

S&P 500 PRICE - PAST THREE YEARS

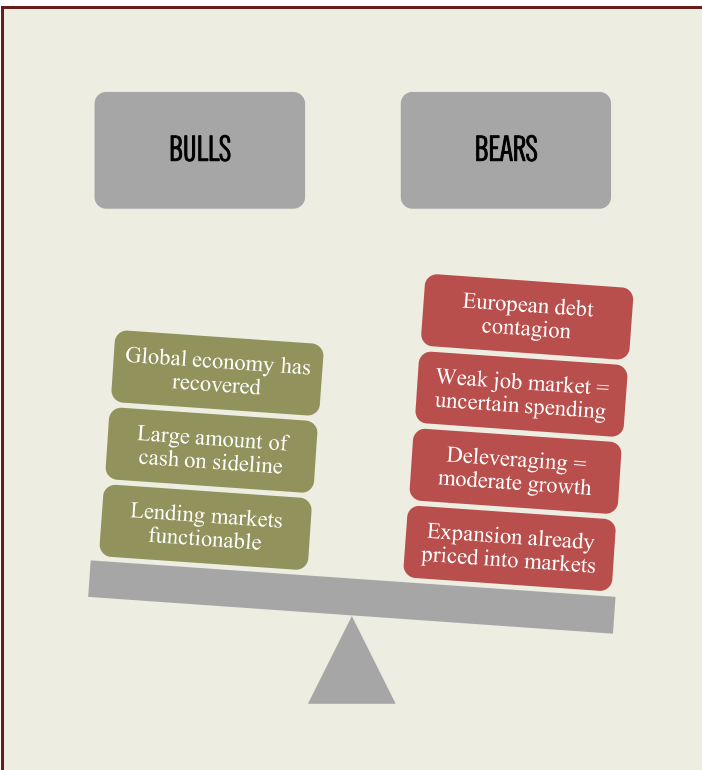


Stong earnings propelled domestic stocks to their third straight month of gains. Equities struggled late in the month, however, as the investigation into Goldman Sachs fueled fears of heavier regulation, concerns about the Greek debt crisis gathered steam and the massive Gulf of Mexico oil spill weighed on the energy sector.

NOTES/COMMENTARY

Last year's stimulus seems to have worked better than hoped for in pulling the global economy back from the brink of disaster. The initial report on Q1 U.S. real GDP growth came in at a 3.2% clip, not quite as robust as the prior quarter's 5.6% pace but still the third consecutive quarter in positive territory. Looking forward, what can we count on to drive stock prices and the economy higher? Growth in employment and wages (or an expansion of credit) would help sustain some of the improvements seen in consumer spending and the housing market. Europe, however, a significant source of revenue for U.S. companies, will likely be a drag. Additionally, the ongoing global deleveraging process and likelihood of increased financial regulation and higher taxes might further mute growth prospects in developed markets and economies. That does not mean that other asset classes will perform better than equities, and we anticipate trending back towards a neutral equity weighting (with an emphasis active managers with a quality focus that could do well in a sideways market) as structural risks dissipate and other opportunities wane.

SUMMARY OF CURRENT EQUITY MARKET LEANINGS

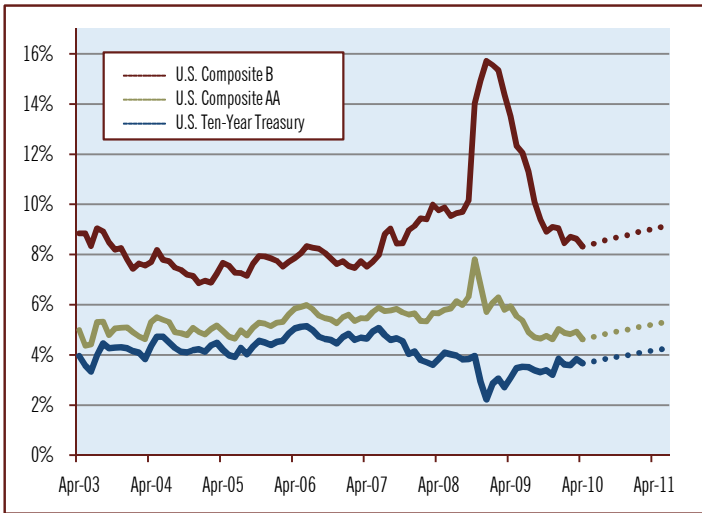


CONVERGENT TACTICAL POSITIONING

EQUITY		
US Large Cap	underweight	
US Small/Mid Cap	neutral/slight overweight	
Developed Non-U.S.	underweight	
Emerging Markets	slight underweight	
Private Equity	neutral	
Directional Hedge	slight underweight	
REAL ASSETS		
Real Estate	neutral	
Commodities	overweight	
ARBITRAGE/CREDIT		
Multi-Strategy Hedge	neutral	
Opportunistic Credit	overweight	
FIXED INCOME		
Core Fixed Income	neutral	
Cash Equivalents	neutral	

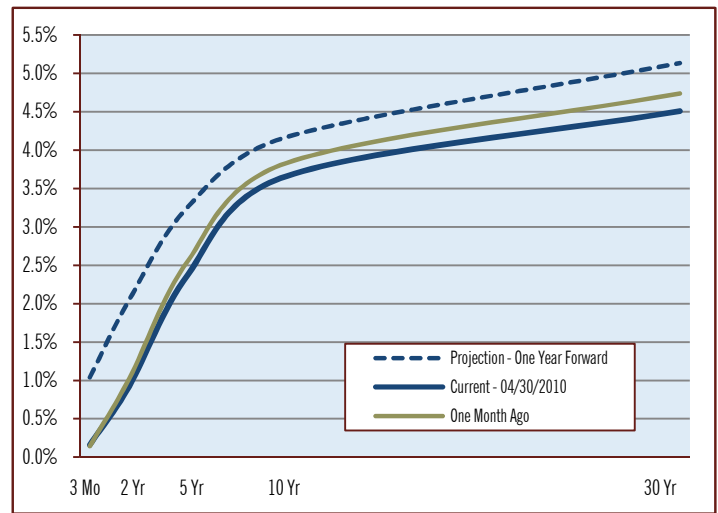
At the expense of a full equity allocation, we are maintaining modest overweight positions to gold (as a paper currency and inflation hedge) and certain segments of the opportunistic credit market (multi-sector, emerging currencies and international bonds to address themes such as mitigating equity, inflation and dollar risk).

