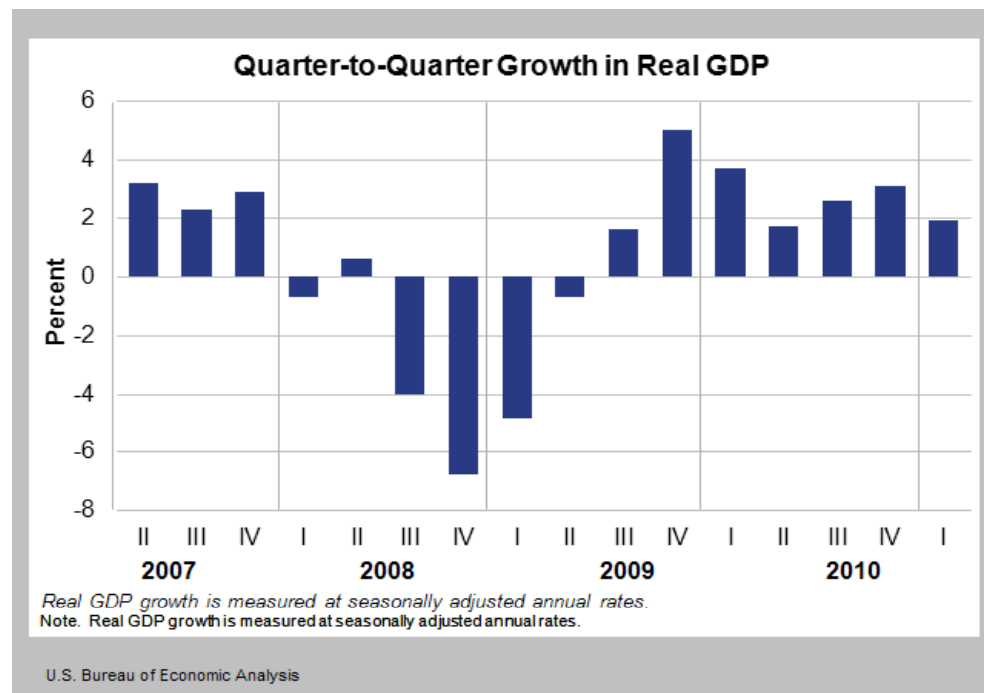


Market Environment – 2nd Quarter 2011

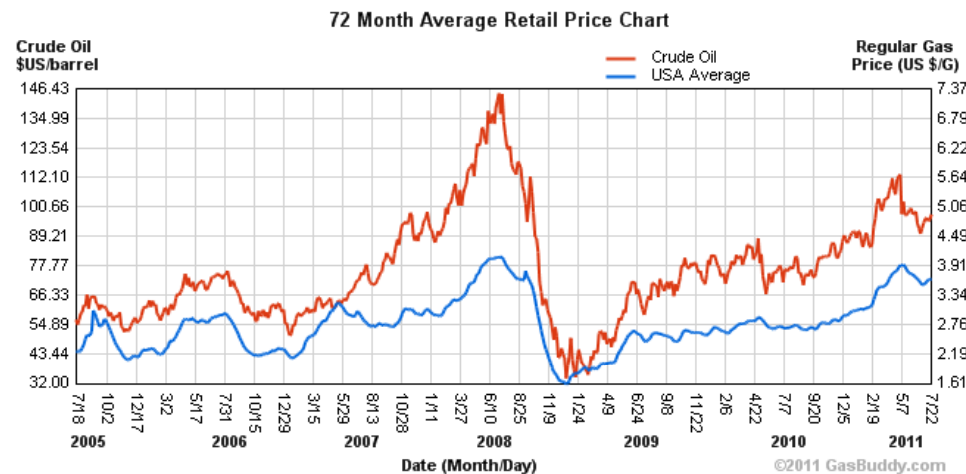
The fragile recovery in the global economy hit several rough patches in the second quarter of 2011 and global securities' markets took investors for a rather tumultuous ride. Despite the unfolding debt crisis in Europe, popular rebellions in the Middle East and continued volatility in commodity prices, April was a fairly strong month for global stocks and bonds. However, global markets spent much of the rest of the quarter erasing April's gains. June ended with essentially flat returns for the quarter. Economic data has disappointed over the past two months with headwinds such as energy prices and the conclusion of the Federal Reserve's bond buying program stymieing the recovery.

