



MARKET PERFORMANCE – FIRST QUARTER 2011

The Quarter in Brief:

Stocks rallied in the first quarter, continuing the strength seen in the final quarter of 2010. The ride, however, was far from even. First, the markets were buffeted by protests in the Middle East that sent oil prices soaring. Second, a massive earthquake struck Japan, unleashing a tsunami that devastated parts of northern Japan. Fears of a nuclear meltdown ensued, sending markets lurching. Concerns about disruptions to the global supply chain resulting from the earthquake also pressured equities. However, by quarter's end the market recovered much of its losses to post a respectable gain. Bond investors, on the other hand, experienced a less exciting quarter as the yield on the 10-year Treasury stayed within a relatively narrow range and municipal bonds stabilized following a volatile fourth quarter.

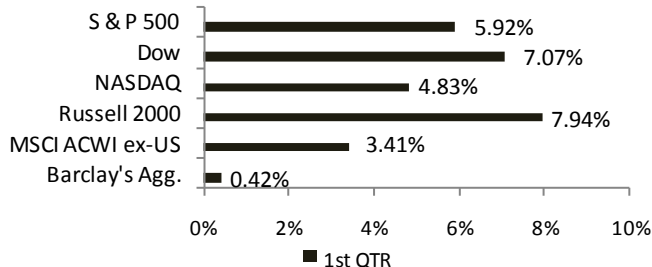
Domestic Economy:

Blue chip economists surveyed by the Wall Street Journal expect the nation's GDP to have grown at a rate of 2.7% in the first quarter, following growth of 3.1% in the fourth quarter. Growth in the quarter was hurt by severe snowstorms and rising oil prices that led to a drop in consumer confidence. For the full year, the economists expect the economy to register growth of 3.2%. With respect to the job market, the economists forecast an improving picture, with the unemployment rate falling to 8.3% by December 2011, down from its current rate of 8.8%. The majority of the economists see the Fed starting to hike rates sometime in the first quarter of next year, if not sooner, as the job market gradually improves. Lastly, on average the economists see core inflation, which excludes volatile food and energy prices, rising at a benign annual rate of approximately 1.7% by year's end.

According to Thomson Reuters, companies in the S&P 500 are expected to post respectable earnings growth of 12% in the first quarter relative to the first quarter of 2010. Revenues are expected to rise 8%. The energy and materials sectors are expected to lead the pack, with year over year earnings growth exceeding 20%. On the flipside, the telecom, utilities and health care sectors are expected to post modest decreases in profits relative to a year ago. Higher commodity prices threaten to damp earnings for many sectors as 2011 progresses.

The 10-year Treasury fell during the quarter with the yield rising to 3.45% from 3.30%. The rise in interest rates continued a trend that started in the fourth quarter, when the yield rose sharply. A big question Treasury buyers will contemplate in the months ahead is what will happen to rates when the Fed finishes its Treasury-buying program in June. Some expect rates to naturally rise as the demand for Treasuries falls. Others expect rates to stay level or fall as fears of Fed-induced inflation subside. In contrast to Treasuries, high yield bonds turned in another good quarter. According to the BofA Merrill Lynch High Yield Master II Index, high-yield bonds returned 3.90% during the quarter. Investors were drawn to their attractive yields relative to Treasuries along with their low default rates. Municipal bonds stabilized during the quarter following a sharp sell-off in the final quarter of 2010.

Market Scorecard



The Fed kept the Fed Funds rate unchanged at its January and March meetings. At its March meeting, the Fed reiterated its commitment to purchase an additional \$600 billion of longer-term Treasury securities by the end of June, referred to by some as quantitative easing 2 or QE2. The Fed also acknowledged the sharp run-up in commodity prices during the quarter, but suggested their effect on inflation would be "transitory." Of note, some Federal Reserve Bank Presidents made comments during the quarter suggesting the Fed would need to raise interest rates before year's end, to help keep unwelcome inflationary pressures at bay. However, some of the Fed's more influential members reiterated the need for the current accommodative policy to continue in light of the elevated unemployment rate and soft housing market.