CREDIT YIELDS



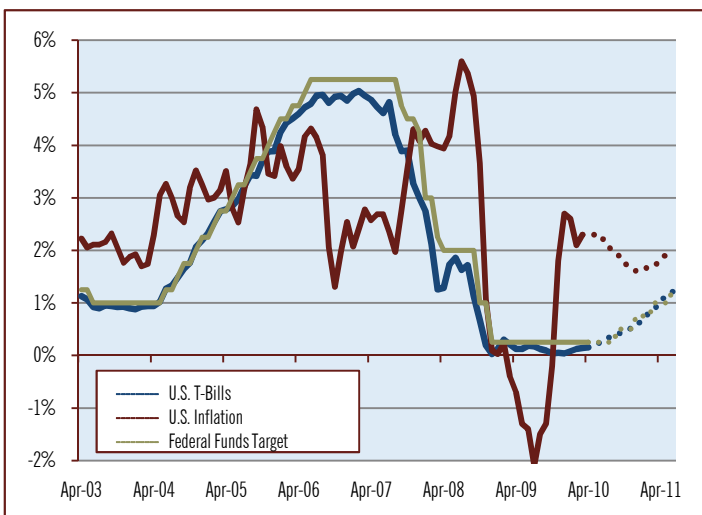
After nearly three decades of lower trending interest rates, some investors are asking when bonds might reach a turning point and a secular bear market start to unfold. For now, though, deflationary and safe-haven pressures are keeping a lid on yields and an improving economy is helping keep corporate spreads compressed. **Advantage: Neutral to Bullish**

U.S. TREASURY YIELD CURVE



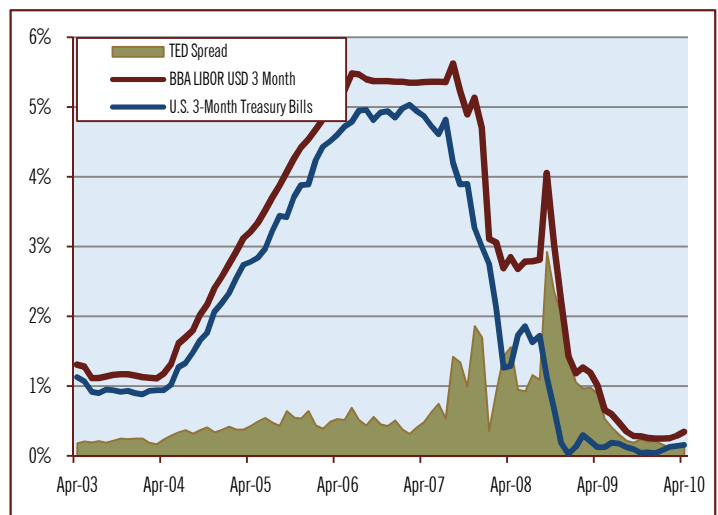
As the Fed is committed to keeping rates low for an extended period, the Treasury yield curve remains extremely steep with short term rates well below long term. For some, this, along with a healthy appetite for risk as illustrated by the junk bond rally, indicates a low likelihood of another imminent recession. **Advantage: Neutral to Bullish**

T-BILLS, FEDERAL FUNDS AND INFLATION



Slack in the labor market and expectations of constrained inflation has the Fed indicating that it will keep short-term interest rates at record lows. In fact, the GDP price deflator is near a 60-year low. Longer-term, however, many fear some form of inflation is inevitable and that rates will rise. **Advantage: Neutral**

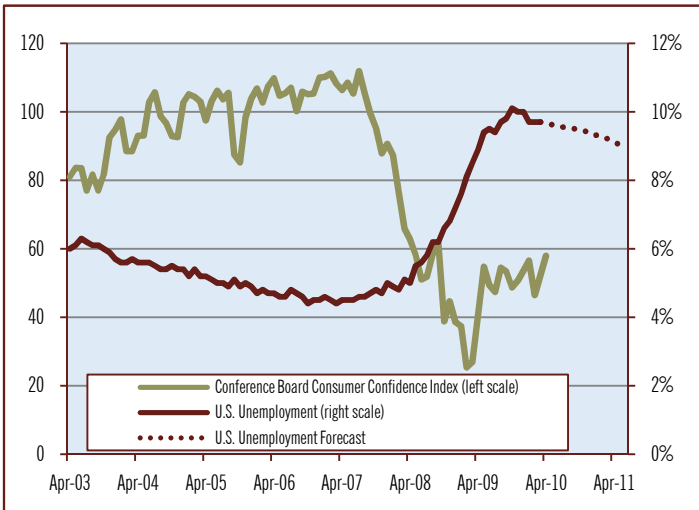
LIBOR/T-BILL RATES AND TED SPREAD



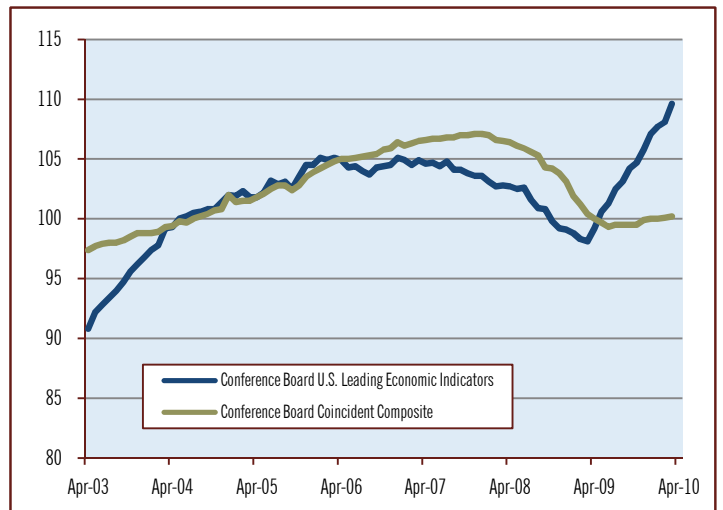
The TED spread is a measure of how tight the credit markets are as illustrated by the difference between T-Bill yields (a risk-free loan) and LIBOR yields (the rate at which banks lend to one another). Low levels illustrate that credit fears have subsided and that the functionality of credit markets has improved markedly. **Advantage: Bulls**

Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CONSUMER CONFIDENCE & UNEMPLOYMENT



