THE CONROY REPORT

Quarterly Outlook
As of July 1, 2010

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Summary

Economic Outlook

New jobs are being created and the unemployment rate is falling as the U.S. economy expanded early in the year. Last quarter we expressed our belief that the U.S. economy would continue to grow in 2010, as it did in the first quarter, and we believe this will continue. There has been a shift towards corporate spending and we believe this will remain an important component of further economic growth.

Investment Recommendations

We reiterate our recommendation for cash and money market instruments. Although interest rates fell in the second quarter, our expectation for economic growth and rising inflation leads us to believe they will rise. As such, better investment returns will be found in short term securities.

Economic Forecast

The U.S. economy grew by 3.0% in the first quarter of 2010 (see **green bar** in Chart 1) **and the unemployment rate has fallen steadily, but slowly this year as new jobs are being created**. The unemployment rate began 2010 at 10.6% and has fallen to 10.0% in May (see **black line** in Chart 2). Last quarter we expressed our belief that the U.S. economy would continue to grow in 2010, as it did in the first quarter, and we believe this will continue.

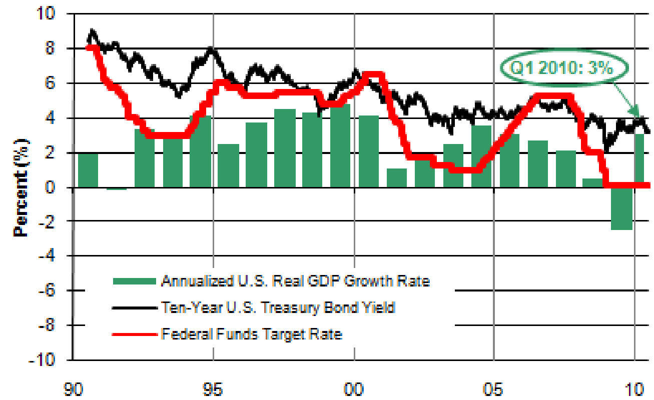
Personal consumption expenditures, a measure of how much money Americans are spending, rose in the first quarter while corporate and government spending decelerated. If this trend continues, it is reason for concern as we sense that little has changed for the financial strength of consumers which has been weakened by job losses, a low savings rate and high debt loads. Nevertheless, government spending has shrunk for two quarters in a row as economic growth is being kindled by three consecutive quarters of growth in corporate spending. We believe the shift towards corporate spending will remain an important component of further economic growth.

We reiterate our concern about rising interest rates due to inflation pressure. However, last quarter we noted that inflation appeared to have come under control, and this may be one reason consumers have started to spend more. In addition, interest rates have dropped. For example, the ten-year Treasury rate moved lower by more than 0.50% in the second quarter. With our expectations for further economic growth and the lower level of rates recently, we expect there to be greater pressure for rates to turn in the other direction and begin to rise. What could prove our view wrong?

The Bureau of Economic Analysis (BEA) recently stated that "inflation is likely to be subdued for some time" given their observation that there is "substantial resource slack" and "stable" "longer-term inflation expectations". Perhaps a more forward looking view may be more insightful. Even with such small improvements to the economic environment, consumer and corporate spending has increased. The BEA noted a large increase in car sales, for example. Could a return to home building and buying be next? There is inevitable pressure on interest rates to rise in an expanding economic environment. How can investors be best positioned for this scenario?

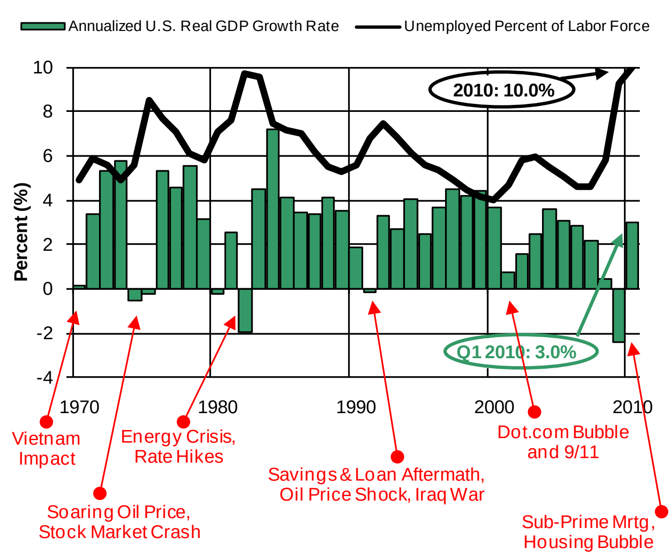
With our expectation for rates to rise, we believe this bodes well for our ongoing investment strategy to buy short-term fixed-income investments. Meanwhile, stock markets will be in for a bumpy ride as investors react, or over-react, to short-term indicators. Once a long-term trend appears to be firmly in place, we may consider a tactical shift in our asset allocation recommendations.

Chart 1. The U.S. Economy Grew by 3.0% in the First Quarter of 2010



Sources: Federal Reserve, U.S. Department of Commerce Bureau of Economic Analysis, Yahoo! Finance. U.S. Real GDP Growth Rate in chained 2005 dollars.

Chart 2. High Unemployment Amidst Economic Slump - the Largest Gap in Six Recessions Over Four Decades



Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor, Bureau of Labor and Statistics. Seasonal unemployment rate.

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