Currencies and Commodities:

The U.S. dollar index, which measures the dollar against a basket of currencies, fell 3.8% during the quarter. Vis-à-vis the euro, the dollar lost a lofty 5.7% in the first three months of the year. At the outset of the year, many strategists had expected the euro to weaken against the dollar on the belief the European debt crisis would flare up again. While the debt crisis did make headlines, investors were more focused on interest rate differentials. In April, the European Central Bank (ECB) is expected to hike rates, which now stand at 1%, to counter fears of rising inflation. The U.S. Central bank, on the other hand, is not expected to raise rates before 2012. The dollar did gain 2.4% against the yen, but only after central banks intervened in the currency markets and sold yen in an effort to stem its strength. The yen hit an all-time high against the dollar in March on expectations that Japanese companies and individuals would repatriate money in the wake of the devastating tsunami that struck northern Japan.

Commodity prices generally trended higher during the quarter. Oil was the standout, rising approximately 17% to \$107 per barrel. Much of the rise was due to unrest in the Middle East and fears about a supply disruption. It was oil's first rise above \$100 per barrel since its record run to \$150 per barrel in 2008. Gold, meanwhile, rose a modest 1.3% to finish the quarter at \$1,439 an ounce. In contrast, silver soared 22%, to a record high. Many agricultural commodities also continued to rise, with corn and cotton gaining 10% and 38%, respectively. Wheat fell 4% following last year's 47% rise.

Congressional Action:

Following their seat gains in the House and Senate in the 2010 elections, Republicans pressed the President on reducing federal spending. Fears of a government shutdown loomed at quarter's end as House Republicans threatened to not pass a spending bill in April that would provide funds to keep the government running. Political wrangling to raise the government's debt ceiling also continued, with Republicans trying to extract more spending cuts as part of a deal. According to the U.S. Treasury, the nation is set to hit the congressionally set debt ceiling of \$14.3 trillion in May, but could stave off a default through early July using financial maneuvers.

Overseas Markets:

Overseas markets generally underperformed the U.S. market. European markets vacillated in the face of ongoing sovereign debt concerns as well as worries about rising interest rates. France and Germany saw gains of approximately 5% and 2%, respectively, while the U.K. finished virtually unchanged. Meanwhile, Japan's Nikkei 225 stock index fell sharply following the devastating tsunami and finished the quarter off 4.6%. Emerging market equities, as measured by the MSCI Emerging Markets Index, gained just over 2%. Investors continue to grapple with the effect rising interest rates will have on the robust growth rates of many emerging market economies.

