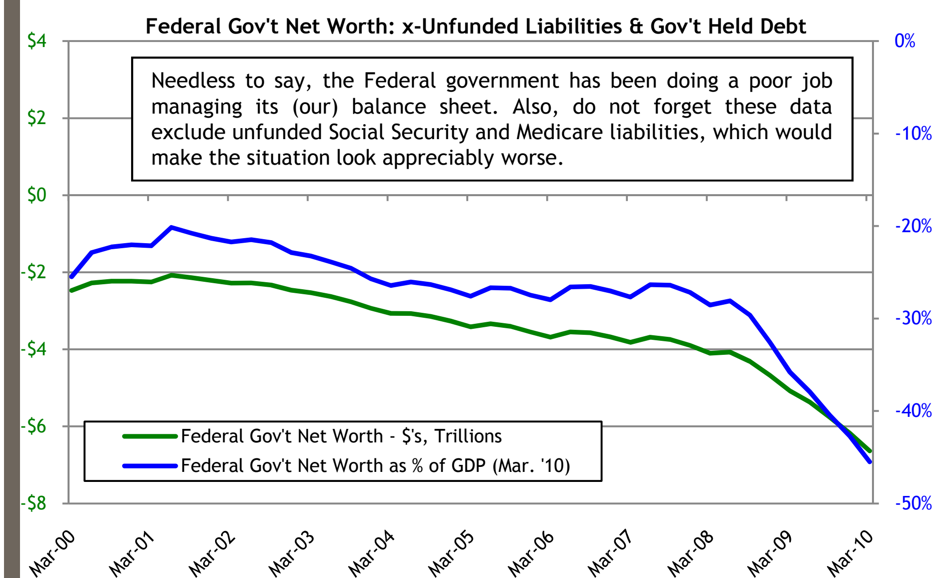
Source: OCC, Wurts & Associates

Secular Headwinds to Economic Growth Haven't Gone Away

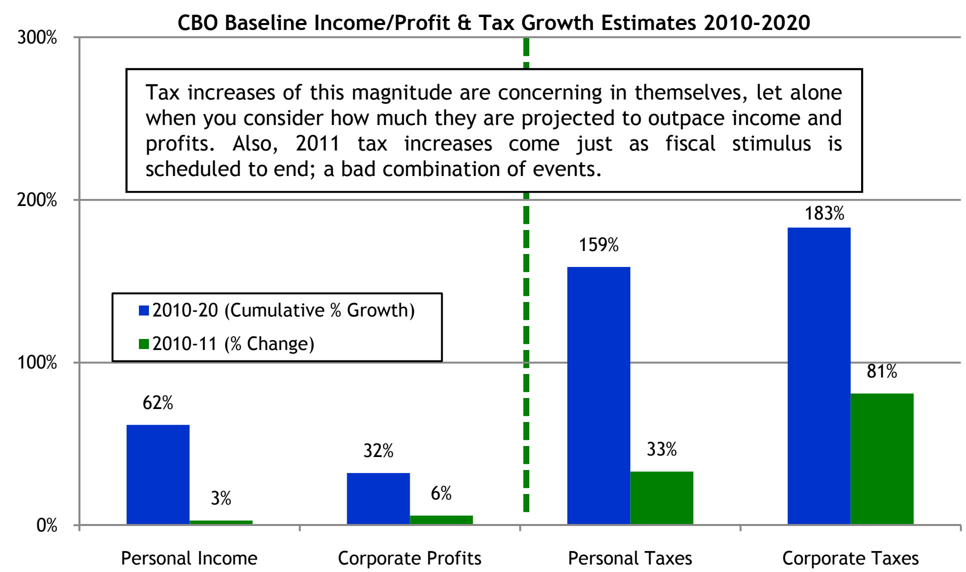
- Setting aside short term indicators, we must keep an eye towards any secular tailwinds (or headwinds) to economic growth, which we would note can change over time.
- Analysis indicates there are several issues working against long term economic growth, including unsustainable government spending, growth in debt, and the taxation necessary to support them.
- All of these factors are adding up to a deteriorating national balance sheet and pending taxation that poses an immediate and long term threat to US economic growth.
- As we have shown in previous reports, as debt and taxation rise, economic activity slows as a result.
- This is not a political statement. It is an economic reality.



Source: CBO, BEA



Source: Fed, BEA, Wurts & Associates

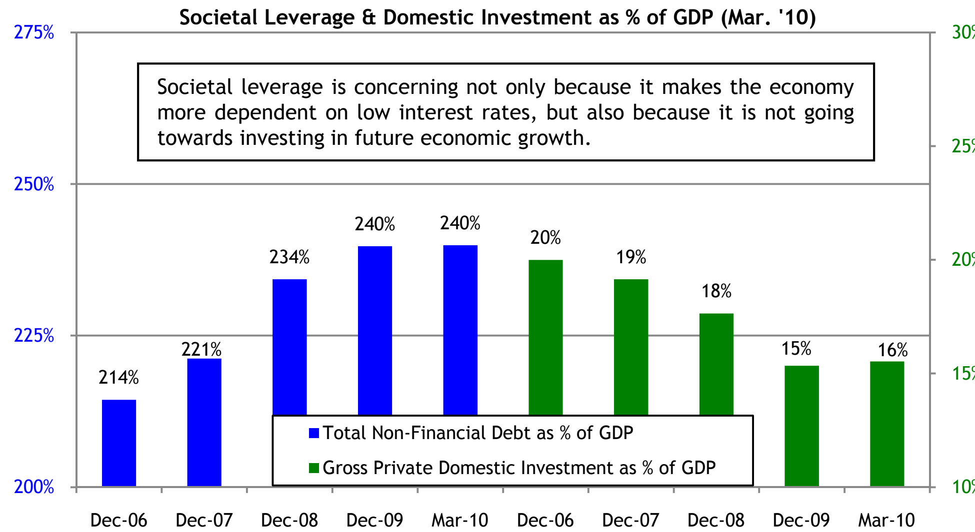


Source: CBO, Wurts & Associates

Monetary & Fiscal Stimuli Continue to Abound

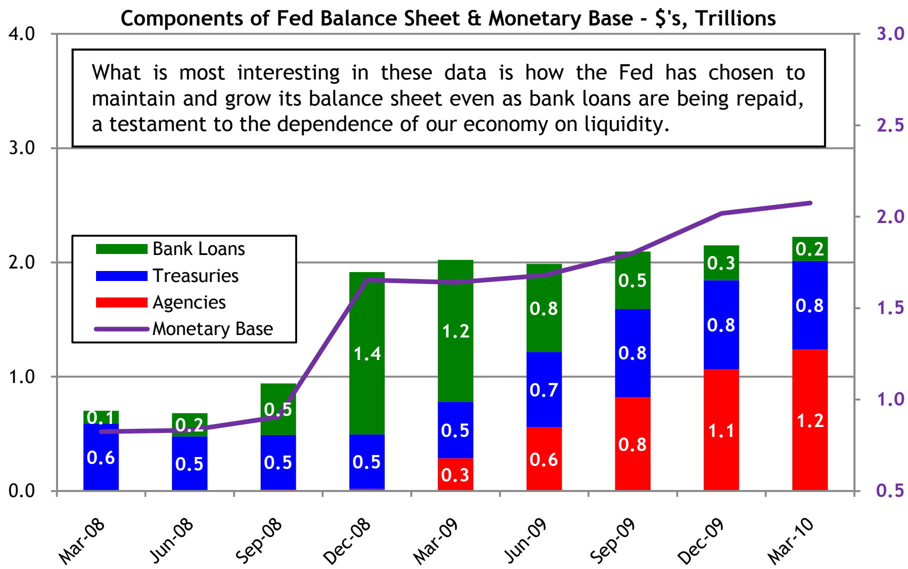
- The last few years have seen unprecedented levels of monetary and fiscal stimulus which may very well have staved off a much worse recession. However, everything comes at a price and we need to give thought to what those costs might be going forward.
- Government spending has spiked as a percent of our economy, causing a commensurate rise in deficits. The Fed has poured over a trillion dollars of liquidity into the economy and the monetary base has more than doubled.
- These actions raise inflationary concerns in themselves, but more so when you consider how little flexibility the government may find in reversing course.
- We have never seen such societal leverage and therefore a dependence on low interest rates and ample liquidity.

Societal Leverage & Domestic Investment as % of GDP (Mar. '10)



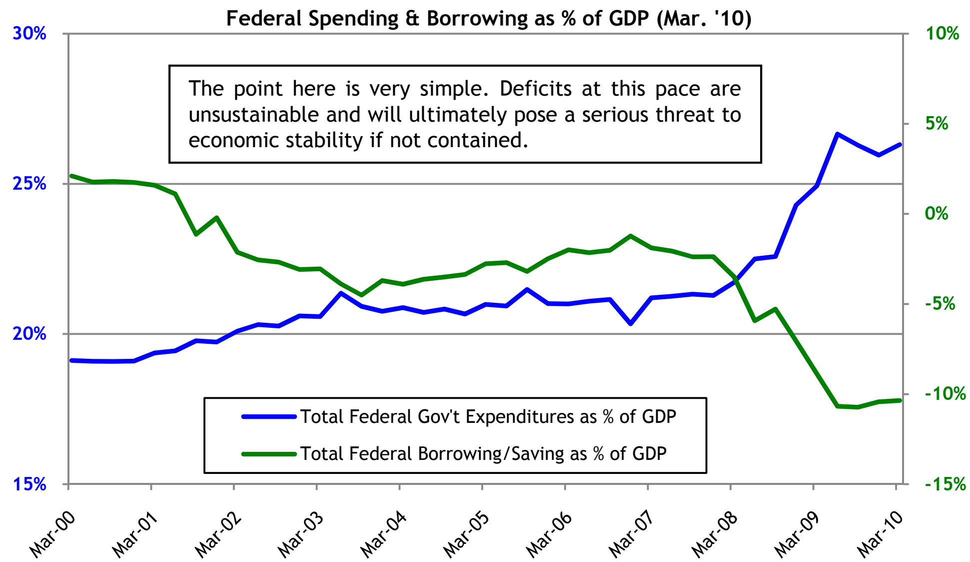
Source: Fed,, BEA, Wurts & Associates

Components of Fed Balance Sheet & Monetary Base - $'s, Trillions



Source: Fed, Wurts & Associates

Federal Spending & Borrowing as % of GDP (Mar. '10)

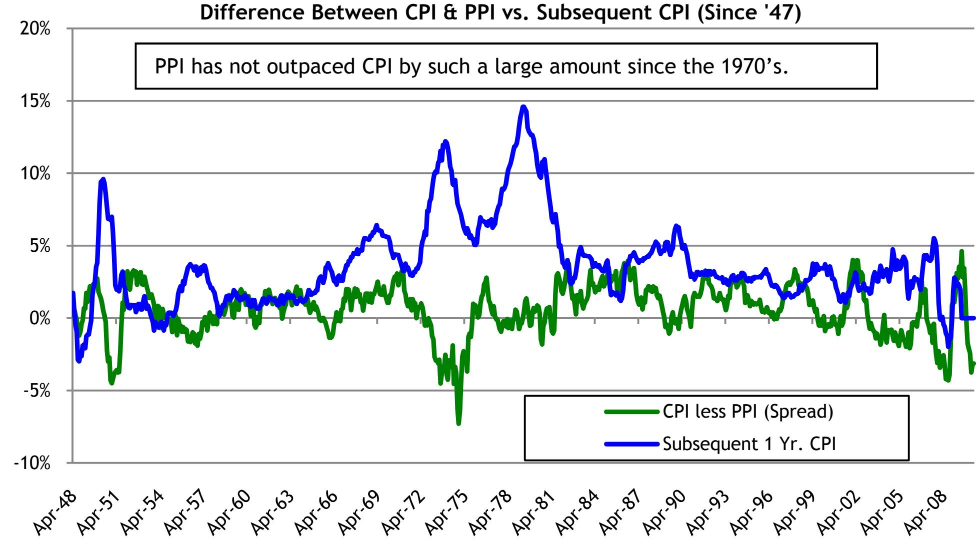


Source: BEA, Wurts & Associates

Are There Any Near Term Pressures on Inflation?