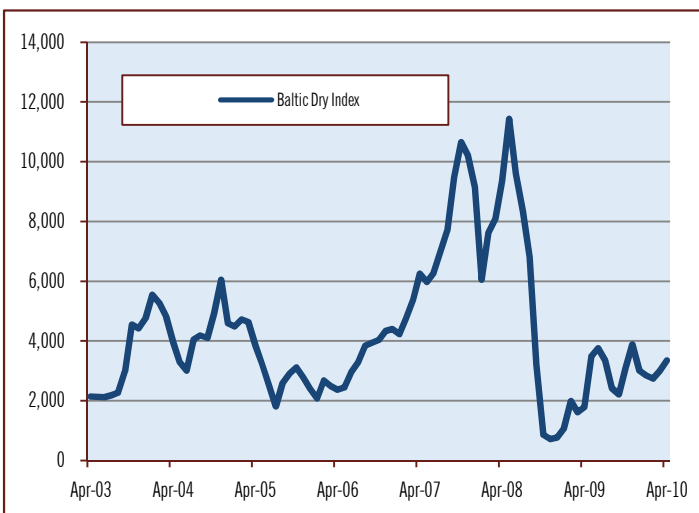
INDEX OF LEADING ECONOMIC INDICATORS



With the unemployment rate lingering near 10%, the job market continues to show the effects of the recession. Unless businesses increase hiring, consumers may not have the incomes to sustain recent gains in spending. **Advantage: Bears**

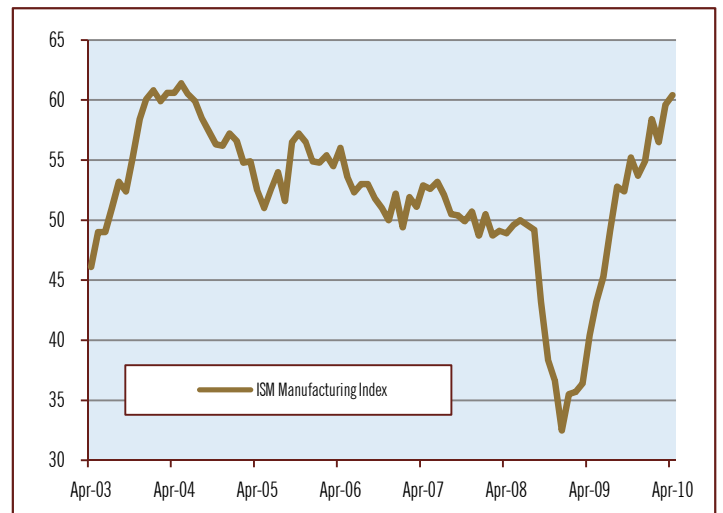
The leading economic index for the U.S. is at its highest levels, having risen steadily for a year. Seven of the ten indicators that make up the index increased in March. The index of coincident indicators has also been rising modestly. Taken together, the two composites suggest continued improving conditions. **Advantage: Bulls**

BALTIC DRY INDEX



The Baltic Dry Index (BDI), a measure of world trade, provides a barometer of the shipping costs for commodities. The BDI, while well off the lows seen a year ago as the status of the global economy has improved, has been trending sideways for several months. **Advantage: Neutral**

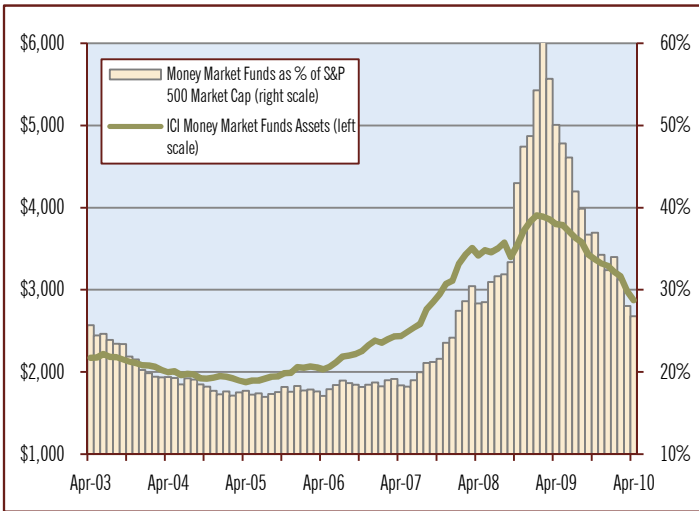
ISM MANUFACTURING INDEX



The ISM report is a national survey of purchasing managers covering such indicators as new orders, production, employment, inventories, delivery times, prices, export orders and import orders. A reading over 50% indicates expansion relative to the prior month, while a sub-50% reading indicates contraction. **Advantage: Bulls**

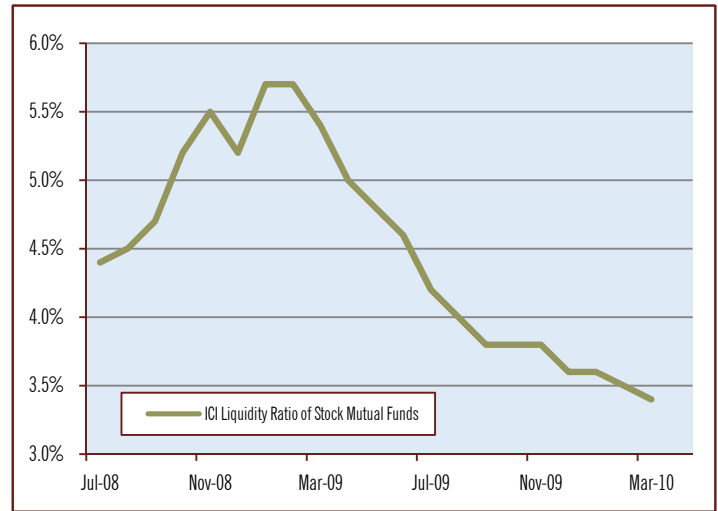
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

MONEY MARKET FUNDS ASSETS (\$ BILLIONS)



