

LarsonAllen Financial, LLC Market and Economic Update

SUMMARY

- Global Markets are moving into a severe corrective phase after hitting new cyclical highs in April.
- Global credit spreads widen as investors become less confident in the global economic recovery.
- Sovereign Debt issues continue to be the primary risk to a global economic recovery.
- Policy makers have fewer options to prevent another global credit crisis should one occur.
- Earnings reports, corporate balance sheets, and U.S. economic data remain positive.
- Investor sentiment has grown more bearish which may be a short-term positive.
- Valuations have become less expensive yet are not to levels that we would claim as attractive.
- Markets are concerned that 2010 third and fourth quarter earnings estimates may be at risk due to the potential of the global credit crisis spilling into the broader economy.
- Several stock and bond technical indicators are signaling investor caution.
- Inflation remains a non-event as global capacity remains abundant and well above aggregate demand. This in turn may keep interest rates low for the foreseeable future and the Fed on hold longer than expected.

The economy is witnessing a slow and tenuous recovery that may not be strong enough to withstand external shocks such as European sovereign debt woes. The recovery faces many headwinds including Sovereign debt issues in Europe, a slowing Chinese economy stimulus coming to an end, and the gulf oil spill. Equities have fallen back to levels that are more in line with economic underpinnings, yet not to levels we would deem as cheap. Inflation remains a mirage as most industries are mired in excess capacity and muted net aggregate demand. Low inflation may allow the Fed to stay accommodative longer than many had originally expected. Key technical support levels within the global equity markets have been violated which indicates caution. The next few weeks should give us an indication if this is simply a correction within the cyclical bull market that began in March 2009 or a resumption of the secular bear market that began in 2000. After moving back to our neutral equity allocation in May 2009 we began to hedge our equity positions in the fourth quarter of 2009. This has reduced volatility within the portfolios during the current correction.

