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MARKETS, ECONOMY AND STRATEGY—

The month of May witnessed an "across the board" pullback in commodities. As of May 31st, every commodity index, including gold, was in the red year to date. The main causes for the commodity downturn are: (1) short term cash-raising by traders, and (2) intermediate-term political and macroeconomic risks. As of May 31st, the highly oil price driven S&P/Goldman Sachs Commodity Index was down 13% for May and 8.3% year to date. Our Commodity strategy is down only 0.8% for May and 0.4% year to date. There are other highly volatile items that are keeping commodity prices down. A change in any one of which would see an almost immediate positive effect in the commodities sector. For the time being, we have emphasized gold and the stronger dollar (via an inflation protected treasury ETF) as we take a wait-and-see attitude.

World GDP is slowing. With the United Kingdom and some other European nations already in a deepening recession, the world ex-United States is showing signs of a slowdown. The U.S. is widely expected to maintain sluggish growth of slightly less than 2% in real GDP for 2012 and 2013. The emerging markets, while not immune to the slowdown, still show signs of significantly higher than average growth potential. All told, the good news from the emerging markets may be overshadowed in the coming months by troubles in Europe.

All eyes are on Greece, where, as of last week-end, the anti-austerity party appears to be gaining momentum. If the Socialists win they well may call for Greece to leave the Euro currency. We feel such an action would spell disaster for the Greek economy and would push Greek banks toward extinction because depositors will not likely accept conversion to the Drachma. Many questions exist regarding the ECB's ability to properly deal with the Greek and Spanish troubles, as well as the Franco-German alliance's ability to provide loans to Greece and Spain, without committing political suicide. It is clear German Chancellor Merkel's own political situation is growing more tenuous by the day. Our Emerging Markets ETF strategy was down 10.7% in May when the World x-USA Index, MSCI Emerging Markets Index, and EAFE Indexes were all down over 11%. As a result, our strategy is doing better than the World x-USA and EAFE Indices year to date.

Domestically all eyes are turning toward the up-coming elections. Higher tax rates could have a disastrous impact on incumbents in November's elections. The Federal Reserve is unlikely to launch a "QE3" as the banking sector is well-capitalized, even in spite of the bad news from JPMorgan. On a macro level, the Fed is also likely to maintain its policy of keeping treasury yields at artificially low levels. This will discourage holding cash and force investors back into the equity and commodity markets as there will be no other liquid asset classes in which to produce attractive returns. We have remained, and shall remain, fully invested. Our All Cap Multi Style ETF strategy was down about even with the S&P 500 for May and slightly behind for year to date. Our Large Cap Value stock-picking strategy was down 6.1% in May but up 0.6% year to date.