After a 3.1% annual increase in the fourth quarter of 2010, U.S. real Gross Domestic Product growth slowed considerably to a 1.9% annual rate as of the first quarter of 2011. The current economic slowdown occurred despite last December's tax deal, which provided additional fiscal stimulus by extending the Bush-era tax cuts through 2012. Contributing to the slowdown is the surge in oil, gasoline and food prices. Every \$0.01 rise in the gallon of gasoline costs U.S. consumers an additional \$1.25 billion a year.

In May, retail sales declined, breaking a streak of 10 consecutive months of positive growth. Disappointing auto sales contributed heavily to this decline. The fallout from the Japanese earthquake and the disruption in global automotive supply chains was a primary factor. These incidents alone subtracted a full percentage point from U.S. GDP growth this past quarter.



Natural Gas and Crude Oil Prices



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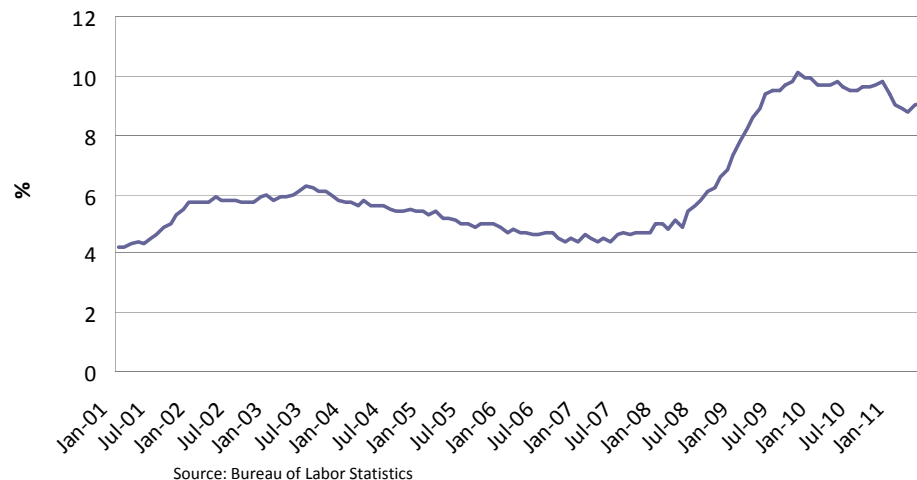
Market Environment – 2nd Quarter 2011

The federal budget deficit is on track to come in near \$1.35 trillion in the current fiscal year. This represents approximately 9% of GDP. In 2010, the deficit was also around 9% of GDP. In 2009, the deficit was a record \$1.4 trillion. A better economy should result in a shrinking deficit. By 2014, if growth forecasts prove accurate, the deficit is expected to settle in near 5% of GDP. However, this is still well above the long-term average budget deficit.

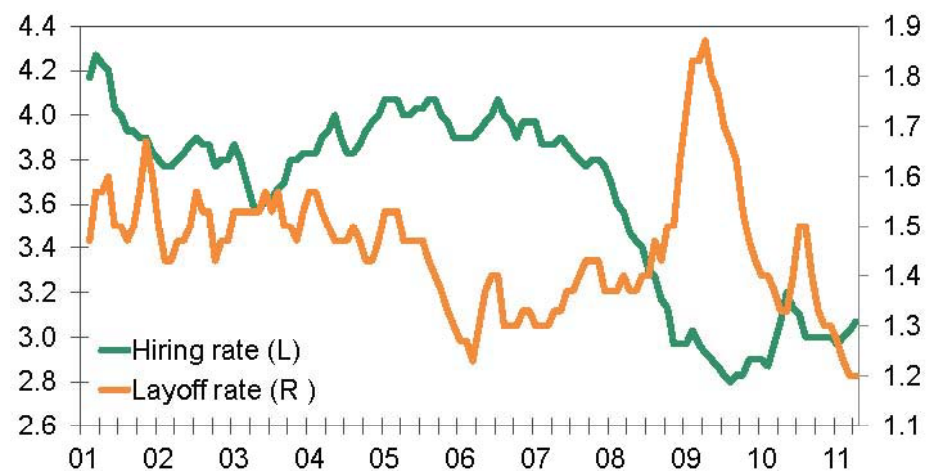
June's dismal employment report highlights the severity of the current economic slowdown. Job growth has all but stalled, and the unemployment rate inched higher ending the quarter at 9.2% up from 8.8% at the end of March. Behind the weak job numbers is an extraordinary level of skittishness among businesses. While companies are not laying off workers, they remain reluctant to step up hiring, as they are unnerved by Washington's apparent deadlock over how to address the nation's daunting fiscal challenges.

