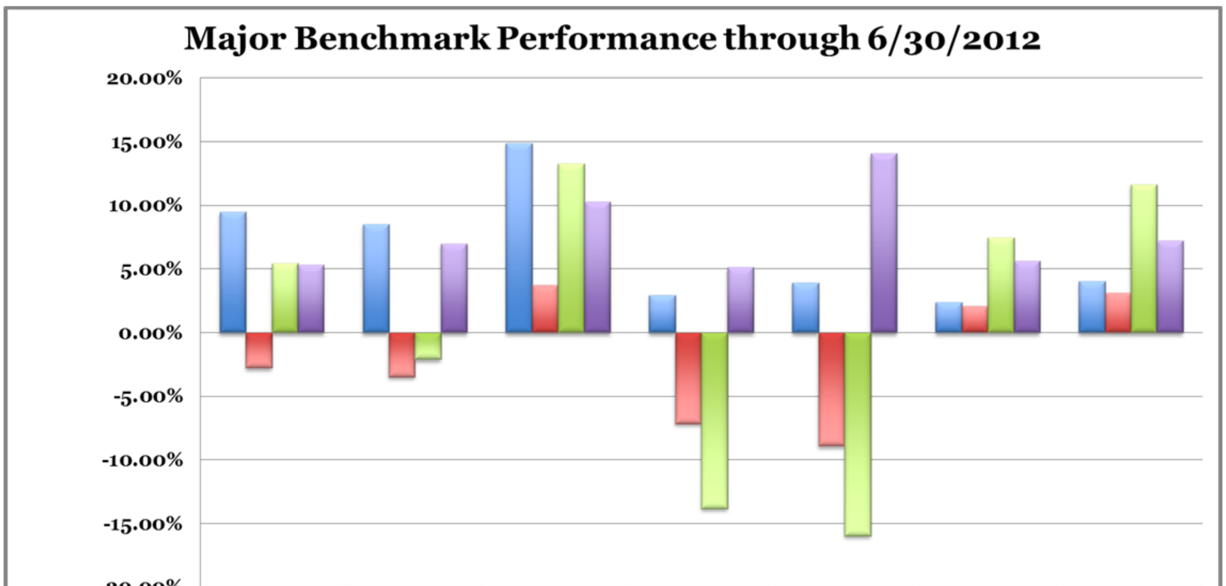
Benchmark Performance

After a promising first quarter 2012, volatility returned in the second quarter. The markets were driven by elections in Europe and the Middle East, referenda related to the European Union, and sovereign bond offerings of different levels of success in Europe. Going forward, we fully expect uncertainty in the US considering we are four months away from electing our next President.

Most equity benchmarks were down in the 2nd quarter. Year-to-date performance of these equity benchmarks is still positive thanks mainly to a strong January. Fixed income benchmarks were positive in both quarters.

In contrast to showing just short term performance, we thought it would be appropriate to also show longer term numbers since our clients' timeframes are long-term. The last category is 10 year annualized returns. Note that each category is positive. The time period is July 2002 – June 2012, i.e. it includes the last part of the internet bubble bursting and the entire great recession of 2008. These numbers reinforce our recommendation for maintaining a long-term outlook and holding a diversified portfolio.



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets	US High Quality Bonds	TIPS
YTD	9.49%	8.53%	14.91%	2.96%	3.93%	2.37%	4.04%
2nd Qtr 2012	-2.75%	-3.47%	3.75%	-7.13%	-8.89%	2.06%	3.15%
12 Month	5.45%	-2.08%	13.29%	-13.83%	-15.95%	7.47%	11.66%
10 Year (ann.)	5.33%	7.00%	10.27%	5.14%	14.08%	5.63%	7.24%

The Futility of Predicting the Stock Market

Predicting market trends can be a frustrating business. Last summer, Congress fought unsuccessfully to craft a deficit reduction plan. In early August, Standard &

Poor's removed its AAA rating on US Treasury obligations. At the same time, Greece appeared to be on the verge of defaulting on its debt.

Not surprisingly, the market was down sharply during the 3rd quarter of 2011 and predictions were that economic growth rates could drop further than they did in 2008 -2009 and cause further stock market declines. Instead, the S&P rose 28% from its low on October 3, 2011 through March 31, 2012.

In early June, we sent an e-mail about the decline in the market since the end of March. It seemed that as soon as we sent the commentary, the market rallied again. After a rough May, the S&P 500 is up 4.12% in June 2012, that benchmark's best June since 1999.

This ongoing roller coaster ride is aggravated by the overload of information. The fact that the leading economists do not agree on the direction of our economy is confusing enough, but we are also overwhelmed by self-appointed experts making predictions, all fueled by the media carefully selecting predictions, or portions of predictions, that will ultimately increase their viewers and ad revenue.

Knowing who or what to believe is difficult and it can be tempting at times to pull out of the stock market.

To offset that temptation, we thought the following observation in JP Morgan "Market Insights" commentary for the week of June 11th, is worth referencing.

"Investor sentiment has bottomed on five occasions in the past three years, with four out of the five times leading to positive returns over the subsequent six months. Thus, although it can be difficult to go against the grain, history suggests investors who buy when everyone else is selling should benefit more than they would by following the herd."

What to Expect Going Forward

At the risk of sounding like a broken record, we predict more volatility, reinforcing our recommendation to try not to react to short term news.

We are in the midst of a contentious presidential campaign season in our country. Further, there remains doubt in Greece whether its current government will last since several others have failed in quick succession. Also in Europe, countries are debating a banking/currency union which is a major topic that should have been addressed during the formation of the European Union. These disagreements highlight the much broader concern that significant cultural differences (work ethic, retirement age, tax collection and enforcement, sovereign debt level, healthcare…) must be meaningfully addressed for this union to work.

Despite the ongoing concerns about the US economy and the vulnerability of key indicators such as unemployment and housing, the overall numbers are stronger than they were when the first signs of this crisis appeared in late 2007. (Note, although the signs began appearing in late 2007, the root causes of cheap capital and the overvalued housing market were already present and drove the stock market to the highs before the correction from late 2007 through early March 2009.)

During such times of uncertainty, a well diversified portfolio is as important as ever. We appreciate that sometimes just a call helps to maintain perspective. We encourage you to call us anytime.

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