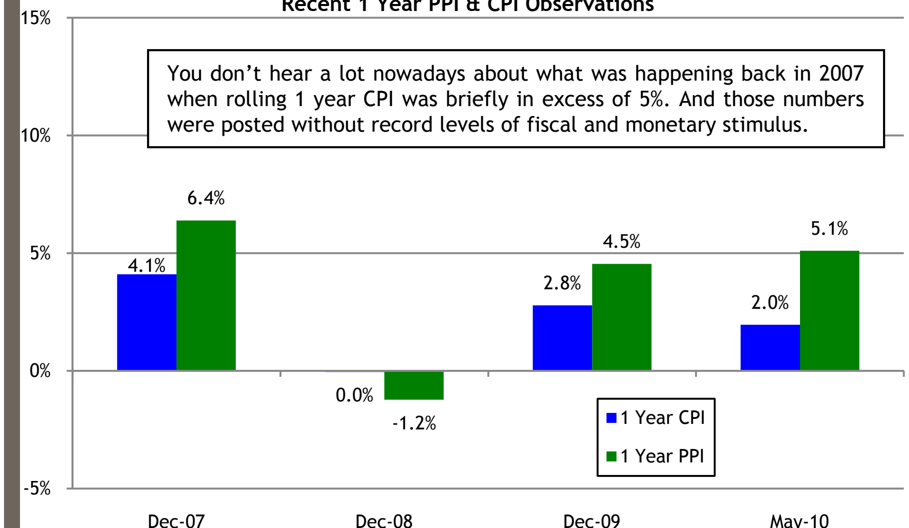
- Since the end of 2008, we have continuously been pointing to the long term inflationary pressures resulting from unprecedented monetary and fiscal stimulus.
- Albeit inflation has been relatively subdued since the recession began, it is still out there and was at the high end of the Fed's target range in 2009 at 2.8%.
- We will remain concerned until the Fed is able to successfully remove monetary stimulus, which is not likely to happen anytime soon given the Fed's intent to hold rates low for an "extended period" of time.
- In the meantime we see reason to believe inflation may rise from current levels as wholesale prices (PPI) have been outpacing CPI for some time.
- Generally speaking, when this occurs subsequent CPI rises.

Difference Between CPI & PPI vs. Subsequent CPI (Since '47)



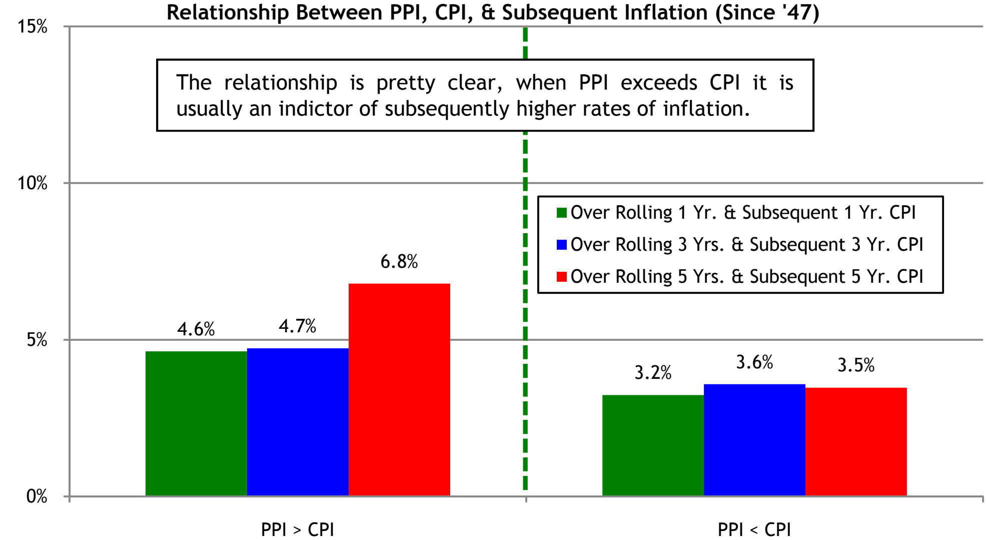
Source: BLS, Wurts & Associates

Recent 1 Year PPI & CPI Observations



Source: BLS, Wurts & Associates

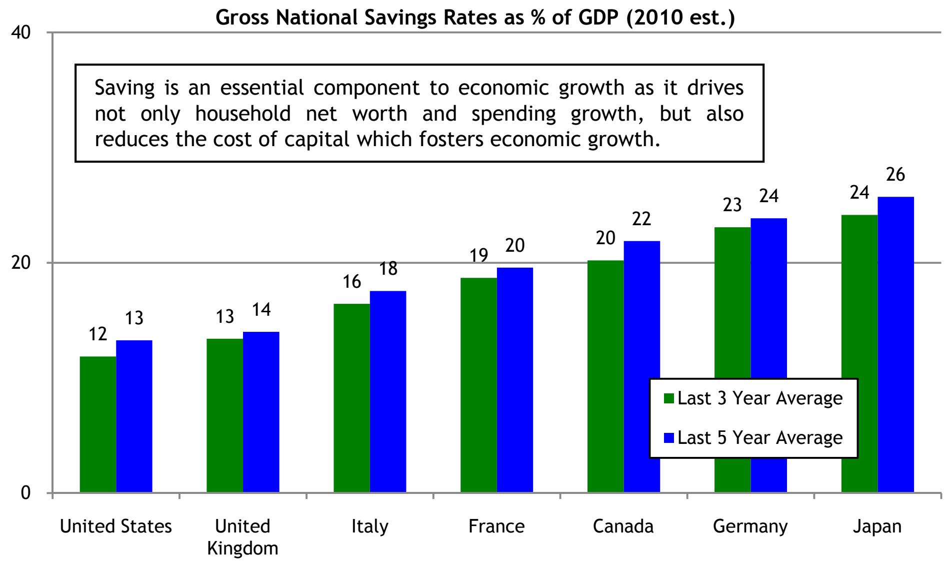
Relationship Between PPI, CPI, & Subsequent Inflation (Since '47)



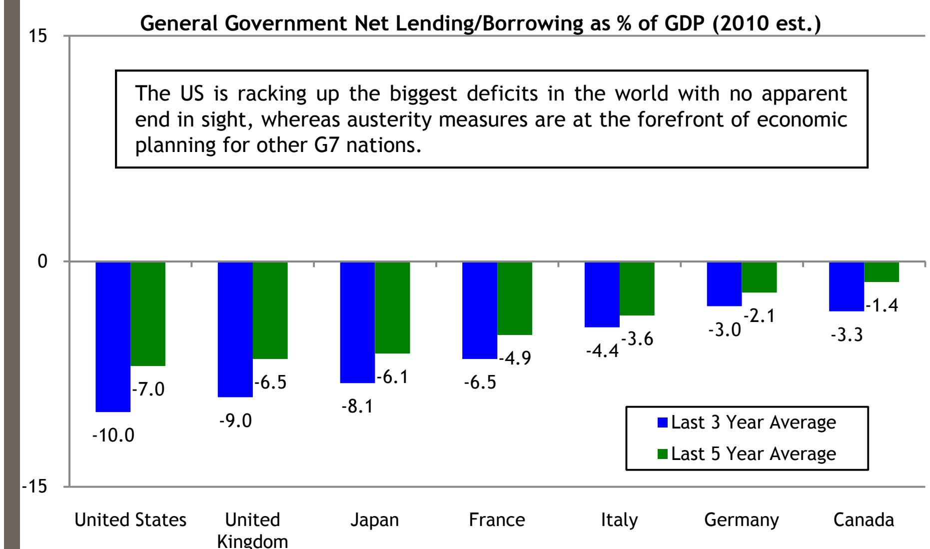
Source: BLS, Wurts & Associates

Some Key Macro Indicators Amongst G7 Nations

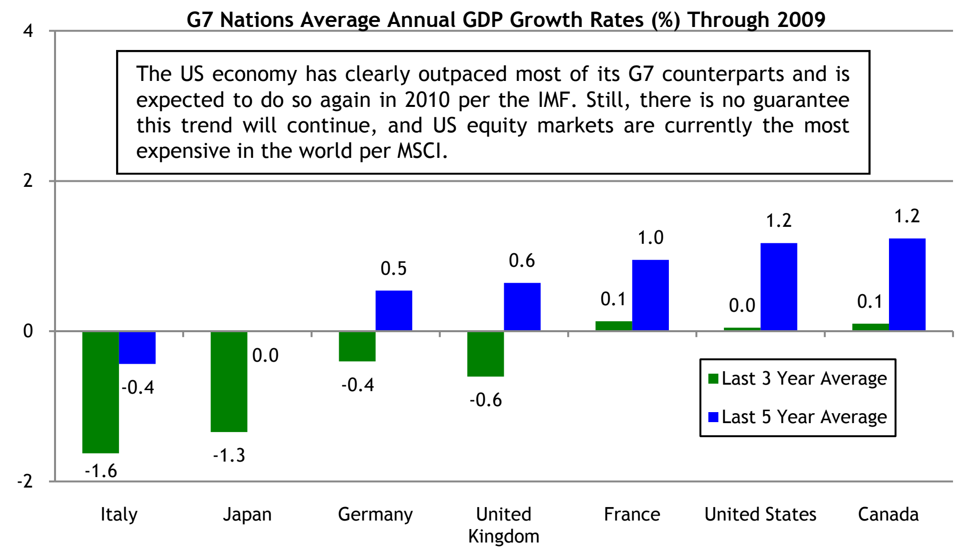
- One undeniable tenet of investing is that macroeconomic conditions drive valuations and investment returns. With this in mind, it makes sense to look at macroeconomic factors for other developed market nations.
- It is no secret US GDP growth has outpaced other G7 nations for some time, but the question remains as to whether or not this will continue given a myriad of economic difficulties.
- When examining key metrics for the US economy, one must wonder if we will remain in a superior position going forward. We are running the largest government deficits and have the lowest national savings rates of all G7 nations.
- Albeit other G7 nations have difficulties of their own, they are taking measures to reduce deficits and debt, whereas the US is moving in the opposite direction. Diversification of macroeconomic risk factors is never a bad idea.



