PALADIN PARTNERS, LLC/LAKE COUNTRY WEALTH MANAGEMENT Q1 2010

Investment Philosophy

The monetary base expanded since our Q4 '09 report, but for the first time since these reports have been written the change versus a year ago is a smaller number (1;685,564 from below compared with 1,740,586 in the Q4 report). Unfortunately, the reason for the smaller number is a higher comparable, as the monetary expansion was beginning in earnest in April of 2009. The pace of growth between Q4 '09 and Q1 '10 is less (1.943 TN Q4 Δ 2.058 TN Q1= 5.91% ; 1.795 TN Q3 Δ 1.943 TN Q4= 8.24%). Hopefully, this deceleration will continue. An expansion is an expansion, however, and inflationary pressures continue to rise.

MONDAY, APRIL 5, 2010

Federal Reserve Data Bank

Member Bank Reserve Chgs. (Mil. $)

	Latest Week	Prev. Week Change	Year Ago Change
Reserve Chgs. (Mil. $)			
One week ended Mar 31:			
U.S. Gov't securities:			
Bought outright	2,014,288	-3,372	+1,240,791
Federal agency secur:			
Bought outright	168,988	+1,500	+118,135
Reserve bank credit:			
Primary Credit	7,664	-3,086	-52,071
Secondary Credit	600	....	+600
Seasonal Credit	4	-2	1
Float	-1,700	-80	+587
Other F.R. Assets	94,440	-1,389	+48,573
Total Fed Credit #	2,290,403	-7,424	+244,230
Gold stock	11,041	....	....
SDR Certif. Accounts	5,200	....	+3,000
Treas. Curr. Outst.	42,839	+14	+578
Total	2,349,483	-7,410	+247,808
Currency in circ	932,786	+92	+30,182
Treas. Cash Hldgs	224	+6	-87
Treas. Fed Deposits	35,896	-31,707	-11,233
Foreign Fed Deposits	2,256	-161	+1,146
Other Fed Deposits	3,080	+2,692	-14,155
Serv Related bal.	2,687	-6	-1,741
Other FR liab/cap	65,948	-1,120	+10,474
Total factors	1,224,455	-5,022	-73,255
Reserves F.R. banks	1,125,028	-2,388	+321,063
Fgn hold U.S. debt	3,019,750	+7,238	+410,421
Reserve Aggregates (Mil. $ sa)			
Two Weeks Ended Mar 24:			
Total Reserves:	1,169,904	1,227,673	824,557
Nonborrowed Res [1]	1,081,578	1,126,398	219,708
Required Res [2]	66,269	64,519	53,286
Excess Reserves:	1,103,635	1,163,154	771,271
Borrowed Reserves	88,326	101,275	604,849
Free Reserves [3]	1,015,309	1,061,879	166,422
Monetary Base	2,058,899	2,116,345	1,685,564

[1] Fed supply of permanent reserves provided.
[2] Demand for reserves to back deposits.
[3] Free reserves equal excess reserves minus discount window borrowings other than extended credit. Free reserves are shorthand method of determining the degree of ease of Fed policy, or when they are negative net borrowed reserves, tightness.

The 2.1% annual rate of inflation is lower than the level reported in our Q4 '09 publication (it was reported at 2.7%), but still substantially higher than the 0.2% level of a year ago.

PULSE OF THE ECONOMY

▶ - Indicates new report

Pulse Item		Latest Date	Latest Data	Preceding Period	Year Ago	Year over Year %Chg
Inflation						
JOC-ECRI Industrial Price Index f	▶	Apr 1	120.16	117.54	68.98	74.20
Consumer price index b (unadjusted)		Feb	216.7	216.7	212.2	2.12
Gross domestic product deflator		4th Qtr	0.5	0.4	0.1	400.00
Producer price index (finished goods) c		Feb	178.8	179.8	171.3	4.38
Rate of inflation, % (annual, unadjusted)		Feb	2.1	2.6	0.2	950.00

a-1997 equals 100. b-1982-84 equals 100. c-1982 equals 100. e-Estimate. f-1996 equals 100. p-Preliminary. r-Revised.

