Market Commentary

2ND QUARTER 2012

Economic Summary

Peaks in the stock market are becoming as much a sign of spring as Major League Baseball's opening day. For the third year in a row, the second quarter provided the start of a swift downturn in stock prices. The S&P 500® ended the quarter down 2.8% (CHART 1) and up 8.5% for the first half of the year ended June 30, 2012.

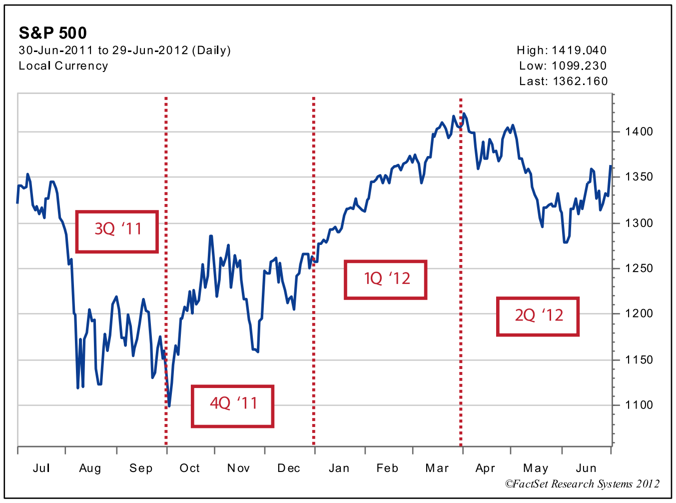

Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS "QUARTERLY REVIEW IN CHARTS", JULY 2, 2012*

If the pattern in stock prices seemed familiar, so did the economic and political backdrop: heavy debt and national elections in both the U.S. and Europe sowed doubt among consumers, businesses and investors. The prospect that Greece could default on its debts and leave the Euro has raised doubts about the solvency of European banks and the future of the Euro itself. Emerging market economies are suffering as well, from fear that a global recession, with its focal point in Europe, will curtail the exports on which many emerging economies depend.

The effects on the U.S. economy are starting to emerge as companies start to report second-quarter earnings. A number of companies have warned investors that profits will be lower than initially expected, in large part because of slowing demand from customers around the world, particularly in Europe.

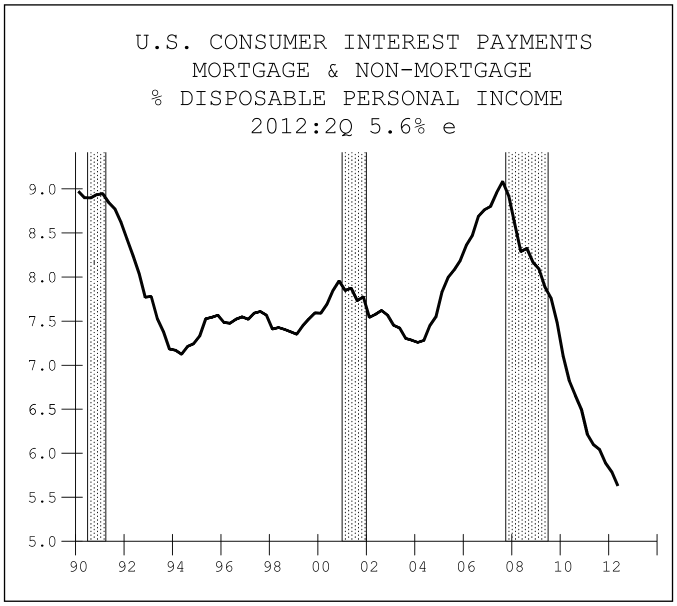

Chart 2

SOURCE: ISI WEEKLY ECONOMIC REPORT, JULY 2, 2012

The current GDP growth rate in the U.S. is a very poor 1.5% - approaching stall speed. However, there are good reasons to believe that another recession can be avoided. First, unlike last year, the economy is no longer getting punished by crude oil prices running over $100 a barrel. Secondly, consumer finances are in much better shape than they were a few years ago. Consumer and mortgage debt have been paid down and liquidity levels are up for a large percentage of the public (CHART 2).

Past performance does not guarantee future results. *The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general. You cannot invest directly in an index.

