



MARKET PERFORMANCE — SECOND QUARTER 2010

The Quarter in Brief:

After surging to a new high in late April, stocks reversed course and spent much of May and June sliding lower. Renewed fears about Greek debt defaults slammed the markets in early May as investors worried the crisis would ultimately spread across Europe. Investors were also spooked by efforts in China to slow its economy and ward off a property bubble. Disappointing economic data at home added to the downward momentum in stocks as the employment picture showed few signs of improving. Lastly, the “flash crash” added to the anxiety in the market, with the DOW plunging 700 points in just eight minutes. When it was all said and done, the S&P registered its worst quarter since the final three months of 2008, when the market was in the throes of the financial crisis. Not surprisingly, Treasuries and gold outperformed as investors sought hedging strategies.

Domestic Economic Health:

The nation’s GDP grew at 2.7% in the first quarter, following growth of 5.3% in the fourth quarter. The growth rate while respectable in its own right was somewhat modest for the early stages of an economic recovery. Of note, the economy showed signs of stalling during the second quarter. In particular, job growth for May and June was disappointing. Moreover, the housing market wobbled following the withdrawal of government support, and consumer confidence waned. Such a pause in an economic recovery is not unprecedented, and those predicting a “double-dip” recession are clearly in the minority. However, many economists are now reassessing whether the consensus view of 3% growth in the second half of the year is realistic.

According to Thomson Reuters, companies in the S&P 500 are expected to post earnings growth of 27% in the second quarter relative to the second quarter of 2009, when the economy was contracting sharply. (In the second quarter of 2009, earnings fell 27%.) Eight of the ten sectors are expected to see earnings growth in the second quarter. The materials, energy, information technology and consumer discretionary sectors are seen with the highest growth rates, while telecom services and utilities are projected to post small declines. Revenue is expected to grow at 9% from year ago levels, with the energy sector posting the largest advance. In light of recent weakness in the economy, investors will want to hear from companies as to whether they see revenues and earnings tailing off in the back half of the year.

The 10-year Treasury rose sharply during the quarter with the yield falling to 2.96% from 3.83%. Investors

initially rushed into Treasuries on concerns about sovereign debt defaults in Europe. The move into Treasuries accelerated during the quarter as investors grew more and more concerned about an impending slowdown in the economy. Meanwhile, investors sold high yield or “junk” bonds, pushing yields higher. The spread of junk bond yields over Treasury yields rose to over 7% by quarter’s end according to Bank of America Merrill Lynch indexes.

The Fed kept the Fed Funds rate unchanged at its April and June meetings as expected. After upgrading its assessment of the economy earlier in the year, the Fed proceeded to downgrade its outlook of the economy following its most recent meeting. In its statement released after the June meeting, the Fed stated: “Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad.” The Fed maintained its commitment to keep “exceptionally low levels of the federal funds rate for an extended period.” Due to ongoing troubles in Europe as well as the recent slowdown in the economy at home, many economists expect the Fed will not raise rates until 2011 at the earliest.

Currencies and Commodities:

The euro fell sharply against the dollar amid the Greek debt crisis and concerns about the long term viability of the common currency. For the quarter, the euro fell 8.3% against the dollar to \$1.2386. It is down over 18% from its all-time high of \$1.5144 hit just last November. The renewed strength in the dollar makes U.S. exports more expensive and will clearly serve as a headwind for those companies that depend heavily on exports.

Strength in the dollar along with concerns about a slowdown in China and the U.S. generally pushed commodity prices lower. During the quarter, oil fell 9.7% to \$75.63 a barrel. Meanwhile, copper, an indicator of economic growth, plunged 17.2% to finish the quarter at \$2.94 per pound. Gold bucked the trend as investors sought out a haven from the ongoing volatility. For the quarter, gold gained 11.9% to settle at \$1245.50 an ounce.

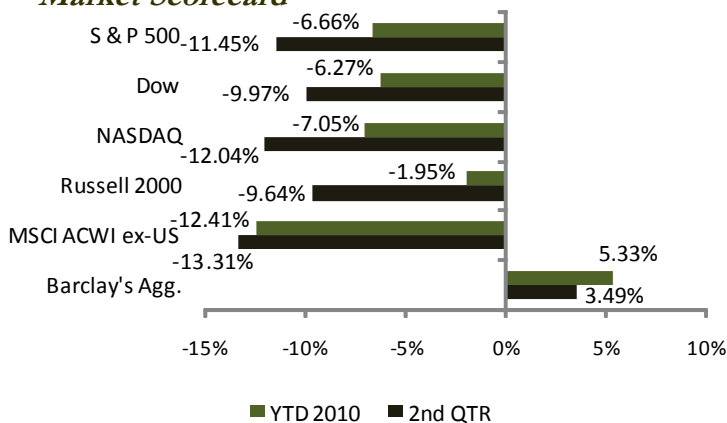
Congressional Action:

Nearly two years after a meltdown on Wall Street plunged the economy into a deep recession, Congress put the final touches on a financial overhaul bill. The president is expected to sign the bill into law in July. On balance, measures in the bill are perceived as tough, but not draconian. Financial stocks rallied modestly the day after the House and Senate hammered out a late night compromise. The massive bill comes on the heels of health care legislation that was signed into law in March. Some have argued the wide sweeping overhauls have led businesses to retrench instead of pushing forward with hiring and new projects.