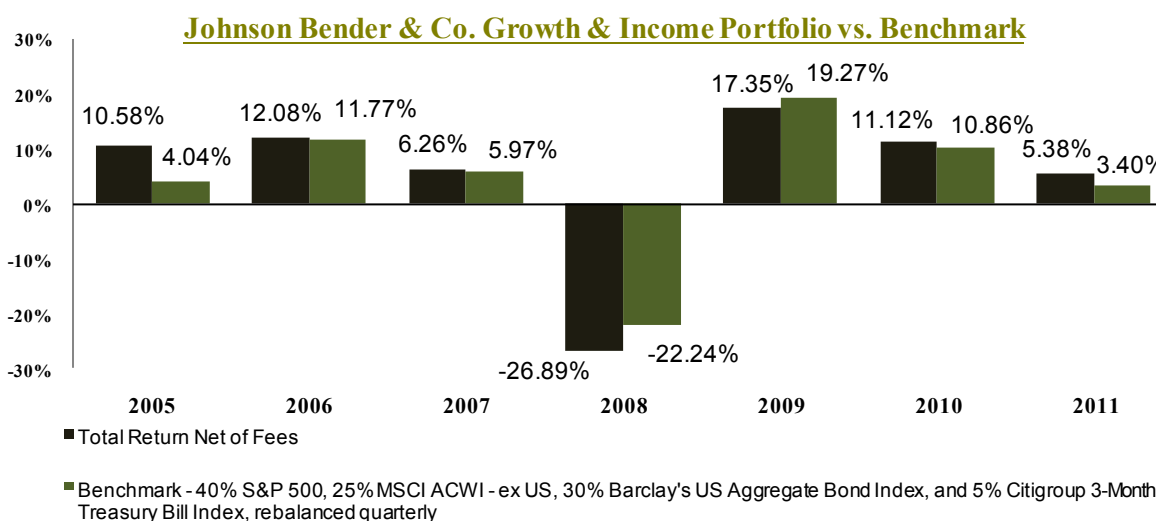
2011 Second Quarter Outlook

Our enthusiasm for equities is somewhat diminished as we head into the second quarter. High oil and commodity prices stand to slow the market's recent advances. Rising gasoline prices have already started to undermine consumer confidence. Moreover, profit margins may very well contract as companies face rising input costs that they cannot pass along to the consumer. Additionally, the ECB is expected to start raising rates to ward off perceived inflationary pressures. How well or poorly the economies in the euro zone perform in an environment of rising interest rates remains to be seen. By contrast, Chairman Bernanke believes raising rates in the U.S. today would be premature. Another question facing the markets is what happens when the Fed ceases its program of buying Treasuries in June. Clearly, many asset classes have benefited from the Fed's stimulative monetary policies.

On the flipside, equity prices appear reasonably valued based on earnings forecasts for 2011 and 2012. Moreover, a weak dollar stands to buoy exports and earnings for many large cap companies. Additionally, stocks would appear to offer a more attractive risk-reward profile than low-yielding Treasuries. Strong growth in emerging markets also bodes well for higher equity prices. Lastly, ongoing corporate merger and acquisition activity suggests that acquisitive companies perceive value in the marketplace.

Many of the strategies we adopted at the outset of the year remain in place.

- Overweight energy stocks. While the sector rose sharply in the first quarter and may be due for a breather, we believe the secular story of rising demand remains intact.
- Overweight technology stocks. We believe valuations remain attractive relative to growth prospects.
- Overweight emerging markets. Robust growth rates outweigh the risks associated with rising interest rates to combat inflationary pressures.
- Overweight large cap U.S. companies that pay good dividends and have global brands that will help drive sales in emerging markets. A sharp sell-off in the dollar during the quarter makes this strategy even more compelling.
- Gravitate to shorter term fixed income securities as we expect interest rates to trend moderately higher throughout the year.
- Underweight Treasuries. As a whole, we do not think Treasuries offer a good risk-reward profile.
- Overweight high yield and other credit sensitive fixed income securities. Yield spreads remain attractive and default rates remain low.

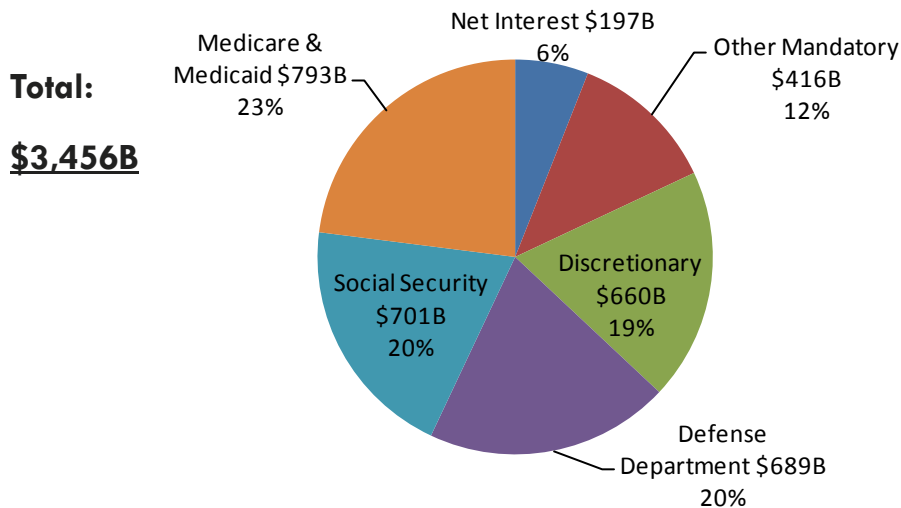


*Prior to 2010, the benchmark was 65% S&P 500 + 35% Barclay's U.S. Aggregate Bond Index