Although consumer-level inflation moderated somewhat as crude oil prices fell over the quarter (from \$106.72 per barrel to \$95.42 per barrel), higher commodity prices and inflationary pressures are being transmitted to the consumer and are being felt in the economy. The impact of higher commodities compresses economic conditions for both corporations and consumers in different ways. Overall, it reduces disposable income and therefore potential consumption, while at the same time constricting corporate margins, dulling corporate confidence and hampering the potential for wage growth. In addition, the energy price headwind to growth becomes even more apparent when looked at against wage inflation expectations, which have flat-lined at effectively zero.

U.S. Unemployment Rate



U.S. Hiring/Layoff Rate



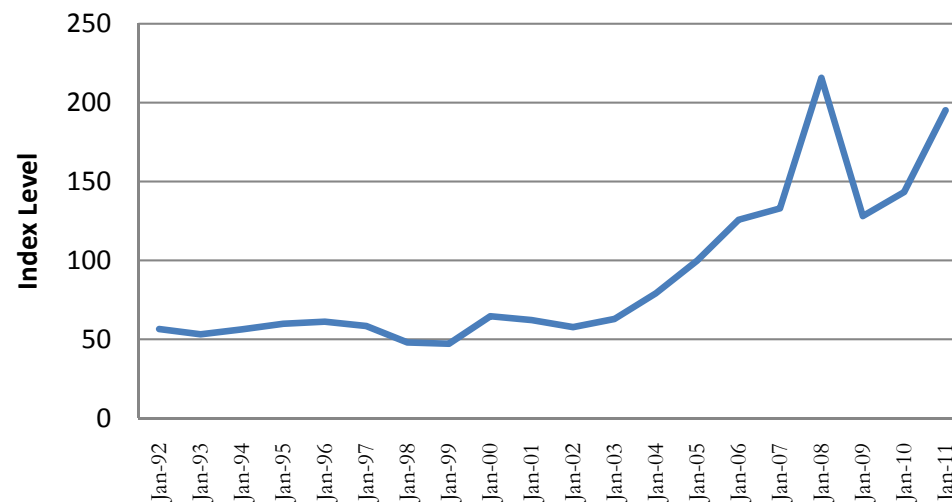
Market Environment – 2nd Quarter 2011

Over the past month, the market has begun to price in the longer term economic impact created by energy and commodity price inflation particularly in relation to the risks associated with growth. Diversified commodities, as measured by the S&P GSCI Index, fell 5.3% during the month. In addition, real assets declined along with other risk assets as the markets weighed up the real effects of rising energy and commodity prices on global growth.

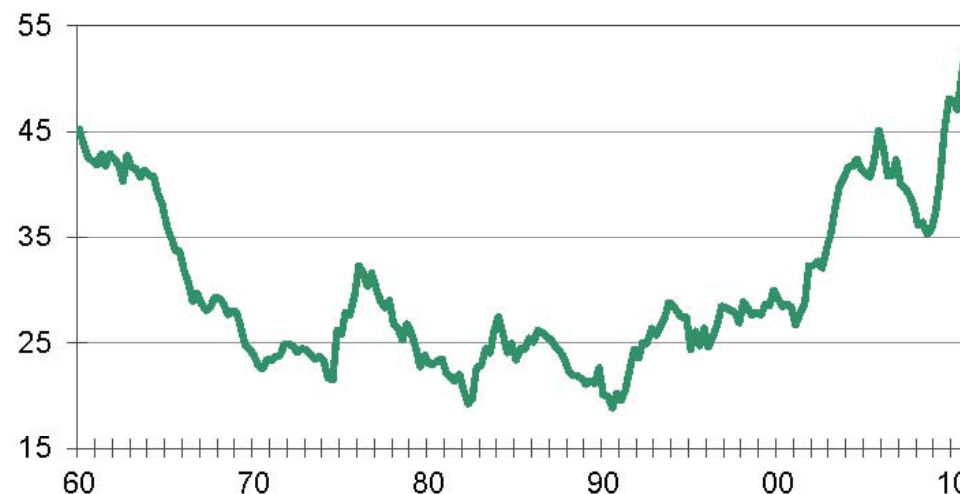
Due to the pullback in commodity prices during the quarter, the U.S. Consumer Price Index (All Urban Consumers) rose only 1.0% in the second quarter following a steeper 2.0% rise in Q1. Rising 3% Y.T.D., CPI is still on an upward tick compared to the low inflationary environments of recent years.