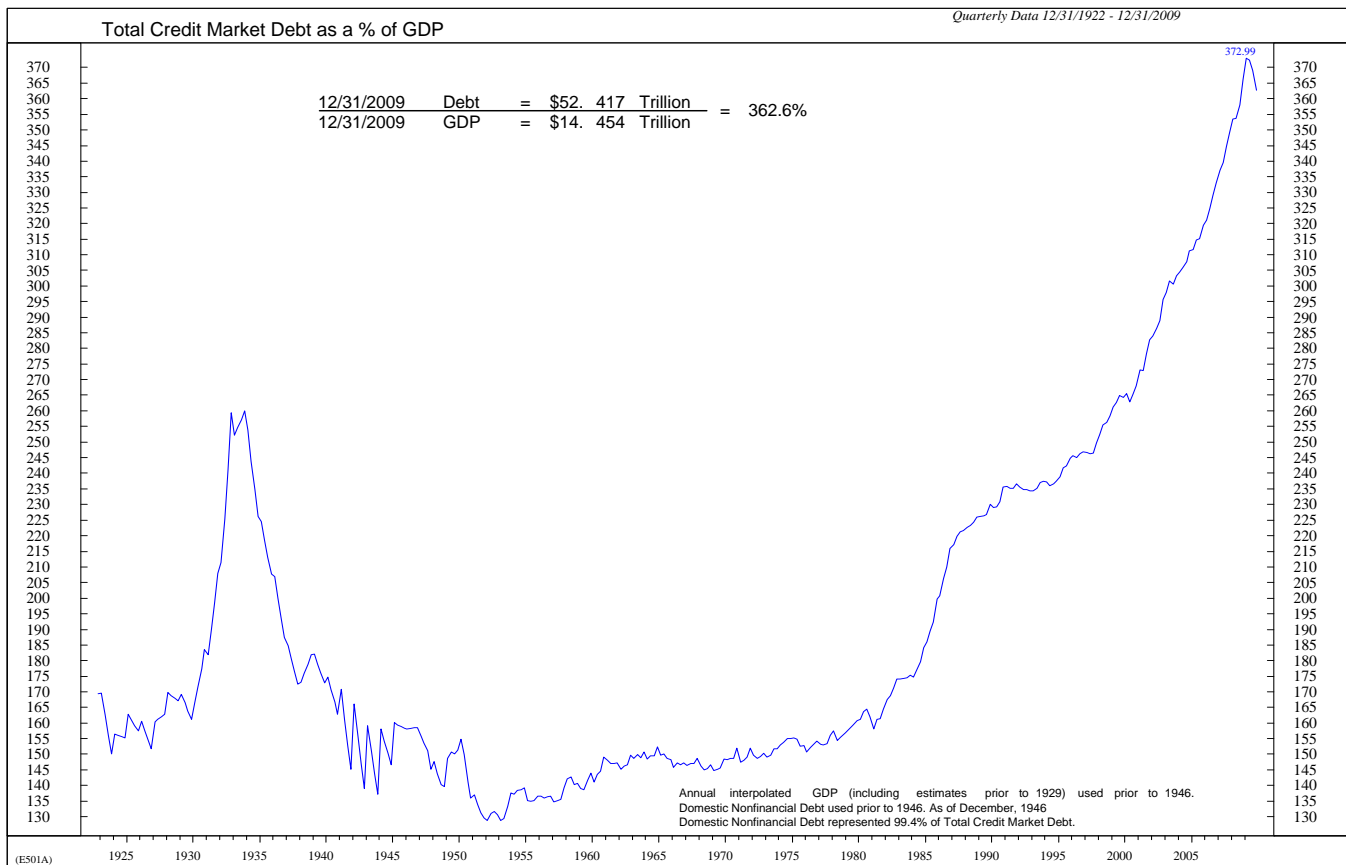
MARKET UPDATE

The Global Cycle Correction

After breaking out to new highs in late April, global markets have reversed into a corrective phase. Markets achieved new cycle highs in mid-April based on strong earning reports from major corporations around the world. Since the latter part of April, the markets have been faced with a series of negative news beginning with the largest oil spill in history off the Gulf of Mexico, a terrorist plot in Times Square, financial regulatory reform in Washington, and dissention within the European Union. As we have discussed in our previous correspondence, we believe it is the latter that poses the greatest risk to the global financial system.

Debt levels at the core of global issues

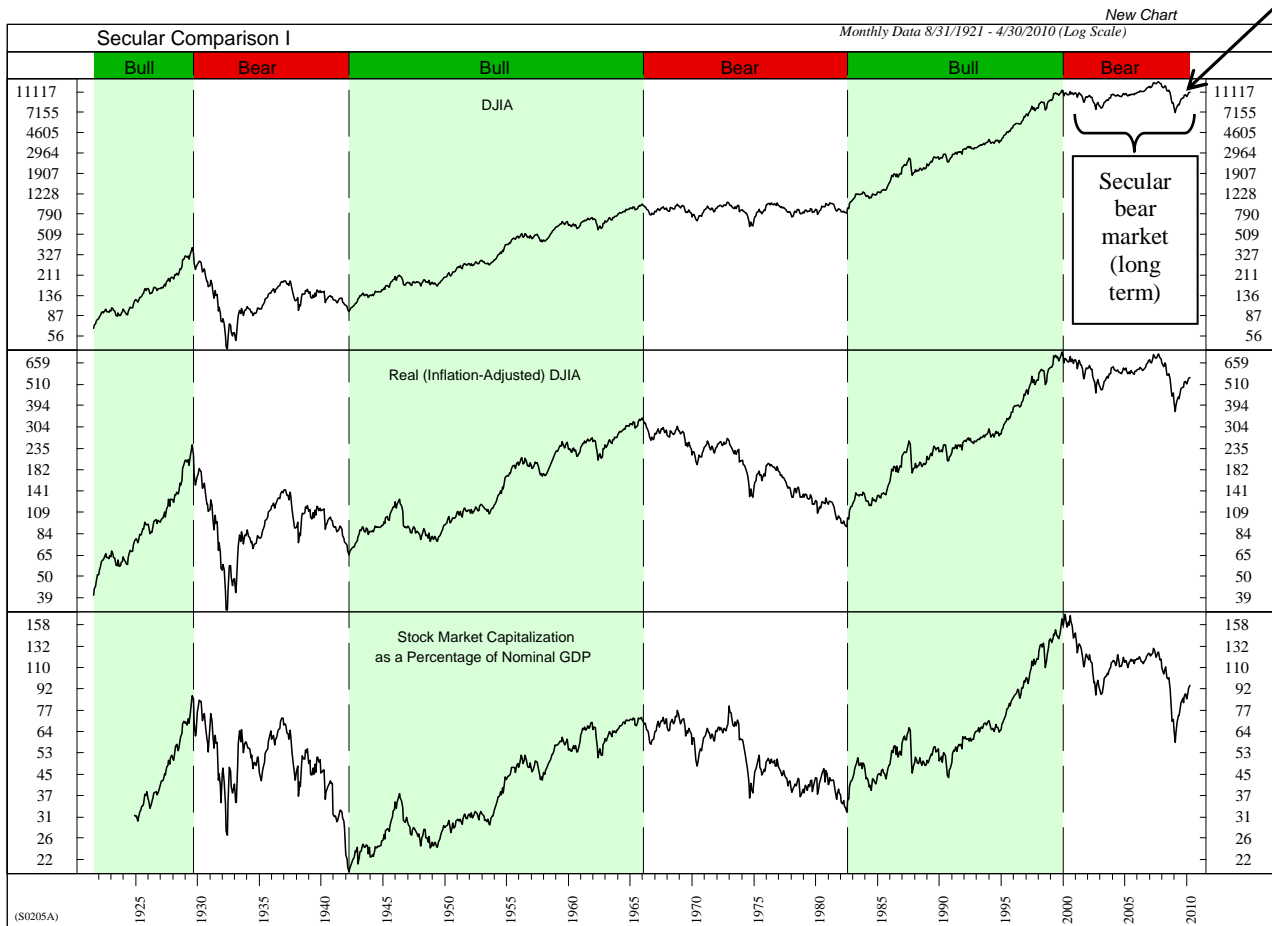
In a previous report, we discussed the core problem within our global economic system being too much debt. We displayed the chart below indicating U.S. debt/GDP levels going back to the early 1920s. As one can see, our debt/GDP had not been at these extremes since the late 1920s. The bulk of the debt overhang today resides on the books of sovereign governments around the world. The destabilizing issue of too much sovereign debt is two fold. 1) A large portion of sovereign debt is owned by large banks. Sovereign debt is positioned to be the stable portion of a bank's portfolio as historically sovereign debt has carried AAA ratings. Today, we are seeing downgrades of large portions of sovereign debt. S & P recently downgraded Greece to junk status BB+ Spain to AA and Portugal to A-. As these bonds are downgraded, their prices sink in value which in turn impacts bank capital ratios if they are marking their bonds to market. Thus, the recently announced \$1 trillion dollar intervention by the ECB and the IMF to prop up the value of Greece, Spain, and Portugal debt helped many European banks avoid potential insolvency (for the time being). 2) Sovereign nations are to be the lender of last resort in the event of a market panic (ala 1929, 2008). If sovereign debt cannot be issued by an underlying country due to credit concerns or due to an exorbitant interest rate that country can no longer serve as a backstop to its underlying economy. This in turn creates a less stable economic environment and allows for a potential severe economic crisis.



