



Centier Bank  
Market Review

July 2010  
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## Global economic expansion begins to slow.

### Recent Economic Indicators

Thomson Reuters/Univ. of Michigan Consumer Sentiment	76.0
Consumer Confidence	52.9
Existing Home Sales, Annual Change	-2.2%
New Home Sales, SAAR*	300,000
Personal Income, Monthly Change	0.4%
Personal Consumption Expenditures, Monthly Change	0.2%
Non-farm Payroll Increase/Decrease	-125,000
Unemployment Rate	9.5%
ISM Non-Manufacturing Index	53.8%
ISM Manufacturing Index (PMI)	56.2%
Durable Good Orders, Monthly Change	-1.1%
Industrial Production, Monthly Change	1.2%
Capacity Utilization	74.7%
Retail Sales, Monthly Change	-1.2%
CPI, Monthly Change	-0.2%
CPI Core, Monthly Change	0.1%
PPI, Monthly Change	-0.3%
PPI Core, Monthly Change	0.2%
U.S. Trade Deficit	\$-42.3 billion
1Q10 Non-farm Productivity, Quarterly Change, SAAR*	3.6%
1Q10 GDP, Quarterly Change	2.7%

\*Seasonally Adjusted Annual Rate  
Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thompson/Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.

### Overview

Recent economic data supports speculation of slowing global economic growth. Business activity continued to expand in June, yet rates of expansion have decelerated. Recent strength in payroll employment faded for the month amid a significant decrease in temporary workers. Meanwhile, measures of inflation indicated a second consecutive month of declines. Within the global economy, China's currency decision to unpeg the yuan brought a focus to international trade activity.

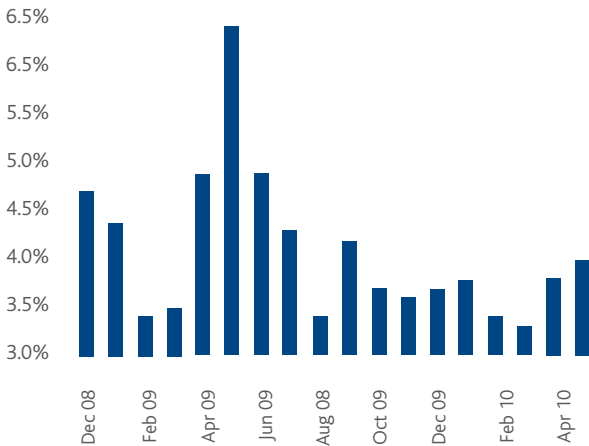
The third and final estimate for first quarter gross domestic product (GDP), released by the U.S. Department of Commerce, reflected that the economy expanded at an annual rate of 2.7%. The lower revision resulted from an upward revision in imports and a downward revision in personal consumption expenditures; exports and private inventory investment were revised higher.

Outstanding consumer credit trended lower in May, as released by the Federal Reserve. Consumer credit declined at an annual rate of 4.5%, after decreasing at a revised rate of 7.3% in April. This decline supports ongoing concerns about cautious consumer behavior and a continued focus on deleveraging personal balance sheets.

Sales of existing single family homes declined 2.2% in May to a seasonally adjusted annual rate of 5.66 million units, according to the National Association of Realtors (NAR). Lawrence Yun, NAR Chief Economist, noted that activity continues to reflect "the ongoing effects of the home buyer tax credit, which we'll also see in June real estate closings."

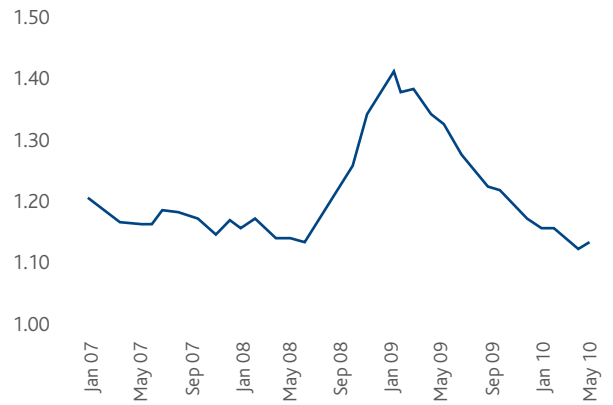
Wholesale inventories increased by 0.5% in May from the previous month amid a 0.7% increase in the durables component, according to the U.S. Census Bureau. Total wholesale sales declined for the month, causing the inventories to sales ratio to increase to 1.14. Despite the modest increase, this ratio remains well below its recession high of 1.42 in January 2009, signaling confidence among wholesalers.

**Personal Savings Rate**  
December 2007 through May 2010



Source: Bureau of Economic Analysis, U.S. Department of Labor

**Inventories to Sales Ratio**  
Total Merchant Wholesalers, Except Manufacturers'  
Sales Branches & Offices



Seasonally Adjusted  
Source: U.S. Census Bureau

## Employment

U.S. payrolls shed 125,000 jobs in June, according to the U.S. Department of Labor. The unemployment rate, however, declined 0.2% in June to 9.5%. Jobs losses for temporary Census 2010 totaled 225,000 for the month, far outweighing the 83,000 jobs added within the private sector. Although private sector employment added 593,000 jobs during the first half of 2010, this sector remains approximately 7.9 million workers below December 2007.