Capacity utilization continues to inch ahead versus our last report (72%). Not a huge pickup in capacity, but the trend continues to be positive rather than negative. GDP 4th Quarter numbers are out, and are up huge. Fixed investment is also up (both residential and non-residential), but personal income receded slightly from the numbers reported in Q4 (12,180 versus 12,200). A small change, but a change in the wrong direction nevertheless. The personal savings rate is trending downward – and based on other data (GDP, fixed investment) it seems reasonable to assume that consumers are starting to loosen the purse strings.

Economic Growth and Investment						
Durable manufacturing (NAICS) a		Feb	100.7	r101.0	99.0	1.72
Capacity utilization %		Feb	72.7	r72.5	70.3	3.41
Gross domestic product		4th Qtr	5.6	2.2	-5.4	....
Industrial output a		Feb	101.0	r100.9	98.8	2.23
Manufacturing (NAICS) a		Feb	100.7	100.9	98.5	2.23
Nondurable manufacturing (NAICS) a		Feb	99.5	r99.6	97.0	2.58
Personal income, (bil. $)	▶	Feb	12,180	r12,179	12,034	1.21
Personal Savings Rate, St.Louis Fed	▶	Feb	3	r3.4	4	-26.19
All fixed investment, (bil. $)		4th Qtr	1,646.6	1,626.7	1,909.3	-13.76
Non-residential investment, (bil. $)		4th Qtr	1,285.5	1,269.0	1,496.1	-14.08
Residential investment, (bil. $)		4th Qtr	362.9	359.6	415.0	-12.55

Consumption and distribution numbers, all compare favorably with our Q4 report with the exception of Autos (166,656 sold per Q4 report vs. 165,656 below), Light Trucks, domestic units (304,600 reported Q4 vs. 293,166 below), and New Home Sales (355,000 from Q4 compared with 308,000 below). The book to bill ratio is still a *touch below 1 (New Factory Orders of 383.53 billion ÷ Factory Shipments of $384.86 billion = 0.9973; since manufacturers recognize income when orders are shipped, this number is a leading indicator of manufacturing revenue. A number above 1 indicates future growth while a number below 1 indicates the reverse). Also, the inventory to sales ratio continues to move lower. The increase in consumption appears to be broad based with the exception of these areas.*

PULSE OF THE ECONOMY

▶- Indicates new report

Pulse Item		Latest Date	Latest Data	Preceding Period	Year Ago	Year over Year %Chg
Consumption and Distribution						
Autos, domestic units sold	▶	Mar	165,656	138,433	138,139	19.92
Autos, import units sold	▶	Mar	379,885	263,799	306,753	23.84
Business sales, (mil. $)		Jan	1,046.87	r1,041.08	979.79	6.85
Consumer spending, (bil. $)	▶	Feb	10,713	r10,677	9,932	7.86
Durable goods (bil. $)		Feb	179.8	r180.8	179.1	0.39
Factory shipments, (bil. $)	▶	Feb	384.86	r385.33	364.48	5.59
Instinet Research Redbook Avg. (monthly %)	▶	Mar 27	1.16	1.55	0.09	1188.89
Light trucks, domestic units	▶	Mar	293,166	224,819	241,675	21.31
Light trucks, import units	▶	Mar	227,498	153,214	171,212	32.88
New home sales, (thous. units)		Feb	308	r315	354	-12.99
Personal consumption		4th Qtr	9,289.5	9,252.6	9,195.3	1.02
Retail store sales, (bil. $)		Feb	355.55	r354.34	342.36	3.85
Wholesale sales, (mil. $)		Jan	346,705	r342,422	313,772	10.50
Inventories						
Business inventories, (bil. $)		Jan	1,310.17	r1,310.28	1,433.06	-8.58
Domestic crude oil, (thous. bbls)	▶	Mar 26	351,928	351,507	357,794	-1.64
Factory inventories, (bil. $)	▶	Feb	498.29	r495.78	528.92	-5.79
Gasoline, (thous. bbls)	▶	Mar 26	223,161	226,008	215,596	3.51
Inventory-to-sales ratio (Business)		Jan	1.25	1.26	1.46	-14.38
Wholesale inventories, (mil. $)		Jan	382,168	r382,809	423,288	-9.71
Orders						
Durable goods, (bil. $)		Feb	178.1	r177.2	165.6	7.55
Factory orders, backlog (mil. $)	▶	Feb	722.23	r718.96	770.94	-6.32

