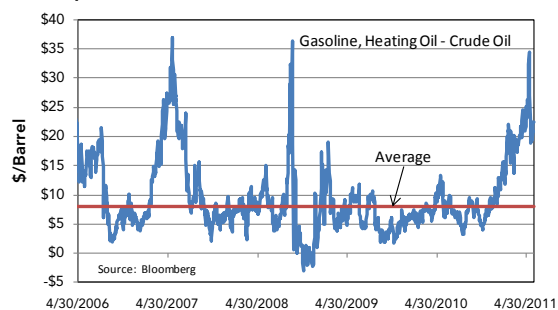


May 2011

Economic Review

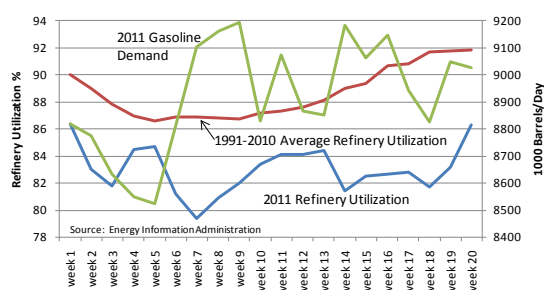
After an exhaustive nine and a half year search, US forces killed Osama Bin Laden in his Pakistani home in early May. Concerns about Greek debt again resurfaced as a July deadline loomed for debt repayments, sending European stocks sharply lower. With a weak economy and ongoing avoidance of taxes by its citizens, the Greek government reached out for financial assistance. Germany responded with a plan to restructure recently issued debt and provide additional funds, although the rescue is likely to go forward without private involvement, as the general risk of Greek debt is too high to attract enough investors. The Japanese economy slipped back into recession, as first quarter GDP fell 3.7% in the aftermath of the earthquake's devastation. The central US dealt with heavy flooding as winter snowmelts and heavy spring rains sent the Mississippi River over its banks, inundating cities and farmlands. A Louisiana levee was opened to provide relief for Baton Rouge and New Orleans, along with accompanying oil and port infrastructure. Tornadoes caused destruction, this time destroying the center of Joplin, MO. Abnormally wet and violent weather this spring delayed wheat and corn planting, and is likely to lead to smaller yields and bring higher food prices.

Crack Spreads Boost Refiners' Profits



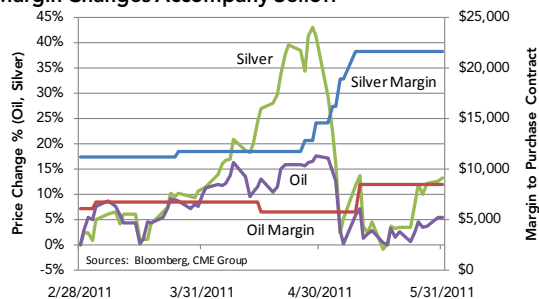
Although US businesses and consumers are in a better position financially as the economy rebounds from recession, headwinds gathered as gasoline and fuel prices resisted downward pressure, even as domestic demand fell and oil prices moderated. The mechanics of supply and demand do not provide a basis for gasoline's current prices. Several factors contributed to the price deviation, ranging from higher profits in the supply chain to supply uncertainty.

Refinery Production and Gasoline Demand



The potential of oil production disruptions weighed heavily on prices over the previous months. While some production was temporarily lost due to the Libyan uprising, substantive production cuts have not materialized. On the contrary, recent oil discoveries should lead markets to believe future prices will fall as production comes online. The massive discovery off the Brazilian coast, the upswing of Canadian tar sands production, and the escalation of production from large oil shale deposits in southern Texas highlight the ability of oil companies to provide for the world's consumption for the foreseeable future.

Margin Changes Accompany Selloff



The most immediate reasons for sticky gasoline prices were a cutback in refinery production and a sharp upswing in refining profits. In February, and again in April, refiners strongly cutback gasoline production prior to an uptick in demand. Since seasonal demand is relatively predictable from year to year, the cut in production was peculiar. The crack spread (the price difference between refined gasoline and crude oil) surpassed its average of \$8/barrel (\$0.19/gallon), and peaked at \$34/barrel (\$0.81/gallon) in mid-May, at which point refinery production rose 4.5 percentage points. If prices continue to remain at an elevated level, Congressional investigations are expected to commence over the summer.

Market Returns

As of May 31, 2011

	May	3 Months	YTD
S&P 500	-1.1%	1.8%	7.8%
Russell 1000 Value	-1.1%	2.0%	8.1%
Russell 1000 Growth	-1.1%	2.4%	8.4%
Russell 2000	-1.9%	3.3%	8.7%
MSCI EAFE	-3.0%	0.5%	6.3%
Emerging Markets	-2.6%	6.4%	2.6%
Barclays Agg	1.3%	2.6%	3.0%
3-Month T-Bills	0.0%	0.1%	0.1%

Silver and oil prices fell sharply in early May following margin increases on new futures contracts by the CME. Oil prices fell nearly 15% after the one-time adjustment, while a series of margin changes sent silver tumbling 27%. The CME made the changes to protect the trading markets from investor defaults as volatility in commodities had risen to extreme levels.

The US hit its legal debt ceiling during May, meaning the Treasury cannot legally borrow additional monies. It is estimated that the Treasury can sustain funding for the federal government through the end of July if it sells assets and delays payments into pension funds. The fight between the House, the Senate, and President Obama is likely to reach a fever pitch in July as all three sides remain deeply divided on how to cut spending or raise taxes to pay for the budget.