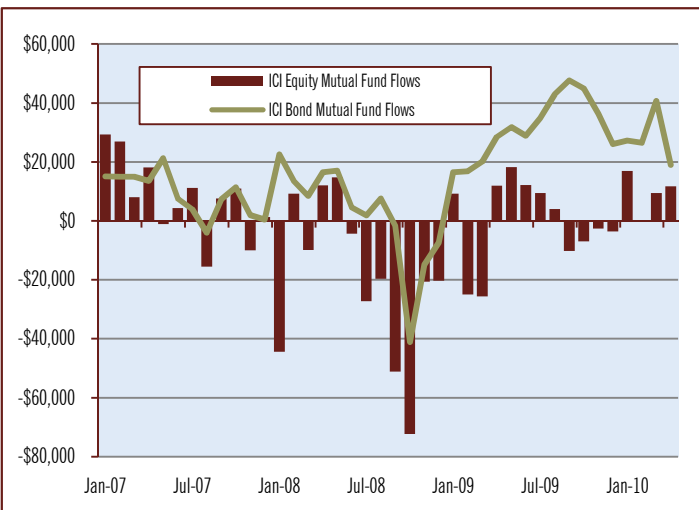
Some of the cash balance built up over the past few years has been put to work, but there still remains a large amount on the sidelines. Unless there has been a secular shift towards increased cash and bond allocations there remains plenty of powder available for stocks. **Advantage: Bulls**

MUTUAL FUND LIQUIDITY RATIO



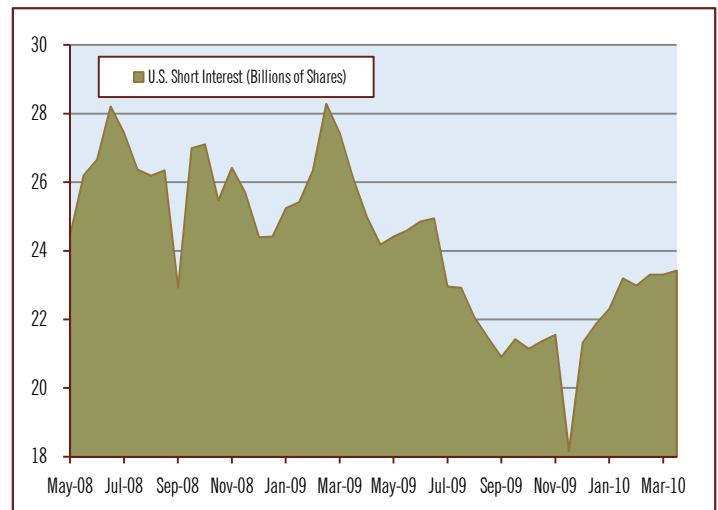
The liquidity ratio compares the amount of cash relative to total assets held by stock mutual funds. As stocks tanked in 2009, mutual fund managers were bearish and sitting on a large amount of cash. Since then, managers have put most of that to work and are now holding unusually low levels of dry powder. **Advantage: Bears**

MUTUAL FUND CASH FLOWS (\$ MILLIONS)



Dollars continue to head into bond funds while equity mutual funds see limited inflows. Is this evidence of a secular shift in investor behavior towards income generating investments? Perhaps. **Advantage: Neutral**

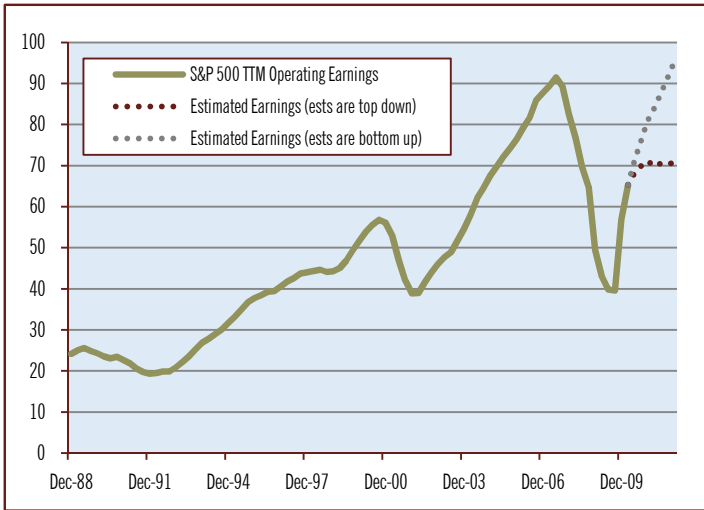
U.S. SHORT INTEREST



Short interest can be a measure of investor sentiment, though it is often viewed as a contrary indicator since high levels of short positions are eventually covered, providing upward pressure on stock prices. **Advantage: Neutral**

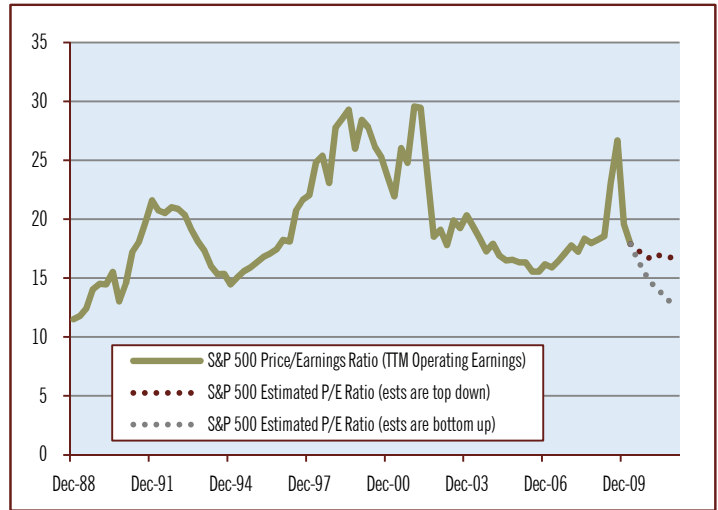
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