The Conference Board Employment Trends Index rose for the 11th consecutive month in June—up 9.8% in the last year. According to Gad Levanon, Associate Director of Macroeconomic Research at The Conference Board, advances in the index have softened the last two months which “suggests that many employers are now concerned that the recovery is losing momentum.”

## Consumer Confidence and Spending

The Conference Board Consumer Confidence Index declined significantly in June amid uncertainty in the economic outlook and the recent pullback in jobs growth. Consumers rated current economic conditions as less favorable than in May, with a mere 8.0% of the 5,000 U.S. households surveyed reporting conditions as “good.” Separately, the Thomson Reuters/University of Michigan Surveys of Consumers reached its strongest level since January 2008. Chief Economist of the Surveys of Consumers, Richard Curtin, noted that although consumers expect the pace of economic recovery to slow, confidence is high enough to fuel further increases in consumption this year.

The U.S. Department of Commerce reported that personal income increased 0.4% in June while personal consumption expenditures advanced 0.2% from May. Personal saving, as a percentage of disposable personal income, edged 0.2% higher to a 4.0% rate. Although, this represents the highest savings rate since September 2009, the personal savings rate has trended lower from the recession-high of 6.4% in May 2009.

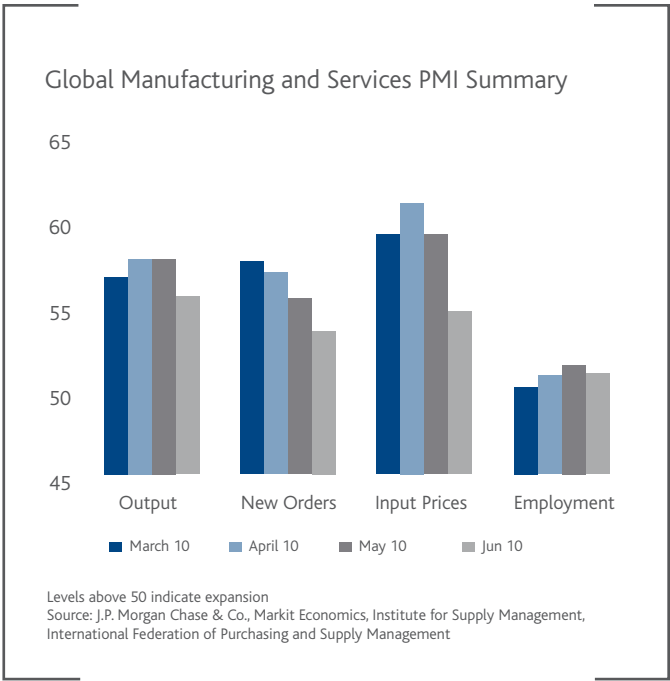
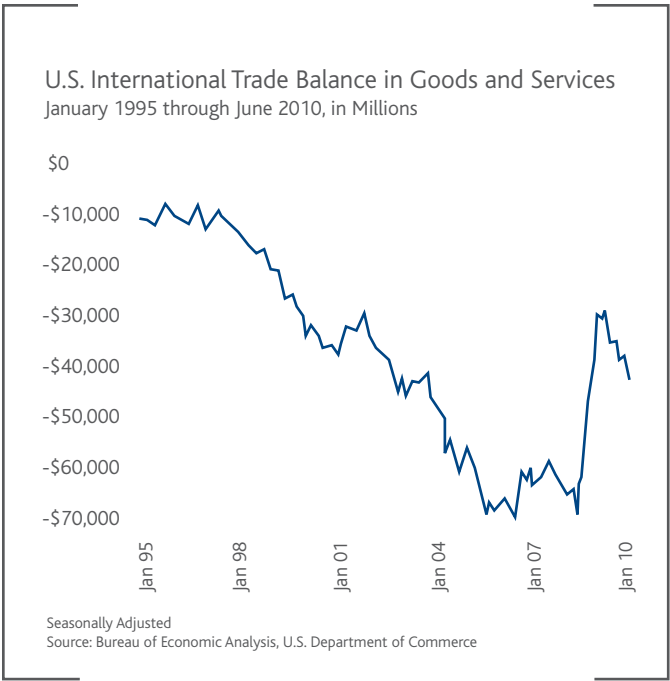
## Inflation

Following its mid-June meeting, the Federal Open Market Committee (FOMC) announced that it would maintain the target federal funds rate at zero to 0.25%. Although data continues to indicate a moderate economic recovery, the FOMC noted that low resource utilization and inflationary pressures are likely to “warrant exceptionally low levels of the federal funds rate for an extended period.” Indeed, the Consumer Price Index (CPI) reflected monthly deflation for the second consecutive month in May, declining 0.2%. Excluding the food and energy components, prices advanced 0.1% for the month. For the 12 months ending in May, CPI increased 2.0% following a 2.2% annual increase in April and a 2.4% annual increase in March.

## Business Spending

The Institute for Supply Management (ISM) announced that business activity within the manufacturing sector decelerated in June. The Purchasing Managers Index (PMI) declined 3.5 points to a reading of 56.2%, marking the slowest rate of expansion in the sector this year. Survey respondents remained “generally positive, but expectations have been that the second half of the year will not be as strong in terms of the rate of growth,” according to the report. ISM also reported slowing momentum within the non-manufacturing sector. While the sector expanded for the sixth straight month, the business activity/production, new orders, and inventories component indexes all expanded at a decelerating rate.

