



## PACIFIC ASSET MANAGEMENT

July 21, 2010

Enclosed are 2nd quarter statements for your review. After four consecutive quarters with very strong performance, which continued into April, the equity markets saw a sharp reversal in May and June and ended the second quarter with large negative returns. The broad US market lost over 11% in the quarter, with most asset classes delivering double-digit negative returns.

Performance in other developed markets around the world was generally worse, especially in Europe. The worst-performing developed markets in the quarter were mainly European countries in the midst of severe sovereign-debt crises such as Greece and Spain. The sovereign-debt crises initiated a flight to safety, which generated good second quarter returns from fixed income securities.

The market correction that has taken place the last two months should come as no surprise. The prior thirteen months had seen the equity market go up 80% without so much as a 10% correction. Historically, this is unheard of and was truly an anomaly.

We cannot emphasize enough that volatility is your friend, not your enemy. The premium returns from equities are only available at the cost of such volatility as they are two sides of the same coin. To be a successful investor one has to embrace this volatility rather than fleeing from it. In many respects it is no different than accepting the turbulence that comes with choosing to fly in an airplane. Sometimes the turbulence can be a bit unnerving, but most of us learn to accept it for the profound benefits of air travel.

It is impossible to predict how the markets will behave in the short to intermediate term. Accordingly, your asset allocation should not be changed based solely upon perceived market conditions. Asset allocation adjustments are appropriate when based upon changes in personal goals or life circumstances. We encourage you to revisit your asset allocation with us any time you feel it is necessary.

We commend all of you for adopting and sticking with the most prudent investment philosophy we are aware of. We also thank you for the many referrals you have sent our way. We hope you will continue to share our name with any of your family and friends whom you feel would benefit from our investment philosophy.

Best regards,

"The Pacific Asset Management Team"