New factory orders, (bil. $)	▶	Feb	383.53	r381.43	348.46	10.06
Nondurable goods orders, (bil. $)	▶	Feb	205.06	r204.51	186.65	9.86
Purchasing management index	▶	Mar	59.6	56.5	36.4	63.74

a-1997 equals 100. b-1982-84 equals 100. c-1982 equals 100. e-Estimate. f-1996 equals 100. p-Preliminary. r-Revised.

The Q4 data included an unemployment rate of 10.0%, and the data below reports 9.7%. This is good news, but often these numbers are revised after their release. Hopefully, these numbers will hold up, and we can begin to see improvements, albeit small ones, in the employment numbers. The indicators are a "mixed bag," with areas of improvement and retracement. Leading indicators continue to trend upward.

PULSE OF THE ECONOMY

▶ - Indicates new report

Pulse Item		Latest Date	Latest Data	Preceding Period	Year Ago	Year over Year %Chg
Employment						
Civil labor force, (thous.)	▶	Mar	153,910	153,512	154,164	-0.16
Employed, (thous.)	▶	Mar	138,905	138,641	140,854	-1.38
Employment cost index		4th Qtr	114.3	114.0	111.6	2.42
All non-farm payrolls, (thous.)	▶	Mar	129,750	r129,588	132,070	-1.76
Government payrolls, (thous.)	▶	Mar	22,496	r22,457	22,880	-1.68
Goods prod payrolls, (thous.)	▶	Mar	17,870	r17,829	19,233	-7.09
Initial jobless claims	▶	Mar 27	439,000	r445,000	651,000	-32.57
Continuing claims (mil.)	▶	Mar 20	5	r4.668	6	-19.28
Service payrolls, (thous.)	▶	Mar	111,880	r111,759	112,837	-0.85
Unemployment rate, %	▶	Mar	9.7	9.7	8.6	12.79
Unemployed, (thous.)	▶	Mar	15,005	14,871	13,310	12.73
Avg. wks duration unemploy	▶	Mar	31.2	29.7	20.8	50.00
U-6 employment - Seasonally Adjsuted	▶	Mar	16.9	16.8	15.6	8.33
Other Indicators						
Consumer confidence (Conference Board)	▶	Mar	52.5	r46.4	26.9	95.17
Index of coincident indicators		Feb	100.1	r100.0	101.9	-1.77
Index of lagging indicators		Feb	108.0	r107.7	113.7	-5.01
Index of leading indicators		Feb	107.6	r107.5	98.4	9.35
Coincident to lagging ratio		Feb	0.93	0.93	0.90	3.33

a-1997 equals 100. b-1982-84 equals 100. c-1982 equals 100. e-Estimate. f-1996 equals 100. p-Preliminary. r-Revised.

The monthly Money Supply data suggest that since December (from the Q4 report) M1 increased and M2 decreased, which is consistent with the declining savings rate reported earlier. Money is coming out of longer term deposits and moving into spending accounts.

MONDAY, APRIL 5, 2010

Money Supply

Money Supply (Bil. $ sa)		Latest	Prev.	Yr. Ago
Week ended March 22				
M1	(seas. adjusted)	1716.1	r1708.2	1549.4
M1	(not adjusted)	1739.8	r1690.4	1582.6
M2	(seas. adjusted)	8480.1	r8490.1	8336.5
M2	(not adjusted)	8537.4	r8573.9	8358.4
Monthly Money Supply				
Month ended February				
M1	(seas. adjusted)	r1710.3	1676.4	1573.6
M2	(seas. adjusted)	r8518.6	8463.5	8207.4

The gross public debt continues to climb, along with the statutory debt limit. The previously reported convergence of the value of the US Dollar and the Euro shows a recent reversal, with the Euro once again gaining in value versus the dollar.

