



**MARKET PERFORMANCE — SECOND QUARTER 2011**

**The Quarter in Brief:**

Similar to 2010, the second quarter proved a very volatile quarter. After rising in April, stocks sold off sharply on concerns about a Greek debt default and worries about a slowdown in the U.S. economy. The Greek debt fears echoed back to the violent sell-off in the market in the spring of 2010. Weak job and manufacturing data in the U.S. punctuated the second quarter. Investors decided to take profits despite arguments by many economists that the soft economic data was temporary and stemmed from supply chain disruptions following the Japanese earthquake. By quarter's end, the market had recouped its losses as a temporary solution to the Greek debt crisis looked at hand and investors grew more optimistic that the economy would in fact pick up in the second half of the year. As one might expect, Treasuries and other high quality bonds turned in a respectable quarter as investors sought more conservative investments during the growing uncertainty. Commodities, on the other hand, sold off on concerns about slowing economic growth.

**Domestic Economy:**

The nation's GDP grew at a lackluster 1.9% in the first quarter following growth of 3.1% in the fourth quarter of 2010. The economy is expected to print a weak GDP number for the second quarter as well, driven down by weak manufacturing data relating to supply chain disruptions, as well as poor weather in many parts of the country. Economists in general are hopeful that the economy will pick up steam in the second half. Blue chip economists recently surveyed by the Wall Street Journal expect the nation's GDP to grow at an annual rate of 3.3% in the back half of the year. A weak job market was seen as the biggest threat to the economy, followed by a sustained increase in oil prices. The economists put the odds of a double dip recession at just 16%.

According to Thomson Reuters, companies in the S&P 500 are expected to post respectable earnings growth of 13% in the second quarter relative to the second quarter of 2010. The material and energy sectors are forecast to register outsized growth in excess of 40%. Meanwhile, technology, industrials and financials are expected to post growth of approximately 10%. On the flipside, the utility sector is expected to show a contraction in earnings of approximately 3%. In light of growing fears about a slowdown in the economy, investors will closely scrutinize company profit forecasts for the second half of the year.

The 10-year Treasury rose during the quarter with the yield falling to 3.16% from 3.45%. Yields fell as investors sought safety amid the uncertainty relating to the Greek debt crisis and fears about a slowdown in the U.S. economy. The yield on the 10-year Treasury breached 3% in June before finishing the quarter slightly higher. The drop in yields came despite the cessation of the Fed's \$600 billion bond buying program commonly known as QE2. Municipal bonds turned in a strong quarter as fears of defaults continued to subside. The Barclay's Municipal Bond Index rose 3.89% on the

quarter. According to estimated mutual fund flow data from the Investment Company Institute, individuals poured money into bond funds during the quarter while drawing down equity mutual funds.

The Fed kept the Fed Funds rate unchanged at its April and June meetings. In its statement following the June meeting, the Fed said that it would conclude its \$600 billion bond buying program but would continue to reinvest principal payments. The Fed also acknowledged that the economic recovery was more sluggish than anticipated but expressed optimism that the recovery would gain momentum in the coming quarters. At a press conference following the June meeting, Bernanke said he believes the recent slowdown is due to temporary factors such as supply chain disruptions from the earthquake in Japan. However, he acknowledged that more long-term problems may be behind the economic weakness this year. When asked about another round of quantitative easing, or QE3, the Fed chairman expressed doubts about the benefits of such a program relative to its risks.

**Currencies and Commodities:**

The U.S. Dollar index, which measures the currency against a basket of currencies, fell 2.3% during the quarter. Despite the Greek debt woes, the euro gained 2.4% against the dollar. A rate hike in April by the European Central Bank along with expectations of additional rate hikes later in the year helped buoy the euro. Vis-à-vis the yen, the dollar lost 3.1%. Weak economic data at home undermined the dollar alongside ongoing expectations that the Fed would not raise interest rates this year.