Skittishness is evident in businesses' desire to hoard cash. Profit margins are about as wide as they have ever been, particularly among large and midsized firms. Companies are investing more, raising dividend payouts and stock repurchases and boosting mergers and acquisitions. They are still making money though and sitting on significant cash reserves. The quick ratio for nonfinancial corporate businesses - liquid assets as a share of short term liabilities - is at a post-World War II high. Yet firms cannot seem to shake the fear that they will be caught short if they take a chance and deploy their cash reserves more aggressively.

Commodity Price Index



Quick Ratio for Non-Financial Corporations



Sources: Federal Reserve, Moody's Analytics

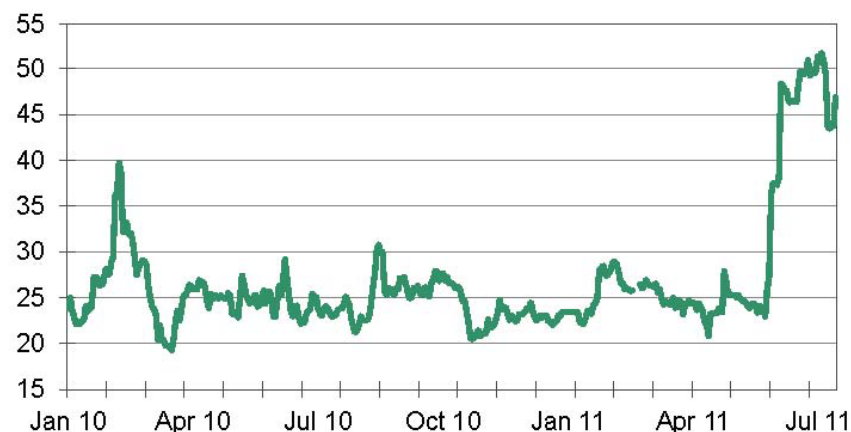
Market Environment – 2nd Quarter 2011

In the minds of business owners, the two keys to a revival in growth later this year will be a pull back in energy prices and a timely resolution of Washington's debt ceiling debate. Some suggest that oil prices have peaked. Apart from Libya, the Middle East region's other oil fields and pipelines are operating and Saudi Arabia has promised to make up any shortfall. Growth in oil demand is also moderating as higher prices curb consumption in the developed world and policymakers in emerging markets are moving to slow inflationary pressures in their economies.

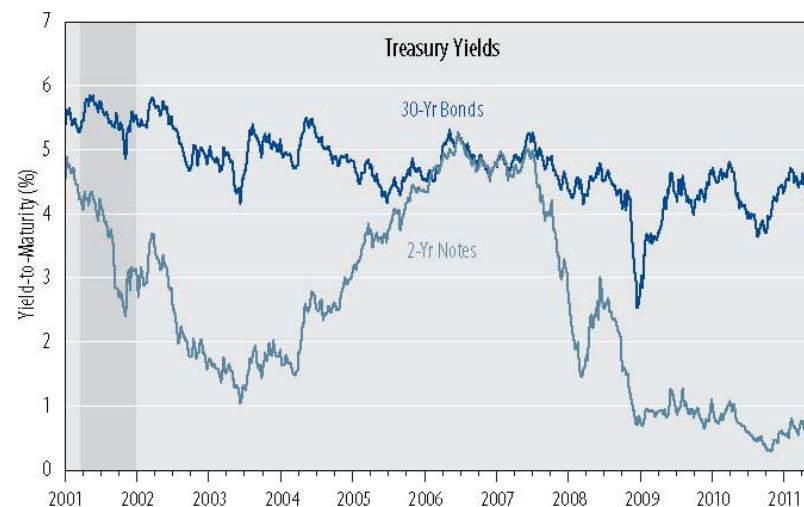
President Obama and Congress have until early August to raise the U.S. statutory debt ceiling or the Treasury will be unable to pay all its bills. If that were to happen, the Treasury would almost surely prioritize the government's obligations so that payments on the federal debt would be made on time. There would likely also be enough to pay the military's expenses. Beyond that, there would not be enough cash to go around. Government employees could be put on temporary leave, unemployed workers might not receive full benefits and Social Security recipients could come up short. Eventually the ceiling would be increased and everyone would receive what they were owed, but precisely when is unclear. Although there would be no technical U.S. debt default, stock and bond markets would face turmoil. Cracks are already developing in the market for credit default swaps on Treasury bonds. The rating agencies have already put Treasury debt on negative watch for a possible downgrade. Once the spending cuts start in early August, global investors will begin to question the security of their own bonds. Interest rates should spike as investors demand compensation for the risk of holding U.S. debt. It is expected that the government will raise the debt ceiling, at least for a few months. The hope is that an agreement will be put in to place that will significantly reduce future deficits.