Source: IMF, Wurts & Associates



Source: IMF, Wurts & Associates

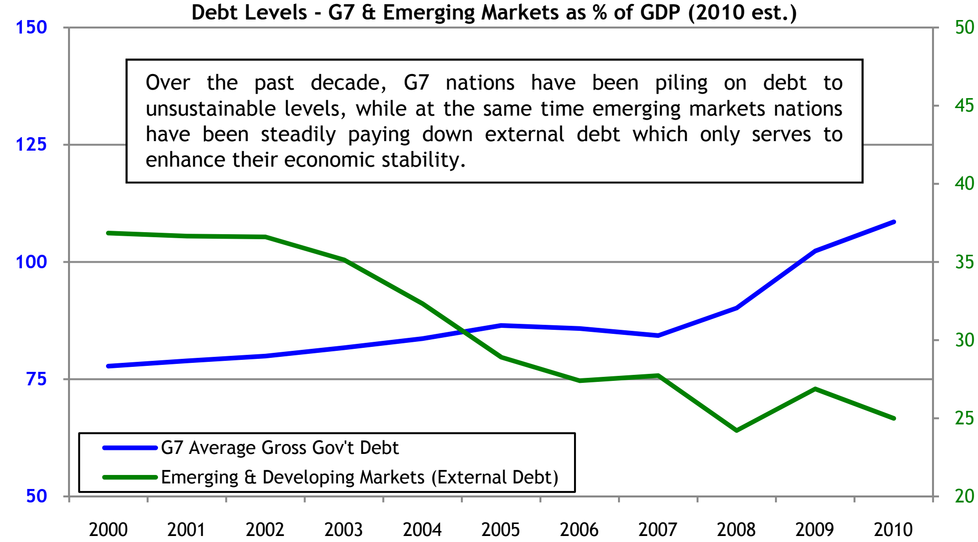


Source: IMF, Wurts & Associates

Emerging Markets Have An Economic Edge

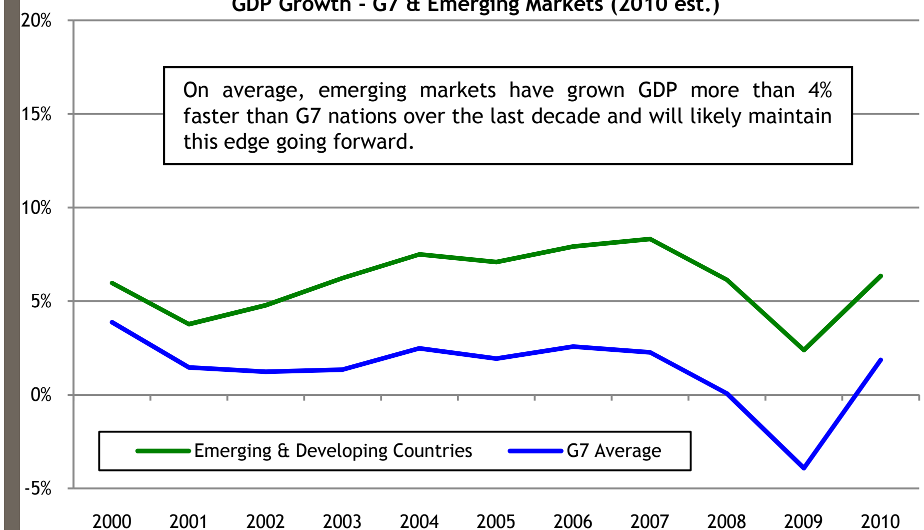
- Following suit with the concept of diversifying economic exposures, it only makes sense to compare the developed world to its emerging markets counterparts. Emerging markets hold several secular economic advantages over G7 nations that should not be ignored.
- These economies have much lower levels of debt and are saving at a much faster pace. Both of these factors are strong positives for producing future economic growth that should outpace G7 nations.
- Of course individual emerging market countries have higher risk profiles than developed nations, but such risks can be mitigated through proper diversification.
- When you consider emerging market equities are priced attractively in relation to developed markets, allocating assets to these opportunities seems worthwhile.

Debt Levels - G7 & Emerging Markets as % of GDP (2010 est.)



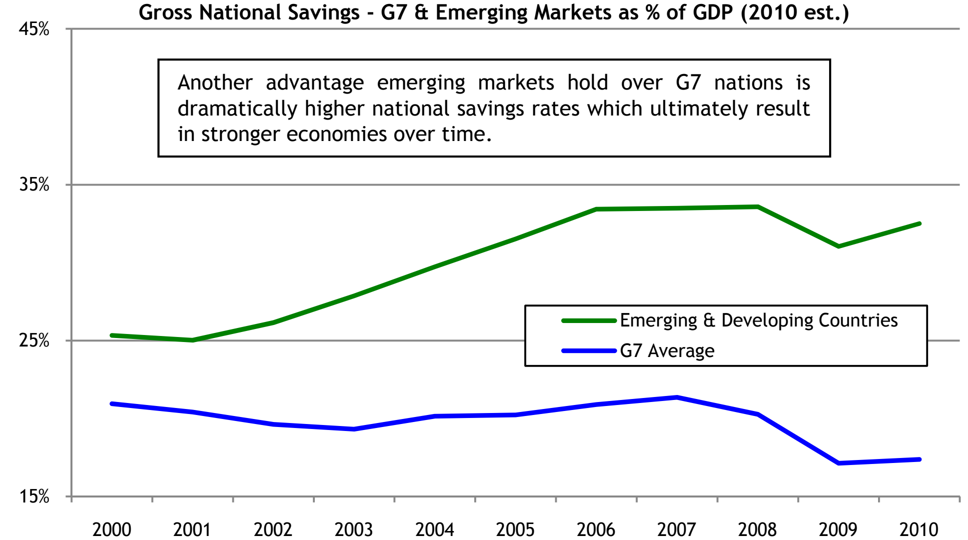
Source: IMF, Wurts & Associates

GDP Growth - G7 & Emerging Markets (2010 est.)



Source: IMF, Wurts & Associates

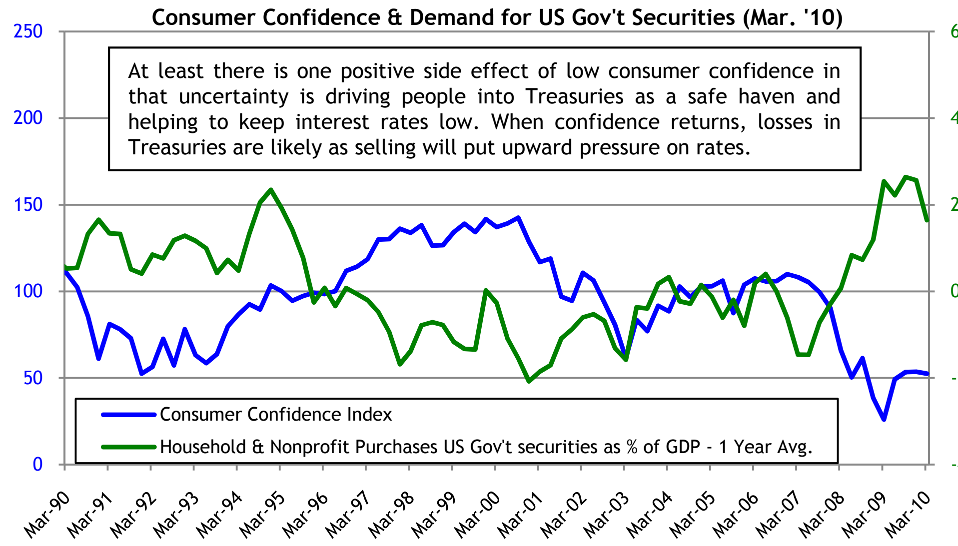
Gross National Savings - G7 & Emerging Markets as % of GDP (2010 est.)



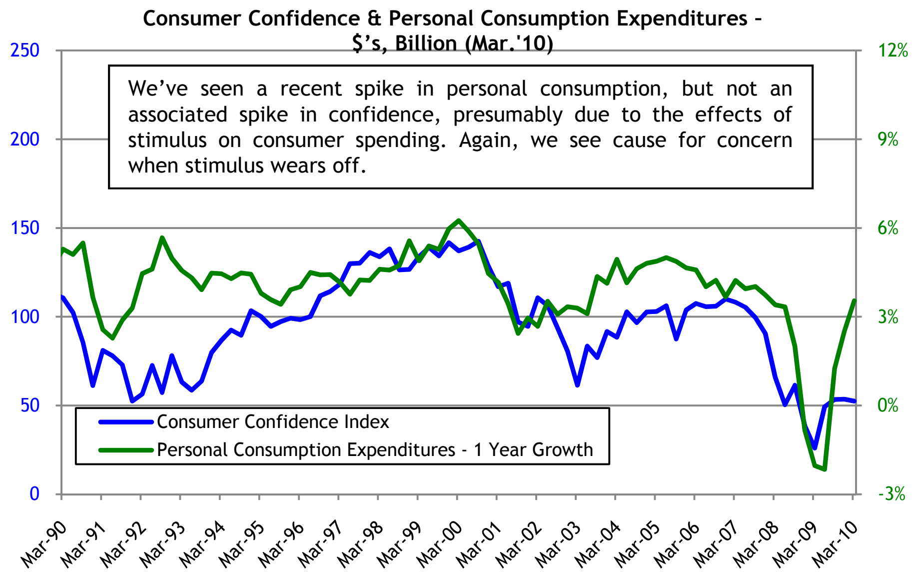
Source: IMF, Wurts & Associates

The Power of Perception is Powerful Indeed

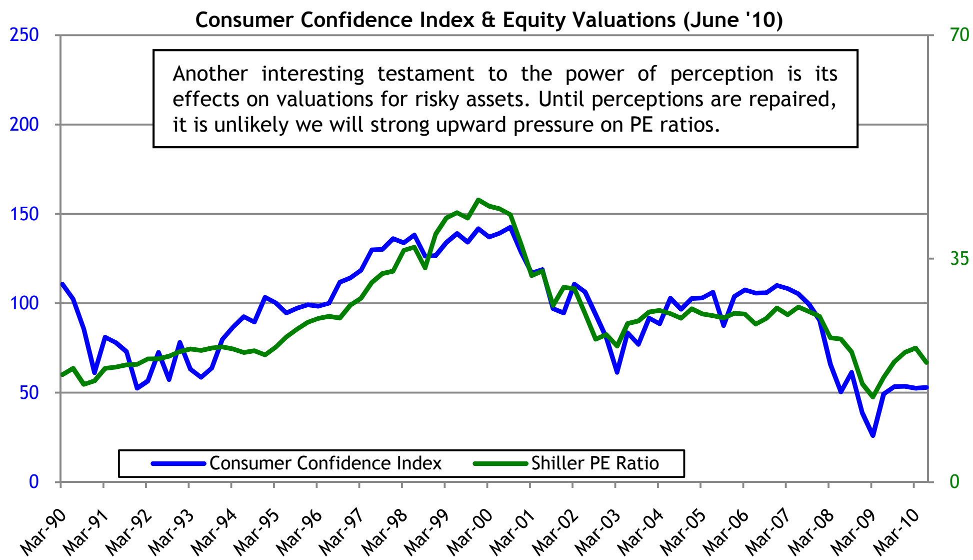
- As alluded to earlier, the power of perception is significant in its effects on the economy and capital markets.
- These relationships can be demonstrated through the University of Michigan Consumer Confidence Index as a proxy for the economic outlook of individuals.
- By correlating this index to various factors, clear relationships can be seen between peoples' perceptions and consumer spending (and economic growth), as well as investors' willingness to embrace risk.
- What is important to note in the current environment is the government must work to repair consumer confidence, as it currently stands at some of the lowest levels in history. Until this changes, we will be faced with yet another barrier to recovery in the economy and capital markets.