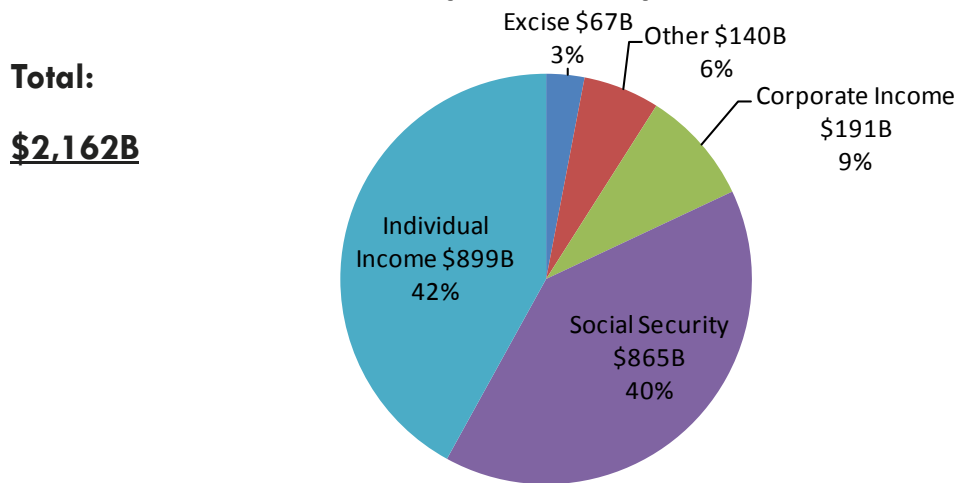
Past performance cannot guarantee comparable future results. The JBC Growth & Income Composite was created on December 31, 2003. The composite is defined to include all fully discretionary accounts over \$250,000 that are managed according to the growth and income strategy (65% equities, 30% fixed income investments and 5% cash). Periodically, the portfolios may deviate from these allocations based on market conditions. The equity holdings will generally resemble those equities that comprise either the S&P 500 or the MSCI AWCI (All World Country Index) ex-U.S. The fixed income holdings will generally resemble the Barclay's U.S. Aggregate Bond Index. However, if market conditions warrant, the portfolio may include investments in floating rate loans, high yield bonds, international bonds, preferred stocks and CDs. Lastly, the portfolio may include commodity holdings depending on market trends. All performance figures for the composite and benchmarks are net of management fees and expenses unless otherwise noted, include the reinvestment of dividends, are reported in U.S. dollars and reflect the changes in net asset value. All performance figures are as of December 31 of the year noted, except 2011, which are as of March 31.

2010 Federal Budget

U.S. Federal Spending - Fiscal Year 2010 (\$ Billions)



U.S. Federal Tax Receipts - Fiscal Year 2010 (\$ Billions)



Source: CBO

Much of the debate in Washington in recent weeks has focused on the battle over the Federal budget. The pie charts above depict Federal Spending and Federal Tax Receipts for fiscal year 2010 according to the CBO (Congressional Budget Office). In viewing the charts, two things jump out. The first is the size of the deficit. Granted, the deficit is expected to trend lower in the decade ahead, but it is forecast to remain formidable. The second is that entitlements (i.e., Social Security, Medicare and Medicaid) and defense make up a significant part of the government's annual outlays. It should be noted that as baby boomers reach the age of retirement, spending on entitlements is expected to swell, exacerbating an already troubling situation.

Balancing the federal budget will take a combination of tax increases and spending cuts. How much of each is a topic Democrats and Republicans will continue to debate in the months and years ahead. In viewing the pie charts above, it is abundantly clear that a meaningful reduction in the deficit cannot occur without serious entitlement reform. Additionally, it would appear that the current level of defense spending is unsustainable.

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