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These sovereign debt issues will not go away anytime soon and may serve as an overhang for the market for some time to come. We have been conveying our belief that we are in a one to three year cyclical rally that began in March 2009. This cyclical rally lies within a secular (longer term) bear market that began in 2000. We have had two tests of this cyclical bull market prior to the current correction. July 2009 and February 2010 saw 9 percent corrections before breaking to new highs. On

Thursday, May 18, the S&P 500 closed below its 200 day moving average which is a critical technical support level. The longer the market spends below this critical level, the more support it would give to a renewal of the bear market trend. Foreign markets look even more ominous from a technical perspective. China's markets are now down in excess of 20 percent after peaking in September 2009. European bourses are all trading below their 200 day moving averages and credit spreads are widening across the entire global credit complex. We believe there are three possible scenarios that may play out over the next few years. 1) Policy makers execute the appropriate policy to reflate asset prices and a slow economic recovery takes hold under a normal economic recovery cycle. This would support higher equity prices over the next few years. 2) We move into a Japanese style deflationary environment for many years of subdued economic growth and falling asset prices. This would support lower equity prices over the next few years. 3) We move into an environment of global economic instability driven by Sovereign debt crisis. This would support an environment of lower equity prices. Ten years ago we would not have listed these three scenarios as potential paths for our global economy. Although we receive emails every day from economists and analysts providing their prediction of one of these outcomes no one knows for certain which route the future will take as psychology of the consumer, executive, politician, and banker will play a major role in the course that is ultimately traveled. We would prefer to understand the potential paths of future economic activity and then place probabilities based upon current information and history. If one agrees that these are three potential global economic paths then one must have a strategy for managing risk under scenarios two and three.