Source: Fed, U of Wisconsin, Wurts & Associates



Source: BEA, U of Wisconsin, Wurts & Associates

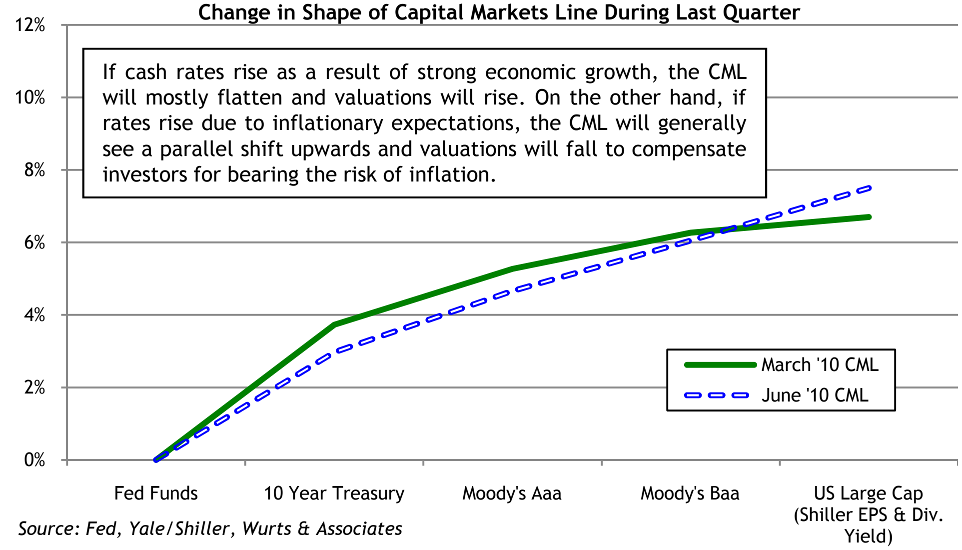


Source: Yale/Shiller, U of Wisconsin, Wurts & Associates

Unsurprisingly, Risk Premiums Expanded During the Quarter

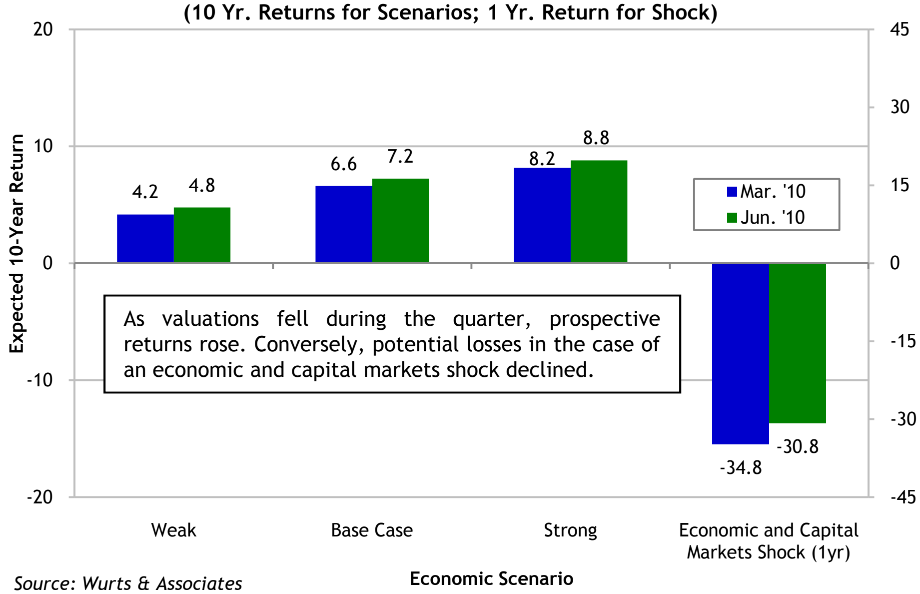
- In our last quarterly report, we hypothesized risk premiums over Treasuries would hold (or increase) given a series of unresolved risks to the economy. Since then, Europe has given investors new reason to be cautious (i.e., Greece).
- Treasury yields fell, credit spreads expanded, and PE ratios declined during the quarter, all of which served to steepen the capital markets line (CML). Risk premiums over 10 year Treasuries are now at some of the highest levels in history.
- Even though there is ample compensation for bearing risk, capital markets remain anchored to extraordinarily low cash rates. This combination produces a relatively unique situation of historically high risk premiums within a low return environment. The question of course is what happens to risk premiums as cash rates inevitably rise?

Change in Shape of Capital Markets Line During Last Quarter



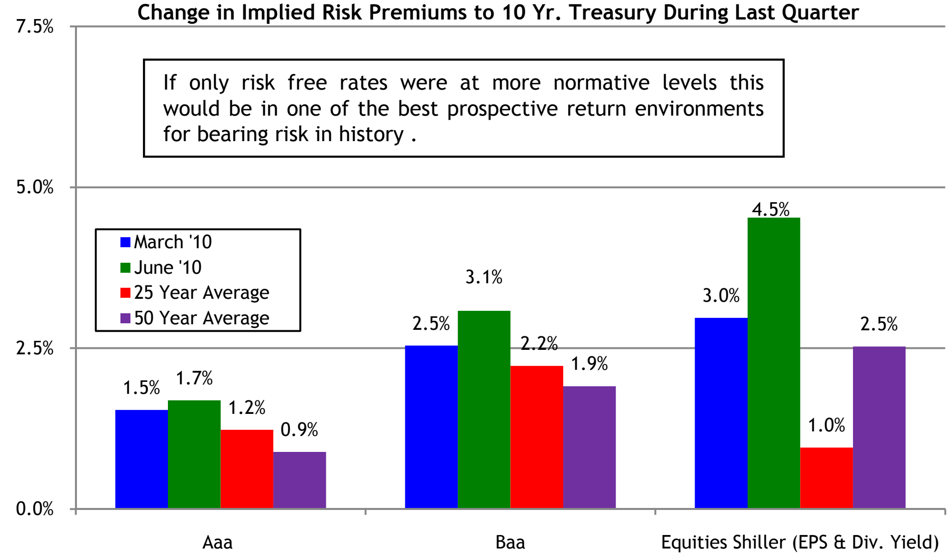
Source: Fed, Yale/Shiller, Wurts & Associates

Forecasted Nominal Rates of Return (%) - Valuation & Scenario Based (10 Yr. Returns for Scenarios; 1 Yr. Return for Shock)



Source: Wurts & Associates

Change in Implied Risk Premiums to 10 Yr. Treasury During Last Quarter



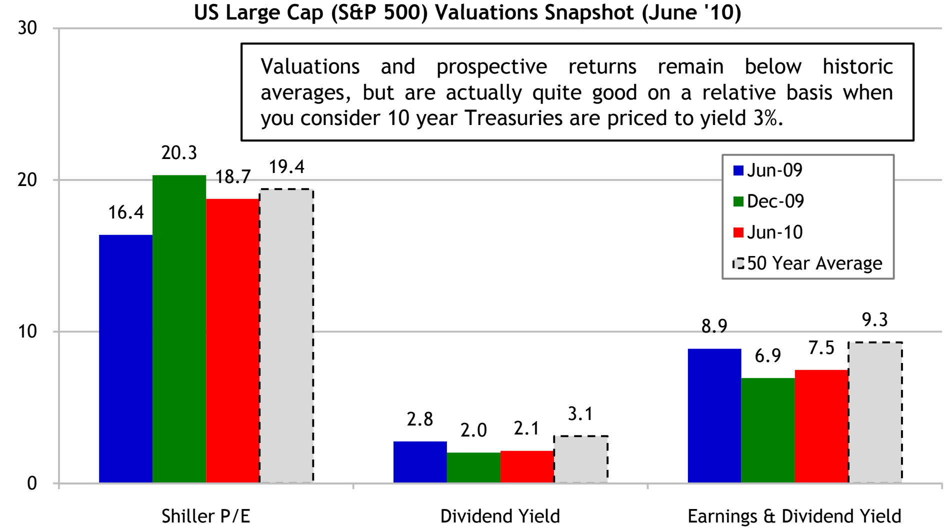
Source: Fed, Yale/Shiller, Wurts & Associates

III. Capital Markets

US Large Caps Got A Little Cheaper During the Quarter

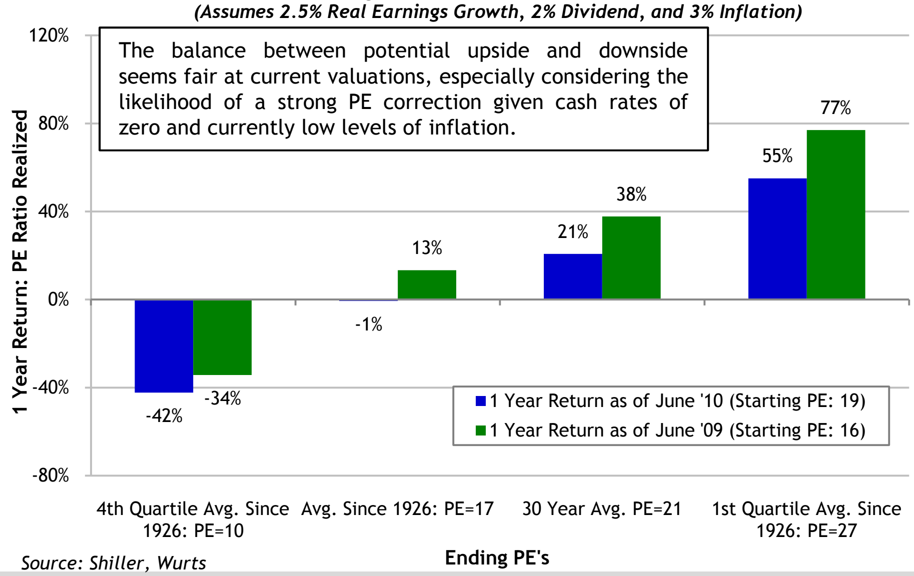
- In our 1st quarter report, we noted equities seemed a little expensive in relation to historic valuations vis-à-vis prevailing macroeconomic conditions.
- We also noted numerous unresolved threats to economic growth and potential pressure on valuations as investors were more than likely to maintain or increase required risk premiums over Treasuries as a result of perceived risk.
- Though we would like to claim foresight, we cannot. You can never tell in advance if and when "the market" will choose to discount risk and by how much.
- Still, it seems we were somewhat directionally correct and US large cap stocks saw valuation declines and therefore higher prospective returns. However, the return profile is not as attractive as it was one year ago.

US Large Cap (S&P 500) Valuations Snapshot (June '10)



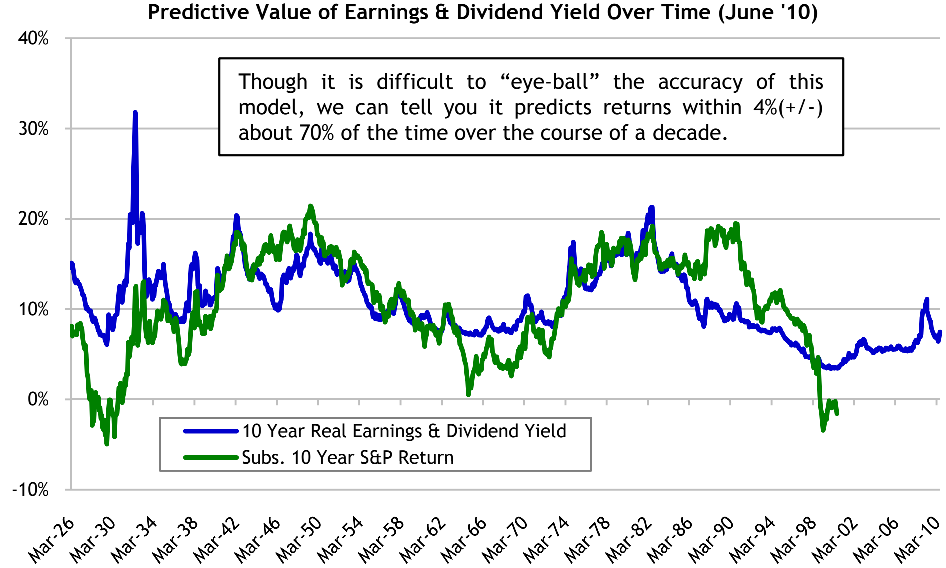
Source: Shiller, Wurts & Associates

Effects of Changes in Shiller PE Ratio on S&P 500 Returns
(Assumes 2.5% Real Earnings Growth, 2% Dividend, and 3% Inflation)



Source: Shiller, Wurts

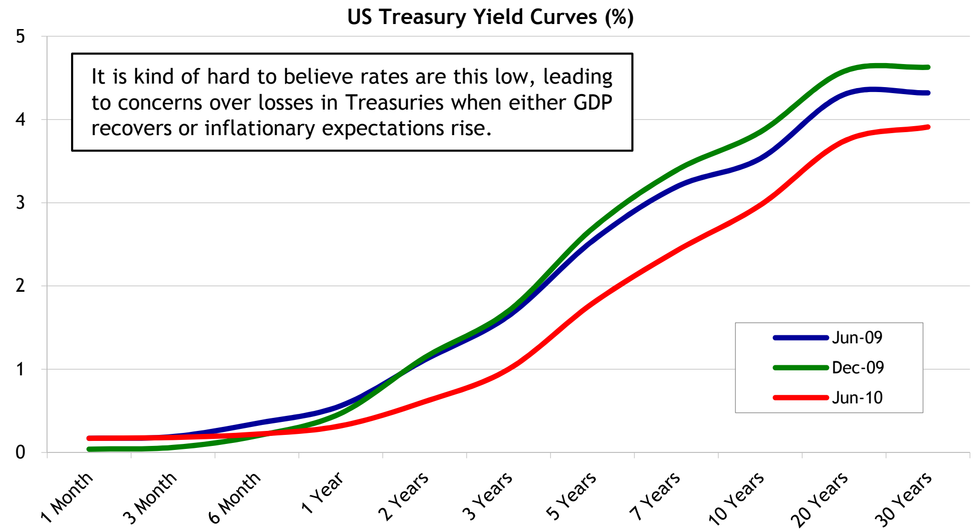
Predictive Value of Earnings & Dividend Yield Over Time (June '10)