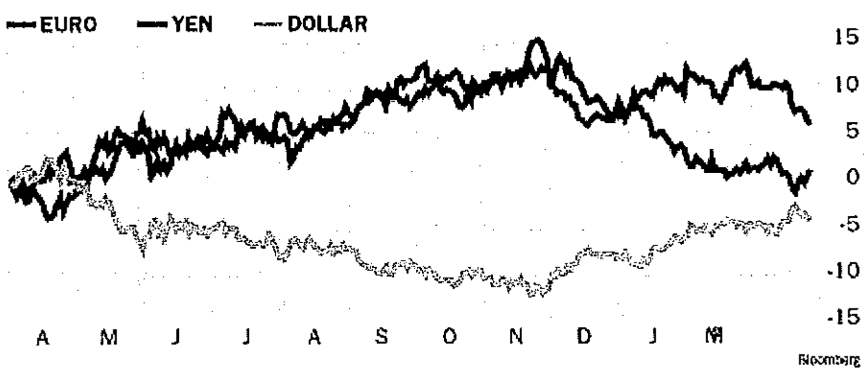
American Debt and Deficits

	Latest Report	Preceding Report	Year Ago Report	Year over Year % Chg
Federal Budget Deficit (bil. $)-a	1,171FY'10	1,752FY'09	459FY'08	155.12
Budget Surplus/Deficit (bil. $)-b, February	-220.91	-42.60	-193.86	13.95
Trade Deficit (bil. $, sa)-c, January	-37.29	r-39.90	-36.90	1.06
Treasury Gross Public Debt. (bil. $)-d	12,684.6	12,662.5	11,110.7	14.17
Treasury Statutory Debt Limit (bil. $)-d	14,294.0	14,294.0	12,104.0	18.09
Consumer Installment Debt (bil. $)-e, January	2,456.3	r2,451.3	2,571.4	-4.48

Sources: a-Office of Management and Budget, b-Monthly Treasury Statement, c-Monthly Commerce Dept. Report, d-Daily Treasury Statement, e-Monthly Federal Reserve Release.

FEDERAL RESERVE DOLLAR IDX vs EURO & YEN

This chart represents the trend between the Federal Reserve Dollar Index and the EURO and the YEN. In U.S. dollars.



The US continues to be ranked near the top of developed countries in terms of forecasted gross domestic product growth. The only developed country with a higher forecast in 2010 is Israel.