CORPORATE EARNINGS



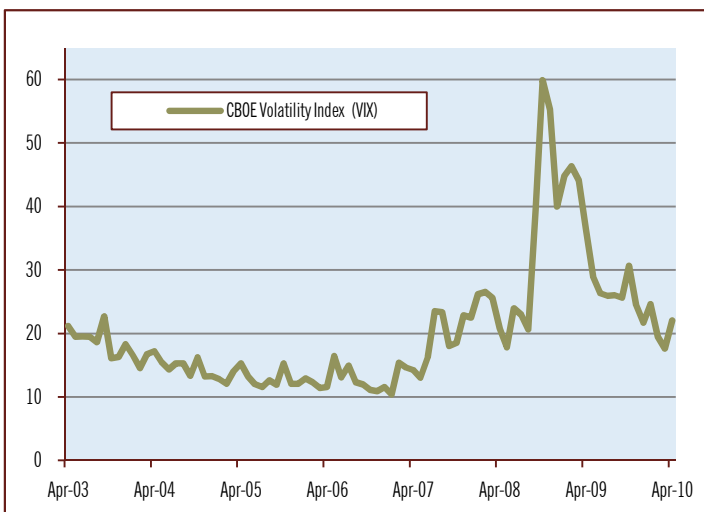
About 70% of U.S. companies have beaten earnings estimates this season, higher than average but below levels seen in recent quarters. There is a high level of uncertainty going forward, however, as illustrated by the disparity between bottom up and top down estimates from Standard and Poor's. Some fear that earnings have been supported by unsustainable cost cuts. **Advantage: Neutral**

STOCK MARKET VALUATIONS



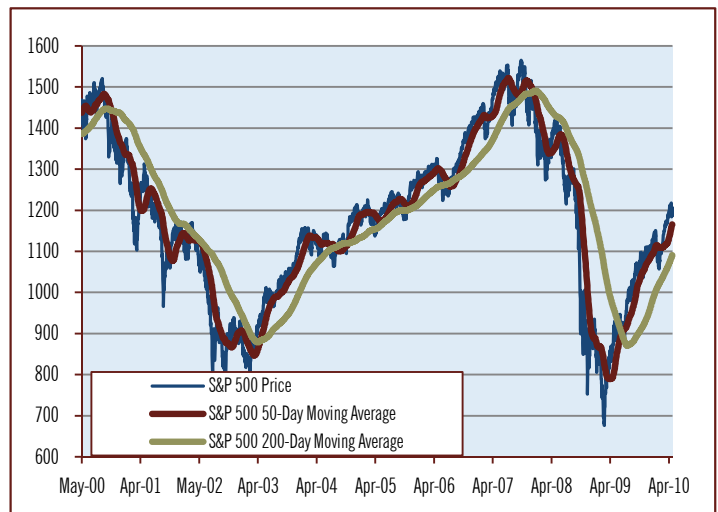
As earnings have sharply rebounded, trailing twelve month valuations have come down to still a bit high but not unreasonable levels. Long-term manners of measuring valuations, such as the 10-year real P/E pioneered by Yale economist Robert Shiller, show stocks are still expensive, however. **Advantage: Neutral to Bearish**

STOCK MARKET VOLATILITY



After hitting a multi-year low of about 15.6 during the month, volatility as measured by the Chicago Board Options Exchange Volatility Index spiked a bit towards the end of the April. Still, the VIX remains low relative to where it has been in the past year. **Advantage: Neutral**

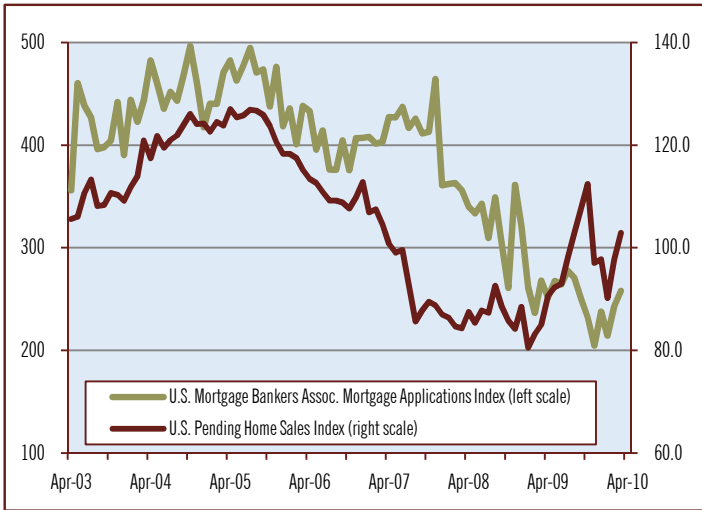
STOCK MARKET TECHNICALS



Several technical indicators continue to be supportive of the equity market. The 50-day moving average of the S&P 500 is higher than the 200-day moving average, interpreted by many as a bullish signal. **Advantage: Bulls**

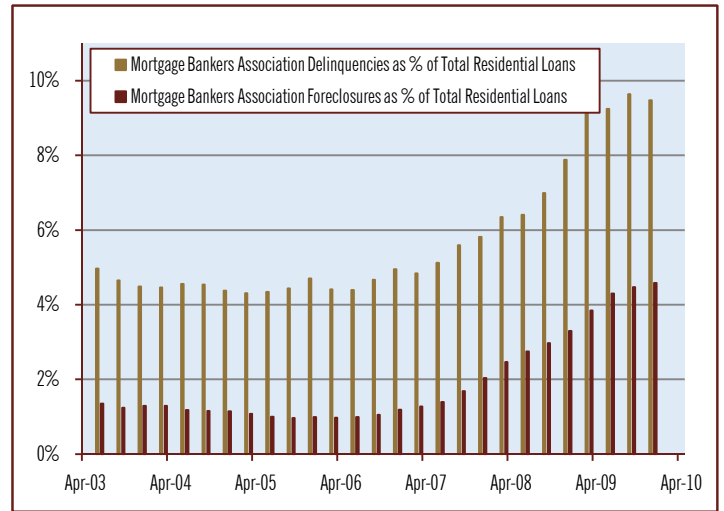
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

MORTGAGE APPLICATIONS & PENDING HOME SALES



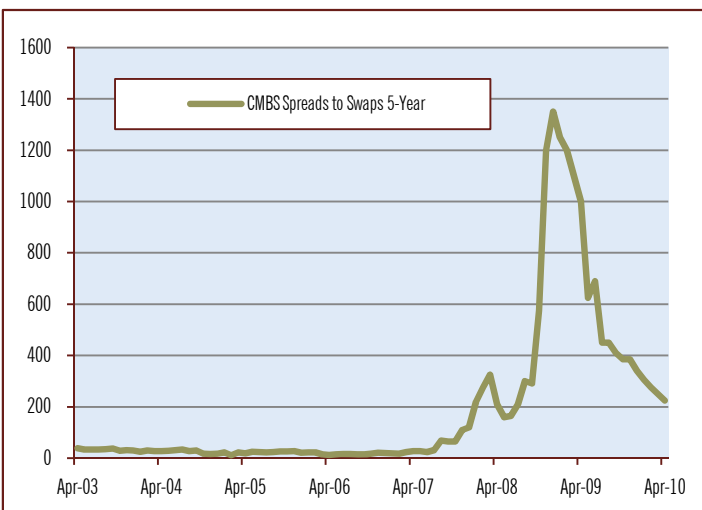
Pending home sales surged in March, continuing to be propped up by government incentives. Unfortunately, the tax credit program expired at the end of April, and many analysts project sales will drop in the second half of the year if unemployment levels remain elevated. **Advantage: Bears**

