

Second Quarter 2010 – Market Review

The financial markets were mixed in the second quarter of 2010. Even with a \$1 trillion loan package (bailout) by the European Union, the sovereign debt crisis in Greece and potentially much of southern Europe shook investor confidence. Most U.S. and international stock indexes lost more than 10% during the quarter and finished at their lowest level of the year. Bonds rose nearly 4% during the quarter, while cash earned nothing.

All equity sectors were negative for the quarter, with the worst performer being energy (-23%) after the BP disaster in the Gulf of Mexico. BP stock fell 50% and crude oil prices dropped 10%. Given the troubles in Europe, the U.S. dollar rose almost 10% versus the Euro, but lost about 6% versus the Japanese yen as Japan enjoyed status as an alternative safe haven currency.

Asset Class Returns - Before the Impact of Inflation						
	Investment Type (Index)	2nd Qtr	1 Yr	3 Yr	5 Yr	10 Yr
Equity	Large Cap (S&P 500)	-11.4%	14.4%	-9.8%	-0.8%	-1.6%
	Broad-Market (Russell 3000)	-11.3%	15.7%	-9.5%	-0.5%	-0.9%
	Large Cap Growth (Russell 1000 Growth)	-11.8%	16.3%	-6.9%	0.4%	-5.1%
	Large Cap Value (Russell 1000 Value)	-11.2%	16.9%	-12.3%	-1.6%	2.4%
	Mid Cap (Russell Mid-Cap)	-9.9%	25.1%	-8.2%	1.2%	4.2%
	Small Cap (Russell 2000)	-9.9%	21.5%	-8.6%	0.4%	3.0%
	International Equities (MSCI EAFE)	-14.0%	5.9%	-13.4%	0.9%	0.2%
	International Emerging Markets (MSCI EMF)	-9.1%	20.6%	-4.7%	10.2%	7.5%
	Commodities (Dow Jones AIG)	-4.8%	2.8%	-8.4%	-1.3%	4.4%
	Real Estate Investment Trusts (NAREIT)	-4.1%	56.0%	-10.3%	2.2%	10.7%
Bonds	Gov't & Corporate Bonds (Barclays Gov/Credit)	3.9%	9.7%	7.4%	5.3%	6.5%
Cash	Cash (T-Bills)	0.0%	0.2%	1.6%	2.8%	2.7%
	Inflation (CPI)	0.5%	1.4%	1.6%	2.4%	2.4%
Asset Class Returns - After Inflation						
	Investment Type (Index)	2nd Qtr	1 Yr	3 Yr	5 Yr	10 Yr
Equity	Large Cap (S&P 500)	-11.9%	13.1%	-11.4%	-3.2%	-4.0%
Bonds	Gov't & Corporate Bonds (Barclays Gov/Credit)	3.4%	8.3%	5.8%	2.9%	4.0%
Cash	Cash (T-Bills)	-0.4%	-1.2%	-0.0%	0.4%	0.3%

Over the last ten years the real returns (the return after inflation) on some stock indexes have been negative. In the case of the S&P 500 the ten-year real return is a negative 4.0%. Interestingly, the real return on Government and Corporate bonds has been a positive 4.0% over the same time period. Data on mutual fund investment flows show that over the last 18 months investors have been exiting equity funds and investing heavily into bond funds. But a look back at stock market history reveals a common pattern and suggests that investors should be well served by maintaining their equity exposure. An examination by the American Funds of the periods following 17 major declines shows how rapidly the market can turn after hitting bottom, rising an average of nearly 56% during the first year. But history also shows that while the gains might moderate over time,

the market's momentum continued for at least four more years. Every market decline is different. A look back at stock market history shows that retreats have varied widely in intensity, length and

frequency. But many of them share a common pattern. In many cases, market declines have been followed by at least five years of gains, interrupted by only the occasional down year.