Overseas Markets:

Not surprisingly, many European markets fell sharply. France’s CAC-40 and U.K.’s FTSE 100 both lost 13.4% on the quarter. Germany’s DAX only fell 3.1% as Germany’s economy is considered in better health than many of its euro zone peers. Moreover, German companies that depend on exports are expected to benefit from the weakness in the euro. Many emerging markets fell on the quarter due to weakness in commodities and worries about a slowdown in the global economy.

Market Scorecard



SECOND HALF OUTLOOK

The market has proven schizophrenic in the first half of the year, vacillating between bouts of optimism and pessimism. It is difficult to predict what the second half will hold. In general, we continue to believe that stocks are not expensive based on earnings forecasts for next year. Companies spent much of the downturn streamlining and now boast record productivity. Moreover, while the balance sheet of the federal government is a disaster, many companies in the S&P 500 have healthy balance sheets and record levels of cash.

On the flipside, it is hard to ignore the numerous headwinds facing the market, including the notably soft labor market. The employment picture will remain a key driver of the economy in the second half. If job growth accelerates, consumer spending will improve and the housing market will likely find a bottom. If job growth remains tepid, the economy will struggle to find its footing.

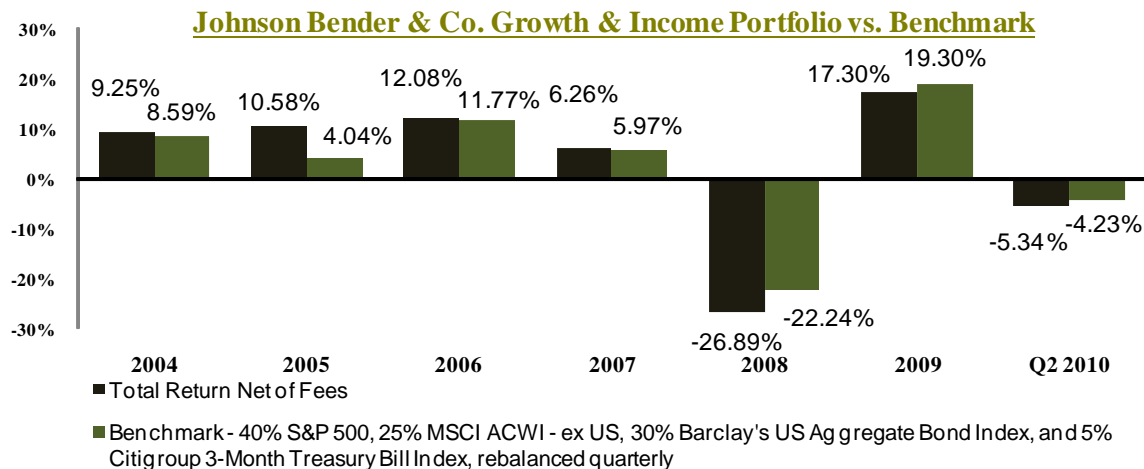
Passage of health care and financial regulation will remove some uncertainty that hung over the market in the first half. Moreover, substantial republican victories in the fall may also give the market a lift. History shows that the best combination for the stock market has been a democratic president and a republican Congress.

While forecasts for strong growth in Asia and South America should help offset some of the weakness expected across much of Europe, we are mindful of the adverse impact the weak euro will have on U.S. exports to that region.

In conclusion, we expect stocks to trend higher in the second half amid continued volatility driven by the numerous crosscurrents now at work. The ultimate strength of the market will depend in large part on whether or not the economy starts to create a meaningful number of new jobs in the months ahead.

Specific Strategies for the Second Half

- Overweight high yield bonds as spreads have widened and yields remain attractive relative to Treasuries.
- Overweight emerging markets based on prospects for strong growth.
- Underweight Europe due to fears about sovereign debt as well as forecasts for tepid growth across much of the region.
- Focus on large cap U.S. companies that pay good dividends.
- Overweight the technology sector based on strong earnings growth.
- Overweight energy stocks based on valuations and favorable dividend yields.
- Consider long-short funds that can capitalize on the volatility in the market.
- Consider senior bank loans, which trade at a discount, and we believe can potentially offer attractive yields.



***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 ACWI (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 with the exception of 2Q 2010, which is as of June 30, 2010.

SHOULD INVESTORS FOCUS ON *EQUITY-INCOME* INVESTMENTS IN TODAY'S ENVIRONMENT?