RESIDENTIAL DELINQUENCIES & DEFAULTS



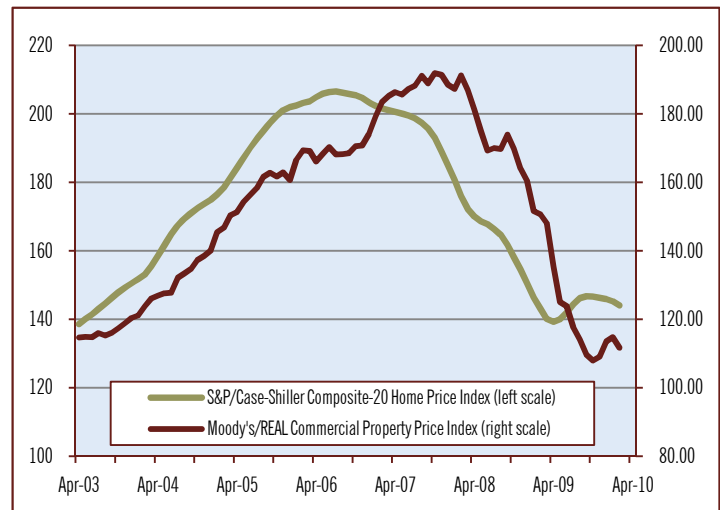
Mortgage delinquencies and foreclosures surged to record highs at the end of last year. With high unemployment, the wave of foreclosures is not expected to crest until sometime later in 2010, and will be a headwind to the housing market and economy for some time. **Advantage: Bears**

CMBS SPREADS



Problems in the commercial real estate market are starting to slowly work themselves out, as banks are systematically moving troubled loan assets through their books (or perhaps simply pushing distress into the future). The inflow of new nonperforming commercial real estate loans is also starting to drop. Still, charge-offs may not peak until 2011. **Advantage: Neutral to Bearish**

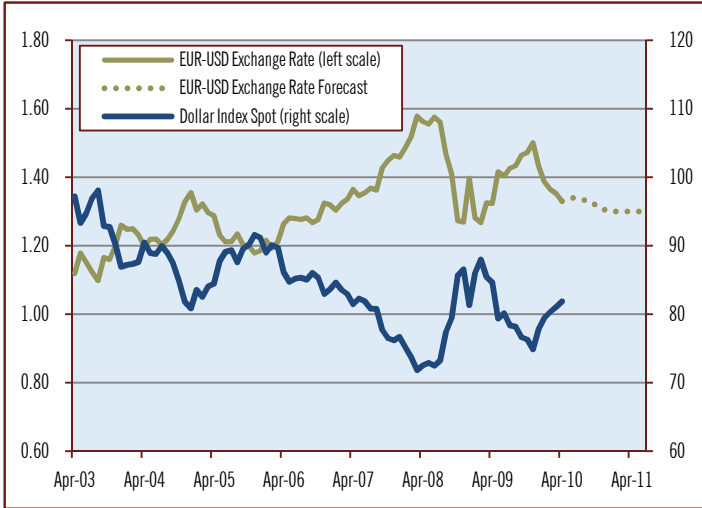
RESIDENTIAL/COMMERCIAL PROPERTY PRICE INDICES



Both residential and commercial real estate prices have experienced a dramatic pullback from levels seen a few years ago and are now hovering at or below values last seen back in 2003. Though REITs have bounced back sharply, their dividend yields have dropped significantly this year, which could be problematic for returns going forward. **Advantage: Neutral**

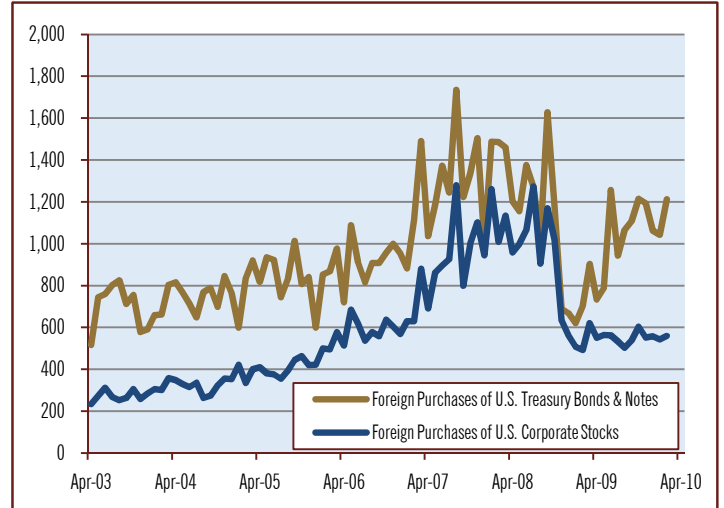
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

U.S. DOLLAR



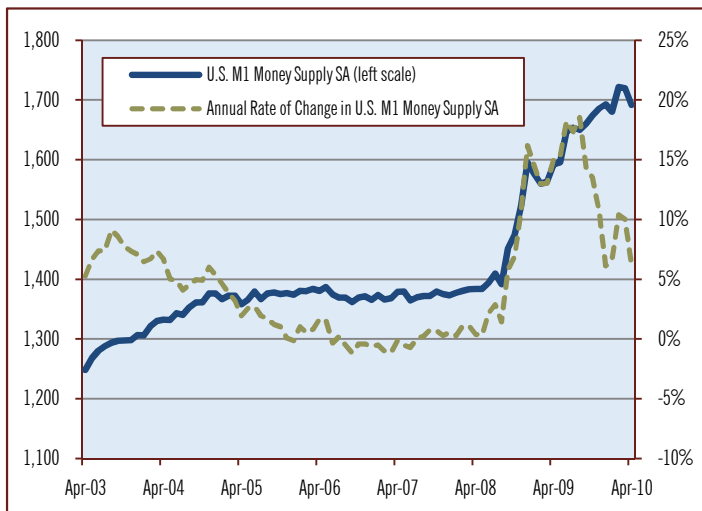
The U.S. dollar continues to rally while the euro falters on Greece debt concerns (and the prospects for the biggest ever financial bailout of a country). Most still consider the dollar to be in a secular decline, however, as it faces longer-term issues such as the size of the U.S. budget deficit. **Advantage: Neutral**