Debt Ceiling Debate Unnerves Investors

1-yr U.S. Treasury credit default swap spreads



Sources: Bloomberg, Moody's Analytics



Interest Rate Trends: Economic data that suggested a still-struggling recovery, as well as the growing uncertainty stemming from the European debt crisis, contributed to a decline in US Treasury rates across the yield curve.

Market Environment – 2nd Quarter 2011

DOMESTIC EQUITY	QTR	YTD	1 Year	3 Year	5 Year	10 Year	DOMESTIC FIXED INCOME	QTR	YTD	1 Year	3 Year	5 Year	10 Year
Russell 3000 Index	(0.0)	6.4	32.4	4.0	3.4	3.4	Cash/Merrill Lynch 3-month T-Bill	0.0	0.1	0.2	0.4	2.0	2.1
Russell 3000 Growth Index	0.6	7.0	35.7	5.3	5.4	2.4	Barclays Govt/Credit 1-3 Yr	0.9	1.1	1.9	3.5	4.5	4.0
Russell 3000 Value Index	(0.7)	5.7	29.1	2.7	1.2	4.3	Barclays Intermediate Government/Credit	2.1	2.5	3.8	5.8	6.1	5.4
S&P 500 Index	0.1	6.0	30.7	3.3	2.9	2.7	Barclays Long Government/Credit	3.3	3.3	3.2	8.2	7.7	7.2
Russell 1000 Index	0.1	6.4	31.9	3.7	3.3	3.2	Barclays Government	2.2	2.1	2.3	5.1	6.1	5.4
Russell 1000 Growth Index	0.8	6.8	35.0	5.0	5.3	2.2	Barclays Credit Bond	2.5	3.4	6.2	8.2	7.0	6.3
Russell 1000 Value Index	(0.5)	5.9	28.9	2.3	1.2	4.0	Barclays Aggregate Bond	2.3	2.7	3.9	6.5	6.5	5.7
Russell TOP 200 Index	(0.0)	5.6	29.2	2.6	2.5	1.7	Barclays Mortgage Backed Securities	2.3	2.9	3.8	6.9	7.0	5.8
Russell TOP 200 Growth Index	0.4	5.8	31.9	4.5	5.0	1.2	Barclays High Yield Corporate Bond	1.1	5.0	15.6	12.7	9.3	9.0
Russell TOP 200 Value Index	(0.4)	5.5	26.5	0.6	0.0	2.1	Barclays Treasury Inflation-Protected Securities	3.7	5.8	7.7	5.3	6.9	7.0
Russell Mid-Cap Index	0.4	8.1	38.5	6.5	5.3	7.6	Consumer Price Index	1.0	3.0	3.6	1.0	2.2	2.4
Russell Mid-Cap Growth Index	1.6	9.6	43.3	6.6	6.3	5.5	INTERNATIONAL/GLOBAL EQUITY						
Russell Mid-Cap Value Index	(0.7)	6.7	34.3	6.4	4.0	8.4	MSCI EAFE (Net)	1.6	5.0	30.4	(1.8)	1.5	5.7
Russell 2000 Index	(1.6)	6.2	37.4	7.8	4.1	6.3	MSCI EAFE Growth (Net)	2.1	4.4	31.3	(1.9)	2.5	5.3
Russell 2000 Growth Index	(0.6)	8.6	43.5	8.4	5.8	4.6	MSCI EAFE Value (Net)	1.0	5.6	29.4	(1.7)	0.4	6.0
Russell 2000 Value Index	(2.7)	3.8	31.4	7.1	2.2	7.5	MSCI EAFE Small Cap (Net)	0.9	3.8	36.4	3.3	2.3	10.1
DOMESTIC EQUITY BY SECTOR							MSCI AC World Index (Net)	0.3	4.7	30.1	0.9	3.2	4.8
MSCI US Consumer Discretionary	3.5	8.2	42.2	15.0	5.6	4.1	MSCI AC World Index Growth (Net)	0.9	4.3	32.0	0.8	4.2	4.6
MSCI US Consumer Staples	5.7	8.9	28.2	9.3	8.6	7.7	MSCI AC World Index Value (Net)	(0.4)	5.1	28.2	1.1	2.1	4.9
MSCI US Energy	(5.1)	11.0	53.8	(3.6)	7.7	12.2	MSCI Europe ex U.K. (Net)	2.8	10.8	36.9	(2.3)	2.5	6.5
MSCI US Financials	(4.8)	(1.7)	15.8	(3.6)	(9.0)	(1.2)	MSCI U.K. (Net)	1.7	5.6	34.1	(1.4)	1.2	5.5
MSCI US Health Care	6.9	14.0	30.3	8.9	6.2	3.6	MSCI Pacific ex Japan (Net)	(0.2)	2.5	35.6	5.1	10.2	13.2
MSCI US Industrials	(1.4)	7.4	38.6	4.5	3.8	4.8	MSCI Japan (Net)	0.2	(4.8)	13.0	(4.3)	(3.8)	1.4
MSCI US Information Technology	(1.3)	3.0	28.9	7.2	7.3	1.5	MSCI Emerging Markets (Net)	(1.2)	0.9	27.8	4.2	11.4	16.2
MSCI US Materials	(1.5)	4.4	46.8	1.0	8.2	9.2	FTSE EPRA/NAREIT Global Real Estate	2.5	4.6	31.5	2.3	1.8	-
MSCI US REITs	3.6	10.3	34.1	5.4	2.4	10.6	SPECIALTY						
MSCI US Telecommunication Svcs.	2.4	7.1	37.5	4.5	4.7	0.3	S&P GSCI	(7.9)	2.7	26.1	(21.7)	(6.2)	3.7
MSCI US Utilities	5.2	9.5	25.2	(1.0)	5.1	3.9	S&P GSCI Gold	4.3	5.4	19.8	16.4	18.3	17.8