Commodities sold off during the quarter. The Dow Jones-UBS Commodity Index fell 6.7% in the quarter, following a 4.4% increase in the first three months of the year. The sell-off in commodities was driven by fears about a global slowdown. In addition to weak U.S. economic data, investors also fretted over slower economic growth in emerging markets following interest rate hikes designed to combat inflationary pressures. Oil finished the quarter down 11%. Exacerbating oil's drop was the decision by Western governments to release oil from strategic reserves in response to the supply disruptions stemming from the ongoing conflict in Libya. Despite a pull-back in June, gold rose 4.4% on the quarter to close at \$1502.30 an ounce.

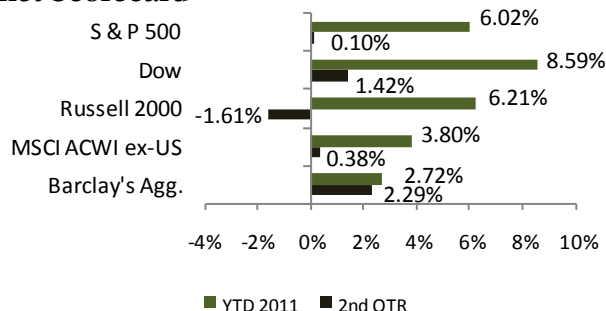
**Congressional Action:**

Congress and the White House remained at an impasse at quarter's end concerning an agreement to raise the debt ceiling above \$14.3 trillion. The nation is set to technically default on its debt in early August if the ceiling is not raised before then. The White House wants the agreement to include tax increases alongside spending cuts. However, Republicans continue to balk at any type of tax increase, citing the fragile state of the economy. In April, Standard and Poor's lowered the outlook on U.S. debt to negative from stable on concerns that a political agreement needed to help right the nation's finances would not materialize.

**Overseas Markets:**

Equity markets overseas generally finished lower. European markets declined on Greek debts concerns, with the Stoxx Europe 600 Index falling 1.1%. In contrast, the Japanese Nikkei edged up 0.6% in the aftermath of last quarter's sell-off. Of note, many Asian markets fell sharply. The Shanghai Composite Index and the Hong Kong Hang Seng Index fell 5.7% and 4.8%, respectively. Concerns persist that Chinese officials will fail to engineer a soft landing while attempting to tame inflation. Moreover, worries about weakness in China's residential property market pressured Chinese equities.

**Market Scorecard**



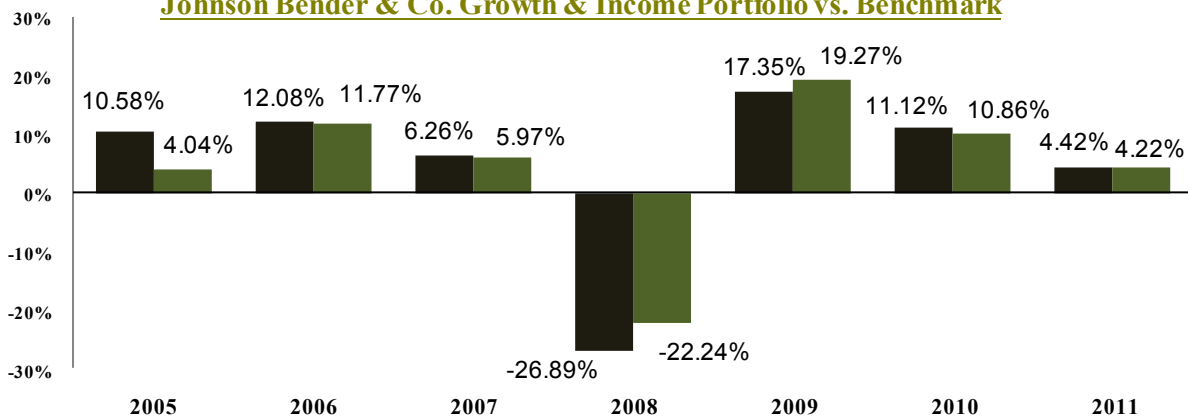
## 2011 Second Half Outlook

We expect volatility to persist throughout the summer as concerns about European sovereign debt and weak U.S. economic data persist. The modest yield on the 10-year Treasury, especially following the end of the Fed's recent bond buying program, suggests the economy at home will remain weak. Headwinds include a soft housing market and a stubbornly high unemployment rate. Having said this, we expect stocks to ultimately finish the year higher. Companies continue to benefit from streamlining measures undertaken during the downturn. Accordingly, many remain capable of generating good profits even in a lackluster economy. Moreover, the weak dollar continues to drive exports. It is worth noting that today companies in the S&P 500 derive nearly one-half of their revenues from overseas. Lastly, valuations remain attractive relative to many fixed income alternatives.