FOREIGN PURCHASES OF U.S. SECURITIES (\$ BILLIONS)



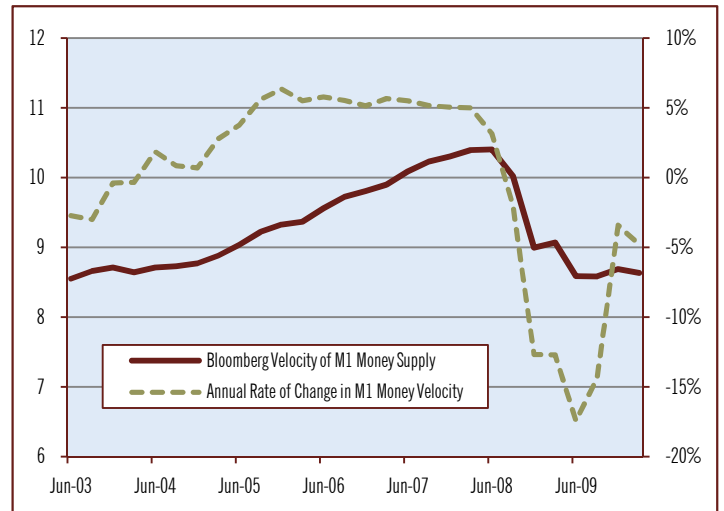
Treasury securities are still in demand from global investors, particularly as the Greek crisis plays out. Foreign purchases of U.S. stocks, meanwhile, remains constrained. In the long-run, a concern is that U.S. fiscal and dollar worries may keep some investors away. **Advantage: Neutral**

U.S. M1 MONEY SUPPLY



M1, the most narrowly defined measure of how much money is in circulation, consists of the most liquid forms of money, namely currency and checkable deposits. With the recent Fed-initiated stimulus, M1 has spiked to unprecedented levels, causing fears of eventual inflation and dollar weakness. **Advantage: Neutral**

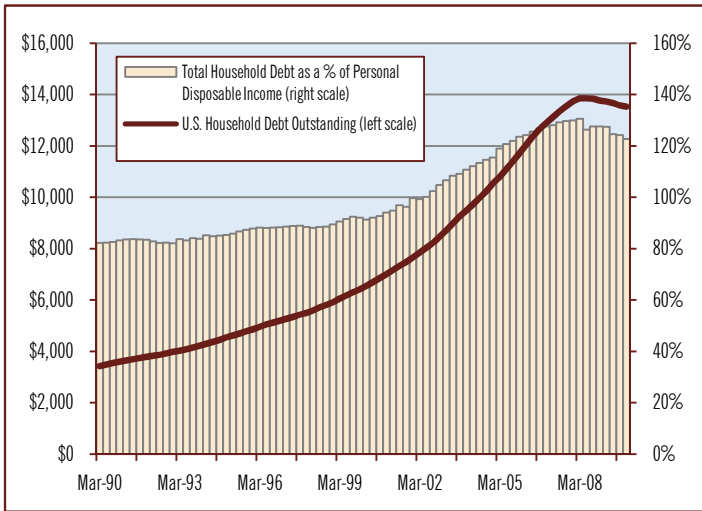
VELOCITY OF M1 MONEY SUPPLY



Velocity of money measures the rate at which money changes hands in order to purchase goods and services. While the money supply has surged, velocity has actually dropped as consumers and businesses are unwilling to spend money or are not able to take advantage of lending programs. **Advantage: Neutral to Bearish**

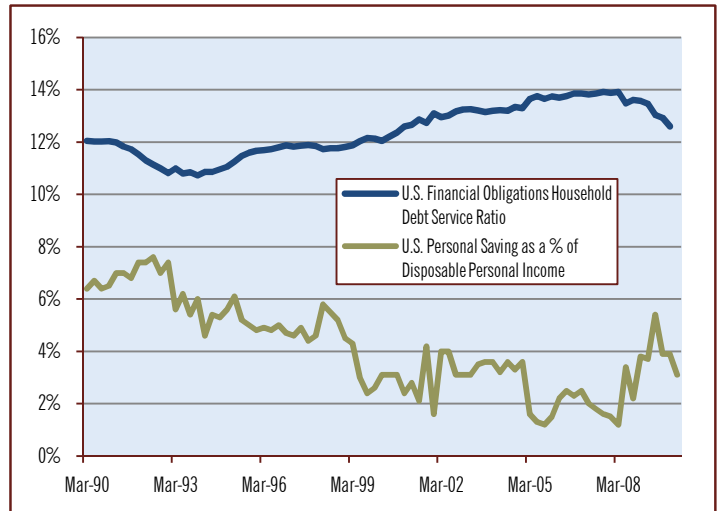
Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute

U.S. HOUSEHOLD DEBT AS A % OF DISPOSABLE INCOME



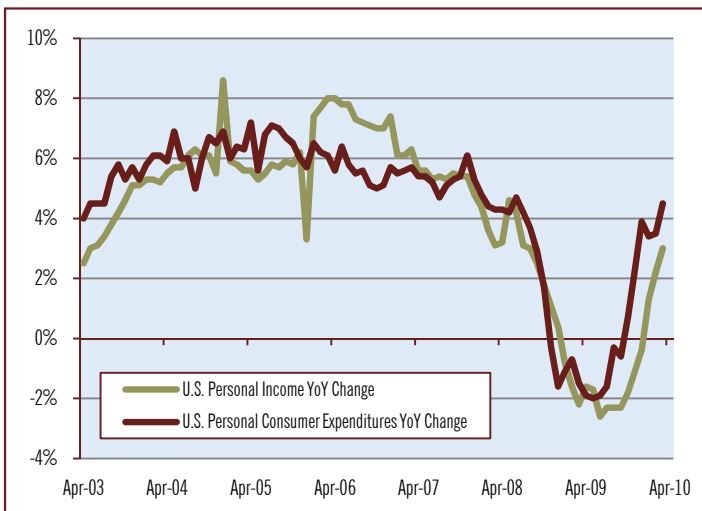
U.S. household debt (including mortgages and consumer credit debt) and its percentage of disposable personal income has increased dramatically since the early 1990's, fueled in part by declining interest rates. Despite all the talk of a deleveraging cycle, consumers so far have been decreasing debt at a slow pace. **Advantage: Neutral to Bearish**