Market Environment – 2nd Quarter 2011

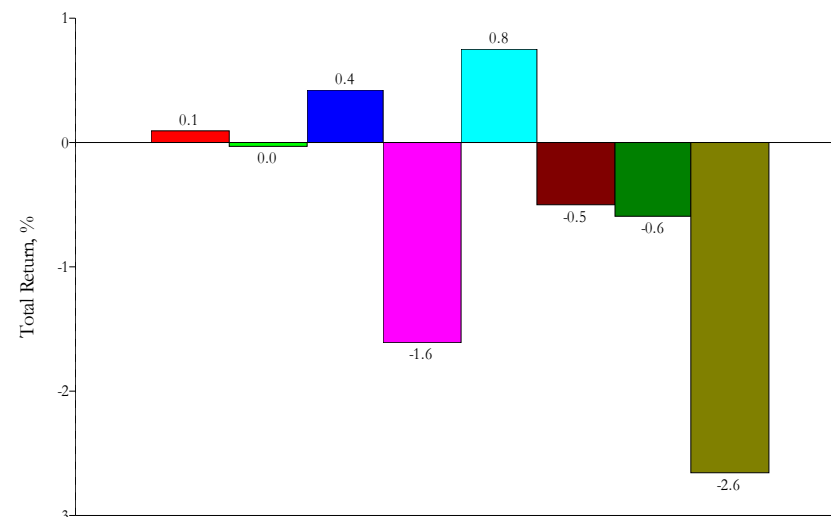
U.S. stocks carried first-quarter momentum into April, with a 3.0% return for the Russell 3000; however, following April's return, six weeks of fear/volatility gripped the markets and a general sell off occurred so that by June 30th the Russell 3000 returned 0% for the quarter.

The Large Cap S&P 500 outperformed the All Cap Russell 3000 by 0.1%, as larger capitalized companies out performed smaller issues during the quarter. Mid sized companies were the real winners in the quarter as the Russell Mid Cap index was up 0.4%. The big story for the quarter was the negative return in the small cap space (Russell 2000 was down -1.6%).

