THE CONROY REPORT

Quarterly Outlook
As of October 1, 2011

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Summary

Economic Outlook

The U.S. economy continues to expand with a 1.0% annualized real GDP growth rate in the second quarter of 2011. We continue to forecast a modest 2% growth rate for 2011. Further economic growth needs job creation. We continue to recommend that investors stay in cash or other money market investments to protect capital. There is significant turmoil worldwide and this has the potential to disrupt markets this year.

Investment Recommendations

Our recommended investment strategy to buy long-term US government bonds in our last two quarterly reports has performed exceptionally well.

Given the dramatic appreciation in US Treasury bonds we have become interested in considering alternative investments. One investment strategy that continues to capture our interest is to purchase the stock of strong companies that pay generous dividends.

Economic Forecast

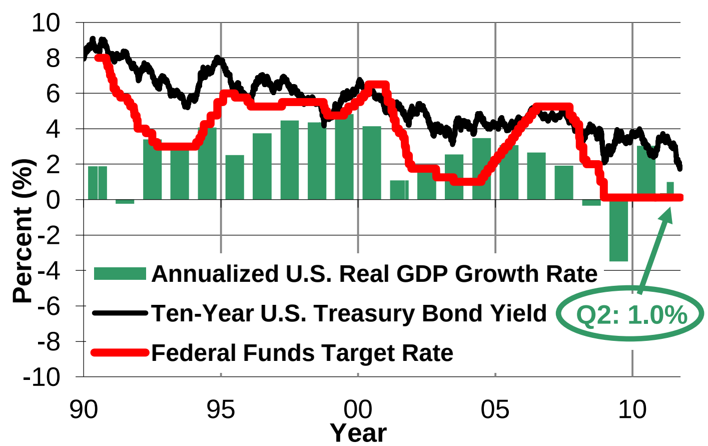
The U.S. economy continues to expand with a 1.0% annualized U.S. Real GDP growth rate in the second quarter of 2011 (see **green bar** in Chart 1), following steady growth since 2010. The BEA stated that the second quarter expansion primarily reflected higher nonresidential fixed investment, exports, personal consumption and federal government spending.

We continue to forecast a modest 2% growth rate for the U.S. economy in 2011. 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. 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.

Further economic growth needs job creation. The unemployment rate is once again above 9% (see **black line** in Chart 2). 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.

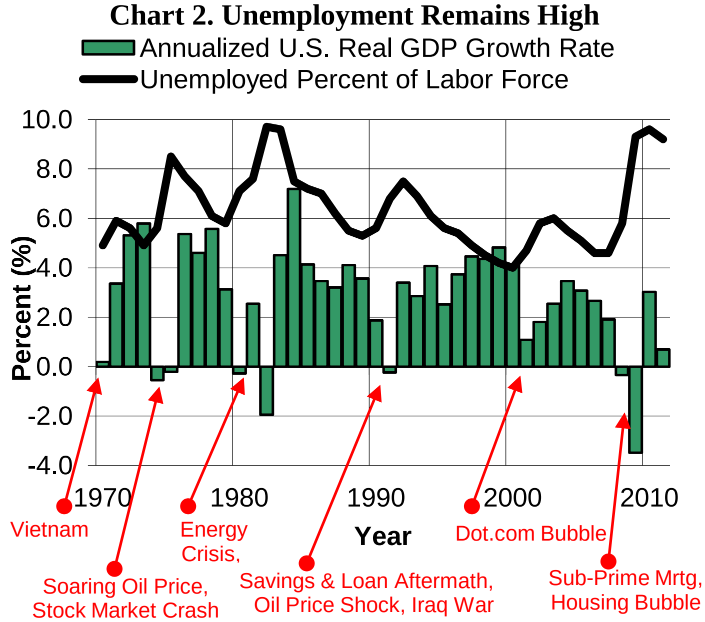
We continue to recommend that investors stay in cash or other money market investments to protect capital. There is significant turmoil worldwide and this has the potential to disrupt markets this year. Our recommendation to invest in cash has worked well and will continue to protect against market volatility. Meanwhile, the dramatic rise in US government bond prices has peaked our interest in looking elsewhere for value.

Chart 1. Second Quarter Economic Growth Was 1.0%



Sources: Federal Reserve, U.S. Department of Commerce, BEA, Yahoo! Finance. Growth rate in chained 2005 dollars.