The Commerce Department reported that new orders for durable goods declined 1.1%, or \$2.2 billion, in May following five consecutive months of increases. However, once excluding transportation, new orders climbed 0.9% as capital goods orders increased 0.5% for the month.



**Trade**

The U.S. international trade deficit increased to \$42.3 billion in May. The U.S. Department of Commerce announced that exports grew by \$3.5 billion and imports climbed by \$5.5 billion. Higher demand for capital goods served as the greatest contributor to increased exports while stronger demand for consumer goods led imports higher.

The U.S. Department of Labor reported that the U.S. Import Price Index declined 0.6% in May, following a 1.1% increase in April. This primarily resulted from lower fuel prices. Meanwhile, export prices rose 0.7% for the month amid a 1.4% increase in agricultural prices and a 0.6% in non-agricultural export prices. Since May 2009, import prices have climbed 8.6% and fuel prices have risen 33.9%. During that period, export prices rose 5.8%, the largest one-year increase since the 12-month period ending September 2008.

On June 19th, the Peoples Bank of China (PBOC) announced that it would loosen the yuan’s peg to the U.S. dollar, which has remained at about 6.83 to the dollar for nearly two years. An article in The Economist magazine considered possible trade implications of this decision. The article discussed how China’s trade surplus has fallen during the global recession and that William Cline and John Williamson of the Peterson Institute of International Economics in Washington D.C. estimate that the yuan would only have to appreciate by 24% against the U.S. dollar and by 14% overall against its trading partners to restore “equilibrium”. However, the Wall Street Journal reported that China’s trade surplus unexpectedly rebounded in June to the highest level in six months, which may support letting the yuan appreciate more quickly. For the month of June, China’s exports exceeded imports by more than \$20 billion, signaling softening domestic demand. The yuan has appreciated 0.7% against the dollar year-to-date.

**World Economy**

Global economic growth continued in June, yet the rate of expansion slowed, according to the JPMorgan Global All-Industry Output Index, produced in association with Markit Economics. Although the index signaled growth for the 11th consecutive month, momentum within the output, new orders, and employment components has softened. David Hensley, Director of Global Economic Coordination at JPMorgan concluded that the data suggests that “growth of global GDP may have reached a near-term peak in Q2 2010.”

Economic growth within the emerging markets has also begun to wane, as shown by the HSBC Emerging Markets Index, produced quarterly in association with Markit Economics. Data for the second quarter indicated that emerging markets have experienced slower growth in new orders, particularly for manufacturing exports. Growth in output and new orders slowed in China and Brazil, but began to increase in India and Russia. The report noted that “with developed nations showing few signs of domestic demand and about to enter a period of fiscal retrenchment, world trade is likely to soften further.”

The Conference Board Leading Economic Index for China increased by 0.3% in April, significantly lower than the previously reported 1.2%, which had a calculation error. Although the index has moderated over the last year, the majority of six index components have increased. However, the report indicated that new export orders have fallen throughout much of this year and consumer expectations declined in April. China’s trade surplus signals moderating domestic demand, which could significantly impact economic activity in countries that export heavily to China.

## All fixed income sectors post positive returns.

Fixed Income Current Yields	6/30/10
3 Month U.S. T-bill	0.18%
2 Year U.S. Treasury	0.61%
5 Year U.S. Treasury	1.79%
10 Year U.S. Treasury	2.97%
30 Year U.S. Treasury	3.91%

Total Returns <sup>1</sup>	1 Month	12 Months
Barclays U.S. Aggregate	1.57%	9.50%
Barclays U.S. Govt./Credit	1.80%	9.65%
Barclays U.S. Municipal Bond	0.06%	9.61%
Barclays U.S. Corp. High Yield	1.24%	26.77%
Barclays U.S. Long Credit A	3.52%	20.12%
Barclays U.S. Treasury 20+ Year	5.51%	11.84%
Barclays Global Aggregate	1.53%	5.00%
Barclays Emerging Markets	2.51%	20.44%

<sup>1</sup> Month and 12 month ending 6/30/10  
Source: U.S. Department of the Treasury, Barclays Capital

### Overview

Continued fiscal problems in the Euro zone region again dominated bond market activity during the month, sparking another significant flight-to-quality rally. U.S. Treasuries, the classic safe-haven trade, rallied sharply with the Barclays U.S. Treasury 20+ Year Index gaining 5.51% for the month, bringing year-to-date returns to 14.89%. Largely attributable to declining leverage, increasing cash on balance sheets and lower bond defaults, corporate fundamentals continued to improve during the second quarter. Although the investment grade and high-yield sectors posted positive results, investors focused on the European sovereign debt crisis and financial reform in the U.S., which resulted in wider spreads relative to Treasuries in June.