Economic Summary (CONTINUED)

Interest payments have declined significantly and have plunged relative to disposable personal income. This helps explain why delinquent loans, as a percent of total loans, have also fallen sharply. Thirdly, housing is no longer a drag on the economy. The ISI Homebuilders' Survey is the highest it's been in over six years, and new home sales continued to increase in June.

It is increasingly apparent what the U.S. economy will look like when President Obama faces voters in November: pretty much what it looks like today. And that picture, as made clear by the Labor Department's June job growth numbers, is far from the booming job growth that prevailed only a few months ago. In June, the economy added a meager 80,000 jobs, and unemployment remained at 8.2%. There is a fairly strong inverse correlation between the President's approval rating and the unemployment rate (CHART 3). No president has ever won re-election with an approval rating below 50%. The current trajectory suggests that the unemployment rate needs to fall to about 7.6% in the next three months for the President to reach a 50% approval rating.

Another way of looking at it is by looking at past elections (CHART 4). What makes this race so interesting is that the President's approval rating is higher than the losing campaigns, but lower than the previous winning campaigns. In our view, many issues can influence the President's approval rating, but only a rapid improvement in the economy could get Obama's number up to 50%. Without it, we believe it's going to be very difficult for him to win re-election. If Republicans win the White House and the Senate, it could be very positive for the capital markets. Republicans would likely unwind some of the policies the Obama Administration has put in place. Confidence would likely improve among business decision-makers, consumers and investors.

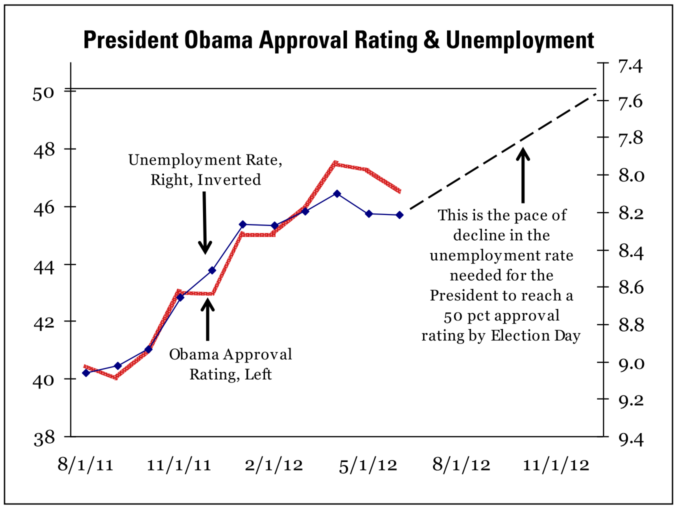

Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS
"RE-ELECTION HURDLE GETTING MORE DIFFICULT", JULY 6, 2012

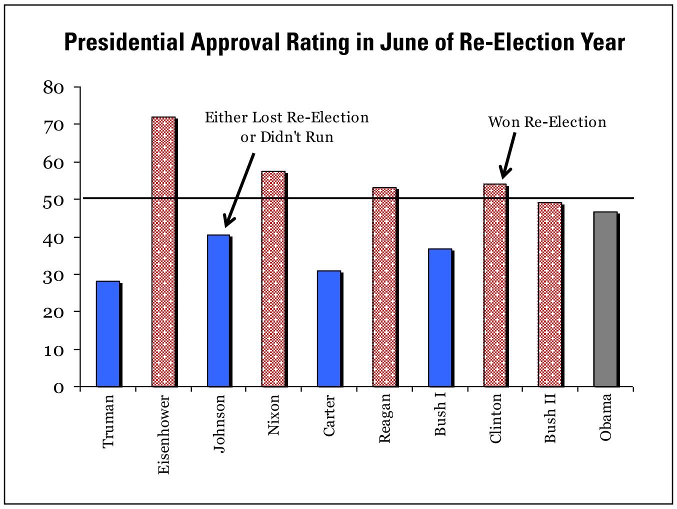

Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
"RE-ELECTION HURDLE GETTING MORE DIFFICULT", JULY 6, 2012.

Presidential Approval Ratings were generated by Gallup in June of each re-election year. Blue bars indicate the incumbent either losing re-election or not running while the red bars indicate the incumbent successfully being re-elected.