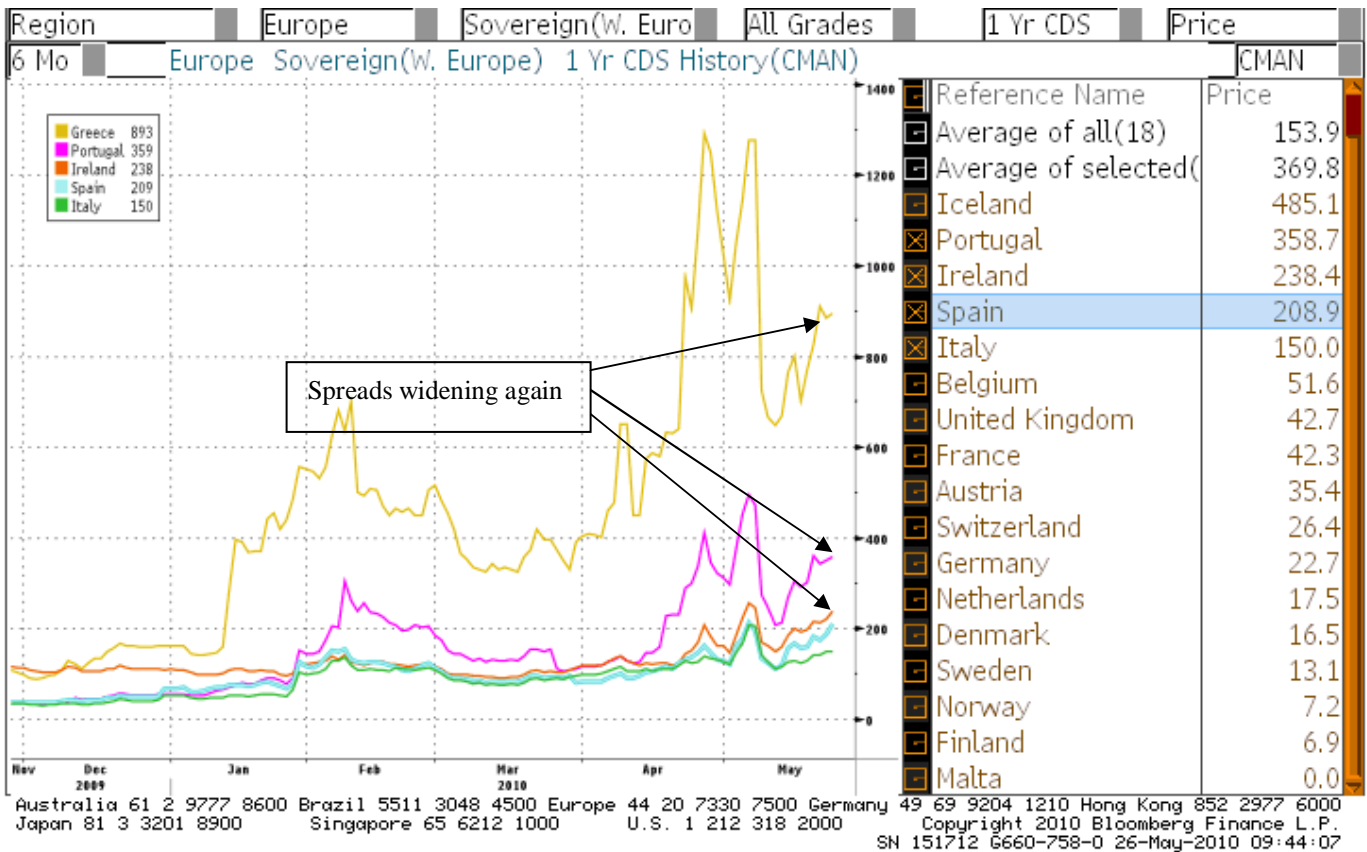


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Credit Crisis Redoux?

The brightest minds on Wall Street are trying to determine if the current credit crisis in Europe has the potential to burst into a credit crisis similar to what the US experienced after the Lehman default in 2008. We believe that any issue that has the potential to create an investor “panic” has the potential to morph into such a crisis. Historically, these panics have been thwarted by powerful central bank policy actions. We believe that risks are higher this time due to the fact that the largest central bank in the world (US Federal Reserve) has already taken rates as low as they can go (0-.25 percent) and has expanded its balance sheet to the tune of \$1.2 trillion. The US Federal Reserve has very few bullets remaining to thwart an investor panic. There is most likely a window for the European Central Bank, German leaders, and the IMF to implement policy to calm global equity markets, however, time for action is growing shorter. It is critical that these European policy makers make the correct moves in a timely fashion to thwart another panic.

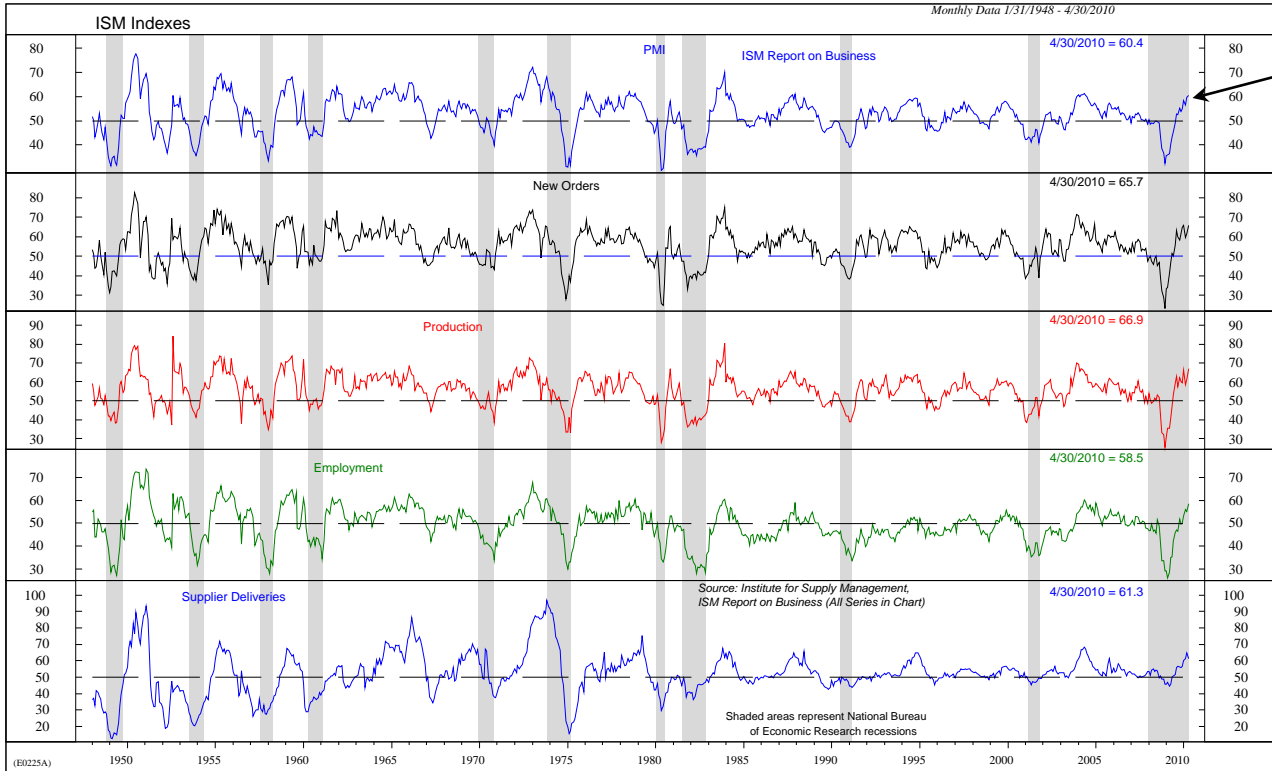
As one can see by the following charts, credit spreads are beginning to widen on a global scale. This may simply be a correction within the cyclical bull market or it may be the beginning of something greater. We will continue to monitor credit spreads closely as credit markets tend to lead equity markets. At this time, we are not anticipating that another panic like 2008 will take place; however, we do believe many of the ingredients are in place.