Although prices for Treasury securities could rise even more if the situation in Europe worsens, many strategists continue to believe that current yields provide insufficient income to investors with long-term goals. Since the economy is expected to advance modestly for the rest of the year, most investors may continue to focus on improving upon the modest yields of Treasury securities by including some credit exposure in their portfolios. Because spreads have widened, the average yield on investment grade corporate bonds increased to approximately 2% better than the yield on Treasuries. High quality municipal bonds have also offered better yields than government securities and remain particularly attractive for investors in a high-income tax bracket. Finally, high-yield corporate bonds continue to offer a very attractive risk/reward profile, as the market has ignored improving fundamentals, lower default rates and cheap spreads relative to historical averages.

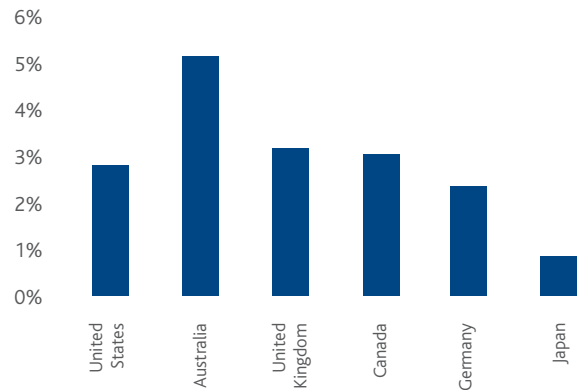
However, conservative investors may maintain positions in government linked securities including agency paper and certificates of deposits. These securities provide safety along with good diversification properties with stocks, as their returns are usually negatively correlated.

Investment Grade Corporate Spread  
In Basis Points, through June 2010



Source: Merrill Lynch

10-Year Government Bond Rates  
Latest Yield as of 6/30/10



Source: Bloomberg

## Corporate

The investment grade corporate sector rallied sharply, gaining 2.13% in June, bringing year-to-date gains to 5.79%. However, the strong flight-to-safety trade in Treasuries drove spreads wider, suggesting investor concerns about riskier assets have not yet fully dissipated. This spread widening seems to have made issuers reluctant to sell new debt. Investment grade new issuance during the first half of the year was down 20% relative to last year.

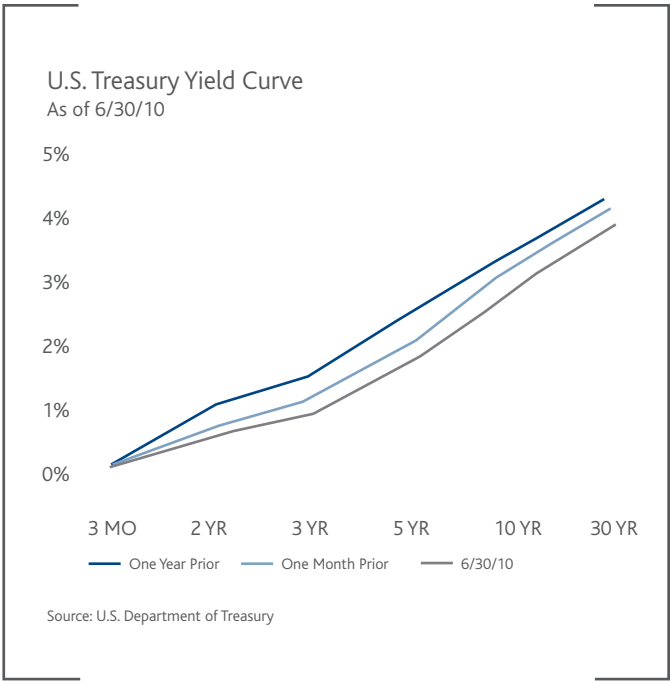
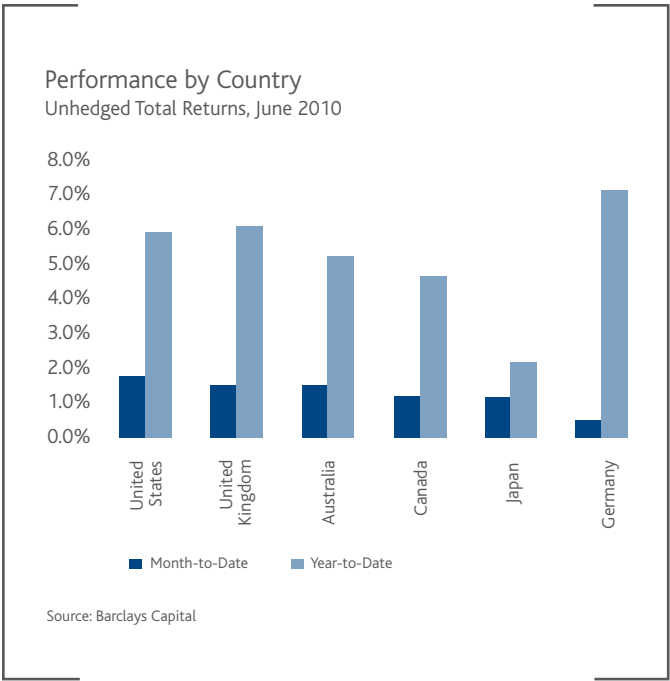
Spreads for the U.S. banks sector of the investment grade market have widened given investor concerns over financial reform and the sovereign debt crisis. However, these concerns may be misguided given recent developments in the Financial Regulatory Reform bill, which reduced some of the most contentious components of the bill. In light of this, many analysts continue to feel U.S. bank debt remains attractive given declining leverage and increasing cash on balance sheets.