Among larger company stocks, defensive value-oriented equities outperformed growth-oriented names, with the Wilshire U.S. Large Value Index returning 0.6%, compared to the (-0.5%) slide for the Wilshire U.S. Large Growth Index. However, Russell characterizes value and growth differently and the Russell 1000 Growth outperformed the Russell 1000 Value (+0.8% and -0.5%, respectively). Within smaller-company stocks, the Russell 2000 Growth Index outperformed the Russell 2000 Value Index (-0.6% and -2.7%, respectively).

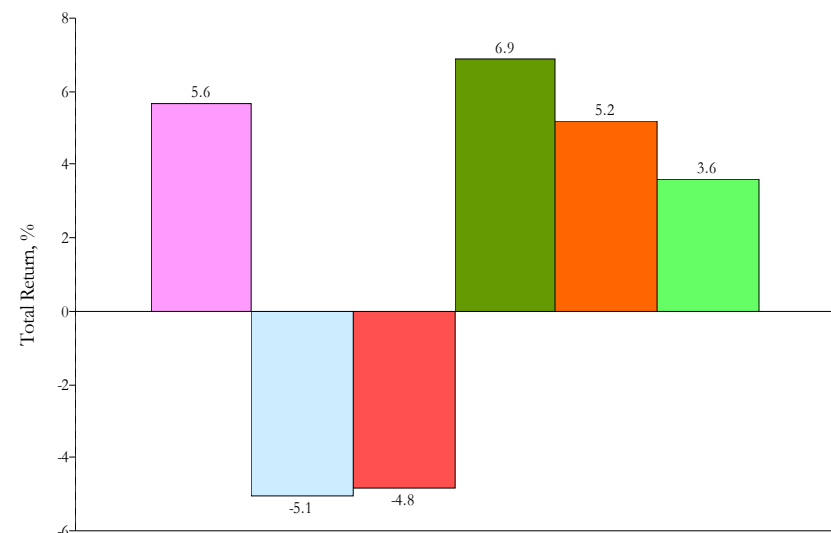
As investors sought out safe haven positions, the strongest performers for the quarter were the defensive Health Care, Consumer Staples and Utility sectors (+6.9%, +5.7% and +5.2% respectively). Financials, hampered by continued balance sheet worries, were one of the worst performing sectors for the quarter (-4.8%). Energy stocks, reflecting the drop in oil prices and concerns about global growth also ended down sharply for the quarter (-5.1%). Despite the ongoing slump in residential real estate sales, the MSCI REIT Index returned +3.6% for the second quarter, easily outpacing all broad U.S. stock sectors.

2Q 2011 Returns



■ S&P 500 Index
 ■ Russell 3000 Index
 ■ Russell Mid-Cap Index
 ■ Russell 2000 Index
■ Russell 1000 Growth Index
 ■ Russell 1000 Value Index
 ■ Russell 2000 Growth Index
 ■ Russell 2000 Value Index

2Q 2011 Returns



■ Consumer Staples
 ■ Energy
 ■ Financials
 ■ Health Care
 ■ Utilities
 ■ Real Estate

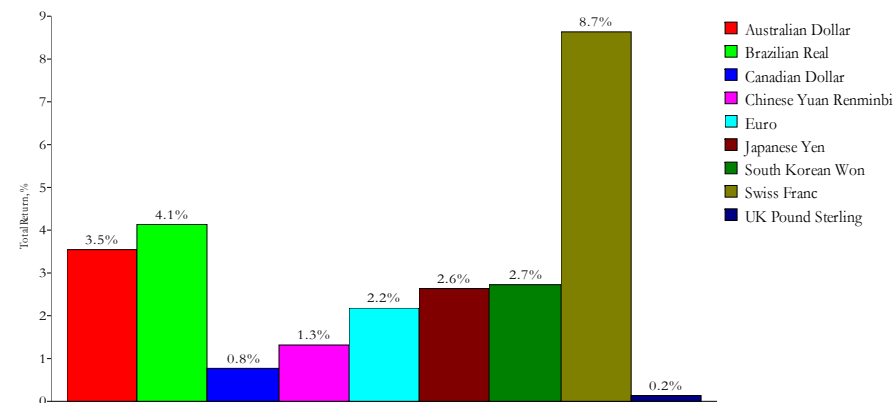
Market Environment – 2nd Quarter 2011

Reflecting a broad flight to safety over much of the second quarter, treasury yields fell, with the bellwether 10-year yield falling 27 basis points (bps) to 3.26% at quarter-end. Still, Treasury yields fell across all maturities over the second quarter; two-year rates slid 31 bps to 0.47%, while thirty-year yields moved 14 bps lower to 4.39%.

