CORE EQUITY REVIEW

Second Quarter 2012

PERFORMANCE COMMENTARY

Were we April fools not to sell in May and go away? It certainly looked that way for much of the quarter as May/June followed the pattern of recent second quarters with a sharp selloff and a modicum of recovery in June. Positive news out of Europe prompted a premature 4th of July skyrocket pushing the market up 2+% on the last day of the quarter. This one day response went a long way to salvaging the quarter in relative terms. The broad market as defined by the S&P 500 market closed down 2.75% and both the Russell 1000 Growth and Russell 3000 Growth were down 4.0% for the quarter.

The responses of investors seemed to be logical if one focused on headline news and renewed concerns re a slowing economy rather than considering corporate earnings or managements' comments in their tempering of expectations. Defensive plays Telecom and Utilities (which lagged so much in the "risk on" first quarter) were up 14.1% and 6.5% respectively, and were the only two sectors that provided a meaningfully positive return. Telecom stocks are now the best performing sector for the first six months of the year, up 16.5%.

In the grand scheme of things, most investors would be thrilled with a long term return equal to the 9.5% percent return of the S&P 500 for the first half of the year, or better yet the 10.1% return for the Russell 3000 Growth. All too often the responses of investors seem to be, "so what, look at the magnitude of issues before us and the proverbial mountain we have to climb". That the market has generated a meager return at best for the last five years is a bitter pill that cannot seem to be swallowed. So many persons are still mentally and emotionally encumbered by the actions and events of the recent past and hence focus on the negative instead of the positive changes taking place (albeit at a measured pace).

Core Equity was not immune to investor concerns during the quarter but did achieve its objective of preserving capital in a declining market as compared to the benchmark indices. Historically, this strategy lags in rapidly rising markets, participates fully in normalized markets and outperforms in down markets.

	Periods Ending June 30, 2012				
	Quarter	1 Year	3 Years	5 Years	10 Years
Core Equity Composite – NET	**-0.9%**	**4.1%**	**16.5%**	**4.9%**	**8.9%**
Russell 1000 Growth Index	-4.0%	5.8%	17.5%	2.9%	6.0%
S&P 500	-2.7%	5.4%	16.4%	0.2%	5.3%

Composite performance is reported **GROSS** of fees and expenses. Please refer to the disclosures at the end of this report.
Performance figures for periods one year and longer are annualized.

For our non private clients the return for the quarter was -1.02%. The telecom stocks (broadly defined) **Verizon (VZ)**, **ATT (T)** and **American Tower (AMT)** were the top three performers in the Quarter up 17.8%, 15.8% and 11.6% respectively. **Union Pacific (UNP)** up 11.6% and **Duke**

Energy (DUK) up 11% rounded out the top five contributors to performance. Slightly over half of the portfolio had positive returns for the quarter but our technology holdings, again broadly defined, negated those gains. The preponderance of companies owned had generally supportive earnings reports. Nine of the thirteen holdings in the portfolio that generated a negative return in the quarter were technology stocks. **Universal Electronics (UEIC)** was down 34% on lowered guidance. **Cisco (CSCO)** was down 19% and **Computer Sciences (CSC)** was down 16%. CSC also announced a delay in contractual work with the NHS in the UK which will depress earnings in the short run. **Qualcomm (QCOM)** and **CREE (CREE)** were both down 18% and 19% on concerns relating to a slower than expected ramp of sales in the near term. These companies are leaders in their respective fields.

PORTFOLIO COMMENTARY

We are long term investors preferring to let managements build value over time. Having added two holding to the portfolio in the last week of Q1, we had negligible activity otherwise in the quarter. We did round out our initial position in **Apple (AAPL)** in mid April as the stock pulled back to our earlier purchase price levels. We sold our position in **Websense (WBSN)** to fund AAPL. WBSN, which has been a holding for several years, was a relative opportunity sale in that we believed rounding out our AAPL position at current levels provided more upside opportunity than a slower growing WBSN.

As strategic investors, we do not limit ourselves in terms of seeking opportunity by market capitalization or style. However, there are overriding beliefs. Our Core equity strategy is designed to provide downside protection in stressed markets and approximate market returns in normalized markets. We try to accomplish this by owning either companies with slower growth attributes that pay a significant dividend or companies with superior growth prospects. However, all incorporate or share one overriding characteristic – they should be beneficiaries of supportive long-term demand trends.

For our wealth preservation focused clients we see dividends as affirmation that companies are well established entities with strong balance sheets and sufficient cash to disburse to shareholders. We expect an investment return from both an increase in dividends and stock appreciation. Currently roughly 20% of the portfolio (the defensive component), focuses on yield and serves to provide a sea anchor in down markets. The telephone stocks (VZ, T, VOD), utilities (DUK), and large cap pharmas (BMY & GSK) all currently offer yields of greater than 4.5%.

Another 20% of the portfolio pays no dividend and is engaged in what we refer to as the sciences (broadly defined). Their focus is on forging the future – Apple (AAPL), Google (GOOG), Computer Sciences (CSC), Universal Electronics (UEIC) and Cree (CREE). Intel (INTC), Microsoft (MSFT), Qualcomm (QCOM) and Cisco (CSCO) also fit into this grouping of companies that are transforming society and pay a dividend as well.

