

“Above the Noise”

Advances in Technology have provided a continuous flow of news from around the world. Quantitative analysis has created computer models to capture all relevant data, synthesize the information and formulate theoretical values for various investments. This information is processed by high speed computers which create and implement transactions automatically in an attempt to capture trading profits in publicly traded markets. This process is repeated continuously each day by a number of global participants in a variety of market places. For example, it has been estimated that 60% - 70% of all transactions on the New York Stock Exchange (NYSE) are a result of “program trades”.

The NYSE represents a small percent of a universe of global trading in stocks, bonds and currencies. Add to the list the numerous derivative investments which include options, swaps and derivations of each of these forms of investments. Commodities of all forms, including non-ferrous and precious metals, chemicals, grains, and natural resources are also traded with computer driven programs. Here again, the vast majority of the daily transactions in these areas are based on a short term trading strategy as opposed to that of a longer term investment objective.

Recognizing this change as the basis for much of the daily fluctuation in pricing is valuable in evaluating and monitoring investments. In so doing, one must first determine whether their investment strategy is focused on trading or investing. AHB’s investment strategy is based on a longer term investment approach. Therefore, although we monitor short term price changes, we are more focused on longer term investment outlook.

Evaluating the longer term global economic outlook, we believe there are several clear trends in place. Unemployment is likely to remain high for a longer period of time than experienced in past economic declines. This is a function of the continued global deleveraging of the consumer, business and government. With excess capacity in both manufacturing and service industries along with higher levels of unemployment, inflation is likely to be maintained at modest levels for some time. The outlook for inflation impacts intermediate and longer term interest rates which should be fairly stable with low inflation. However, short term interest rates which are more sensitive to government policy changes are likely to rise as governments become more confident that their economies are improving. As this confidence builds central government monetary policy will begin a process of reducing the supply of money and increasing short term interest rates.

The challenge for many governments including the United States will be to balance their budgets and begin to reduce the large amount of debt that was incurred during the recent credit crisis. This will take a longer period of time than in the past as the debt is greater than before. It will be helpful that as the economies improve and government revenues increase from a greater inflow of tax receipts, the interest cost of the debt will remain low as a result of the low inflation environment.

Our long term economic and investment outlook is one of moderate growth accompanied by low levels of inflation and higher than historic levels of unemployment. The investor will benefit by identifying those sectors and industries in the economy that will improve because of specific changes taking place. Leading companies in these



areas will benefit from their strong management and new product development. We have positioned client equity portfolios to take advantage of the trends we forecast.

With regard to client bond portfolios, we continue to place a greater weight on intermediate maturity bonds of 4 to 10 years. In this manner we are capitalizing on the opportunity offered by the steep yield curve. Short term U.S. Treasury note interest rates are less than 1% and intermediate corporate taxable interest rates vary between 3% and 5% depending upon the level of investment quality and maturity. A similar environment prevails in the municipal bond market with lower yields giving recognition to the tax benefits received.

During the first six month of 2010 we have observed a continuation of the movement by investors to employ risk management in reassessing their investment asset allocation. In most cases, changes have been made to reduce both risk and volatility. This has taken the form of a shift in equity investments away from high risk areas of opaque limited partnerships, private equity and emerging markets to the more traditional forms of investments in large capitalization U.S. equities and bonds. We have also noted a movement to reallocate assets to bonds as investors move their money away from higher risk and more volatile areas of investments.

We would expect this restructuring of assets on the part of individuals and institutions to continue until a more comfortable balance is achieved. Additionally, we expect that the new government regulations of the global financial markets will add to the confidence in the markets and thus further reduce volatility and increase portfolio values.

Investment Policy Committee

Abner, Herrman & Brock Asset Management

Founded in 1981, Abner, Herrman & Brock Asset Management manages portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income and total return. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request.

Please visit our website at www.ahbi.com for a more detailed description of our investment **Philosophy, Process and People**.