Individual situations will vary; therefore, these strategies and products may not be appropriate for all investors. It is important to speak with an investment professional about your individual situation prior to investing or making changes to an existing portfolio. The investments discussed here involve various tax implications that should be discussed with a tax advisor.

There is no doubt that the stock market has struggled to gain traction this year. While there are reasons for optimism, there are also numerous headwinds. Such headwinds include worries about the health of the consumer, concerns about a jobless recovery, fears about another leg down in housing, anxiety over sovereign debt defaults in Europe,

as well as uncertainty concerning the impact of new health care and financial regulation, not to mention the threat of higher taxes. A resolution to many of these issues and concerns may not be forthcoming anytime soon. As a result, the stock market may continue to struggle to post sustainable advances. What should an investor do in such an environment? One idea is to focus more on income and less on appreciation. Investment ideas include the following:

Master Limited Partnerships: A master limited partnership (MLP) is a limited partnership that is publicly traded on an exchange. MLPs are required to distribute their excess cash flow each quarter. Many MLPs engage in relatively stable businesses within the energy sector such as pipelines or storage. However, individual MLPs will range in volatility. Due to the government regulatory scrutiny of the energy sector, these investments involve greater regulatory risk in addition to interest rate risk as increasing interest rates can result in lower yields. Investors should carefully consider the pros and cons of investing in a particular MLP and consult a tax advisor prior to investing to help determine the tax implications of such an investment. As with all investments, it is possible to lose money when investing in MLPs. Investors should remember that MLPs are partnerships and accordingly issue K-1 statements.

Oil and Gas Royalty Trusts: These are trusts that hold oil and gas leases. The money the trusts earn by selling oil and gas production is paid to shareholders. These investments generally pay a dividend, but the yield is tied to the price of the commodity. The lower the sales price of the oil and gas, the less money the trust earns and the lower the payout. Many of the publicly traded oil and gas trusts are based in the U.S. or Canada. The price of oil and gas trusts can be subject to substantial price fluctuations over short periods of time and may be affected by unpredictable international monetary and political policies. Concentrated investing may lead to higher price volatility, and these investments can involve loss of part or all of your investment.

High Yield Bonds: Sometimes referred to as "junk" bonds, these are fixed income securities rated below investment grade. We believe they can potentially offer attractive yields and often move in the same direction as the stock market as the risk of default typically decreases or increases as the economy ebbs and flows. Investors considering high yield bonds should look to mutual funds or ETFs so as to achieve adequate diversification. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment.

High Dividend Stocks: Many high quality stocks in the S&P 500 now yield over 3%. It is important to remember that the amount of the dividend has the potential to rise with time, as companies often raise their dividends each year. The payment of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time.

Real Estate Investment Trusts: Real Estate Investment Trusts or REITs are investment vehicles that generally own commercial real estate. They are tax advantaged in that a REIT does not pay tax at the entity level as long as it distributes 90% or more of its taxable income to shareholders. Investors benefit by collecting the income that is passed through to them. Of course, the investment is tied to the health of the real estate market, and distributions will vary based on the amount of income earned by the REIT. There are numerous publicly traded REITs that trade daily on the stock exchanges both in the U.S. and overseas. Investments in real estate have various risks including possible lack of liquidity, loss of principal invested, and devaluation based on adverse economic and regulatory changes.

Preferred Stocks: A preferred stock is a hybrid between a stock and a bond, but the main attraction is income: The dividend yield of the Standard & Poor's U.S. Preferred Stock Index was 7.4% at the end of the quarter. The "preferred" part of the name refers to the fact that a company must pay a preferred dividend before it pays its common dividend. In other words, if the company has the money to pay the preferred dividend, it must do so. Preferred stocks are still stocks, and their prices can move up and down significantly according to the company's fortunes, and it is possible to lose part or all of your investment.

FIRM ANNOUNCEMENTS & UPCOMING EVENTS

Shell Retirement Seminars

Westlake Club—September 28th

Plaza Club—September 30th

Event Seating is limited.

Contact Kelli Stilley for more information:

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WWW.JOHNSONBENDER.COM

The Johnson Bender website now features a “client portal” to our Wealth Management System. Contact JBC to learn how to set up your client portal account online!

Sources and Disclosures:

The Wall Street Journal, Thomson Reuters, Standard & Poor's, Financial Times.

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ETF and Mutual Fund products, like all investments, are subject to market risk, which may result in the loss of principal. Risks vary depending upon the strategy used by the funds as well as the sectors in which the fund invests. There are additional risks associated with long short funds such as selling short and the risk that the fund may have to cover its short position at a higher price than the short price, resulting in loss. A fund's loss on a short sale is potentially unlimited as a loss occurs when the value of a security sold short increases.

Investors should carefully consider the investment objective, risks, charges and expenses of mutual funds and ETFs. This and other important information contained in the prospectuses, which can be obtained by contacting us at 713-439-1200. The prospectus should be read carefully before investing.

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