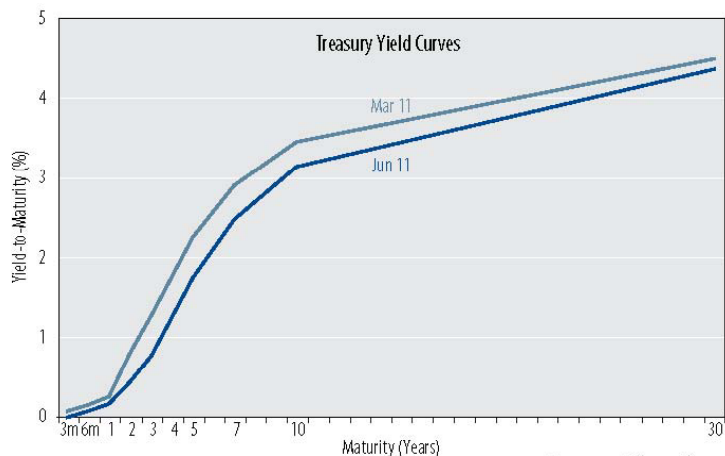
The Barclays 1-3 Year Gov't/Credit Index returned 0.9%, while the Barclays Gov't/Credit Long Term Index returned 3.3% for the quarter. Given the defensive nature of the markets during the quarter, Federal agency and corporate credit spreads widened slightly, but credit still managed to outperform Government and Mortgage-Backed debt for the quarter. (+2.5%, +2.2% and +2.3%, respectively).

U.S. high yield corporate bond spreads widened more than investment-grade bonds, leading this market sector to underperform all other U.S. broad bond market segments (+1.1%). This underperformance is not surprising as high yield debt tends to correlate more highly with equities.

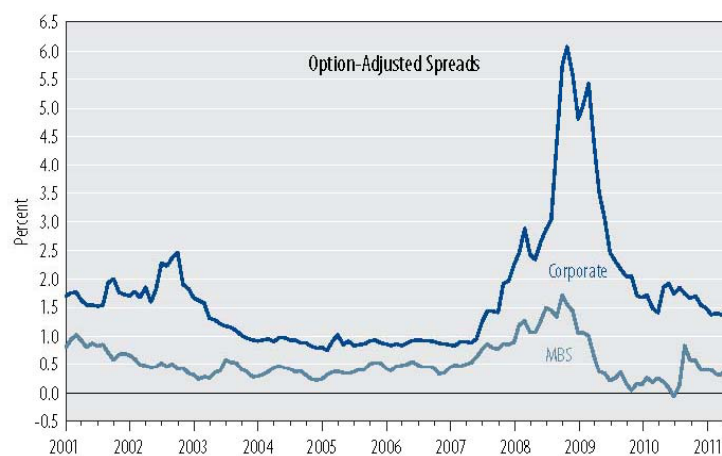
Major Currency Movements vs. US Dollar (2nd QTR)



International stock markets were not immune to the headwinds afflicting the U.S. market. Volatile commodity prices, fluctuating demand, Middle East uncertainty and the ongoing debt crisis in Greece all contributed to weak international markets. However, a weak dollar and strength in the German and the U.K. markets afforded some good news to investors with offshore assets. In general, developed-markets outperformed emerging markets.



Yield Curve Slope: The yield curve steepened. The slope between two-year yields and 10-year yields steepened by 6 bps, and the slope between five-year yields and 30-year yields steepened by 35 bps.



Sector Spreads: Investors were hesitant to take risks, which led to mixed results versus US Treasuries. Spreads on investment-grade, high-yield and mortgages all increased.

The Pacific region (excluding Japan) underperformed the broad international market as concerns of slowing growth in China's economy eclipsed guarded optimism of Japan's ability to rebuild after the devastating March earthquake. Emerging market stocks, with their heightened sensitivity to commodities pricing and the economic health of their trading partners, were notable underperformers in the second quarter.