I) Fundamentals

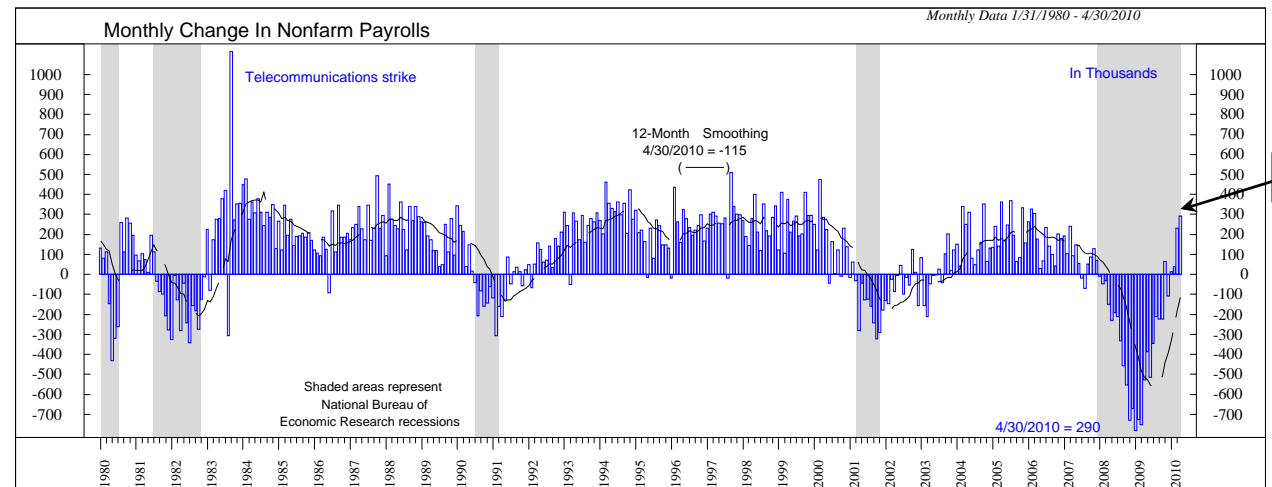
Recent economic data has been relatively strong, yet is expected to slow later this year as government stimulus programs end and tax rates begin to rise.

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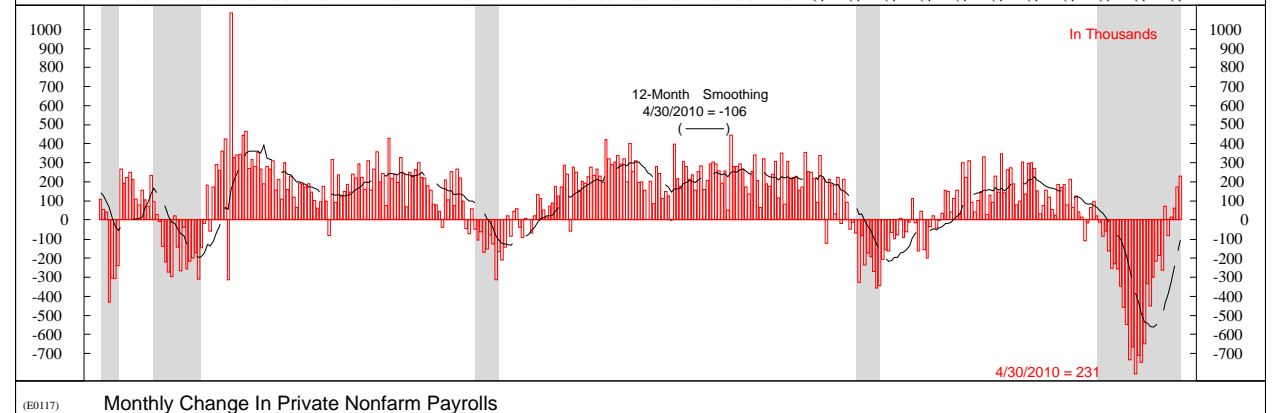