High yield bonds also performed well, gaining 1.24% for the month, after dropping over 3.24% during the previous month. Historically, wide spreads combined with low default rates will likely drive investor demand higher for the junk bond market, according to many strategists. In a sign that corporate balance sheet strength has improved, Moody's default rate on speculative-grade bonds receded to just 2.03% over the last three months from a high of 12% a year ago. When default rates last reached current levels in June of 1997, high yield spreads dropped below 3%, suggesting that current spreads near 7% represent very attractive valuation levels.

## Municipals

The long-term rally in the muni market continued this month with the Barclays Municipal Bond Index squeezing out a gain of 0.06%, bringing year-to-date gains to 3.31%. This sector has now posted gains in 17 of the last 20 months. However, Treasury bond prices once again rallied much more than tax-exempt bonds, pushing AAA muni yields, as a percentage of government yields, considerably higher during the month. Ten-year municipal bond yields rose to 100% of Treasuries for the first time since May 2009, up from 80% six months ago, according to Municipal Market Advisors data. Overall demand for tax-exempt bonds fell as negative budget headlines and low yields trumped strong technicals and rising taxes expectations. With respect to supply, June new issuance levels were 21.8% lower than last year and considerably lower than the average of the past five years.

Largely attributable to recent headlines, investors continue to worry that the risk of default for municipalities is growing amid signs that some regions are facing similar difficulties curbing pension and budget deficits as some Euro zone countries. Some strategists suggest these concerns may be unfounded given the sector's low default ratio relative to other fixed income asset classes. Corporations are 98 times more likely to default than muni issuers, according to Moody's Investors Service. While severe pressures remain on some state and local governments, it is unlikely these municipalities will collapse and not pay debt service on outstanding obligations. The ongoing battle between state and local governments and civil service employees over maintaining needed services in the face of lower revenues have politicians and taxpayers focused more than ever on reducing the need for questionable programs and reining in costs. Although the struggle to reduce costs will be an arduous one, the good news for bondholders is that these concerns remain long-term in nature, which should bode well for low defaults over the near- and intermediate-term.



**International**

The Barclay's Global Treasury ex-U.S. Index posted positive results, delivering a monthly return of 1.72% on an unhedged basis and gaining 0.43% on a local currency basis, consistent with a strengthening euro. Volatility in the European sovereign space dominated headlines once again despite generally positive economic data from the core countries. Safe-haven markets rallied sharply for the month, as investors flocked to the flight-to-safety trade. Strong performers included Canada (+1.25%), Japan (+1.17%), Australia (+1.53%) and the United Kingdom (+1.54%). Market participants transitioned away from riskier regions during the month, with the weakest results coming from countries with fiscal troubles including Greece (-10.36%), Portugal (-4.11%), Ireland (-3.70%) and Hungary (-2.30%).

In another sign that the European sovereign debt crisis may be deepening, spreads, or yield differences, on bonds from Belgium, Italy, France, Greece and Spain widened against benchmark German bunds. A "supply shock" triggered by the region's banks selling government debt to repay European Central Bank loans was the primary driver of lower bond prices. Over the past 12 months, banks were encouraged to purchase government bonds during an emergency refinancing program. Because this program expires July 1, many analysts feel banks will intensify their selling schedules, driving prices even lower on peripheral country bonds in the short-term. In light of these developments, government debt from safe-haven European countries Germany and the U.K. are expected to perform well.

**Global Bond Trap?**

Some strategists are now suggesting that a focus on budget deficit reduction rather than stimulating growth in many European countries may lead to sluggish global economies, with excess liquidity directed into government bonds. The U.S. and many European countries have run-up large budget deficits over the past decade. At the same time, net exporters including Germany, Norway, Japan, and China have accumulated current account surpluses through high savings rates and low consumption. This imbalance has forged an asymmetrical global economic landscape.

Following the German and British announcements of substantial cuts in government spending in an effort to reduce budget deficits, concerns grew that these austerity measures could intensify the asymmetry in the global economy and affect the U.S. economy in a number of ways. The first would be trade as the U.S. sends 20% of its exports to Europe. A second would be an impact on financial institutions as 50% of foreign assets held at U.S. banks originate from Europe. In a letter to the G-20 nations, U.S. Treasury Secretary Timothy Geithner, made an effort to quell some of these concerns by making a case against too rapid of a reduction in government budget deficit reduction during the current period of economic uncertainty. Mr. Geithner suggests fiscal and monetary exit strategies should be "calibrated" to the timing and pace of recovery in different nations.

Raphael Gallardo, head of macroeconomic research at Axa Investment Managers says the situation could lead to what he calls a "global bond trap", as surplus savings are channeled into Treasuries and German Bunds, leading to excess demand in safe-have government debt. In this scenario, governments invest surpluses in Treasuries rather than spending in the private sector, thus resulting in lower yields along with weaker economic growth.