Output, prices and jobs

Mar 31st 2010 | From *The Economist* print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2010†	2011†	latest	latest	year ago	2010†	rate‡, %
United States	+0.1 Q4	+5.6	+3.1	+2.9	+1.7 Feb	+2.1 Feb	+0.2	+2.2	9.7 Feb
Japan	-1.0 Q4	+3.8	+1.7	+1.6	+31.3 Feb	-1.1 Feb	-0.1	-0.9	4.9 Feb
China	+10.7 Q4	na	+9.7	+8.2	+12.8 Feb	+2.7 Feb	-1.6	+3.5	9.6 2009
Britain	-3.1 Q4	+1.8	+1.3	+2.1	-1.5 Jan	+3.0 Feb§	+3.2	+2.7	7.8 Jan††
Canada	-1.2 Q4	+5.0	+2.7	+3.0	-5.0 Dec	+1.6 Feb	+1.4	+1.5	8.2 Feb
Euro area	-2.1 Q4	+0.5	+1.2	+1.4	+1.4 Jan	+0.9 Feb	+1.2	+1.2	9.9 Jan
Austria	-1.9 Q4	+1.4	+1.3	+1.4	+4.5 Jan	+0.9 Feb	+1.6	+1.2	5.3 Jan
Belgium	-0.8 Q4	+1.2	+1.4	+1.5	-5.3 Dec	+1.7 Mar	+0.6	+1.2	12.1 Feb‡‡
France	-0.3 Q4	+2.4	+1.6	+1.6	+3.5 Jan	+1.3 Feb	+0.9	+1.3	10.1 Jan
Germany	-2.4 Q4	nil	+1.6	+1.5	+2.1 Jan	+1.1 Mar	+0.5	+0.9	8.0 Mar
Greece	-2.5 Q4	-3.1	-2.5	-0.7	-3.1 Jan	+2.8 Feb	+1.6	+1.5	10.2 Dec
Italy	-3.0 Q4	-1.2	+0.9	+1.2	+0.1 Jan	+1.1 Feb	+1.6	+1.4	8.3 Q4
Netherlands	-2.2 Q4	+0.9	+1.2	+1.5	+5.3 Jan	+0.8 Feb	+2.0	+0.9	5.7 Feb††
Spain	-3.1 Q4	-0.6	-0.3	+1.0	-4.6 Jan	+0.8 Feb	+0.7	+1.4	18.8 Jan
Czech Republic	-3.1 Q4	+3.0	+0.9	+2.8	+5.3 Jan	+0.6 Feb	+2.0	+1.6	9.9 Feb
Denmark	-3.4 Q4	+0.9	+1.3	+1.8	-10.4 Jan	+1.9 Feb	+1.9	+1.5	4.1 Feb
Hungary	-4.0 Q4	-1.7	-0.7	+2.8	+5.7 Jan	+5.7 Feb	+3.0	+4.0	10.8 Jan††
Norway	-1.2 Q4	+0.4	+1.6	+1.8	-3.1 Jan	+3.0 Feb	+2.5	+2.0	3.3 Jan§§
Poland	+3.1 Q4	na	+2.5	+3.0	+9.2 Feb	+2.9 Feb	+3.3	+2.8	13.0 Feb‡‡
Russia	-8.9 Q3	na	+3.5	+4.3	+1.9 Feb	+7.2 Feb	+13.9	+7.0	8.6 Feb‡‡
Sweden	-1.5 Q4	-2.2	+2.2	+2.4	-0.2 Jan	+1.2 Feb	+0.9	+1.2	9.3 Feb‡‡
Switzerland	+0.6 Q4	+3.0	+1.3	+1.6	-1.1 Q4	+0.9 Feb	+0.2	+0.7	4.1 Feb
Turkey	+6.0 Q4	na	+3.6	+3.8	+12.1 Jan	+10.1 Feb	+7.7	+10.2	13.5 Dec‡‡
Australia	+2.7 Q4	+3.7	+2.9	+3.4	-3.8 Q3	+2.1 Q4	+3.7	+2.4	5.3 Feb
Hong Kong	+2.6 Q4	+9.5	+4.7	+3.6	-4.9 Q4	+2.8 Feb	+0.8	+2.0	4.6 Feb††
India	+6.0 Q4	na	+7.7	+8.0	+16.7 Jan	+16.1 Jan	+10.5	+10.7	10.7 2009
Indonesia	+5.4 Q4	na	+5.6	+5.9	+5.7 Jan	+3.8 Feb	+8.6	+5.8	8.1 Feb
Malaysia	+4.5 Q4	na	+5.4	+4.0	+12.7 Jan	+1.2 Feb	+3.7	+1.7	3.6 Q3