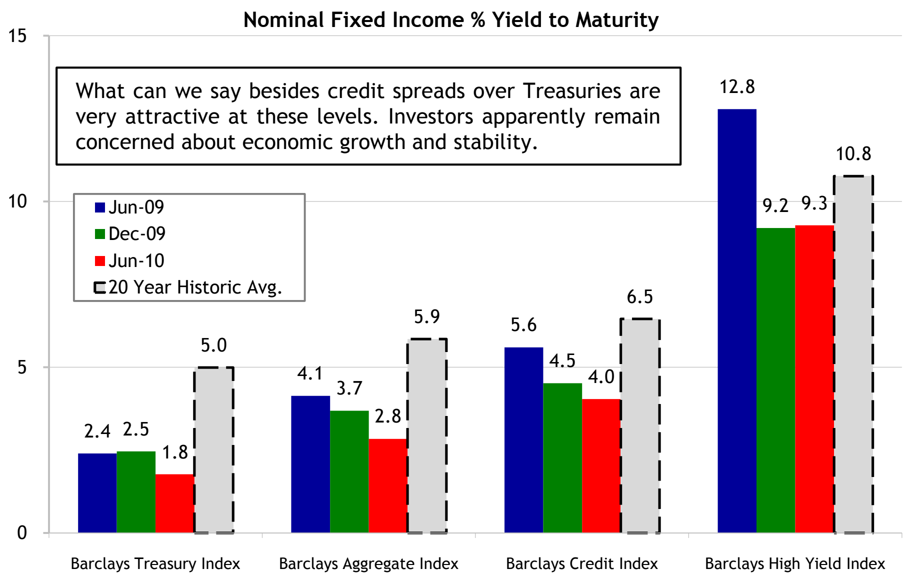
Source: Ibbotson, Shiller, Wurts

Fixed Income Markets Discounted Risk Too

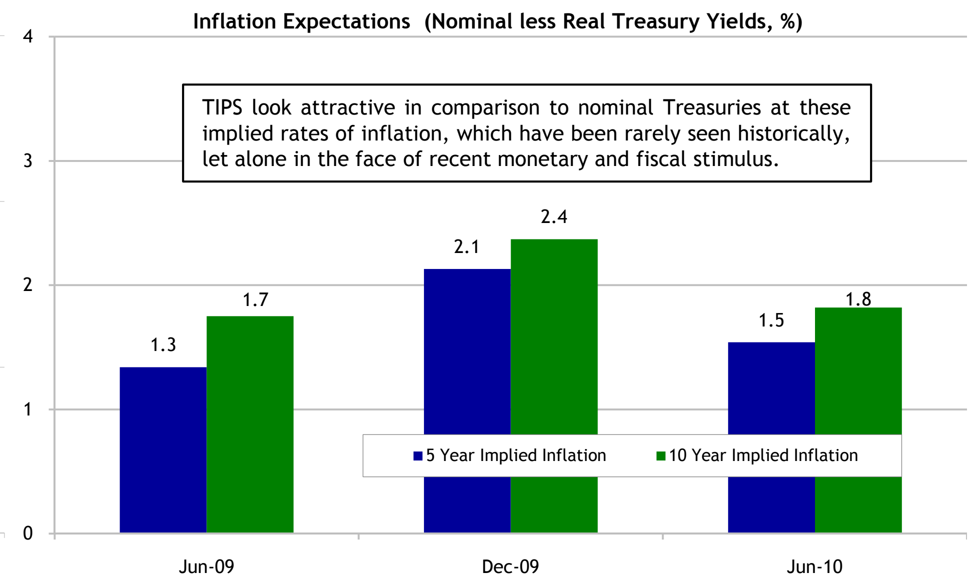
- Three relatively significant things happened in fixed income markets during the quarter, all of which were likely the result of discounting weaker economic growth.
- Treasury yields fell across the board as we saw a miniature flight to safety due to the European (Greece) debt crisis and its potential implications, causing the yield curve to shift downwards and flatten.
- Conversely, credit spreads widened as a result, and are now more along the lines of what we were seeing a year ago; they remain well above historic averages.
- Following suit with diminished economic expectations, implied inflation fell too and is now below 2% over the next decade, which seems awfully low in our opinion.



Source: Federal Reserve



Source: Barclays

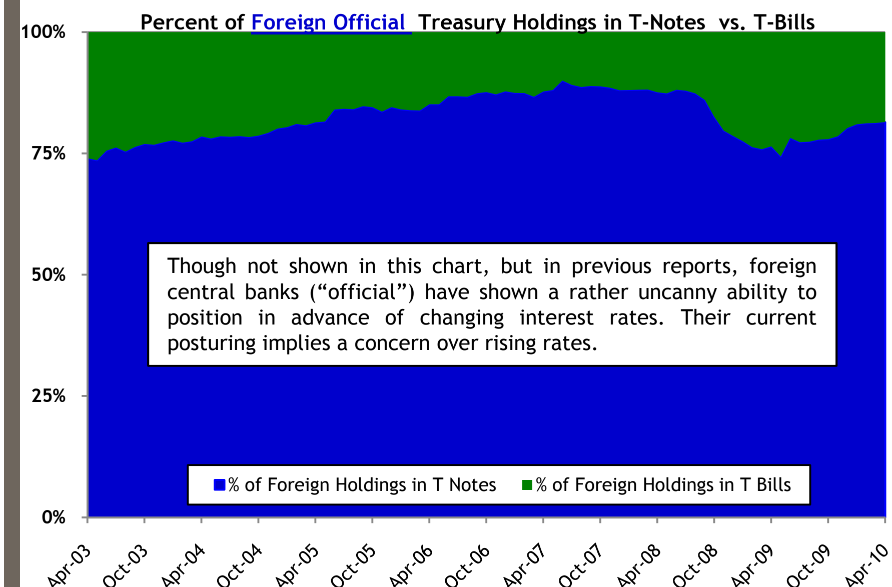


Source: Federal Reserve, Wurts & Associates

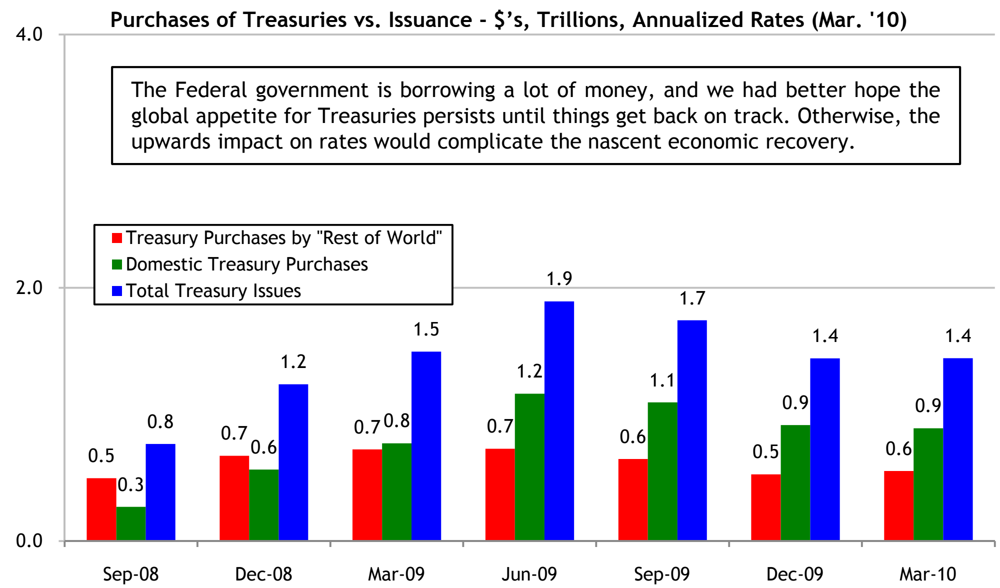
The Pace of Treasury Issuance Remains High

- As mentioned earlier, it appears low levels of consumer confidence alongside high unemployment and many economic uncertainties are leading Americans to pour assets into US Treasuries.
- This has helped finance massive Federal spending deficits, as foreign demand for Treasuries has been too little to make up the difference. As a result, domestic demand has helped keep rates low.
- Although we recently saw a decline in the growth of foreign Treasury holdings, the absolute level thereof remains at historic levels.
- It is worth noting foreign central banks continue holding more T-bills than in recent history, presumably over concerns for potential US inflation.

Source: US Treasury, Federal Reserve, Wurts & Associates



Source: US Treasury, Ibbotson, Wurts & Associates

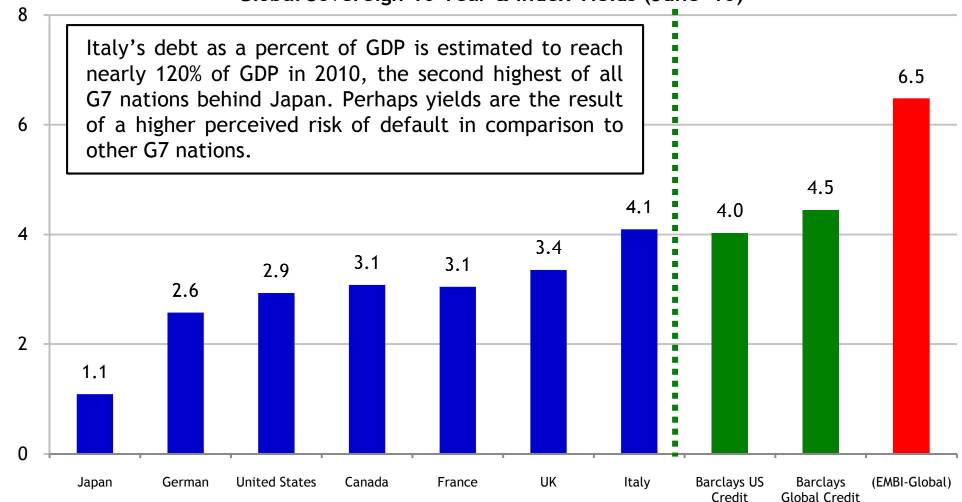


Source: Federal Reserve

US Markets Remain the Most Expensive Globally

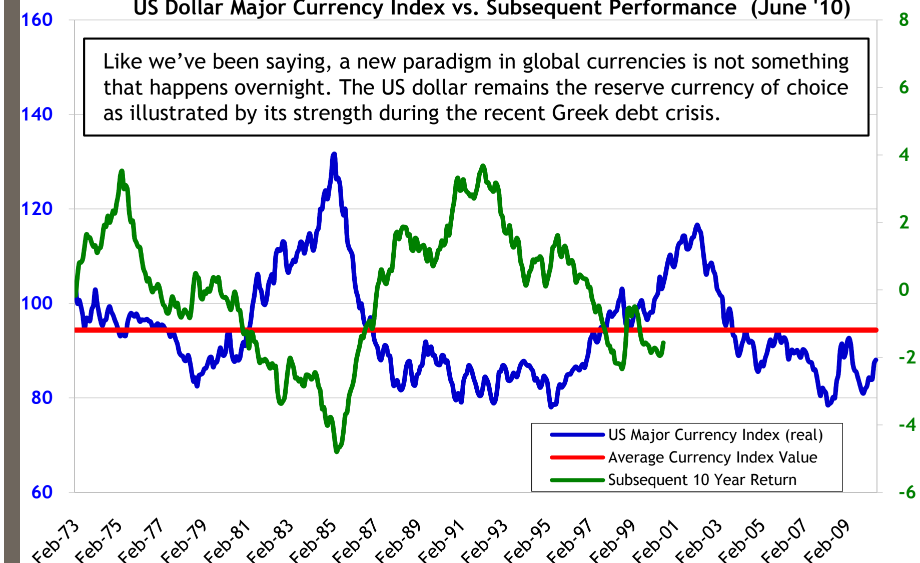
- US equity and fixed income markets remain the most expensive in the world.
- This is likely due to the fact US GDP growth has outpaced its developed counterparts for many years, as well as its massive fiscal and monetary response to combating the recession and associated higher growth prospects.
- Albeit US equity markets, for example, have been outpacing other developed equity markets most of this year, we would note investment theory ultimately catches up with reality and the US economy is far from perfect.
- The relative compensation for bearing international credit risk rose during the quarter. Global credit and emerging market debt now offer noticeable yield advantages relative to US fixed income, probably due to currency volatility.

