



Monthly COMMENTARY

February 28, 2011

DOW JONES INDUSTRIAL AVERAGE	12,226.34	2-YEAR TREASURY NOTE	0.69%
S&P 500	1,327.22	10-YEAR TREASURY NOTE	3.42%

The Economy

During the final week of the shortest month, the revised estimate for fourth quarter 2010 GDP came up a little short. As more data became available, economists estimated GDP would be about the same as the first estimate of 3.2% made in January. However, growth came in at a slower annual rate of 2.8%. This was disappointing, and primarily due to a decline in state and local government spending. Continuing government budget cutbacks will be a drag on the economy this year. On a positive note, final sales were at a strong 6.7% rate and real consumer spending at a 4.1% pace.

The Federal Reserve recently estimated that the economy would grow between 3.4% and 3.9% this year. A consensus of 52 Blue Chip economists estimated GDP growth of 3.1%. Looking at the data concerning jobs, housing, inflation, and other factors, we think growth will be better than 3.1% and in line with the Federal Reserve estimate.

Looming concerns remain regarding the turmoil in the Middle East and the price of oil. We cannot predict how the leadership in Egypt, Tunisia, Libya (and other countries in the region) will evolve, but the price of oil will be impacted. And, that will have an effect on the economy. Some studies and estimates indicate that a \$0.01 increase in the price of gasoline amounts to a tax to consumers of about \$1 billion over a year – money that could be spent on other goods and services. The latest AAA survey (February 28, 2011), reported the national average retail price of regular grade gasoline at \$3.37 per gallon – an increase of \$0.66 from one year ago.

Notwithstanding the price of oil and gasoline (at the pump), and selected commodities (cotton, copper) inflation is contained. The CPI headline number in February was 1.6%, year-over-year. The core rate, which excludes food and fuel in order to smooth out volatility, was up 1.0% for the same period. In addition to those noted commodities, there were slight price increases in medical care, apparel, and airfares (pass through of higher energy costs).

Institute for Supply Management (ISM) numbers are closely watched, and continue to confirm that the economy is in an expansionary phase. The factory sector expanded at the fastest rate in six years, with manufacturers reporting a sharp increase in new orders. The Manufacturing ISM Index rose to 61.4% in February from 60.8% in January. The Nonmanufacturing ISM was 59.7%, the highest level in five years. Positive news is coming from leading U.S. producers, showing an increase in capital spending.



Consumers benefitted from the payroll tax cut. Weekly store sales, as measured by the International Council of Shopping Centers, showed a pickup from January. The consumer confidence index, as measured by the Conference Board was up to 70.4% in February (64.8% in January) and the University of Michigan sentiment index is above 75.0%. Retail sales, ex autos and gas, were down slightly in January, but they were strong during last year's holiday season.

Jobs and housing continue to be nagging concerns surrounding this economic recovery, but there are signs of stabilization. January's Labor Department report showed the jobless rate fell to 9.0%, and the February report, to be released on the first Friday in March, is expected to show the same level. The Labor Department will also report the change in private payrolls, and this number is expected to be 195,000 versus only 50,000 in January. This level is indicative of an economy that is beginning to expand.

In summary, our economic outlook continues to be one of growth. As noted in our opening comments, the Fed has increased its forecast and sees economic growth of 3.4% to 3.9% this year. Although strife in the Middle East will affect oil prices, we feel GDP growth will be within the range of the Fed forecast.

Stock Market

February followed January with another strong showing in the equity markets. The Dow Jones Industrial Average gained 2.8% (total return) in January, and continued its streak with a gain of 3.2% in February. Year-to-date, energy stocks have been the best performers (oil service companies up 18.0%), with semi conductor and mid-cap stocks following. International stocks were mixed. The developed markets MSCI EAFE Index was up 3.6% in February (5.9% year-to-date). The MSCI Emerging Markets Index experienced a 1.0% decline in February and is down 3.7% year-to-date.

Equity Total Return Performance as of February 28, 2011

INDEX	FEBRUARY 2011	YEAR-TO-DATE
S&P 500	3.4%	5.9%
DJIA	3.2%	6.1%
NASDAQ	3.2%	5.0%
MSCI EAFE	3.6%	5.9%
MSCI EMERGING MARKETS	-1.0%	-3.7%

(Source: Bloomberg)
Past performance does not guarantee future results.



The widely followed S&P 500 hit our forecast level of 1,245 to 1,250 at end of last year. Within the first two months of this year it was within five points of our 2011 year-end forecast of 1,348 before backing off slightly. After gains of 100% since the market lows of March 2009, corrections can be expected. We are reviewing our estimate for this year, while noting that a number of Wall Street analysts have forecasts of 1,400 for the S&P 500 at the end of the year.

The turmoil in the Middle East and North Africa add another element of uncertainty to our forecasts. However, economic growth, earnings growth, and low inflation bode well for equities. History also suggests that the third year of a four-year presidential term is the best year for the stock market.

The earnings season begins at the end of March, and we will closely watch corporate results. At this time, our 2011 stock market outlook calls for S&P earnings per share of \$90.00 in 2011, and a 7.0% growth rate to \$96.30 for calendar year 2012. Given a forward price-earnings multiple of 14 times, this would put a price of 1,348 on the S&P 500 Index. Again, we continue to stress selectivity, diversification, and quality in our portfolio representation.

