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The capital markets stumbled a bit in the second quarter as global stock markets, commodities, and other risk-assets began to price in a fading economic recovery in the U.S., sovereign debt concerns in Europe, and the possibility of a hard economic landing in China. The S&P 500 Index was flat during the quarter, which included a 7% correction from the end of April to the middle of June. The MSCI EAFE Index of foreign stock markets was also flat on the quarter and suffered a 9% correction. Emerging markets performed similarly. Commodities were also weak, as the DJ-UBS Commodity Index declined nearly 7% in the second quarter. High yield bonds fell 5% before recovering those losses at the end of the quarter. Fixed income markets, on the other hand, benefitted from the growing economic concerns. During the quarter the Barclays Aggregate Bond Index gained 2.3% and the Barclays Municipal Bond Index returned 3.5%.

Our conservatively positioned portfolios were unscathed by the recent market turmoil. Our contrarian belief coming into this year was that the economic recovery was neither as strong nor as sustainable as the capital markets were discounting. Given this view, the prescription for our portfolios relative to each client's investment policy was minimum stock market exposure, maximum bond exposure, with a heavy emphasis on quality in both asset classes. That has been the right medicine in recent months and should continue to serve us well until the capital markets properly discount the weakening and risky macroeconomic backdrop.

Near the bottom of the market correction in late June, we did increase our exposure modestly as investor sentiment reached a bearish extreme. Generally speaking, we modestly reduced exposure to investment grade bonds and intermediate municipal bonds, and added high-quality equity exposure through the Vanguard Dividend Growth Fund. We also initiated a position in the Wells Fargo Advantage Asset Allocation Fund. This is a multi-asset fund which is sub-advised by Grantham, Mayo, Van Otterloo which takes a contrarian approach to allocating capital among its own proprietary funds. Overall, though, we still remain in a defensive posture.

Longer-term, we continue to believe that our economy is in a precarious position. Robert Arnott of Research Affiliates refers to this situation as the "3-D Hurricane", which is the perfect storm of large

deficits, massive debt, and poor demographics. While the Fed will seek to keep interest rates low for years to come in an effort to boost our deflated economy, the time will come when interest rates and inflation will soar as the value of our currency is diminished. We are not alone in this thinking, but differ from the crowd in our belief that such a risk is still years out. It is our hope and our belief that in the coming years the markets will give us an opportunity to position our portfolios and purchase investments at attractive levels that will be well suited for such a high interest rate environment. Today, these types of investments, such as commodities, are over-owned and over-priced. We believe that our patience will ultimately be rewarded.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Ackerman". The signature is fluid and cursive, with a long horizontal stroke at the end.

David B. Ackerman, CFA, CFP