Manufacturing strengthening

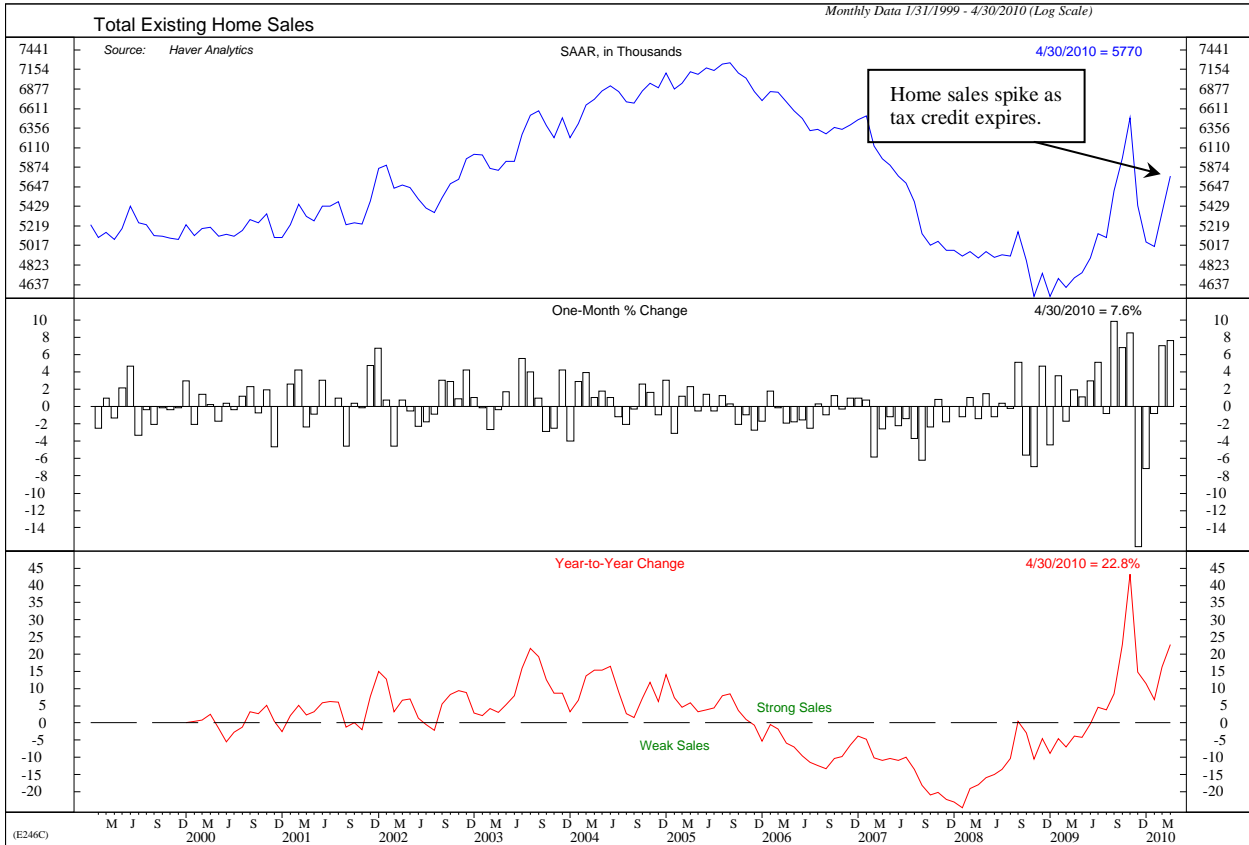
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Job growth



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Corporate earnings reports have been quite strong providing support for equity prices

Re-sort by Name	Qtr 1 2010 Median Reported Growth %	Qtr 1 2010 Median Surprise %	% Reporting Earnings	% Positive Surprise	% Negative Surprise	% In-Line
Energy	-2.7	11.6	100	74.4	20.5	5.1
Materials	38.2	6.3	100	83.9	6.5	9.7
Industrials	10.2	6.9	96.5	83.6	10.9	5.5
Consumer Discretionary	42.9	9.5	96.3	81.8	6.5	11.7
Consumer Staples	14	4.5	87.8	72.2	22.2	5.6
Health Care	13	4.4	98.1	74.5	17.6	7.8
Financials	15.5	4	100	64.1	25.6	10.3
Information Technology	53.1	9	96	80.6	8.3	11.1
Telecomm Services	-11.1	5.5	100	55.6	11.1	33.3
Utilities	6.5	4.8	100	69.4	27.8	2.8
S&P 500	21.3	6.8	97.2	75.6	15.5	8.9

Report Notes:

Report utilizes median consensus EPS estimates.

The report is based on active constituents and may exhibit some volatility from period-to-period as securities move in and out of the index. A blank space indicates that the data is not available.

NDR-based indices are rebalanced in July of each year, and the report may reflect dramatic changes that occur in the membership of the index during this period.

S&P industry classifications are based on S&P/MSCI GICS.

Earnings Growth Rate Notes:

Quarterly growth rates are versus same period last year.