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

- Overweight energy stocks. We expect the price of oil to remain elevated and energy companies to continue to post strong profits.
- Overweight technology stock. We believe valuations remain attractive relative to growth prospects.
- Overweight large cap U.S. companies that pay good dividends and have global brands that will help drive sales in emerging markets. This thesis remains intact as the dollar continues to weaken.
- Overweight high yield and other credit sensitive fixed income securities as yield spreads remain attractive.

### Johnson Bender & Co. Growth & Income Portfolio vs. Benchmark



■ Total Return Net of Fees

■ Benchmark - 40% S&P 500, 25% MSCI ACWI - ex US, 30% Barclay's US Aggregate Bond Index, and 5% Citigroup 3-Month Treasury Bill Index, rebalanced quarterly

\*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 June 30.*

# Long Term Care Insurance

It's no secret that people are living longer. It's also no secret that health care costs keep rising. This leaves aging baby boomers to ponder how they will pay for their care as they age. Long term care insurance is designed to address this worrisome issue.

## What is Long Term Care Insurance?

Long term care insurance is a type of insurance developed specifically to cover the costs of long-term care services, most of which are not covered by traditional health insurance or Medicare. These include services in your home such as assistance with "Activities of Daily Living" as well as care in a variety of facility and community settings.

Let's say you are forced to enter a nursing home for basic care. Neither Medicare nor traditional health insurance will cover these costs. In order to fund your nursing home care, you by and large have two choices: self insure (pay out of pocket) or rely on long term care insurance to help with the costs. The average annual cost of a nursing home approximated \$75,000 according to a 2010 survey by MetLife. This same survey found that the average hourly cost for home health aides approximated \$20/hour.

## Do I pay premiums for the rest of my life?

Just like with life insurance, payment options vary. You can agree to pay one large premium upfront, you can pay premiums for a set period (e.g., ten years), or you can pay premiums year in and year out. Typically, any required premium payments are waived while you are receiving benefits.

## Are my benefits unlimited? Suppose I stay in a nursing home for ten years?

Most long term care insurance policies have a benefit period or lifetime maximum benefit, which is the total amount of time or total amount of dollars up to which benefits will be paid. For instance, a policy may provide for a daily benefit of \$150/day and aggregate benefits payable of \$300K. Thus, if you were to go into a nursing home that costs \$200/day, your policy would pay \$150/day for up to 5.5 years. [ $\$150/\text{day} * 365 \text{ days/year} * 5.5 \text{ years} = \$301,125$ ]. If you only spend three years in the nursing home, you could use the remaining unused benefits at a later date. If the policy had stated a benefit period of only five years, then the policy would cease paying benefits after five years. Policies with unlimited benefits and no restrictions on the benefit period are available for a higher premium.

## How much does it cost?

The cost of your long term care insurance policy is based on the type and amount of services you choose to have covered, how old you are when you buy the policy, and any optional benefits you choose, such as inflation protection. If you are in poor health or already receiving long term care services, you may not qualify for long term care insurance, or you may only be able to buy a more limited amount of coverage.

Long term care insurance policies vary widely. If you are considering securing long term care insurance and wish to discuss your options, please feel free to contact our office.

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!



JOHNSON BENDER & CO. WEALTH MANAGERS

Wealth Management System

To logon, enter your User Name and Password and click the Logon button.

User Name:

Password:

Enable Additional Security:

Logon

Forgot My Password  Unable to Logon 

### Sources and Disclosures:

Wall Street Journal, Thomas Reuters, U.S. Department of Health and Human Services.

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**Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds. This and other important information is contained in the prospectuses, which can be obtained by contacting 713-439-1200 and should be read carefully before investing.**

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