## Stocks slip for second straight month.

Price Change <sup>1</sup>	Month	12 Months
Russell 2000	-7.88%	19.91%
S&P MidCap 400	-6.69%	23.11%
S&P 100	-5.15%	8.84%
S&P 500	-5.39%	12.12%
Wilshire 5000 Equity Index	-5.73%	14.06%
Dow Jones Industrial Average	-3.58%	15.71%
NASDAQ Composite	-6.55%	14.94%
MSCI EAFE	-1.16%	3.13%
MSCI EM Emerging Markets	-0.91%	20.58%
MSCI EAFE Small Cap	-0.65%	9.99%

<sup>1</sup> Month and 12 Month price change as of 6/30/10  
 Source: Dow Jones Indexes, Morgan Stanley Capital International, Russell Investment Group, Standard & Poor's, NASDAQ, Yahoo! Finance

### Overview

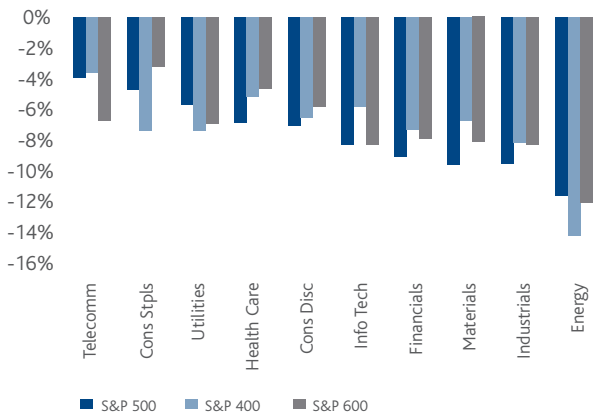
Global equity markets continued to slide in June as investors faced a glut of weaker-than-expected economics news in the U.S., continued sovereign debt worries in Europe, and the prospect of slower growth in China. Despite these recent headwinds, Standard & Poor's predicts strong earnings growth well into 2011. In fact, S&P estimates that S&P 500 operating earnings will grow, on average, nearly 4% each quarter through the end of 2011.

Apple (AAPL) announced that the company sold 1.7 million of the much anticipated iPhone 4 in just three days, the company's most successful product launch according to Apple CEO Steve Jobs. Despite the early success and an early June rally, Apple's stock lost nearly 10% from its peak when reports surfaced that a design flaw in the phone may be the cause of dropped calls. However, the stock remains in positive territory for the year, up 18.83%.

Walgreen (WAG) and CVS Caremark (CVS) stepped back from the brink when the rivals agreed that Walgreen would continue participating in the CVS Caremark pharmacy benefit management network (PBM). A bitter dispute between the two companies developed when Walgreen threatened to stop serving CVS Caremark's PBM customers, alleging that CVS Caremark was diverting customers to its own CVS stores and providing inadequate reimbursement rates.

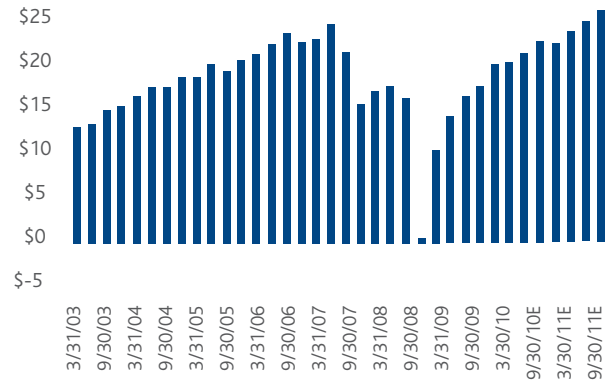
Apollo Group (APOL) announced the U.S. Department of Education completed its review of the practices at the University of Phoenix to reimburse federal financial aid when a student withdraws from classes. The review found that the university was late by an average of no more than six days and a number of corrective actions were taken to satisfy the findings of the review. However, Apollo was dealt another a blow when a \$277.5 million investor lawsuit was reinstated by a federal appeals court. The stock lost 20.11% in June and is down 29.89% in 2010.

S&P Sector Performance by Market Capitalization  
June 2010



Source: Standard & Poor's

S&P Operating Earnings  
From Q1 2003 through Q1 2010 (with estimates through Q4 2011)



Source: Standard & Poors

### Domestic Equity

Weak consumer spending data sent consumer shares lower in June; the economically sensitive consumer discretionary sector sank 9.80%, the most of the ten S&P 500 sectors. Small and mid cap consumer discretionary stocks also experienced the largest sector declines for their capitalizations, losing 12.63% and 11.44%, respectively. Telecommunications stocks and utilities stocks provided large cap sector leadership in June, losing just 0.39% and 1.02%, respectively.

Equity market losses steepened in June as market capitalization decreases; the S&P 100, comprised of the 100 largest stocks in the S&P 500, lost 5.15%, the S&P MidCap 400 lost 6.69%, and the S&P 600 SmallCap index lost 7.17%. However, on a year-to-date basis, this relationship reverses, with the S&P 100 posting the largest loss, 9.03%, the S&P MidCap 400 losing 2.06%, and the S&P 600 down just 1.40%.

Growth and value stocks returned mixed results across market capitalizations in June with large and small cap growth stocks outperforming value while mid cap value outperformed mid cap growth. The Russell 1000 Growth bested the Russell 1000 Value by just 12 basis points, bringing the year-to-date advantage of large value down to 253 basis points. The small cap stock Russell 2000 Growth trounced its value counterpart by 202 basis points, reducing the year-to-date outperformance of small cap value to just 67 basis points. The Russell Midcap Value gained 22 basis points on the Russell Midcap Growth, bringing the year-to-date advantage of value to 243 basis points.

