

INVESTMENT STRATEGY OUTLOOK



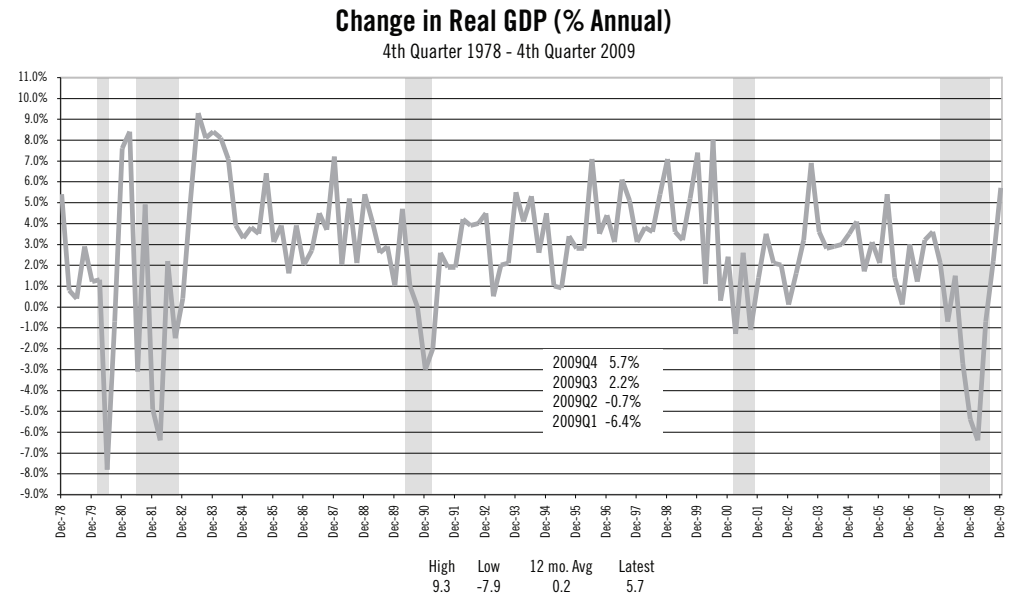
The Economy:

Strongest Quarterly Growth in Six Years

The 5.7% annual growth rate in U.S. fourth quarter output was the strongest confirmation of economic recovery so far. This advance estimate is subject to revision in coming months, but it exceeded most analysts' forecasts and was the highest growth rate since the third quarter of 2003. The expansion was driven by inventory restocking, net export growth and a significant upturn in capital spending by businesses. Consumer spending rose 2.0%. These components of economic output are all critical for a self-sustaining recovery.

The fourth quarter growth spurt was notable for the fact that overall government spending was approximately flat. All of the expansion took place in the household and business sectors. Of course, there are still federal stimulus programs supporting some of the consumer, business and local government spending, but direct government outlays did not drive the quarter's growth. The report sets the stage for a bit more optimism about improvement in the U.S. economy and a resumption in hiring in sectors where business activity is picking up.

Some forward looking indicators continue to improve. The Chicago Purchasing Managers' Index, often presaging the broader national ISM measure of business activity, rose to 61.5, the highest reading in over four years. A number above



Source: Bloomberg

50 signals expansion. The University of Michigan Consumer Confidence survey jumped to 74.4, the highest reading in two years.

The U.S. economy has by no means overcome all its obstacles to recovery, notably a still weak real estate sector, a banking system that has yet

to supply needed credit to many businesses and households still working to repair their balance sheets. Even with these and other problems, the preponderance of economic news has been positive so far in 2010. ▲

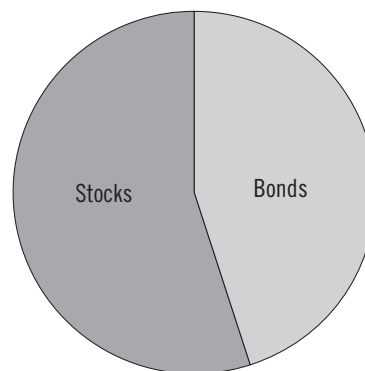
Asset Allocation:

Slight Tilt Towards Stocks Continues

Despite the strong run in equity prices since March 2009, our recommended asset allocation targets remain the same as last month. The overriding factor behind our view is the increasing evidence pointing to a sustainable economic rebound. The Russell 1000 index decreased 3.59% and the Barclays Aggregate Bond index increased 1.53% for the month. Stocks retreated mid-month and posted a decline in January for the third straight year.

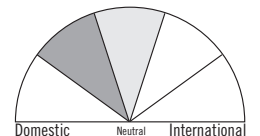
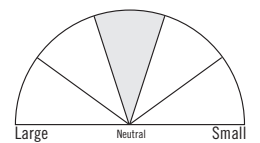
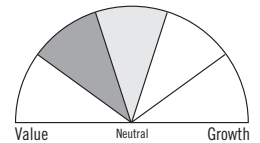
Within the equity portion of our strategies, both of our tilts added value in the month of January. Equities with value characteristics outperformed growth stocks, and domestic stocks outperformed international. We made no changes to our recommended allocation targets during the month. A strengthening dollar was a headwind for foreign stocks as investors factored in the impact an economic recovery may have on monetary policy in the U.S. In addition, fears of a brewing debt crisis in Greece and other European nations may have sent investors seeking a safe haven back to the relative safety of the dollar. ▲

Asset Allocation



Balanced Objective

Tactical Tilts



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Stocks:

Shaky Beginning to 2010

After a strong finish to 2009, stocks got off to a rocky start in January. All of the major indices fell in the month, with small cap stocks underperforming large capitalization stocks. While earnings for the S&P 500 companies are generally coming in better than expectations and retail sales for the holidays exceeded most forecasts, weak housing market data and rhetoric out of Washington cast a pall over the stock market. When some of this “noise” passes we believe investors will focus on improving fundamentals, such as the healthy earnings season currently underway.

