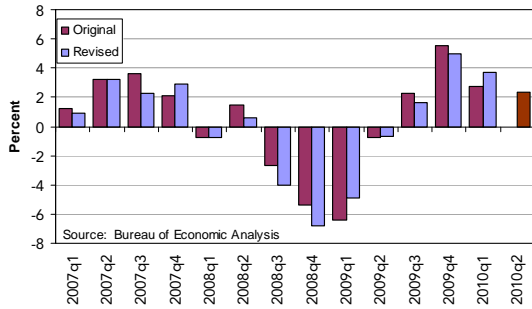


Economic Review

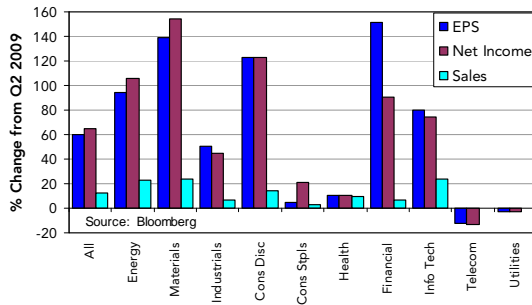
The long-expected financial services reform bill was signed into law by President Obama in July. The next step includes developing the regulatory framework to draft the roughly 250 regulations and choosing members of the boards who will make those decisions. Federal Reserve Chairman Ben Bernanke testified that growth prospects remain uncertain, with more downside risks than upside tendencies. Nearly a year after its bankruptcy, General Motors paid \$3.5 billion for AmeriCredit, which gives GM a vehicle to finance loans to lower credit quality car buyers. GM still owes tens of billions of dollars to taxpayers stemming from its bailout, and public ire was decidedly negative regarding the recent purchase. A controversial immigration enforcement law in Arizona was placed in limbo as a federal judge granted the federal government an injunction. In a nod to concerns about automated traffic enforcement, Arizona sidelined its fleet of speed enforcement vans, which used automated camera systems to issue tickets to motorists. Automated traffic enforcement systems have drawn public scrutiny across the country, leading states to consider limits on their usage.

GDP and Revisions



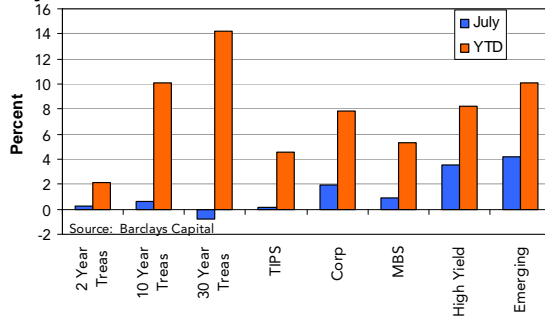
GDP advanced 2.4% in the second quarter as businesses continued to shore up inventory from depleted levels. Tech and durable goods purchases led the advance. Although world trade levels improved, the U.S. imported goods and services at a substantially higher rate than it exported goods, lowering GDP by 2.8%. Given that energy prices were stable, the increase in imports was caused by an increase in real demand. GDP figures back to 2007 were revised downward, showing a deeper recession than previously thought. Consumer savings were higher than first observed, shedding light on a more timid consumer that has tightened the purse strings in light of the past several years of economic downturn and uncertainty. Underlying methodologies for certain GDP calculations were recently adjusted. As is customary, initial readings of GDP are adjusted as data is reexamined, and the methodology change may impart more volatility from the initial readings for several quarters.

Second Quarter Earnings



Earnings season began strongly for U.S. stock markets. Early indicators reported overall sales gains of 12%, while earnings-per-share (EPS) rose 59% from second quarter 2009 results. Sales growth was strongest in the energy, materials, and tech sectors. Overall earnings growth was slower than first quarter, while sales growth was similar. The slowing of EPS reflected earlier gains in productivity, which were more difficult to obtain in the second quarter, indicating that companies are coming closer to expanding hiring in a meaningful way.

July Bond Sector Returns



The census shed an estimated 150,000 jobs in July, adding to the 225,000 temporary jobs that it shed in June. Private employers continued to expand their payrolls, though not at a rate high enough to recover the over eight million jobs lost during the recession. Long term unemployment continues to be problematic, as 45% of unemployed workers had been out of work for more than twenty six weeks. To continue providing unemployment benefits, the President signed an extension of federal benefits, which will provide up to seventy three weeks of payments.

Market Returns

	As of July 31 2010		
	July	3 Months	YTD
S&P 500	7.0%	-6.7%	-0.1%
Russell 1000 Value	6.8%	-7.5%	1.3%
Russell 1000 Growth	7.1%	-6.5%	-1.1%
Russell 2000	6.9%	-8.9%	4.8%
MSCI EAFE	9.5%	-4.1%	-5.0%
Emerging Markets	8.4%	-1.8%	1.9%
Barclays Agg	1.1%	3.5%	6.5%
3-Month T-Bills	0.0%	0.0%	0.1%

Inflation pressures continued to ease, as consumer prices fell for the third straight month in June. Persistent uncertainty in the economy, centering on federal regulation and tax policy, has limited the ability of businesses to implement long-term plans, which would lead to expansion and additional hiring. Inflation of 1%, with a downward trend, has Fed officials concerned, as too low of a growth rate can cause stagnant wages and a self-feeding cycle of economic contraction.

Goldman Sachs paid a fine of \$550 million for its involvement in the Abacus CDO scandal. The company admitted no wrongdoing in the matter. Following AT&T's lead, Verizon announced plans to end unlimited data plans for smart phones. The introduction of the iPhone to AT&T's network overwhelmed its ability to provide YouTube and live baseball feeds as demand surged, leading to the policy change. Car sales improved in the first half of 2010, gaining 16% over 2009, though they remain 26% below the previous six years' average.