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Economic Summary (CONTINUED)

Another political issue looming over financial markets in the second half of the year is Congress dealing with the "fiscal cliff" Fed Chairman Bernanke has warned about in recent testimony (CHART 5).

Approximately $430 billion of tax increases are set to go into effect on January 1, 2013, should Congress not act before that date. This includes the capital gains rate going from 15% to 20%, the dividend tax rate going up from 15% to 39.6%, and an additional 3.8% tax on both rates to help finance Obamacare. Other parts include the expiration of the payroll tax cut, the sequestered spending cuts coming into effect, expiration of the Alternative Minimum Tax cost of living adjustment, and the need to raise the debt ceiling. The question is, will Congress see the wisdom of extending at least some of the current tax rates to keep the economy from having a serious setback?

No doubt, there will be a lot of rhetoric in the next three months about whether the top earners are paying their "fair share" of taxes. As CHART 6 suggests, the upper and middle classes are paying plenty – essentially all of the income taxes, and that their share of the tax burden has been growing over the past twenty-five years.

Even though more and more investors are becoming disillusioned with the stock market, we believe there are many reasons to be bullish. At present we consider many valuations to be very low on many high-quality companies, like the ones held in our portfolios. From current levels, we feel the stocks in our portfolios have significant appreciation potential. So, why is there such widespread ambivalence toward equities despite their attractive valuations? One reason is pension and endowment managers continue their love affair with alternative investments, hedge funds and private

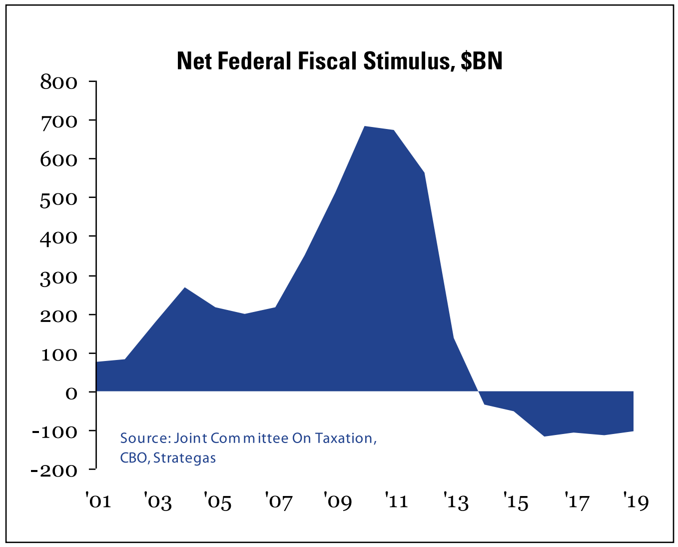

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", JULY 2, 2012

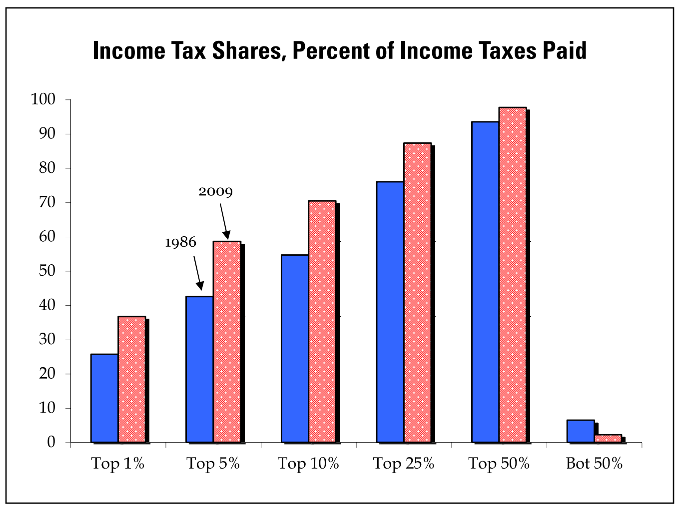

Chart 6

SOURCE: STRATEGAS RESEARCH PARTNERS
"AMERICA: LIKE NO PLACE ON EARTH", JUNE 8, 2012

Blue bars indicate percent of taxes paid in 1986, while red bars indicate percent of taxes paid in 2009