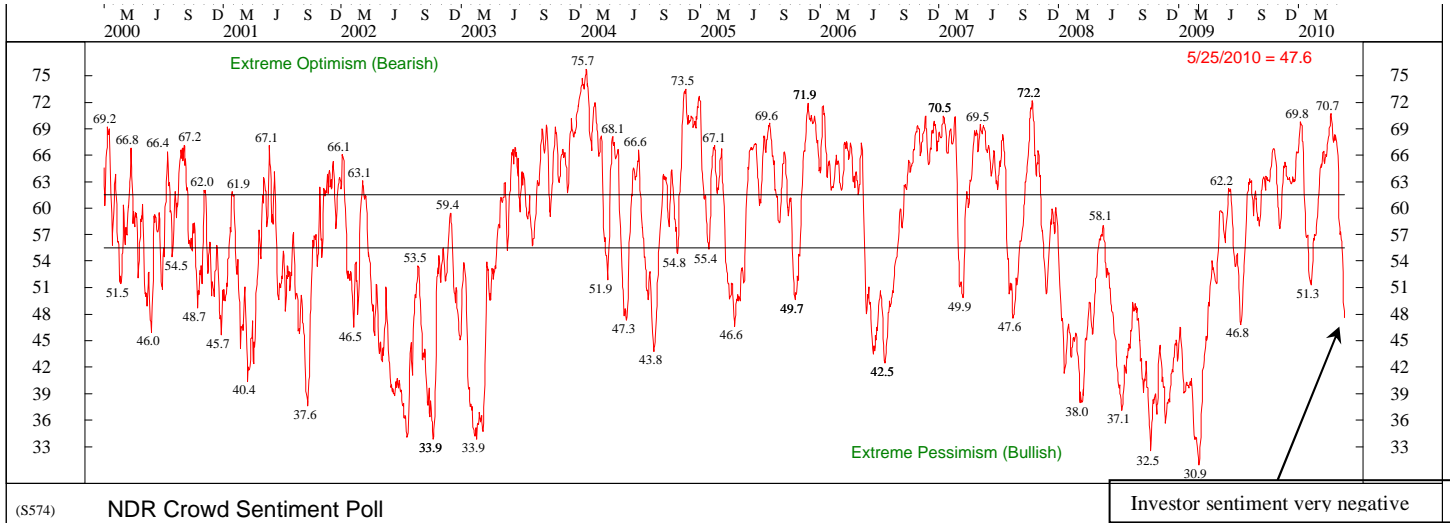
If earnings change from negative to positive: Normal rate of change (ROC) calculation * -1 (reverses sign for growth in correct direction)

If earnings change from zero to positive (negative); Growth rate is +100% (-100%)

If earnings change from positive (negative) to zero; Growth rate is -100% (+100%)

II) Sentiment

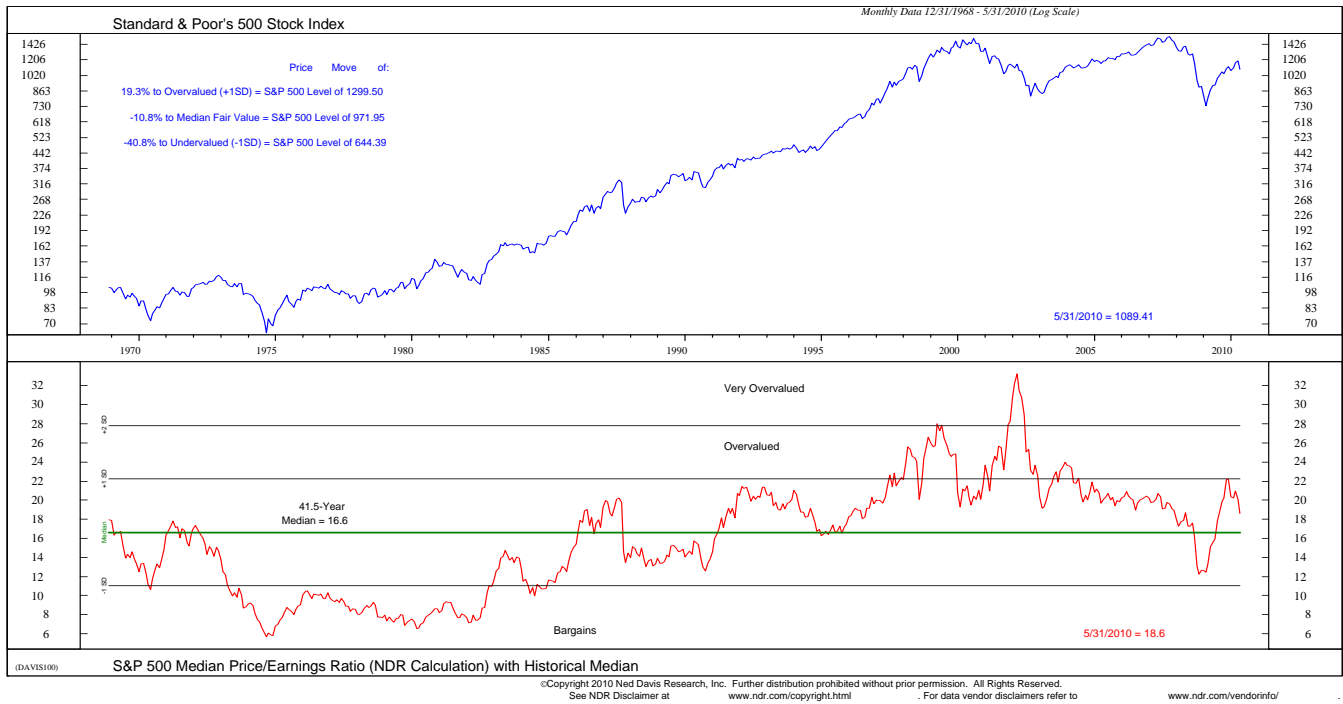
Short term sentiment indicators are turning down which may serve as a short-term positive for the markets. As investors grow more fearful, it typically means markets are reaching a near term bottom.