Chart 2. Unemployment Remains High



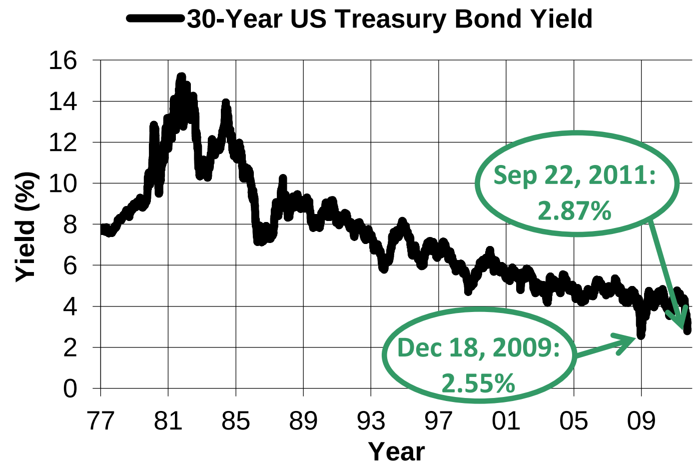
Sources: U.S. Department of Commerce, BEA, Bureau of Labor and Statistics. Growth rate in chained 2005 dollars.

Investment Strategy: US Government Bonds Prices Have Soared

Our recommended investment strategy to buy long-term US government bonds in our last two quarterly reports has performed exceptionally well. At the times they were published, we highlighted that 30-year US Treasury bonds were offering yields of around 4.5%. Since that time, these securities have become exceedingly more valuable. For example, the Treasury bond with a 4.75% coupon maturing on February 15, 2041 was priced around 105 with a yield of 4.49% on April 1, 2011. A week ago, the price was 33% higher, around 140, while the yield was only 2.79%. Bond prices and yields move in opposite directions, as investors purchase bonds at higher prices they must accept lower yield.

For historical perspective, we examined historical yields of 30-year Treasury bonds going back almost thirty five years. As shown in Chart 3, the lowest recorded yield was 2.55% on December 18, 2008. We are now near that level, suggesting that these bonds are again very highly valued.

Chart 3. Treasury Bond Yields Are Again Very Low



Source: Yahoo! Finance.

Investment Strategy: Buy Stocks Paying Generous Dividends

Given the dramatic appreciation in US Treasury bonds we have become interested in considering alternative investments. One investment strategy that continues to capture our interest is to purchase the stock of strong companies that pay generous dividends.

To investigate this strategy, we used a stock screening tool to identify companies that met the following criteria:
1) Dividend yield above 4%, above-industry dividend payout ratio and yield and positive dividend growth rate
2) Market capitalization of $2 billion or more
3) Generally positive market opinions from such sources as Thomson Reuters.

Our search produced about 30 companies and we selected five to consider more closely. We placed these five companies in Table 1 which shows the company name, ticker, and business sector. To further assess financial strength, we examined the credit ratings of their outstanding bond issues. Lastly, the current price, 52-week price range and current dividend yield are shown.

In difficult markets like now, we have long held the position that consumer products oriented companies might be more stable than those in other sectors. Scanning through the list, we found: 1) Kimberly Clark Corporation (ticker: KMB), a consumer paper and paper products business, 2) Bristol Myers Squib Company (ticker: BMY), a drug manufacturer, and 3) H&R Block, Incorporated (ticker: HRB), a tax preparation company with a financial services business. The stock of these companies have dividend yields of around 4%.

Two other companies on the list that peaked our interest were R.R. Donnelly & Sons Company (ticker: RRD), a large publishing company amidst a take-over, and the $170 billion communications company AT&T Inc. (T). Their dividend yields are 7.31% and 6.07%, respectively.

Table 1. Selected Companies Paying High Dividends

Company (Ticker)	Business Sector	Credit Ratings	Price Lo/Hi	Div. Yield
R. R. Donnelly & Sons (RRD)	Publisher	Ba1/BB+	14.23 13-21	7.31%
AT&T Inc. (T)	Commun-ications	A2/A-	27.34 27-32	6.07%
H & R Block, Inc. (HRB)	Tax Prep/ Fin. Svcs.	Baa2/ BBB	13.76 10-18	4.36%
Bristol Myers Squibb (BMY)	Drug Mfg.	A2/A+	30.94 25-32	4.29%
Kimberly Clark (KMB)	Paper Products	A2/A	70.80 61-71	3.95%

Moody's/Standard & Poors credit ratings. Prices as of September 26, 2011. Sources: Yahoo! Finance, E-Trade Securities LLC.

For an investor considering all the factors we examined, the stock of a company like AT&T might be a standout pick for an investment strategy to buy stocks paying generous dividends. The reasons for this are most importantly that a higher dividend yield is more attractive given this strategy. Secondly, companies with higher ratings are generally preferred. For example, single-A ratings reflect greater financial strength and are, therefore, more favorable than triple-B or double-B ratings. Lastly, stock prices trading at the low end of a price range might suggest better potential.

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