Global Sovereign 10 Year & Index Yields (June '10)



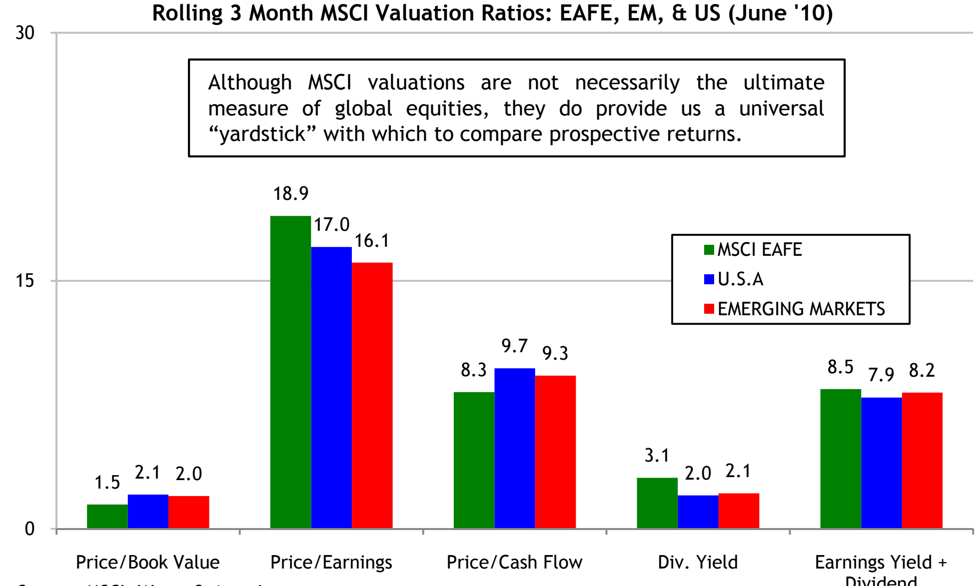
Source: JPMorgan, Western Asset Management

US Dollar Major Currency Index vs. Subsequent Performance (June '10)



Source: Freelunch.com; Wurts & Associates

Rolling 3 Month MSCI Valuation Ratios: EAFE, EM, & US (June '10)

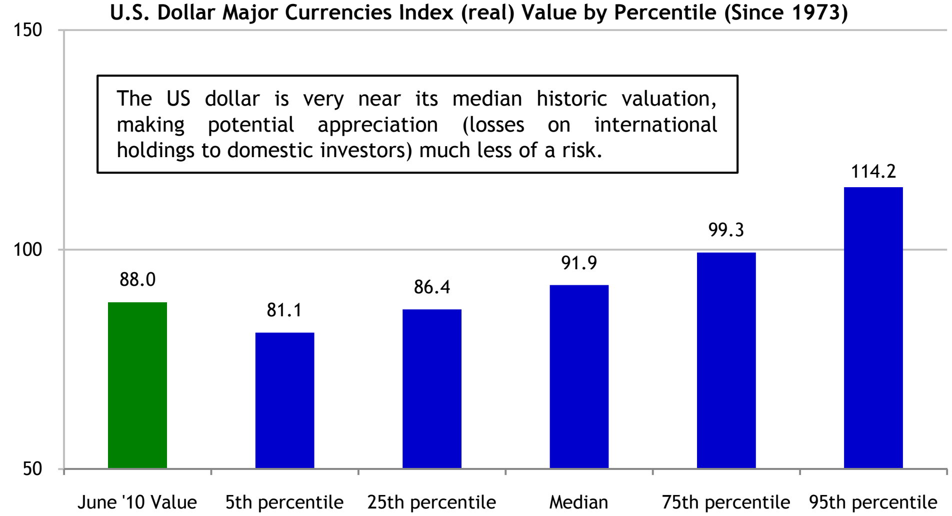


Source: MSCI; Wurts & Associates

Still Shying Away From a Bet Against the Dollar, But…

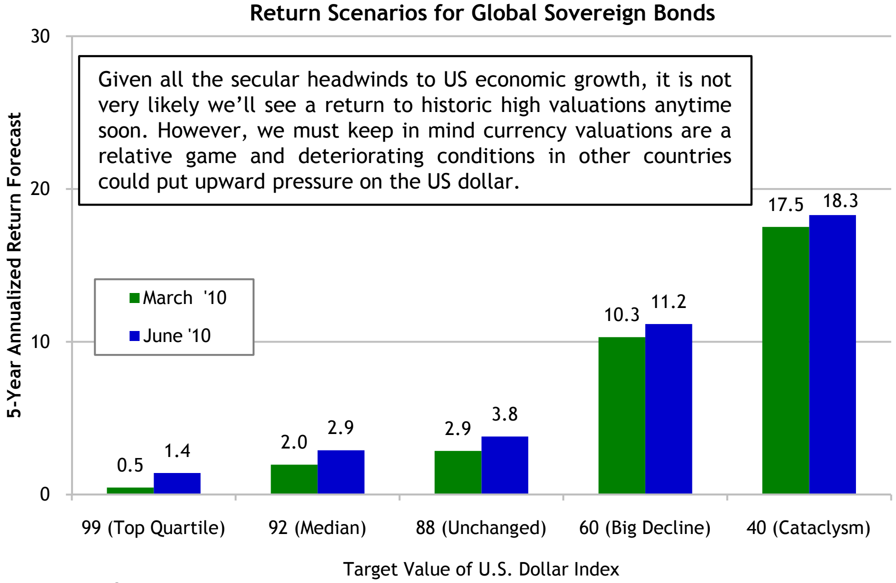
- In our December 2009 report, we noted it was not such a good time to make a bet against the US dollar. Again we do not wish to sound like market timers, but it turns out we were directionally correct over the short term.
- Our reasoning has been two-fold. The US dollar was at historically low valuations and a further and sustained decline was unlikely without a change in the global currency paradigm. After all, we had just lived through one of the greatest financial crises in history and the dollar rose as a result.
- This is why we shied away from recommending global bonds, because currency risk trumped non-existent yield premiums. However, global yields now offer premiums to US fixed income and the dollar has risen substantially. So we may be changing our minds on this matter in the near future.

U.S. Dollar Major Currencies Index (real) Value by Percentile (Since 1973)



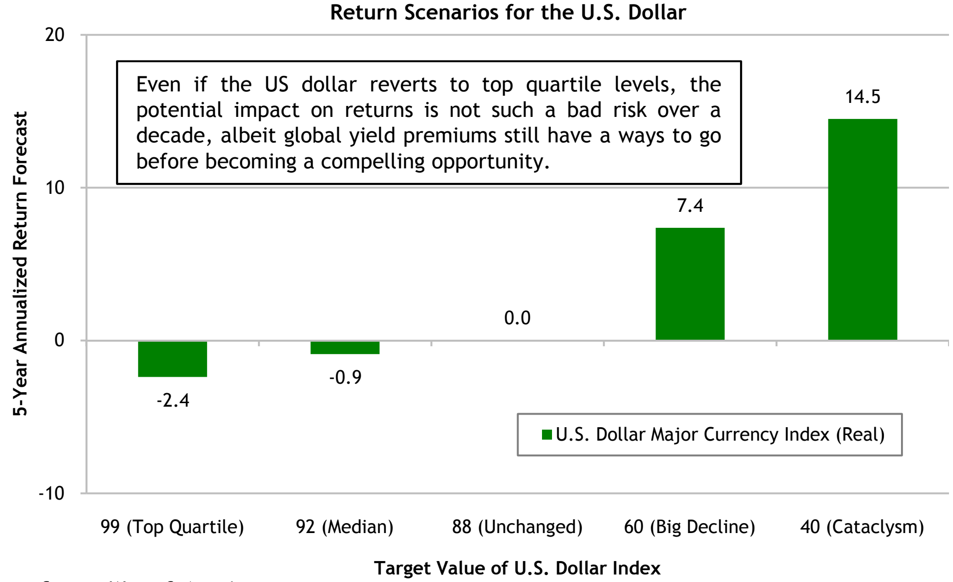
Source: Freelunch.com; Wurts & Associates

Return Scenarios for Global Sovereign Bonds



Source: Wurts & Associates

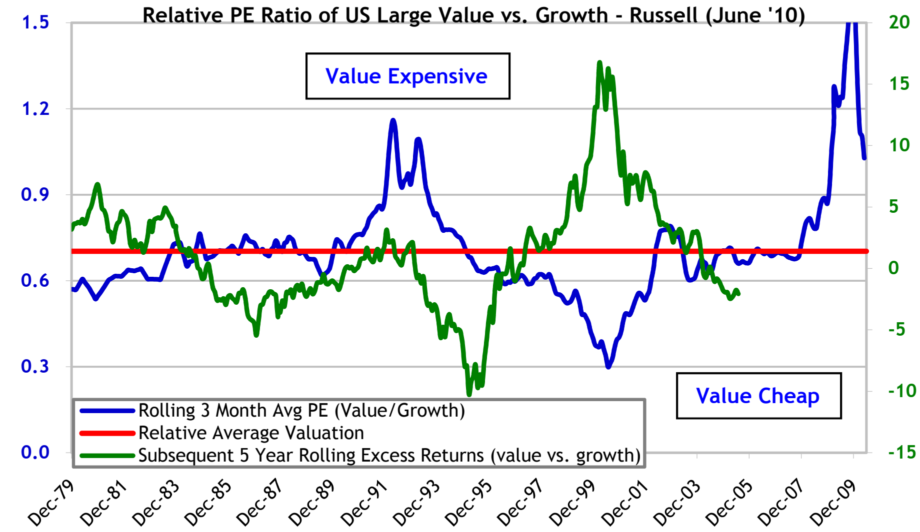
Return Scenarios for the U.S. Dollar



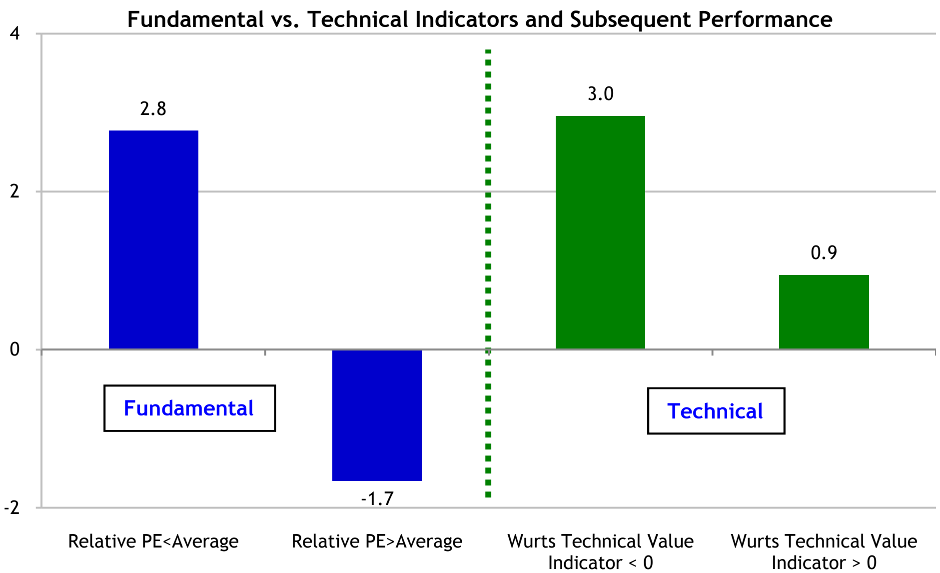
Source: Wurts & Associates

Style Tilts: *US Large Value vs. Growth*

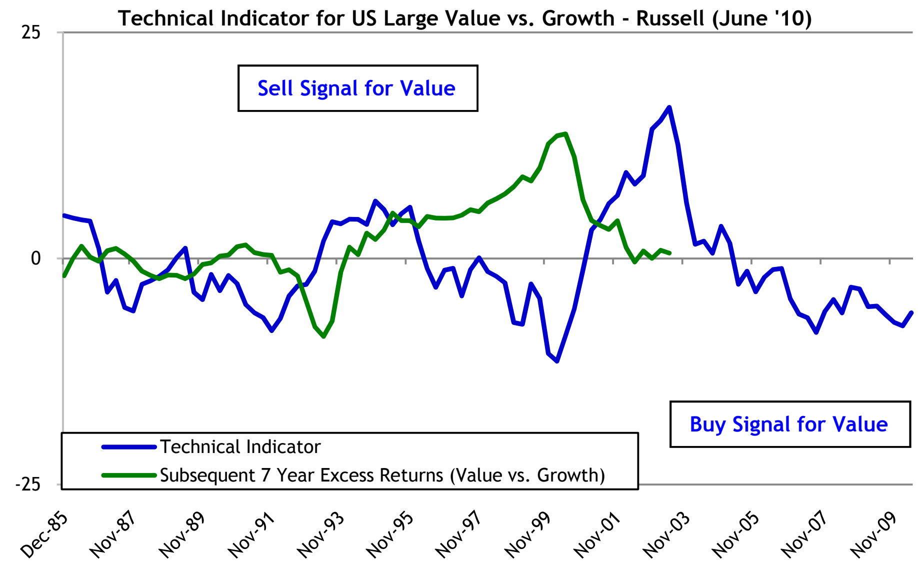
- Dimensioning the relative attractiveness of style tilts became somewhat difficult during recent periods. This was primarily due to sharp declines in earnings for financial institutions which comprise a significant portion of the value universe.
- In fact, PE ratios for US large value stocks reached as high as 45 towards the end of 2009, whereas growth stock valuations were half those levels.
- Valuation based analysis is becoming more meaningful as financial corporations repair their balance sheets. Nonetheless, value stocks do not appear cheap, which has been shown as being key to outperformance over time.
- On the other hand they do look attractive from a technical standpoint. So with conflicting indictors, no strong stance either way is warranted.