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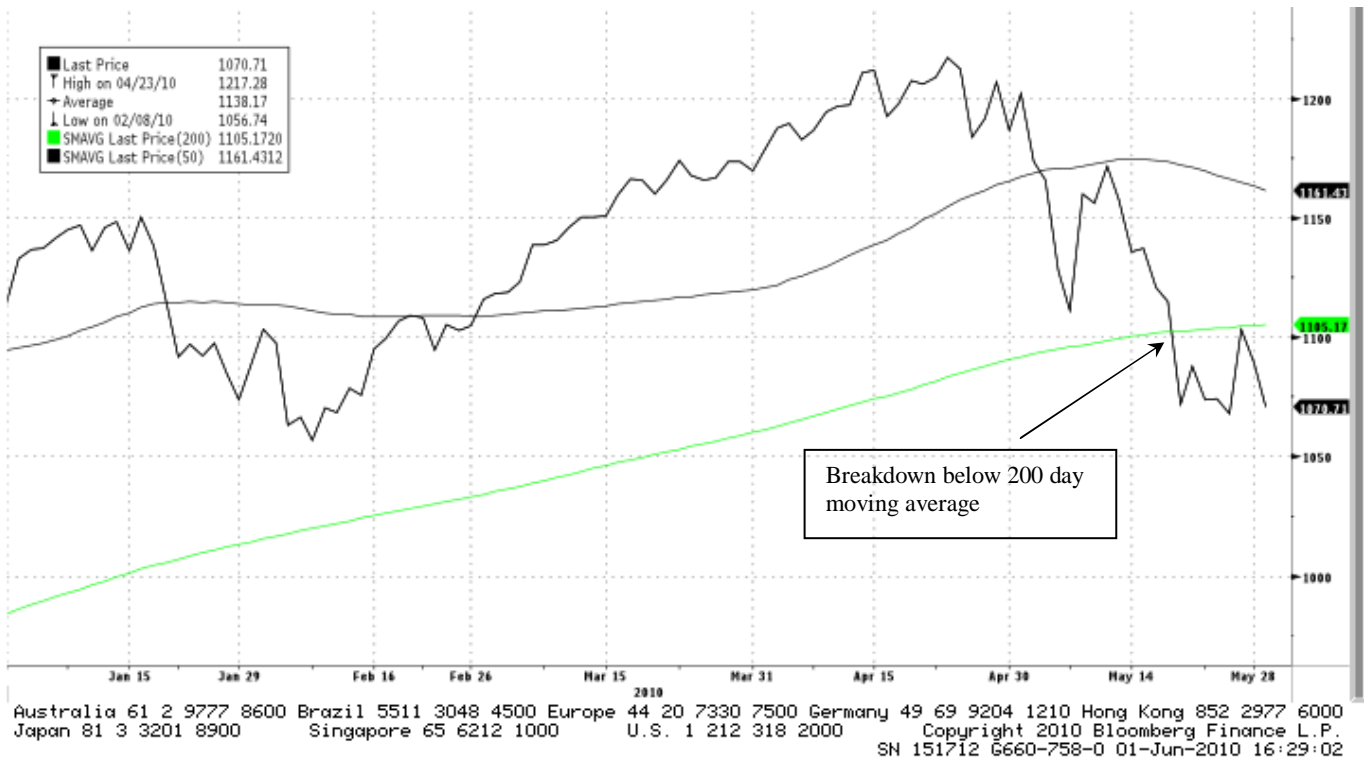
III) Valuations

Valuations have become more attractive although they are not to the levels one would call cheap.



IV) Technicals

Technical indicators are turning negative as the equity markets are breaking below major support levels.



Conclusion

Within a secular bear market, it is even more critical to respect technical indicators and global credit spreads. It may be prudent for investors to allow technical indicators to restore their integrity prior to committing new capital. The outcome of the global credit crisis lies in the hands of European policy makers. If the appropriate policy is implemented in a timely basis, then a credit panic may be avoided allowing the global economic recovery to resume and equity markets to stabilize. We began to position client portfolios more defensively in November 2009 during the cyclical rally to protect gains that were realized from the March 2009 bottom. Clients can take comfort knowing that these portfolio changes have decreased the volatility of the overall portfolio from a neutral, strategic allocation.

This Market and Economic Update is prepared by LarsonAllen Financial, LLC. If you have any questions, please call 1-888-925-2926 and ask to speak with a Senior Wealth Advisor.

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