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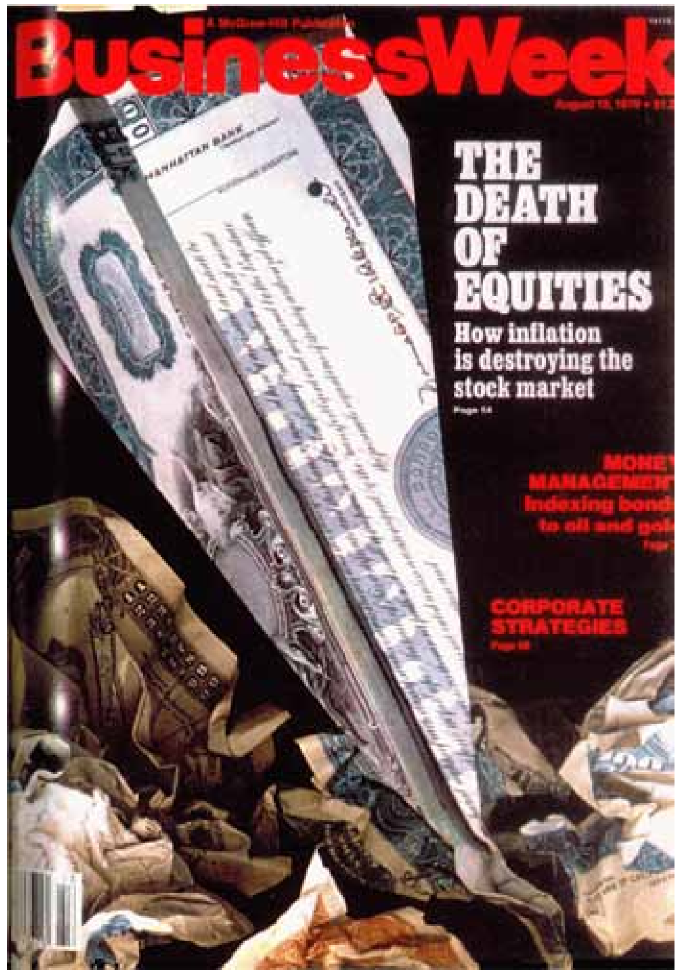
Economic Summary (CONTINUED)

equity. In addition, retail investors have been turned off to stocks by ten years of lackluster returns. Equity mutual funds continue to see net redemptions, with the money flowing into bond funds. This could continue until people start losing money on their bond funds, which will likely happen when interest rates rise, which we expect to happen over the next several months.

We are amused by the recent articles proclaiming "the death of equities." The Financial Times article (EXHIBIT 1) could be a harbinger of good things to come. It should be remembered that the great bull market of the 1980s started after the famous Business Week cover from August 13, 1979 (RIGHT).



Equity Market

Our equity strategy continues to emphasize large-cap, high-quality, dividend-paying stocks. In our view these companies successfully navigated the deep recession and have been effectively managing their way through the current slow-growth economy. We believe the overall condition of corporate balance sheets and cash flows – two key metrics in our security analysis process – is excellent. In our view these companies offer good prospects for increasing dividends and long-term growth of capital.

THE DEATH OF EQUITIES... AGAIN?

...institutional investors, from pension funds to mutual funds sold directly to the public, have slashed holdings in the past decade. Stocks have not been so far out of favour for half a century. Many declare the "cult of the equity" dead.

Financial Times, 4/24/12

Exhibit 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS", JULY 2, 2012

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Fixed Income Market

With renewed fears about the financial sector and slowing world economies, investors have flocked to the safety of U.S. Treasury issues, pushing prices skyward. At the beginning of the year, the yield on ten-year U.S. Treasuries was 1.9%. After getting above 2% in the first quarter, the yield plunged to 1.7% by the end of the second quarter and 1.5% today. At today's elevated prices, we believe there is significant price risk in long-maturity bonds, so we are avoiding them. We have invested our bond portfolios with a focus on preservation of principal, and have limited the fixed-income securities to high-quality issues with short-to-intermediate maturities.