### International Equity

International markets dropped 1.16% in June, as measured by the MSCI EAFE, far less than the declines in U.S. markets. However, on a year-to-date basis, strength in the U.S. dollar and European sovereign debt concerns have driven the MSCI EAFE down 14.72%. Stocks in Greece, the primary source of concern, continued to slide, losing an additional 10.67% in June, bringing the year-to-date loss of the MSCI Greece Index to 49.05%.

BP (BP) remained in the spot light as the oil giant dealt with the continued political and economic fallout of its oil spill in the Gulf of Mexico. BP shares plunged 32.76% in June as estimates of the rate at which oil gushed into the gulf increased, rumors surfaced that the company would slash its dividend, and Gulf Coast states geared up to seek damages from BP for lost revenue.

Emerging markets fared slightly better than developed markets in June, with the MSCI Emerging Markets Index losing 0.91%, 25 basis points better than the MSCI EAFE. However, emerging markets have lost 7.22% year-to-date, 750 basis points better than international developed markets. The MSCI BRIC Index, which measures the performance of Brazil, Russia, India and China, lost 1.04% in June but with a stark contrast between the index constituents: Brazil (-4.48%) and Russia (-4.20%) sold off while China (0.90%) and India (3.89%) both gained.

## Gold surges as investors seek refuge in a volatile environment.

Price Change <sup>1</sup>	Month	12 Months
Dow Jones UBS Commodity Index	0.32%	0.79%
Oil	-0.08%	-5.24%
Copper	-5.59%	29.65%
Gold	2.55%	26.23%
NAREIT- All REITS	-4.53%	5.56%
NAREIT-Industrial/Office	-6.77%	46.01%
NAREIT- Residential	-6.24%	74.27%
S&P Global Property Ex-U.S.	-1.61%	22.05%
HFRI Emerging Markets Index	-0.36%	15.05%
HFRI Fund Wtd Comp. Index	-0.81%	9.31%
HFRI Equity Market Neutral	-0.40%	0.88%
HFRI Event Driven	-1.10%	16.46%
HFRI Market Defensive	-0.10%	-0.20%
HFRI Merger Arbitrage	0.11%	5.86%
HFRI Short Bias	3.73%	-18.80%

Month and 12 month price change as of 6/30/10  
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard and Poor's, wsj.com - Market Data Center.

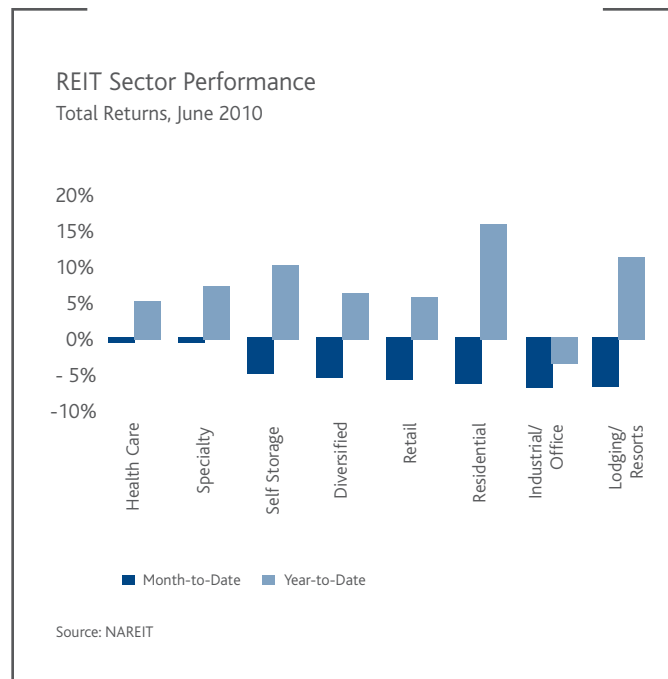
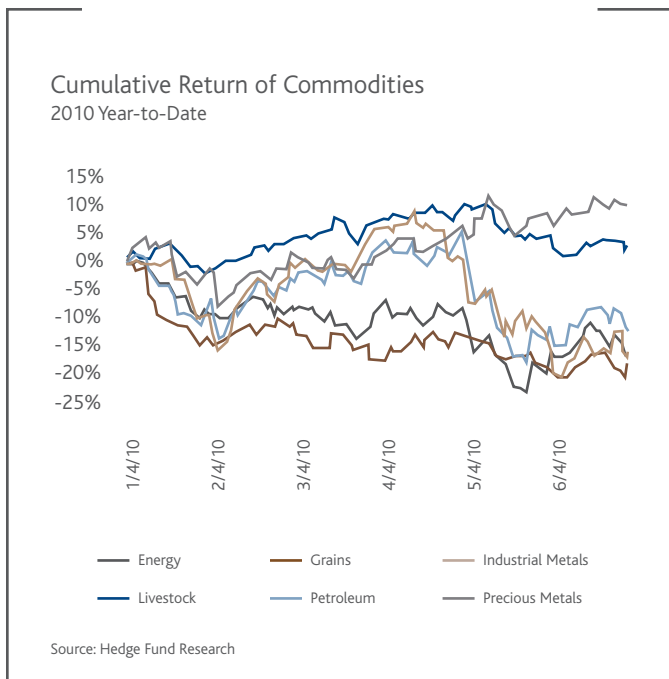
### Overview