Pakistan	+2.0 2009**	na	+2.8	+4.2	+7.5 Jan	+13.0 Feb	+21.1	+11.4	5.2 2008
Singapore	+3.5 Q4	-6.8	+5.1	+5.0	+19.1 Feb	+1.0 Feb	+3.3	+2.2	2.1 Q4
South Korea	+6.0 Q4	+0.7	+5.3	+3.9	+36.9 Jan	+2.7 Feb	+4.1	+2.9	4.4 Feb
Taiwan	+9.2 Q4	na	+4.9	+4.6	+35.2 Feb	+2.4 Feb	-1.3	+1.6	5.7 Feb
Thailand	+5.8 Q4	+15.3	+3.8	+4.4	+30.3 Feb	+3.7 Feb	-0.1	+3.3	0.9 Dec
Argentina	+2.6 Q4	+7.9	+3.1	+2.6	+8.2 Jan	+9.1 Feb***	+6.8	+10.2	8.4 Q4‡‡
Brazil	+4.3 Q4	+8.4	+5.0	+4.5	+16.0 Jan	+4.8 Feb	+5.9	+4.8	7.4 Feb‡‡
Chile	+2.1 Q4	+5.9	+5.2	+4.5	+0.5 Feb	+0.3 Feb	+5.5	+1.7	8.5 Feb††‡‡
Colombia	+2.5 Q4	+4.7	+2.5	+3.6	+1.6 Jan	+2.1 Feb	+6.5	+3.0	14.6 Jan‡‡
Mexico	-2.3 Q4	+8.4	+4.3	+2.7	+3.6 Jan	+4.8 Feb	+6.2	+5.7	5.4 Feb‡‡
Venezuela	-5.8 Q4	na	-5.6	-1.2	-11.6 Dec	+27.0 Feb	+29.5	+29.7	7.4 Q4‡‡
Egypt	+4.9 Q3	na	+5.5	+5.6	+6.7 Q3	+12.8 Feb	+13.5	+10.1	9.4 Q4‡‡
Israel	+1.9 Q4	+4.4	+3.2	+3.5	+4.5 Jan	+3.6 Feb	+3.3	+2.0	7.4 Q4
Saudi Arabia	+4.4 2008	na	+3.3	+3.5	na	+4.6 Feb	+6.9	+3.5	na
South Africa	-1.4 Q4	+3.2	+2.8	+3.7	+3.7 Jan	+5.7 Feb	+8.6	+5.9	24.3 Dec‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	-9.5 Q4	na	-1.1	+3.0	+4.8 Feb	-0.2 Feb	+3.4	+0.3	15.5 Q4
Finland	-5.1 Q4	+0.1	+1.5	+1.9	nil Jan	+0.1 Feb	+1.8	+1.0	9.1 Feb
Iceland	-7.0 Q4	+13.9	-0.5	+1.2	+10.1 2008	+8.5 Mar	+15.2	+6.5	9.3 Feb‡‡
Ireland	-5.1 Q4	-8.7	-2.3	+0.9	+1.9 Jan	-3.2 Feb	-1.7	-0.9	12.6 Feb
Latvia	-16.9 Q4	na	-2.3	+3.0	-16.6 Jan	-4.2 Feb	+9.6	-3.4	22.9 Jan
Lithuania	-12.8 Q4	+1.9	-2.2	+2.9	-4.8 Feb	-0.2 Jan	+9.6	+1.1	13.9 Feb‡‡
Luxembourg	-2.5 Q3	+17.9	+1.6	+1.3	+29.5 Dec	+1.5 Feb	+1.2	+1.6	6.4 Jan‡‡
New Zealand	+0.9 Q4	+3.1	+2.7	+3.0	-8.1 Q3	+2.0 Q4	+3.4	+1.7	7.3 Q4
Peru	+3.6 Jan	na	+5.3	+5.1	+0.3 Jan	+0.8 Feb	+5.5	+1.6	9.3 Jan‡‡
Philippines	+1.8 Q4	+3.5	+3.2	+4.7	+11.0 Dec	+4.2 Feb	+7.3	+4.6	7.3 Q1‡‡
Portugal	-1.0 Q4	-0.6	+0.3	+0.3	+0.6 Jan	+0.2 Feb	+0.2	+0.4	10.1 Q4‡‡
Slovakia	-2.6 Q4	na	+2.0	+2.8	+19.3 Jan	+0.4 Feb	+3.0	+1.8	13.0 Feb‡‡
Slovenia	-5.5 Q4	na	+1.2	+2.9	+5.4 Dec	+1.3 Feb	+2.1	+1.9	10.6 Jan‡‡
Ukraine	-15.9 Q3	na	+2.5	+4.0	+5.6 Feb	+11.5 Feb	+20.9	+10.5	1.9 Feb
Vietnam	+5.8 Q1	na	+6.2	+6.9	-1.3 Feb	+9.5 Mar	+11.2	+10.9	4.7 2008

