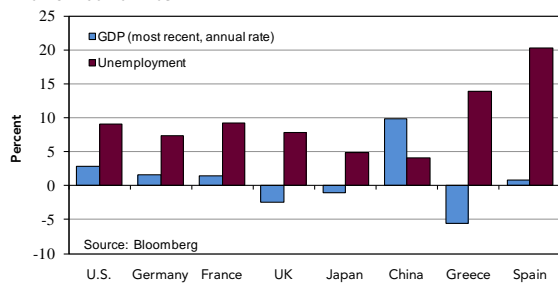


Economic Review

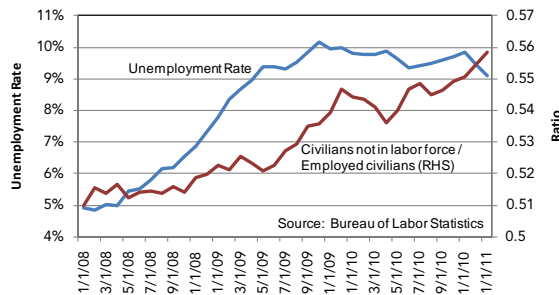
The world watched nervously as Mid-East and African tensions ratcheted up further in February. Egyptian leader Hosni Mubarek stepped down following massive demonstrations, which were relatively peaceful, and left the military in control. Tensions in Libya were deadly after leader Muammar Gaddafi unleashed armed forces and mercenaries to quell demonstrations calling for his ouster. The leader threatened to destroy oil infrastructure in the face of world condemnation. Libyan oil output fell by half, cutting world production by about 1%. Crude prices on the NYMEX rose to over \$103/barrel, a level last seen in September 2008, as the investment banking giants were heading towards financial ruin. The federal judge who overruled the Obama administration's ban on offshore drilling ordered the Bureau of Ocean Energy Management, Regulation, and Enforcement to act on five pending permits for Gulf of Mexico oil drilling by mid-March. New drilling has not occurred since the BP oil spill disaster of spring 2010. As consumers are faced with gasoline prices breaching \$3.50/gallon, even before the traditional Memorial Day price hikes, the economy faces a pullback in consumer spending on goods other than gasoline. \$3.50/gallon has been the level at which consumers historically begin to curtail gasoline purchases in a meaningful way.

World Economies



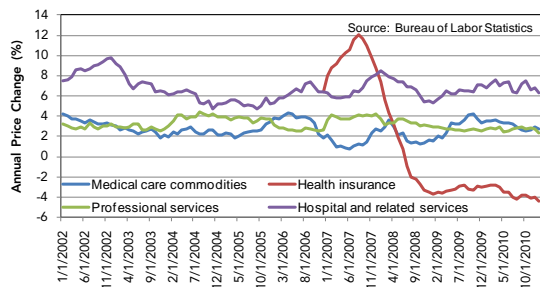
A budget battle erupted in Wisconsin as Governor Scott Walker pushed to end collective bargaining for most public sector workers, save for wage negotiations. Wage growth, under the proposal, would be limited to CPI, unless approved by voter referendum. Tens of thousands of protesters and supporters crowded the Madison statehouse to voice their opinions. Wisconsin Democratic state Senators fled the state to deny the Republican led Senate a quorum, effectively delaying a vote. The budget upheaval mirrors efforts in other states to deal with multi-billion dollar deficits, which have increased due to lower tax revenue, higher mandated spending, and rising wage and salary costs.

Unemployment Rate Misses Bigger Picture



Congress continued to debate measures pertaining to the massive budget deficit and remained divided on where to cut spending and in what amounts. With \$1.6 trillion more in spending than revenue for the current year, many taxpayers favor an outcome that will lower the deficit. Current proposals revolve around either freezing current spending levels for several years, or cutting discretionary spending to 2008 levels or earlier. Missing from the debate are changes to entitlement programs, which constitute the bulk of federal spending. Until the majority of voters are willing to accept real cuts to these programs or pay more into them, the budget problems are not going to disappear.

CPI Medical Costs



Japan cut its corporate tax rate by 5 percentage points, which leaves the US with the highest corporate tax rate amongst the thirty four wealthy nations, as classified by the OECD. Although struggling with accumulated debt issues of its own, Japanese leaders were determined to improve their business climate by cutting taxes. Currently, the US has no concrete plans to change its corporate tax rate.

Market Returns

As of February 28, 2011

	February	3 Months	YTD
S&P 500	3.4%	13.0%	5.9%
Russell 1000 Value	3.7%	14.4%	6.0%
Russell 1000 Growth	3.3%	11.7%	5.9%
Russell 2000	5.5%	13.6%	5.2%
MSCI EAFE	3.3%	14.3%	5.7%
Emerging Markets	-0.9%	3.3%	-3.6%
Barclays Agg	0.3%	-0.7%	0.4%
3-Month T-Bills	0.0%	0.0%	0.0%

The unemployment rate fell to 9.0% in January. Although encouraging, the minuscule addition of jobs during the month belied the reason for such a sharp drop in the rate. The number of civilians who have dropped out of the work force (i.e., those who have given up looking for work) has increased sharply over the past two years, effectively making the pool of potential workers smaller than it really is.

Inflation, as measured by the Consumer Price Index, has been reported at levels that are lower than most consumers see for everyday goods. From healthcare costs that rise double digits, to food prices rising over 5% annually, CPI methodology effectively under-reports price changes. To highlight the disparities, the Bureau of Labor statistics reported that health insurance costs fell 4.4% in the year ended January 2011. Excluded from the calculations are tax burdens, which are trending up in many states. Although the CPI is the most comprehensive measure of living costs, it is not a perfect gauge of real living expenses.