Activity in the alternative investment space in June reflected persisting concerns about a slower rate of economic recovery in the U.S. consumer, manufacturing, and housing sectors as well as ongoing unease with the European sovereign bond crisis and the BP oil spill in the Gulf of Mexico. Commodities traded with great volatility and mixed results, with gold reaching a record high mid-month as investors flocked to less-risky assets and crude oil slipping slightly negative as investors reacted to the gulf disaster. Real estate continued its downward trend, though it still outpaced equities in the second quarter as the FTSE NAREIT All REIT Total Return Index dropped 3.66% compared to the 8.50% decline in the Dow Jones Industrial Average.

### Commodities

As measured by the Dow Jones UBS Commodity Index, commodities as a whole were up slightly in June, rising 0.32%. Futures contracts traded choppy in a month where mixed economic data and heightened concerns of deflation stemming from the European debt crisis slowed growth expectations, increasing safe-haven buying in gold and sending other commodity prices into wild fluctuations. The best performing commodities through the first half of the year include coffee, orange juice, and gold, which have gained approximately 17%, 11%, and 10%, respectively. The worst performing commodities for the first half of 2010 include rough rice, sugar, and lumber, which have lost nearly 29%, 24%, and 20%, respectively.

Gold prices rose to a record intraday high on June 18, topping out at \$1,263.70 an ounce in New York as investors moved away from currency investing. Prices edged down the rest of the month on speculation that the rally was overdone, leaving gold up 2.55% for June. Crude oil finished the month essentially flat, experiencing volatility that can be traced to surprisingly high inventories and the BP oil spill disaster in the Gulf of Mexico. Some analysts predict that the aftereffects of the oil spill, potentially including increased costs, new regulations, and delayed production, could eventually inflate the price of crude oil.



#### Private Equity

Fundraising by U.S. private equity firms totaled \$45.1 billion through the first half of 2010, down nearly 26% from the same period a year ago. Jennifer Rossa, managing editor of Dow Jones Private Equity Analyst, said that “the absence of mega buyouts, which drove private equity fundraising to new peaks a few years ago, is now keeping the total capital raised at lower levels.” In contrast, U.S. venture capital firms raised an impressive \$7.5 billion in the first half of the year, up 13.5% from a year earlier. The gains come despite increasingly poor performance data on venture funds, with 10-year performance at -0.9% as of the end of 2009.

In a recent research report conducted by the London Business School, private equity is found to generate alpha. In its broadest sense, alpha implies returns have exceeded inherent risk and that the investment outperformed relevant benchmarks. There is much debate within the investment community whether private equity generates alpha or if performance is attributed to levered beta and market riding. The report concluded that an alpha component is responsible for nearly 5% of overall performance, helping buyout funds top public markets.

#### Real Estate

Real estate suffered its second negative month in a row, with the FTSE NAREIT All REIT Total Return Index dropping 4.53%. A market analysis released by FTSE attributed the poor performance to “broader stock-market concerns fueled by the European debt crisis, which prompted investors to cut back their holdings.” Every property sector and subsector lost ground in the month of June, with the industrial properties faring the worst with a decline of 9.02%. The residential sector retains the lead in year-to-date gains, rising 15.69% in the first half of 2010, while the industrial/office sector is the only category in negative territory, losing 3.46% since the beginning of the year.

Apartment REITs were the brightest spot in the market for the first half of the year, rising 16.29%. Investors have been drawn to apartment buildings as the economic downturn has caused many former homeowners to have lost their homes to foreclosure, forcing them to rent. Exasperating the situation is the limited availability of new financing, slowing new construction in recent years, and constraining the amount of new supply. Some of the largest apartment landlords in the U.S. have reported that rents have stopped declining in recent weeks, with some even reporting modest increases in rental rates.

#### Hedge Funds

Hedge fund managers have faced a frustrating market environment in recent months, with high volatility, low volumes, and myriad conflicting political and economic forces making it difficult for firms to formulate solid medium- and long-term stances. Credit Suisse Group, a prime broker that services hedge funds, reported that its hedge fund clients increased their cash positions by 5% over the past three months, now representing 24% of their assets. Some hedge fund managers, including the highly successful Paulson & Co., are seeking refuge from the temperamental markets by positioning large portions of their assets in safe-haven gold investments.

The HFRI Fund Weighted Composite Index dropped 0.81% for the month of June, dragged down by concerns regarding currency policy changes, sovereign credit risk, and the impact of the gulf oil spill disaster on both the economy and the energy sector. The weakest performance was in the Equity Hedge area, with the HFRI Equity Hedge (Total) Index, falling 1.50% as funds focused on fundamental value and energy/basic materials pulled the sector down substantially. The HFRI Relative Value (Total) Index had the best performance in June, rising 0.40% as broad fixed income exposure complemented gains in volatility and MLP-focused strategies.



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