U.S. SAVINGS & HOUSEHOLD DEBT SERVICE RATIO



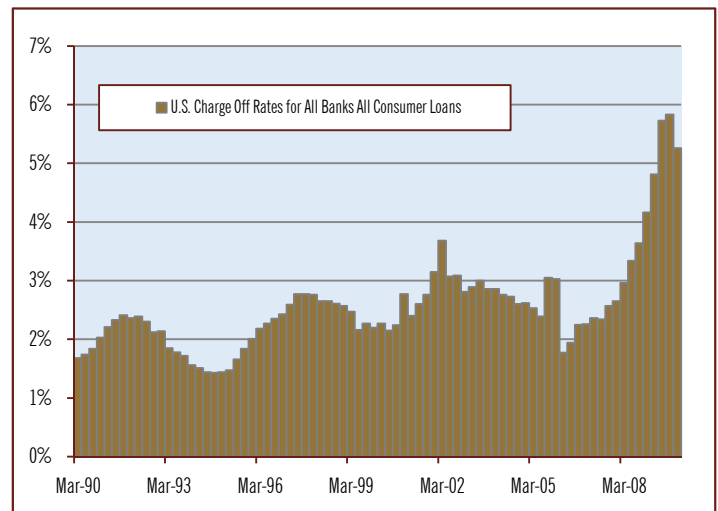
The debt service ratio measures how much of their earnings that households spend on debt payments. Despite the remarkable increase in total debt over the past few decades, the rise in service ratios has been more modest due to the decline in interest rates. If rates spike, however, so too could debt payments, and a low savings rate will not provide much of a buffer. **Advantage: Neutral**

U.S. CONSUMER INCOME AND SPENDING



Consumer spending continues to rebound, increasing the odds that hiring will accelerate. Unfortunately, spending is rising faster than incomes and is being financed by declining savings (the savings rate now stands at 2.7%, the lowest level since September 2008 and well below historical norms). **Advantage: Neutral**

U.S. CONSUMER LOAN CHARGE-OFF RATES



Even though interest rates remain low, U.S. consumer bank loans (including credit cards but excluding real estate) written off as unrecoverable remain near the highest levels on record. More recent delinquency data from credit card companies, however, indicates that charge-offs may be leveling. **Advantage: Neutral to Bearish**

Sources: Bloomberg, Standard & Poor's, Ibbotson, Investment Company Institute, Federal Reserve, Bureau of Economic Analysis

ASSET CLASS COMMENTARY

ASSET CLASS	TACTICAL POSITIONING	THEME	ASSET CLASS NOTES/OBSERVATIONS
EQUITY	underweight		- a conservative allocation to equities in the current environment is warranted
US Large Cap	underweight	Low reward/high risk environment Positioning: underweight equities, particularly long-only, while overweighting long/short and focusing on fundamentals	- given economic uncertainty and high valuations, there is risk associated with stocks and an underweight allocation (but not elimination) is recommended - despite European and global debt worries, the likelihood of systematic failure is thought to be reduced - for most taxable clients a passive (low tax, low fee) approach is still recommended as the core - active mgmt focusing on fundamentals (high quality/high dividend) could provide some downside protection
US Small/Mid Cap	neutral to slight overweight		- we generally have an overweight tilt to small (and value) relative to large - all cap managers, with their increased allocation flexibility, may be able to better position portfolios
Developed Intl	underweight		- a recommended reduction but generally less so than domestic - overweight to international relative to U.S. provides some protection against long-term secular dollar decline - Eurozone fiscal concerns have not hindered managers' stock picking
Emerging Market	slight underweight		- strong long-term economic growth prospects, potentially much greater so than in the developed regions - current valuations are potentially expensive; a high level of volatility is expected - as we shift back into risk (growth) assets, we anticipate a longer-term thematic overweight to developing markets
Private Equity	neutral		- good opportunity set (with better pricing than public markets), but managers have existing portfolio distractions
Directional Hedge	slight underweight		- though reduced, L/S allocations are overweight relative to long-only equity allocations - better anticipated protection against equity downturns but may lag in rallies (barring superior stock selection) - managers are seeing correlations among stocks decrease (and dispersions in returns increase)... superior security selection once again could be a differentiator
REAL ASSETS	overweight		- increased allocation as currency/inflation hedge and longer-term play on natural resource shortage
Real Estate	neutral to slight underweight	Inflation; U.S. dollar weakness; shortage of natural resources Positioning: overweight via increased gold exposure	- commercial real estate issues remain, but well-capitalized managers can find deals - REITs are not cheap, but becoming divided between thrivers and merely-survivors
Commodities	overweight		- recommend 3-4% gold exposure for safe harbor, dollar hedge and potential hedge against inflation spikes - central bank buying of gold, combined with stagnant production = bullish demand/supply attributes - diversified commodity exposure a non-equity manner of playing the emerging market economic growth story
ARBITRAGE/CREDIT	overweight		- low hanging fruit (beta) is played out, but pockets of opportunities remain
Multi-Strategy Hedge	neutral	Low reward/high risk environment; inflation; U.S. dollar weakness; rise in interest rates Positioning: overweight	- superior security selection (both long and particularly short) could be a significant value-add - corporate defaults expected to be an issue for several years, providing potential opportunities - redemption, liquidity and restructuring issues are much less of a distraction
Opportunistic Credit	overweight		- as spreads have narrowed, high yield corporate debt/bank debt beta opportunity has waned - emerging market debt could provide a currency/inflation hedge - investment grade global bond exposure could provide credit diversification
FIXED INCOME	neutral		- core fixed income at strategic targets
Core Fixed Income	neutral	Low reward/high risk environment; deflation Positioning: neutral	- given low yields, long-term prospects are muted... inflation and rising rates may end the bull market in credit - in the near-term, deflationary pressures are still being played out and bonds could benefit - despite supply issues, demand and inflows to bond funds remain strong from retail investors
Cash Equivalents	neutral		- little to no yield being generated by cash assets

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