ECONOMIC MARKET REVIEW AND OUTLOOK
March 31, 2011

Despite the tragic events that unfolded in both Japan and the Middle East, U.S. stock prices moved sharply higher during the first quarter of 2011. The stock market, though, was not completely immune to the human suffering caused by these events. Indeed, prices at one point fell by seven percent on average from the highs reached in February. But the drop was brief with prices quickly rebounding to close out the quarter very near the previous highs for the year.

It would be easy to reason that the stock market's muted response to such human tragedies is simply proof of Wall Street's insensitive nature. However, it is important to remember that asset prices, ultimately, are set by economic factors.

It is estimated that the area of Japan impacted by the tsunami represents approximately five percent of Japan's economy. Last year, U.S. exports to Japan represented just 0.4% of U.S. gross domestic product (a measure of the size of the U.S. economy.) Knowing these figures is what causes investors to conclude that the economic impact of the tsunami will be quite limited for most U.S. companies, and in turn, for the value of their stocks.

Of greater concern economically, though comparable in terms of human suffering, is the unrest throughout the Middle East. The economic impact is not a result of the size of U.S. trade with some of the affected countries such as Egypt and Libya, as those amounts are tiny relative to the size of our economy. Even U.S. trade with Saudi Arabia, our largest trading partner in the region, is small relative to the U.S. economy, and in fact is only one-fourth the amount of our trade with Japan. Rather, the concern, as always with this region of the world, is the impact on oil prices.

Concerns that unrest in Middle Eastern nations may lead to disruptions in oil supplies have caused oil prices to rise by more than 20% since mid-February, with gasoline prices following lock-step. Rising gasoline prices have a direct impact on the amount of money that consumers have to spend. In fact, our calculations show that the 70¢ per gallon increase in gasoline prices since late last year, if sustained, will cost the average U.S. household approximately $850 over the next twelve months. That is a significant amount when you consider that median U.S. household annual income is roughly $50,000. And, by the way, gasoline prices have risen by a total of $1.50 per gallon since March 2010.

Stock market participants as a group, however, are not showing great concern for the economic threat that a sustained rise in oil prices could have on the world economy. And as recent as January, it seemed that they were not showing much concern for any negative news. This was apparent as measures of positive versus negative investor sentiment were near all time highs. Such investor optimism, typically a contrarian indicator, when combined with the sharp rise in stock prices since the Federal Reserve's announcement of further easing in August, caused us to raise some cash from our stock portfolios a few months ago. A portion of that cash was reinvested in March during the stock market's brief decline.

For now, we continue to be positive on the recovery of the U.S. and the world economy. However, we realize that much of the recovery's strength comes from government stimulus programs that cannot be continued indefinitely. Going

Equity Indices	**1st Qtr.**	**12 Mo.**
S&P 500	5.92%	15.65%
S&P 600	7.71%	25.27%
Russell 1000 Growth	6.03%	18.25%
Russell 1000 Value	6.46%	15.15%
EAFE (US$)*	3.45%	10.90%

Total Returns for the period.
*an index of foreign stocks.

Interest Rates	**12/31/10**	**3/31/11**
90 Day US T-Bill	.12%	.09%
10 Yr US T-Bonds	3.30%	3.47%

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Preserving and Growing Capital Since 1969 forward, we must watch closely to see if the recovery has enough internal strength to withstand both the recent rise in commodity prices and a winding down of government stimulus programs.

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