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THE CONROY REPORT

Quarterly Outlook
As of July 1, 2011

Summary

Economic Outlook

The U.S. Economy continues to expand after the end of the 2008-09 recession. There was a 1.9% rate of growth in real GDP in the first quarter of 2011 following steady growth throughout 2010. We continue to forecast a 2% growth rate in 2011. Large amounts of government stimulus still support the economy, but with diminishing returns. There is also significant turmoil worldwide and a high unemployment rate.

Investment Recommendations

Avoiding market risk will be an important theme this year. We continue to recommend that investors stay in cash or other money market investments to play it safe. However, we expect investment opportunities will arise throughout the year such as the current pricing on long-term U.S. Treasury Bonds.

Economic Forecast

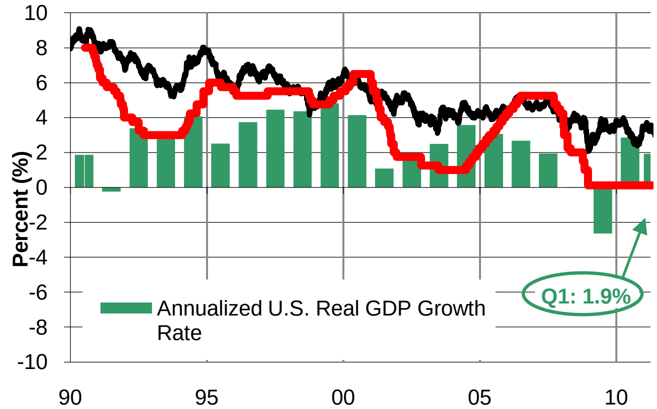
The U.S. economy continues to expand. Annualized U.S. Real GDP grew by 1.9% in the first quarter of 2011 (see **green bar** in Chart 1), following steady growth throughout 2010 and putting further distance beyond the 2008-09 recession. The Bureau of Economic Analysis (BEA) stated that the first quarter expansion primarily reflected higher consumer and corporate spending offset by decreases in federal, local and state government stimulus.

We continue to forecast a modest 2% growth rate for the U.S. economy in 2011 and this forecast is in agreement with the first quarter measurement. On the positive side, personal and corporate spending are expanding. For long term growth we continue to believe that the corporate spending component must be present in a real upturn. This indeed has been the case and stock markets are responding aggressively. Last quarter we expressed our belief that government stimulus appear to have diminishing returns. Interestingly, government spending was curtailed at all levels, federal, state and local in the first quarter. Fiscal stimulus remains quite limited as interest rates are very low, especially the policy controlled Federal Funds Target Rate (see **red line** in Chart 1). Achieving lower interest rates can stimulate borrowing which in turn can result in higher GDP. We continue to believe that sustained economic growth will require the private sector to do its part, along with the government, to address the country's high level of unemployment.

Attention must be placed on jobs. The U.S. unemployment rate is beginning to fall with a recent reading in May 2011 of 8.7% (see **black line** in Chart 2). Throughout 2010 this rate stayed at this historically high level despite a 2.9% rate of growth in 2010. As stated above, with government fiscal stimulus having decreased effectiveness, diminished willingness by and ability of consumers to bail out the economy, and a more challenging international climate, this leaves the domestic corporate sector as a determining variable in the GDP equation. As such, further economic growth needs to result in job creation. If so, the unemployment rate will drop and consumers will be able to contribute more strongly to U.S. economic activity.

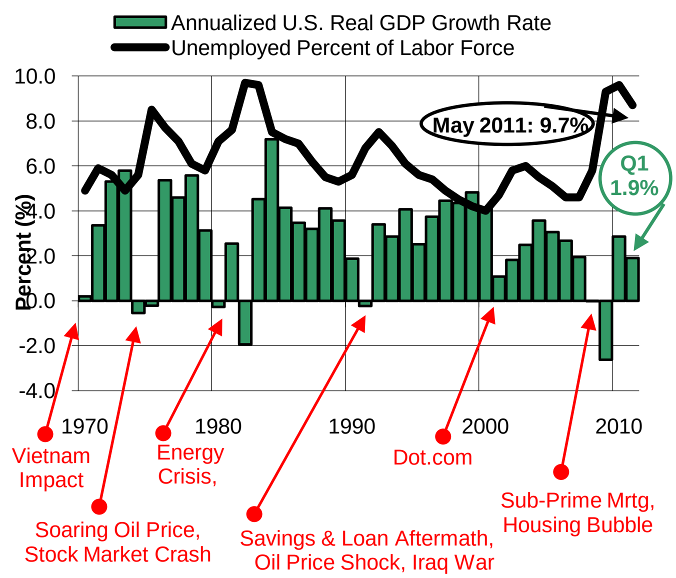
We continue to recommend that investors stay in cash or other money market investments to play it safe. As discussed in our economic forecast, we believe the U.S. economy will have modest growth in 2011, but there is significant turmoil worldwide and this has the potential to disrupt stock and corporate bond markets this year. Our recommendation to invest in cash has worked well and will continue to protect against the volatility of market risk. For investors looking for a bit more risk, long-term government bond yields are at more attractive levels now of around 4.5%.

Chart 1. First Quarter U.S. Economy Growth was 1.9%



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. Unemployment Remains High



Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor, Bureau of Labor and Statistics. U.S. Real GDP Growth Rate in chained 2005 dollars.

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