Every sector except for Health Care was in negative territory in January -

Index	January Total Return	1 Year Total Return	3 Year Total Return*	5 Year Total Return*
S&P 500	-3.59	33.14	-7.24	0.18
S&P 500 Citigroup Value	-2.01	35.15	-10.22	-0.70
S&P 500 Citigroup Growth	-5.14	31.23	-4.34	0.97
Russell 2000	-3.68	37.80	-7.75	0.63
Russell 1000 Value	-2.81	31.45	-10.20	-0.43
Russell 1000 Growth	-4.36	37.84	-4.16	1.42
Russell 1000	-3.59	34.83	-7.09	0.59
NASDAQ Composite	-5.34	46.93	-3.61	1.67
Dow Jones Industrials	-3.32	29.84	-4.65	1.79
International-EAFE	-4.40	40.28	-7.14	3.55

*Annualized

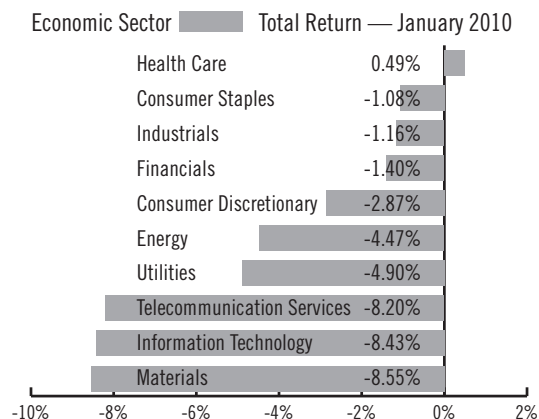
Source: Bloomberg

a surprise blow was dealt to health care reform when Ted Kennedy's Senate seat was filled by a Republican. The managed care stocks (and the pharmaceutical stocks, to a lesser extent) rallied on the news, as they had the most to lose from health-care reform, and this development puts health care reform in jeopardy.

Consumer Staples also outperformed the broader market as merger activity reignited some interest in the sector.

Telecommunications Services continues to lag the broader market as the large regional Bell operating companies struggle to offset their shrinking land-line revenues with their wireless revenues. Materials and Information Technology also experienced profit taking after the stellar performance they posted in 2010. ▲

S&P 500 Performance by Sector



Source: Factset Research System, Inc.

Bonds:

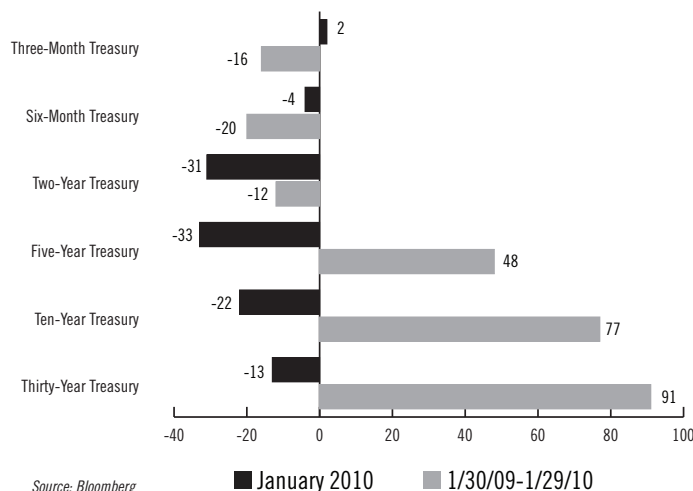
Yields Decline in January

The fixed income market began the new year on a positive note as yields declined from their December levels. Lower Treasury yields were the result of uncertainties introduced by the increase in China's rates taken to stem rapid loan growth, the loss of the Democrats' supermajority in the Senate and the proposed financial reforms announced by the Obama administration. This rally in the Treasury market should prove temporary as it faces a number of challenges during the coming months. Chief among these challenges is an improving global economy. China's growth rate is in excess of 10% and is leading a recovery in Asia. With the exception of the United Kingdom and Greece, growth in the European Union continues to improve. In the United States, the rebuilding of inventories, a bottoming in residential housing, and ongoing fiscal stimulus are helping to lift economic growth. Another challenge for the bond market is the Federal Reserve's unwinding of the quantitative easing programs implemented in late 2008. A number of programs that provided liquidity to corporations and financial institutions expired on February 1st. In addition, the agency mortgage purchase program is scheduled to expire at the end of March. Finally, U. S. Treasury debt will remain problematic until growing federal deficits are addressed. Therefore, we expect yields to eventually move higher as the economy strengthens, the federal deficit grows and the Federal Reserve unwinds their quantitative easing initiatives.

The slope of the Treasury curve steepened further as two-year Treasury yields declined 31 basis points to 0.83% and ten-year Treasury yields declined 22 basis points to 3.61%. This resulted in an increase in the slope of the yield curve to 278 basis points from 269 basis points. We remain cautious on the outlook for Treasury yields as the pace of the economic recovery quickens, the flight to quality ends, and the need to finance the federal deficit grows.

We remain with our strategy to overweight investment grade corporate bonds. We hold a slight underweight to the benchmark in agency quality mortgages and anticipate a widening of their spread to Treasuries as the Federal Reserve's purchase program ends in March. In portfolios subject to the federal income tax, high quality municipal bonds remain attractive. ▲

Basis Point Change in Yield



Source: Bloomberg