Source: Ibbotson, Wurts & Associates



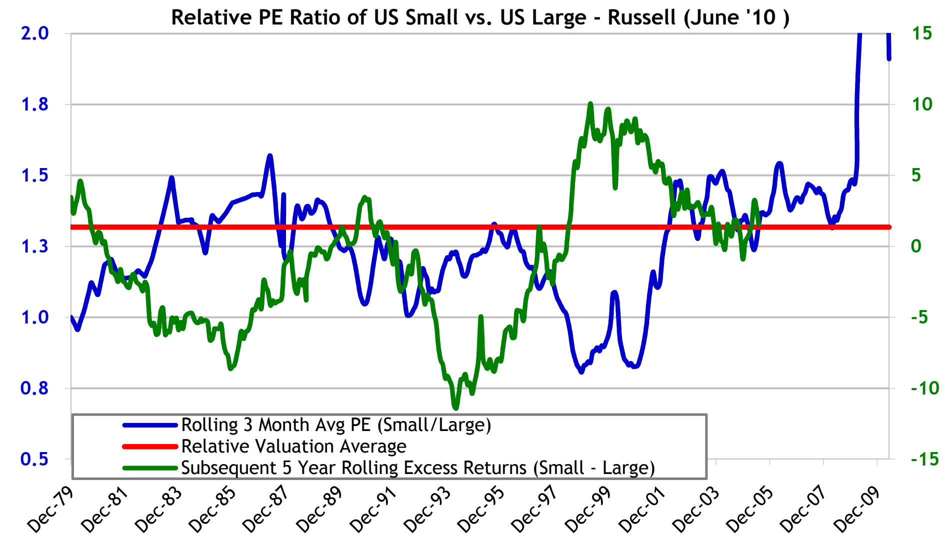
Source: Russell, Wurts & Associates



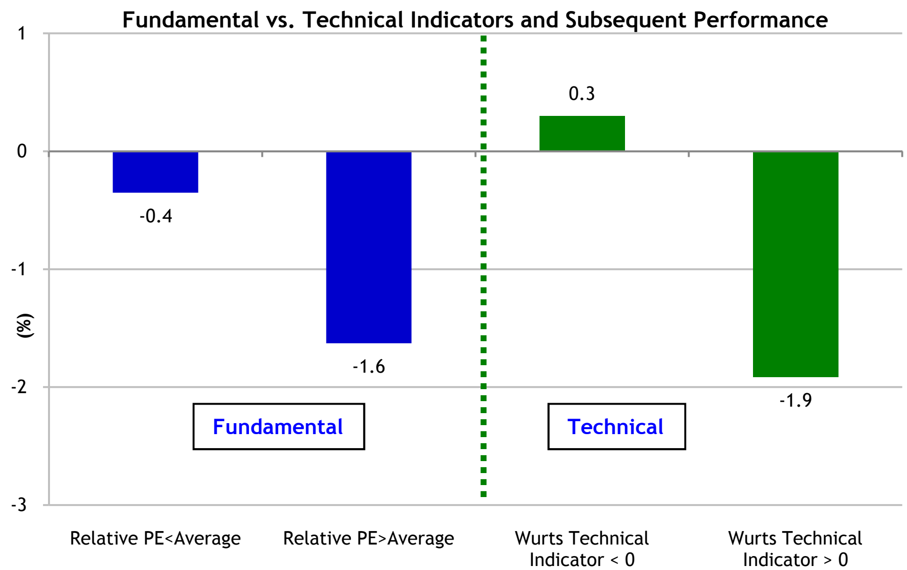
Source: Ibbotson, Wurts & Associates

Capitalization Tilts: *US Small vs. Large*

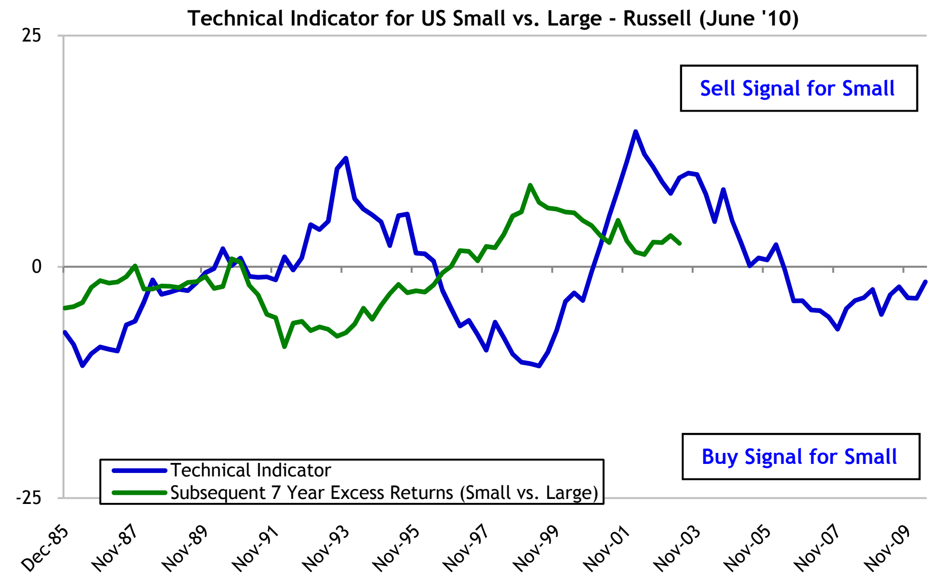
- A similar story of less meaningful valuation based analysis can also be told for US small cap stocks, which tend to have more volatile earnings, especially during times of stress.
- To illustrate this point, we would note PE ratios for US small stocks were in excess of 100 for several months during 2009, but are now coming back to more normative levels.
- Buying small caps cheap seems essential to realizing significant outperformance, which is not the case nowadays. Technical analysis however, is drawing a different conclusion as small cap stocks seem oversold in relation to large caps. So with conflicting indicators, a strong stance either way seems unwise.
- However, a slight underweight seems prudent, as small caps do not appear cheap (or technically weak) enough to outperform large caps by a sufficient margin to justify the additional risk.



Source: Russell, Wurts & Associates



Source: Russell, Wurts & Associates

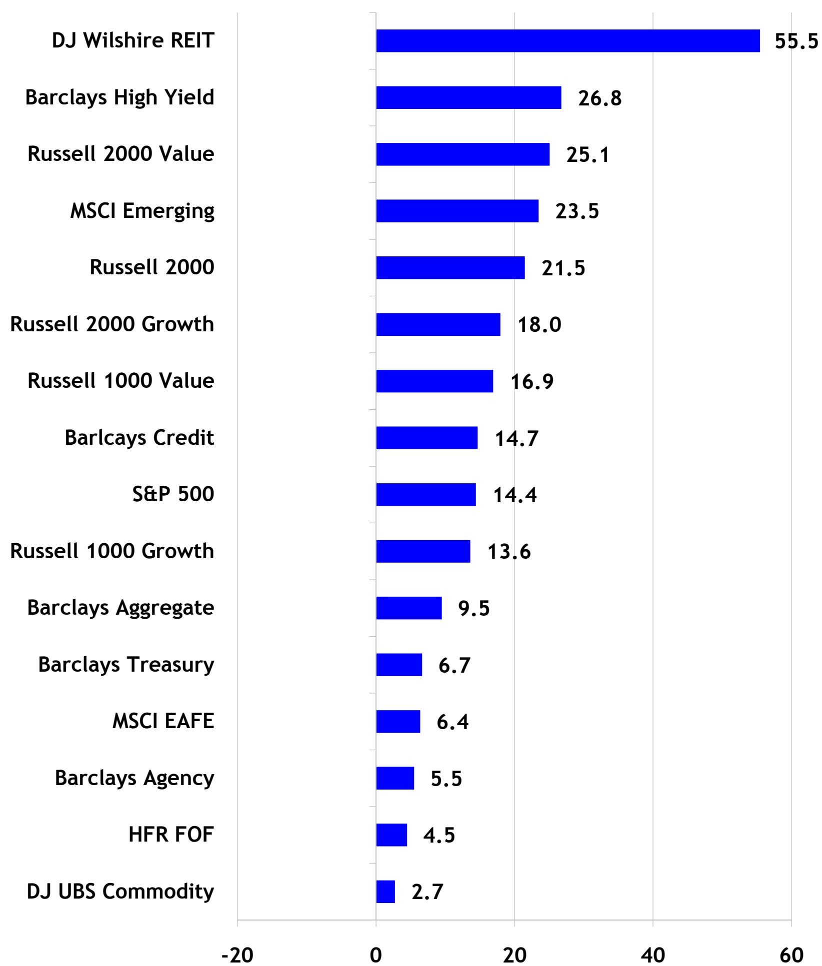


Source: Ibbotson, and Wurts & Associates

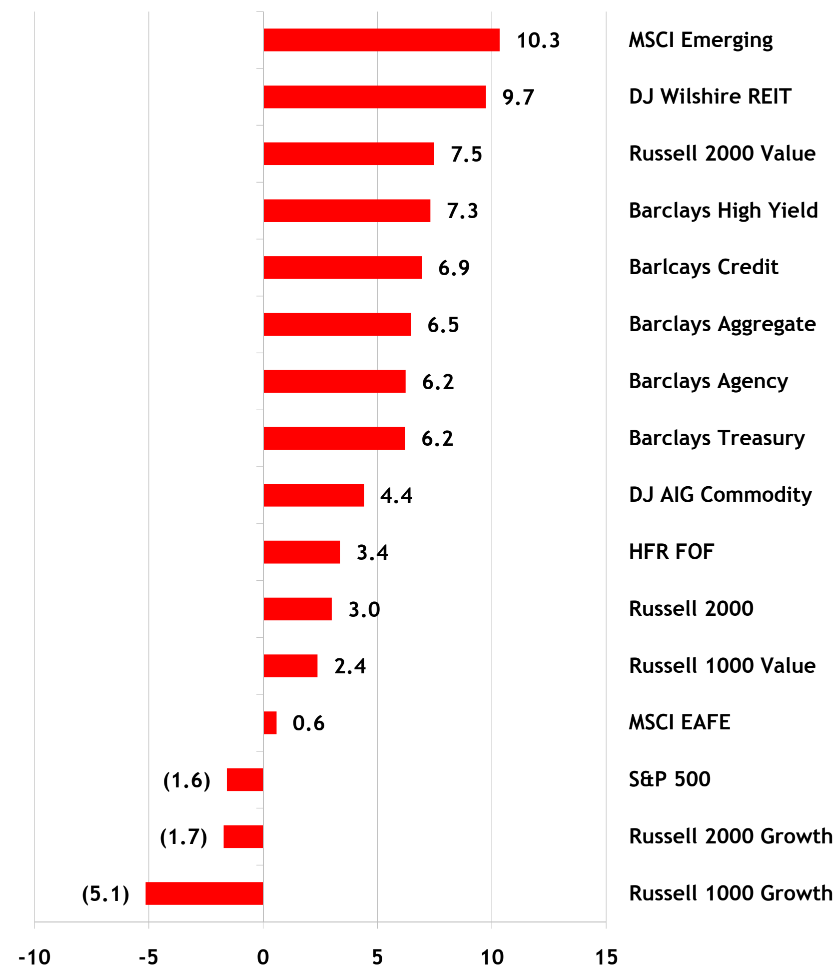
IV. Appendix: Asset Class & Sector Returns