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 3.0 in February. **Year ending June. ††Latest 3 months. ‡‡Not seasonally adjusted. §§Centred 3-month average. ***Unofficial estimates are higher.

Sources: National statistics offices and central banks; Thomson Reuters; Centre for Monitoring Indian Economy; OECD; ECB

Commodity prices are uniformly up year on year. Food and gold are the only two items that have shown decreases in the last month.

The Economist commodity-price index

Mar 31st 2010 | From *The Economist* print edition

The Economist commodity-price index

2000=100

			% change on	
	Mar 23rd	Mar 29th*	one month	one year
Dollar index				
All items	211.7	213.5	+1.8	+32.2
Food	196.9	197.0	-0.3	+5.4
Industrials				
All	230.9	235.0	+4.3	+82.7
Nfa†	203.8	205.1	+3.0	+81.9
Metals	245.7	251.3	+4.8	+83.1
Sterling index				
All items	213.1	216.1	+1.5	+26.5
Euro index				
All items	144.7	146.6	+2.5	+30.3
Gold				
$ per oz	1102.60	1106.60	-1.1	+20.8
West Texas Intermediate				
$ per barrel	81.62	82.38	+3.2	+66.8

*Provisional †Non-food agriculturals.

Conclusions:

The PALADIN PARTNERS, LLC/LAKE COUNTRY WEALTH MANAGEMENT investment policy model architecture includes six models. Three of these are more conservative, i.e., favoring asset preservation over growth. Three of these are more aggressive, i.e., favoring growth over asset preservation. Our recommendations, therefore, are more defensive for the conservative models.

- *Inflationary pressures continue, and our view that the risk is to the upside with interest rates remains unchanged. We addressed the tactical side of this view during Q4 by lowering the duration of recommended bond holdings for our conservative portfolios. No further changes are contemplated at present.*
- *We will continue to hold inflation protected bond indexes as a part of the fixed income allocation in all but our most aggressive portfolio.*
- *There continues to be positive momentum in the economy, but it continues to be a "mixed bag" with regard to the indicators. We will make no changes to the level or classes of equities in our models at this time. Small company stocks will continue to be represented only in the more aggressive portfolios.*
- *Economists' GDP forecasts continue to award the US economy with high growth through 2010 among developed countries, and at present we will continue to favor US markets over foreign markets. See the last bullet point for our view of the future.*
- *There will be no changes to our cash allocations.*

- *We will look for confirmation of direction for the US economy in the coming months. Indicators that will be of particular interest are the book to bill ratio, the unemployment rate, the inventory to sales ratio, the savings rate, the deficit, and the relationship in the money supply between M1 and M2, and capacity utilization.*
- *Depending on the resource, data suggest that the non-US equity market, on a market capitalization basis, represents only 30 to 40 percent of the currency-adjusted world enterprise value*[1]. *Data also suggest that US-based retail securities providers underweight their recommended non-US allocation to equities in comparison to world market capitalization. For example, the Vanguard website piece entitled "International Equity: Considerations and Recommendations" cites data from the Investment Company Institute (2007 factbook) reporting that international equity funds constitute 23% of the total equity allocation of US mutual fund investors. We have also been underweighting non-US equity representation in our portfolios compared with world market capitalization. This decision has been based on data about the 2008 capital market turmoil and where the US economy has been in the recovery cycle. In the months ahead, we will be re-evaluating this stance. We will not maintain our underweight position indefinitely; therefore a move toward increasing non-US equity and debt exposure will be inevitable in future quarters.*

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[1] MSCI ACWI currently includes an allocation of 41.95% to United States equities as of 3/31/2010; source is iShares publication no. iS-1738-1209 iS-ACWI-F0310.