Fixed-Income Market

The bond market began February weakly, with higher rates but finished the month on a stronger note. The catalyst for this mid-month change of direction was the geo-political events surrounding North Africa and the Middle East. While the initial buying of Treasuries may be described as “flight to quality”, we believe the subsequent higher oil prices will likely slow the economy by at least a 1.0% to 3.0% annual rate in the months ahead. While goods inflation may accelerate, the slower projected growth in the economy boosted bond prices and flattened the yield curve. Spread product continued to materially outperform treasuries in February and year-to-date. The social unrest in North Africa and the Middle East underlines the necessity of maintaining a treasury position in our portfolios, though we suggest modestly underweighting the sector.

Month-to-date and year-to-date returns are presented below:

Fixed-Income Total Return Performance as of February 28, 2011

	FEBRUARY 2011	YTD
BARCLAYS CAPITAL AGGREGATE BOND INDEX	0.25%	0.37%
BARCLAYS CAPITAL GOV/CREDIT INDEX	-0.03%	0.36%
BARCLAYS CAPITAL INTERMEDIATE GOV'T/CREDIT INDEX	0.23%	0.31%
BARCLAY'S MUNICIPAL BOND INDEX	1.59%	0.84%
BARCLAYS SHORT /INTERMEDIATE MUNICIPAL INDEX (1-10YR)	0.81%	0.64%

(Source: Bloomberg)
Past performance does not guarantee future results.

While being at a 105% of municipal benchmarks has been profitable this year, we continue to suggest a 95% benchmark duration for taxables. As suggested above, the economy may be slowing, so longer duration may be considered in the future.



Appendix

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Important Information

Past market performance is no guarantee of future results.

Index performance cited is for illustrative purposes only and is not indicative of the performance of any specific investment. An investment cannot be made directly into any index.

International investing involves special risks including currency risk, increased volatility of foreign securities, political risks, and differences in auditing and other financial standards. These risks are magnified in emerging markets.

Diversification does not assure a profit nor protect against loss.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

High yield, lower-rated securities generally entail greater market, credit and liquidity risks than investment grade securities, including higher volatility and higher risk of default.

Dow Jones Industrial Average (“DJIA”) - An unmanaged index, which represents share prices of selected blue chip industrial corporations as well as public utility and transportation companies.

The Consumer Price Index (“CPI”) - A measure of change in consumer prices as determined by a monthly survey of the U.S. Bureau of Labor Statistics.

Nasdaq Composite Index - An unmanaged index that measures all Nasdaq domestic and non U.S.-based common stocks listed on the Nasdaq Stock Market.

The S&P 500 Index - An unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays Capital Intermediate Government/Credit Bond Index - An unmanaged index which includes non-convertible bonds publicly issued by the U.S. government or its agencies; corporate bonds guaranteed by



the U.S. government and quasi-federal corporations; and publicly issued, fixed rate, non-convertible domestic bonds of companies in industry, public utilities, and finance.

The Barclays Capital Aggregate Bond Index - An unmanaged index composed of securities from the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index, and the Asset-Backed Securities Index.

The Barclays Capital Municipal Bond Index – This is a market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Barclays Capital Government Credit Index- An index that measures performance of U.S. dollar denominated credit.

Barclays Short/Intermediate Municipal Bond Index (1-10yr) – An index that tracks U.S., short and intermediate-term, municipal debt

“Political Economy”- Term used to define studying buying and selling, production, and their relations to law, custom, and government.

Morgan Stanley Capital International EAFE (Europe, Australia, Far East)- An unmanaged market capitalization-weighted equity index comprising 20 of the 48 countries in the MSCI universe and representing the developed world outside of North America. Each MSCI country index is created separately, then aggregated, without change, into regional MSCI indices. EAFE performance data is calculated in U.S. dollars and in local currency.

Morgan Stanley Capital International Emerging Markets- An index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets.

FOMC (Federal Open Market Committee)- A component of the Federal Reserve System, is charged under United States law with overseeing the nation's open market operations.

Federal Funds Rate - The interest rate at which one depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

GDP - Gross Domestic Product, the output of goods and services of a country annually.

Weekly Treasury Auctions – Treasury securities are sold through weekly auctions.

Treasury Bill- A short-term debt obligation backed by the U.S. government with a maturity of less than one year.

Treasury Note- A short-term debt obligation backed by the U.S. government with a maturity of one to ten years.

TIPS (Treasury Inflation Protected Securities) – A U.S. Treasury security that protects the bond holder from inflation.

Price earnings valuation- A valuation ratio of a company's current share price compared to its per-share earnings.



Basis point- Denoted as bp is a unit related to the change in an interest rate, and it is equal to 1/100th of a percentage point.

Examples of bond issuers are cited for illustrative purposes only and are not representative of any particular investment portfolio.

Tax-exempt/Municipal Bonds – These are debt securities that are issued by states, municipalities or counties, to help fund expenditures.

The Consumer Confidence Index – An index based on a monthly survey of representative sample of 5,000 U.S. households.

AAA survey- is a public service of the United States of America's largest motoring and leisure travel membership organization and is updated daily by Oil Price Information Service (OPIS) with average national, state and local prices for gasoline, diesel and E-85. Every day up to 100,000 stations are surveyed in cooperation with Wright Express.

University of Michigan sentiment index- is a consumer confidence index published monthly by the University of Michigan and Thomson Reuters. The index is normalized to have a value of 100 in December 1964.

Institute for Supply Management (ISM) numbers- is an economic measure for the US business sector that attempts to gauge how the manufacturing sector of the US economy is doing.

Blue Chip Economists- Nationally recognized and well-established economists.

*The information contained in this **Monthly Commentary** was prepared from sources believed to be reliable, but we do not guarantee that the information is complete or accurate. Opinions and projections contained herein reflect our opinion as of the date of the analysis and are subject to change without notice. This report is distributed for information purposes only and in no way should be construed as advice on how to conduct an investment program. Before acting on any information, you should consult with your professional advisor.*