Major Asset Class Returns

One Year ending June 2010



Ten Years ending June 2010



Periodic Table of Returns – June 2010

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (YTD)
Best	65.0	17.5	59.9	29.1	74.8	8.1	38.3	23.1	35.2	38.7	66.4	22.8	14.0	10.3	56.3	26.0	34.5	32.6	39.8	5.2	79.0	5.3
	35.9	8.9	51.2	13.8	32.9	6.4	37.2	21.6	31.8	20.3	43.1	12.3	8.4	6.7	48.5	22.3	18.9	26.9	15.8	1.8	37.2	4.1
	25.2	7.9	41.7	12.3	26.3	4.2	31.0	21.4	30.5	16.2	33.2	11.6	7.3	1.7	46.0	20.7	14.0	23.5	11.8	-6.5	34.5	0.1
	20.2	2.6	41.2	11.4	23.8	2.7	25.8	14.4	18.6	15.6	27.3	7.0	4.1	1.0	38.6	16.5	7.5	22.2	11.6	-20.7	32.5	-1.0
	18.8	2.3	24.6	8.0	18.1	-0.8	24.6	14.1	16.2	13.6	26.5	6.0	2.8	-6.0	30.0	14.3	7.1	16.1	10.3	-24.0	20.6	-1.2
	14.5	-0.3	21.7	7.8	13.4	-1.5	18.5	11.3	13.9	8.7	13.0	4.1	-2.4	-8.6	29.7	13.1	7.1	13.4	7.9	-28.9	19.7	-1.6
	12.4	-8.1	16.0	7.4	11.5	-2.0	11.6	10.3	12.9	5.1	11.4	1.9	-2.7	-11.4	21.6	11.1	5.3	12.8	7.1	-36.9	19.4	-2.3
	10.8	-10.6	14.5	5.0	9.8	-2.4	11.1	6.4	9.7	1.2	7.3	-14.0	-5.6	-15.5	11.6	6.9	4.7	10.4	7.0	-38.4	11.5	-5.1
	8.6	-17.4	12.5	3.6	3.1	-2.9	7.5	6.0	5.3	-5.1	4.7	-22.4	-9.2	-15.7	9.0	6.3	4.1	9.1	4.7	-38.5	5.9	-6.0
	7.8	-21.8	5.8	-4.3	2.9	-3.5	5.8	5.3	2.1	-6.5	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.0	4.8	-0.2	-43.1	0.2	-7.6
Worst	N/A	-23.2	-5.6	-11.9	1.4	-7.3	-5.2	3.6	-11.6	-25.3	-1.5	-30.6	-21.2	-30.3	1.1	1.2	2.4	4.3	-9.8	-53.2	-16.9	-12.9

- Large Cap Growth US Stocks (Russell 1000 Growth Index)
- Large Cap Value US Stocks (Russell 1000 Value Index)
- Small Cap Growth US Stocks (Russell 2000 Growth Index)
- Small Cap Value US Stocks (Russell 2000 Value Index)
- Developed International Stocks (MSCI EAFE Index)
- Emerging Market Stocks (MSCI EM Index)
- Hedge Fund of Funds (HFRI Fund of Funds Index)
- Domestic Fixed Income (Barclays Capital Aggregate Bond Index)
- Real Estate (NCREIF Property Index)
- Cash (Citigroup 3-Mo Treasury)
- ICC Universe Median (Total Funds)

Data: Ibbotson Associates, As of 3/31/2010; Independent Consultants Cooperative.

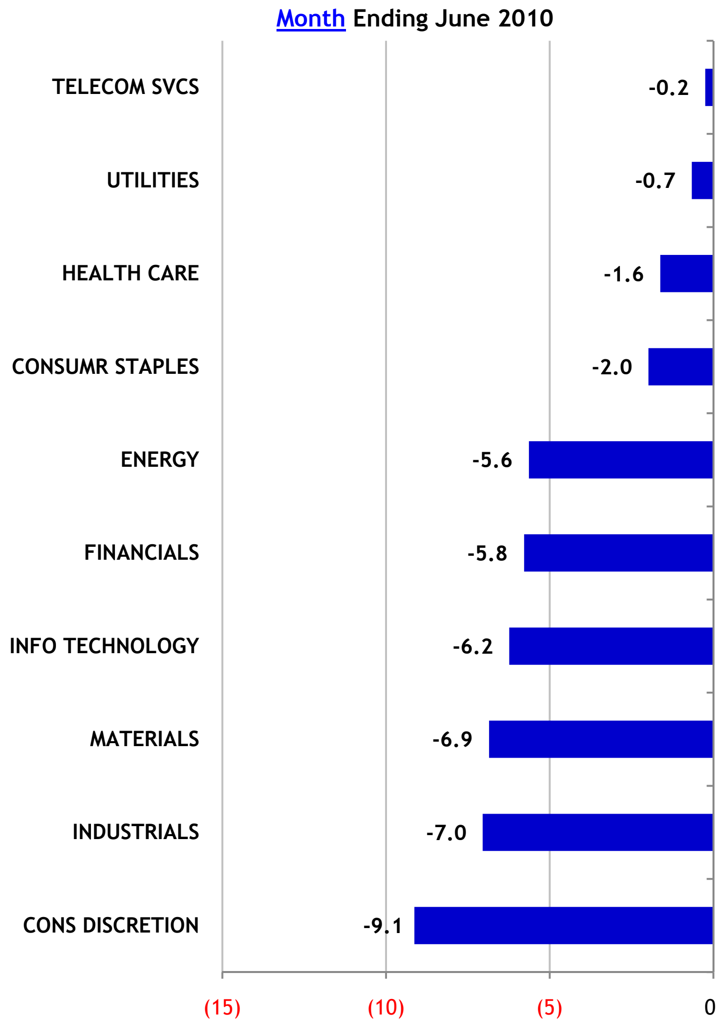
Detailed Equity & Fixed Income Returns

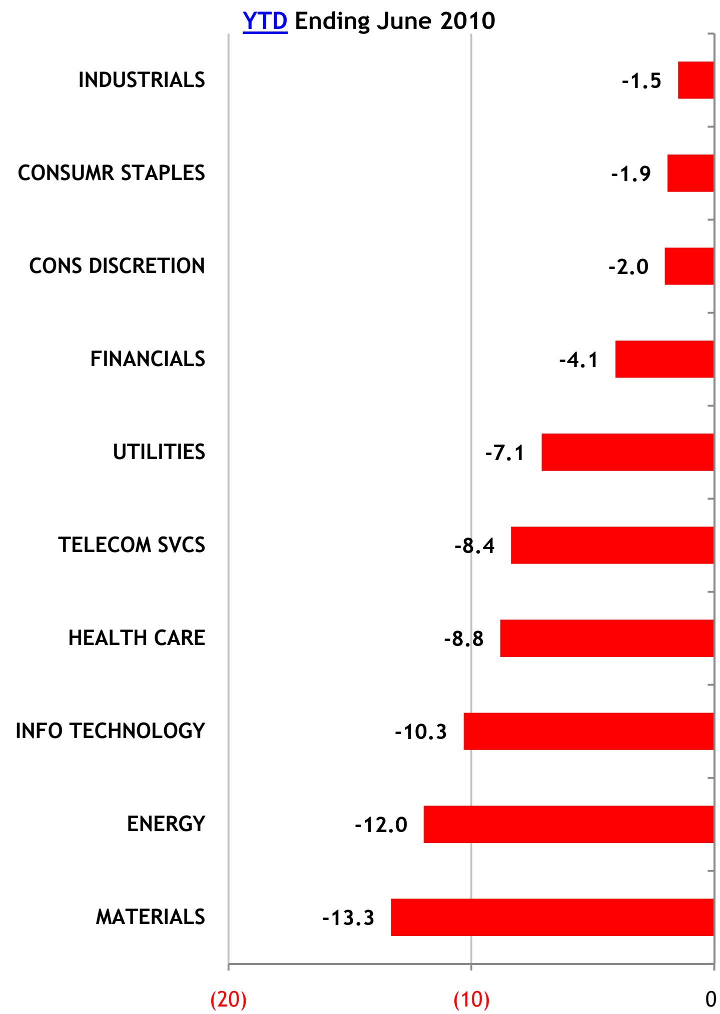
Domestic Equity	June	YTD	1-Year	3-Year	5-Year	10-Year
Core Index Performance						
S&P 500	(5.2)	(6.7)	14.4	(9.8)	(0.8)	(1.6)
S&P 500 Equal Weighted	(6.2)	(3.4)	25.0	(7.4)	1.5	4.8
DJ Industrial Average	(3.4)	(5.0)	18.9	(7.4)	1.7	1.7
Russell Top 200	(5.3)	(8.1)	11.6	(10.0)	(1.2)	(3.0)
Russell 1000	(5.6)	(6.4)	15.2	(9.5)	(0.6)	(1.2)
Russell 2000	(7.7)	(2.0)	21.5	(8.6)	0.4	3.0
Russell 3000	(5.7)	(6.0)	15.7	(9.5)	(0.5)	(0.9)
Russell Mid Cap	(6.2)	(2.1)	25.1	(8.2)	1.2	4.2
Style Index Performance						
Russell 1000 Growth	(5.5)	(7.6)	13.6	(6.9)	0.4	(5.1)
Russell 1000 Value	(5.6)	(5.1)	16.9	(12.3)	(1.6)	2.4
Russell 2000 Growth	(6.7)	(2.3)	18.0	(7.5)	1.1	(1.7)
Russell 2000 Value	(8.7)	(1.6)	25.1	(9.8)	(0.5)	7.5

Fixed Income	June	YTD	1-Year	3-Year	5-Year	10-Year
Index Performance						
BC US Aggregate Bond	1.6	5.3	9.5	7.5	5.5	6.5
BC US Treasury US TIPS	1.4	4.4	9.5	7.6	5.0	7.5
BC US Treasury Bills	0.0	0.1	0.3	1.7	2.9	2.7
Maturity Evaluation						
BC US Treasury 1-3 Yr	0.5	1.9	2.7	4.8	4.3	4.4
BC US Treasury Interm.	1.4	4.7	5.8	7.2	5.3	5.6
BC US Treasury Long	4.6	13.2	12.0	10.7	6.1	8.0
Issuer Performance						
BC US Agcy Intermediate	0.9	3.3	5.0	6.8	5.3	6.0
BC US Credit	2.0	5.6	14.7	7.4	5.3	6.9
BC US MBS	1.1	4.5	7.5	8.2	6.2	6.5
BC US Corporate High Yield	1.2	4.5	26.8	6.5	7.2	7.3
BC Emerging Markets	2.5	5.6	20.4	8.0	8.3	10.4

International Equity	June	YTD	1-Year	3-Year	5-Year	10-Year
Broad Index Performance						
MSCI EAFE	(1.0)	(12.9)	6.4	(12.9)	1.4	0.6
MSCI AC World ex US	(1.4)	(12.4)	7.7	(13.1)	0.8	(0.4)
MSCI Emerging Mkts	(0.7)	(6.0)	23.5	(2.2)	13.1	10.3
MSCI EAFE Small Cap	(0.6)	(8.3)	10.0	(15.1)	(1.0)	2.9
Style Index Performance						
MSCI EAFE Growth	(0.1)	(11.9)	6.3	(13.7)	(0.4)	(3.5)
MSCI EAFE Value	(2.2)	(17.5)	(0.1)	(18.1)	(3.2)	(1.0)
Regional Index Performance						
MSCI United Kingdom	(2.2)	(14.4)	8.6	(14.7)	(0.9)	1.1
MSCI Japan	(2.0)	(2.6)	0.9	(11.9)	0.0	(3.3)
MSCI EM Asia	1.1	(4.9)	20.4	(4.3)	9.5	5.5
MSCI EM Latin America	(3.4)	(11.6)	22.4	(1.0)	17.6	13.1

S&P 500 Sector Returns





Source: ICC