



July 2010 Outlook

FINANCIAL MARKETS

<i>Index</i>	<u>QTD (%)</u>	<u>YTD (%)</u>	<u>1 Yr (%)</u>	<u>3 Yr (%)</u>	<u>5 Yr (%)</u>
<i>Russell 3000</i>	-11.32	-6.05	15.72	-9.47	-0.48
<i>MSCI EAFE (US\$)</i>	-13.97	-13.23	5.92	-13.38	0.88
<i>MSCI Emerging (US\$)</i>	-8.37	-6.17	23.15	-2.50	12.73
<i>GS Commodity Index</i>	-10.41	-11.21	-5.43	-12.45	-8.13

Earnings Estimate Growth Rates Top Out in June

It was a nasty three day finish to the 2nd quarter for the S&P 500. The index dropped 4.2% leaving the index at 1031.71; down 11.4% for the 2nd quarter and 6.7% on a year-to-date basis. At 1031.71 the price-to-earnings multiple stands at 12.6X 2010 earnings, which are currently estimated at \$81.73. At those levels the S&P 500 looks relatively cheap; however we are growing concerned that the earnings portion of the equation may not hold up. The estimated growth rate on S&P 500 earnings for 2010 appears as if it has peaked at an increase of 33.6% over 2009. For the past year, 2010 earnings estimates (source Bloomberg) have steadily risen on the S&P 500 from 21.9% to 34.0%. However, over the past several weeks that figure has decreased slightly to 33.6%. This is hardly a big drop, but we do think it is something to watch considering there are still three quarters left to report for the year. It is hard to imagine that the consensus of Wall Street analysts, who have never been particularly adroit at estimating earnings, has this number right at this early stage of the year. If that number has already reached a plateau and begins to trend lower, then the 12.6X price-to-earnings multiple on the S&P 500 will not look as cheap as it does today. Another concern is that the 2011 estimate has already started to trend down as well. At the start of the second quarter, the estimate was at an increase of 19.7%, by the end of June the estimate fell to 17.9%.

Gold Continues to be Strong

Gold has increased 13.2% on a year-to-date basis and has been on a relentless tear for the better part of the last ten years. Over that ten year time frame gold has increased from \$289.52 per troy ounce to \$1242.25 per troy ounce, for a cumulative return of 429.1%. As investors, we always have to be skeptical when an asset increases by this much over a short period of time (see housing prices in the 2000s and tech stocks in the late 1990s); however we recently read a JP Morgan report that did give us some pause that we dare say could make this a bit different at least for the time being. It said that the percentage of investable gold to stocks and bonds from 1982-2009 has actually decreased from 17% to 4%, suggesting that despite the run up in prices, gold is still under held as an investable asset. JP Morgan used 1982 as a starting point because it signified a period of economic stress. They also had data that suggested that in other periods of economic stress (1921, 1934, 1948), gold holding percentages ranged from 20%-30%; however the data from those time periods is less reliable. Considering those percentages, the current economic environment, and market volatility, we would be hard pressed to make a compelling argument against gold at this time.

This letter may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.