Investment Update

July, 2012

2012 Second Quarter Update

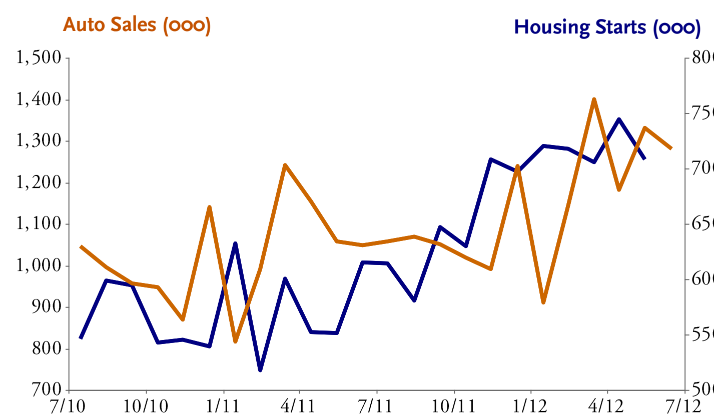
Review: Slowing economic growth in the U.S. and heightened concerns about the financial health of the Eurozone- especially Greece, Spain and Italy, caused equity markets to weaken in the second quarter. The S&P 500 slid 2.8%, ending the first half up 9.5%. Bonds, seen as a safe haven, had a strong quarter, ending up 2.1%. The Barclays Aggregate U. S. Bond Index was up 2.4% in the first half.

Quarters	2Q12	1Q12	4Q11	3Q11	2Q11
S&P 500	-2.8%	12.6%	11.9%	-13.9%	0.1%
EAFE*	-6.9%	11.0%	3.4%	-19.0%	1.8%
Emerging Markets	-8.9%	14.1%	4.4%	-22.6%	-1.1%
Barclays U.S. Aggregate Bond	2.1%	0.3%	1.1%	3.8%	2.3%

*Europe, Australia, Far East

Domestic Economy: After a strong start to the year, the economy slowed during the second quarter. Some of the sluggishness is explained by the "pulling ahead" of economic activity into the first quarter due to the mild winter weather. More importantly, businesses were concerned about the potential impact of a meltdown in Europe on our own economy. The caution was reflected in weaker hiring and a deceleration in capital spending. Uncertainty regarding the outcome of the presidential election is also weighing on businesses.

There are, however, some encouraging trends, shown in the nearby chart. Through May, housing starts are a healthy 26% ahead of last year. Even some of the hardest hit markets such as Arizona have shown gains. Auto sales are projected to increase 11% for the year, indicating consumers remain hopeful. Gasoline prices are down 19%



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since March, saving consumers about $80 billion annually. These signs of underlying strength lead us to conclude that the current softness is temporary.

International Economies: Very recently, concerns about the potential dissolution of the Eurozone and the ability of European countries to issue debt have eased. Germany has signaled a more flexible approach to helping Spain and Italy. The European Central Bank has cut interest rates, lowering the cost of debt. However, we still expect the recession in Europe to last for several more quarters. Growth expectations for emerging economies have been reduced, as exports to Europe and the U.S. have slowed. The Chinese authorities have cut interest rates twice in the past month in an attempt to revive their domestic economy. Brazil has also cut rates to stimulate internal economic growth. We expect these measures to stabilize their respective economies, although reacceleration is not expected until exports improve.

Strategy: The U.S. economy is slowly recovering from the "Great Recession". We view the U.S. stock market as attractive based on prospects for further growth and reasonable valuation. We are emphasizing domestic, economically sensitive stocks that can benefit from the recovery of the U.S. economy.

The U.S. has the best outlook among developed economies. Corporations are in excellent financial shape and our banks are well capitalized. However, emerging markets will likely languish until exports improve. This is not likely until the Eurozone economy bottoms, and the U.S. gets through the current period of economic softness. A lower allocation to emerging economies is, therefore, indicated.

Bonds appear even more over-valued than at our last Update in April. Fear of the collapse of the Eurozone drove 10-year U.S. Treasury yields from 2.0% in April to 1.6% at this writing. However, with core inflation accelerating to 2.2% from 1.6% a year ago, the real return on the 10-year Treasury is clearly negative. We expect core inflation to stay above 2.0% as the economy improves. It is hard to say when the bond market will return to a more rational state, but we would expect 10-year Treasury yields to revert to a more normal level as fears of a collapse in the Eurozone subsides. For this reason, our bond portfolios remain cautiously positioned.