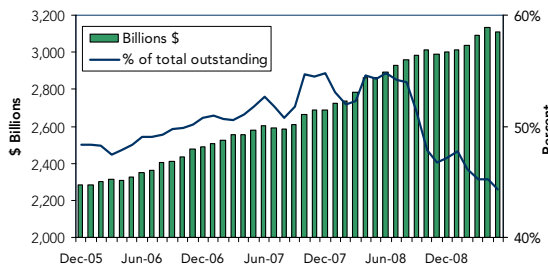


Economic Review

Stock markets worldwide continued moving upward in July. Gains of 7% to 11% were seen in the developed and emerging regions, with BRIC equities advancing nearly 62% in 2009. Financial companies reported improving fundamentals, while materials and technology stocks advanced on improved outlooks and productivity enhancing technology purchases. General Motors and Chrysler quickly exited from bankruptcy and reported stronger sales as the government “Cash for Clunkers” tax credit brought more buyers into showrooms. Healthcare reform stumbled after the Congressional Budget Office reported little likelihood of savings in the current House bill, sending legislators back into negotiations. Bond returns again were split as Treasury prices fell amidst massive new issuances to fund the federal deficit. Corporate, high yield, and emerging market bonds fared much better, returning 4.3%, 6.1%, and 3.5% during July, respectively.

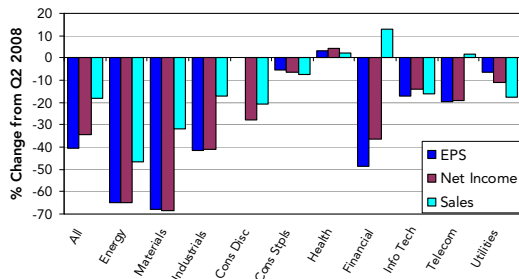
Foreign Holdings of Public U.S. Treasury Debt



Source: U.S. Treasury

GDP in the U.S. shrank by 1% during the second quarter, marking the fourth consecutive quarter of contraction. Conditions in the economy generally improved, as many signs pointed to an end of the current recession, albeit with a weaker recovery than typical. The Federal Reserve raised its 2010 growth forecast to between 2.1 and 3.2%, prompting the equity market rally to continue.

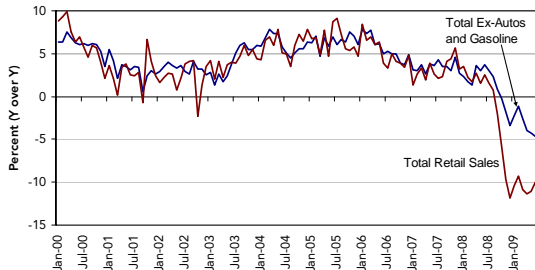
Second Quarter Earnings



Source: Bloomberg 35% of companies reporting

The U.S. Treasury continued the task of raising money to pay for the federal government’s spending requirements. In 2009, nearly \$1 trillion in additional Treasury securities were issued, raising the public supply by over 14%. Chinese officials raised concerns over deficit spending and its eroding effect on the U.S. dollar, while floating the idea of a world currency to protect against inflation. While the pace of Treasury purchases by China slowed, overall foreign purchases rose in 2009. The largest purchaser this year has been the Federal Reserve.

Retail Sales a Mixed Picture



Source: U.S. Census Bureau

Retail sales advanced slightly in June, aided by stronger than expected auto sales. Excluding autos and gasoline, sales continued to contract, dropping nearly 5% from June 2008 levels. Volatile gasoline prices pushed gasoline sales 14% higher from year end, but down 32% from June 2008.

Second quarter earnings bested estimates by a margin of two to one. Although most earnings were down compared to Q2 2008, the trend has tilted up as companies realize savings from workforce reductions and lower materials costs. Financial company earnings improved as the yield curve was strongly in their favor, with borrowing costs close to zero and long-term rates over 4%.

Oil prices remained elevated, despite lower than expected demand and rapidly declining storage space. Because of the volatility, officials in the U.S., England, and France sought to impose trading restrictions on a unified basis. Current laws limit the futures positions of traders within individual jurisdictions, yet allow traders to acquire large futures positions across multiple markets, leading to potential manipulations. The CTFC proposed rules to make hedge funds and swap dealers report their commodities holdings on a regular basis, allowing regulators to monitor trading for irregularities. The SEC enacted a permanent ban on naked short-selling of stocks, which is the practice of short-selling a stock without first finding a source from which to borrow the stock. The practice is believed to have contributed to the precipitous fall in many stock sectors in 2008 and 2009.

Market Returns

As of July 31, 2009

	July	3 Months	YTD
S&P 500	7.6%	13.8%	11.0%
Russell 1000 Value	8.2%	14.0%	5.1%
Russell 1000 Growth	7.1%	13.7%	19.5%
Russell 2000	9.6%	14.6%	12.5%
MSCI EAFE	9.1%	21.4%	17.8%
Barclays Agg	1.6%	2.9%	3.5%
3-Month T-Bills	0.0%	0.0%	0.1%

Natural gas prices in 2009 remained constrained near \$4/MMBtu, following several large North American deposit discoveries. Coal prices were depressed as electricity demand fell victim to decreased manufacturing activity. Rail traffic, which is heavily dependent on coal shipments, slipped while truck traffic also decreased. The figures pointed to a cautious business outlook for the rest of 2009.