



July 1, 2010

Dear Valued Client,

Every year for the past few years, we have attended the Morningstar Investment Conference in Chicago. The conference is an excellent setting for us to meet and hear from the nation's top money managers. This interactive setting allows us to perform a deeper level of due diligence into the mutual funds, which is critical in determining which investment managers we select to manage monies on your behalf. As some of you already know, we think very highly of the First Eagle mutual fund family, and we were able to have dinner with one of their portfolio managers during our visit in Chicago. Our impressions from the dinner reinforced our level of trust and confidence in the decision making process that guides the management of their funds. No matter what the economy or markets are doing, we feel comfortable knowing that every decision they make is based on their 3 core values of: Cautious, Conservative, & Conviction. For more information on the core values that makeup this fund family, we invite you to visit their website at www.firsteaglefunds.com

With the S&P 500 being down 5.23% during the month of June, it was interesting to hear the viewpoints and perspectives of the money managers in this current environment. Below, we've summarized for your benefit some of the common viewpoints we heard at the conference.

- Economic growth likely to moderate in the 2nd half of 2010, as temporary stimulus measures wear off.
- Interest rates will likely remain low so long as housing and employment remain a drag on the economy.
- Serious long-term concerns regarding the size of our deficits and debt of the United States. 48% of treasury securities mature in 2 years, according to Steven Romick, manager of the FPA Crescent Fund. This may put upward pressure on interest rates as foreign investors demand more yield for their ownership of United States treasuries.
- Higher taxes will make economic growth more challenging going into 2011.
- Valuations are more attractive now than they've been in several months, so managers are putting money to work and finding bargains.



- Given the ongoing prospects for modest total investment returns, companies that have the capacity to continue growing dividends should fare well. Several managers preferred owning high quality, dividend paying stocks as opposed to bonds.
- Given the prospects for market volatility due to continued economic turbulence, flexibility was a common tool emphasized by money managers as a way to manage risk. Investing across the capital structure, accumulating cash, and investing in alternative asset classes were all tools these managers were using to manage risk.
- As currencies depreciate in value due to mounting sovereign debt concerns, gold may become more appealing to investors.
- The combo of lackluster growth prospects, low interest rates, and large corporate cash balances within the non-financial sector equals a ripe environment for mergers & acquisitions.
- Demographics of this country are moving in the wrong direction. As every year passes, there will be more retirees moving out of the workforce than the new workers coming into the workforce, according to Rob Arnott, manager of the PIMCO All Asset Fund. This is not good considering our large entitlement & debt obligations. These demographic challenges are even worse in Europe.

As we learned from the advance in the market last year, it's dangerous to extrapolate economic events and assume they will have the same corresponding impact on the stock market. As investors seeking undervalued securities, markets are most attractive when the macro-economic news appears bleak. Although we face the macro headwinds of higher taxes, high unemployment, & continued deleveraging from both the consumer and from financial institutions, we also have corporate balance sheets in excellent shape, modest valuations, & continued expansion in the manufacturing sector. Trying to measure which way the tide will turn is difficult at best. Fortunately, our success isn't determined by the accuracy of our predictions, but instead, by the conservatism with which we, and the managers we select, appraise enterprise value. As such, investors that contemplate the downside are in a better position to preserve & grow capital than those whose capital allocation process is dependent upon a strong and vibrant economy. We certainly hope that scenario will be in our future, but we, nor the managers we've selected for your portfolio, are basing our investment decisions on that assumption.

As always, we thank you for your trust and support and look forward meeting with you soon.



COULTER & JUSTUS
FINANCIAL SERVICES, LLC

687 Emory Valley Road, Suite A
Oak Ridge, TN 37830
phone: (865) 481-0385
(888) 469-0220
fax: (865) 483-7930
web: cj-fs.com

The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. Each stocks weight in the index is proportionate to its market value. The S&P 500 is one of the most widely used benchmarks of US equity performance.

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Diversification can be thought of as spreading your investment dollars into various asset classes to add balance to your portfolio. Although it doesn't guarantee a profit, it may be able to reduce the volatility of your portfolio.