For the balance of the portfolio we invest in companies having, what we see, as special attributes: a unique product or positioning in an industry, scale sufficient to be a dominant participant, engagement in oligopolistic industries with reduced competitive concerns, and managements with sufficient vision and capabilities to adapt successfully to an ever changing world. Union Pacific

(UNP), Canadian Pacific (CP), UPS (UPS), John Deere (DE), Boeing (BA), and the cell tower companies American Tower (AMT) and Crown Castle (CCI) compete in businesses with few participants and significant barriers to entry.

The drive to feed an increasingly prospering Asia and ever growing population leads us to our holdings in Bunge (BG) and Dupont (DD) for its crop protection and hybrid seed business. Dupont is also a world leader in the manufacture of enzymes polymers and industrial coatings. In addition to being a leading health care company in Europe, Bayer AG (BAYRY) is engaged in the production of crop protection fungicides, pesticides and herbicides. We own FMC (FMC) because it is a leading producer of lithium for electric batteries, but it also has a significant crop pesticide business.

Investing on a focused basis in sectors with supportive attributes and only companies demonstrating exceptional capabilities and positioning is the cornerstone of our investment philosophy and drives our process. Both over the first half of the year and over time this approach has been consistently applied and served investors well.

MARKET COMMENTARY

There are several primary and persisting forces – or factors – that undergird our strategy for such long-term oriented investing. These are so omnipresent, so gentle; and, as the air we breathe so apparent, little or no consideration is given to their presence, or so it seems. Take a moment for comprehension of the effects of just these four:

(1) Generally speaking, shares of thriving enterprises are uncommonly cheap compared to commonly-used metrics, and relative to the very low yields from investment-grade bonds.

(2) For pervasiveness and for force of macro influence, give top ranking to the now-visible unfolding of a long downtrend in the cost of fuels. There is a massive economy-based downward trend now underway in prices of fossil-derived fuels and feed stocks that is washing out the political support that fueled the huge price advances in recent years. The unrelenting economic competitive pressures of alternative sourcing of energy, the more efficient use of energy, and the recent-year discoveries of gas and oil all act to overwhelm the political price of oil that elevated prices by five times, from the twenties of dollars a barrel to top one hundred and forty dollars. An enduring downtrend seems probable. All are affected, from the cost of fuel used in climate control of homes to nearly all forms of transportation and industrial activity. This should act as a stimulus from top to bottom for most of the world. The effects of cheaper fuels and feed stocks can prove much greater than the stimuli of tax cuts, for cost benefits are so general, so immediate, and so tangibly specific.

(3) There is a moderate slowing of economic activity in most leading nations (and weakness in some smaller nations) that should be providing a great gift of assurance to investors. This acts in concert with the other factors tending, as mentioned, to lower the prices of fuels, and acts also to extend the duration of the truly extraordinary low rates of interest on money for most of its uses or applications. Given such beneficial effects of this moderation in economic activity, it is amazing to see how often this breeds anxiety among investors instead of embrace.

(4) Very importantly, most well-managed major enterprises have been prospering without setback for thirteen quarterly reportings of revenues and earnings. Of course, incremental gains are diminishing, owing to the increased heights for base comparison, and to the contemporary slowing of growth for many nations. However, rarely have these major enterprises been so self reliant in financial resources, in universal presence, in power of product positions, and in intent.

The winds of change in immediate months are likely to be more gusty than directionally prevailing, heated also by the volatile emotions that arise from some of the provisions of the Health Care Act. And dismal dread-of-dreads, this is a Presidential election year in which the priceless reminders of the blessings of a benign constitutional democracy, sustained by an open election process, get overwhelmed by the noise of contest. America will be wafted and blown by many acrid breezes that maybe (or maybe not) the election will clear and the resolution of Europe getting its fiscal house in order may continue to be a series of halting progressions.

So, the stock market interplay of the constancy of rationalizations vis-à-vis the volatility of emotional responses seems to want to go on. Meanwhile, how long must we wait for welcome fresh new breezes that could universally blow away discontent, dissent, denial, and consequential governmental dysfunction? The message for investors is largely this: Attitudinal funks are not the stuff that supports proper appraisal of specific enterprise worth, or the appraisal of forces derived from commerce and from societal factors that influence valuations of financial assets. Perhaps something is to be gained toward perceiving contemporary reality and prospective opportunities in juxtaposing these seemingly morose, and sometimes phantasmagorical, interpretations against the solid real world evidence of significant contra trends. Today's apparent discounted mispricing of equity securities makes prospective appreciation of prices appear to be larger and more likely.

For the enterprises whose shares we have selected for clients, there is a very minimum of scattered adverse occurrences. For market share prices, the score differs. The correlations between corporate progress and share price changes are disproportionate. Strategically and proverbially speaking, bet on the steadiness of the tortoise to win the race against the speedy, but distraction susceptible, hare.