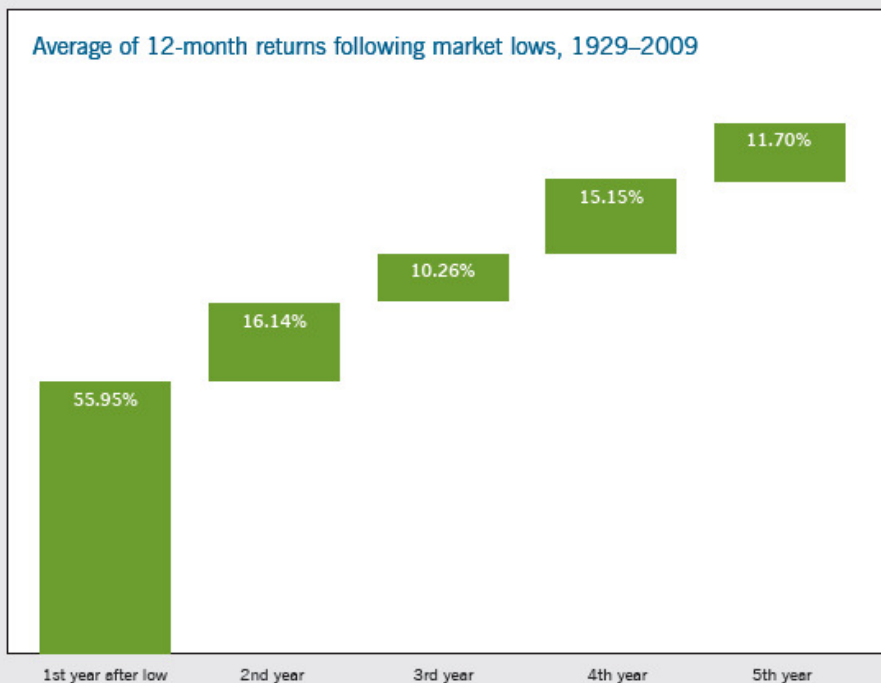
A look at all the one-year periods for the five years following these 17 significant declines, a total of 81 years, reveals that the S&P 500 advanced in 67 of those years, and declined in only 14.

While the 2008-2009 decline ranks as one of the most severe on record, the chart shows that this isn't uncharted territory for the market. Of course, past results offer no guarantee of future results; however, from the 1930s into the 21st century, the market has exhibited a reassuring pattern of rewarding long-term investors.

Market crises are traumatic and costly. But ultimately, the market has not only survived, but thrived. For more than a century, the U.S. market has endured wars, recessions, assassinations, bubbles and busts. And each time it has come back. Through it all, the market has demonstrated a remarkable strength and resiliency in the face of challenges.

S&P 500 returns after major market declines show rallies have been sustained

Average of 12-month returns following market lows, 1929-2009



The return for the first year, which includes the most recent downturn, represents the average of the 12-month returns following 17 major market declines; returns for the years thereafter are based on 16 declines. Dates (from high to low) of the declines included in the illustration are as follows: 9/7/29-6/1/32, 9/7/32-2/27/33, 7/18/33-3/14/35, 3/6/37-4/28/42, 5/29/46-6/13/49, 1/5/53-9/14/53, 8/2/56-10/22/57, 12/12/61-6/26/62, 2/9/66-10/7/66, 11/29/68-5/26/70, 1/11/73-10/3/74, 9/21/76-3/6/78, 11/28/80-8/12/82, 8/25/87-12/4/87, 7/16/90-10/11/90, 3/24/00-10/9/02 and 10/9/07-3/9/09. Each market downturn reflects a period of more than 80 days and a decline of about 15% or more in the S&P 500's index value. The index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions or expenses.

Throughout the decades, S&P 500 recoveries have had the strength to carry on

Market high	Market low	Percent decline	12-month returns					Avg. annual total returns for five years after low
			■ Positive periods (67) ■ Negative periods (14)					
			1st year after low	2nd year	3rd year	4th year	5th year	
9/7/29	6/1/32	-86.22%	137.60%	0.52%	6.42%	56.68%	16.52%	35.93%
9/7/32	2/27/33	-40.60	105.43	-14.77	74.12	29.05	-32.50	21.57
7/18/33	3/14/35	-33.93	88.37	30.91	-37.51	25.94	-0.65	14.03
3/6/37	4/28/42	-60.01	64.26	8.96	31.08	32.19	-19.89	19.96
5/29/46	6/13/49	-29.61	52.74	20.95	20.33	3.38	27.04	23.90
1/5/53	9/14/53	-14.82	45.46	50.22	9.19	-1.41	12.76	21.54
8/2/56	10/22/57	-21.63	36.30	13.23	-1.44	32.52	-17.10	10.82
12/12/61	6/26/62	-27.97	37.42	21.12	5.10	7.56	9.57	15.57
2/9/66	10/7/66	-22.18	37.34	10.04	-7.37	-3.08	18.89	10.04
11/29/68	5/26/70	-36.06	48.96	14.56	0.37	-15.06	7.28	9.31
1/11/73	10/3/74	-48.20	44.43	25.99	-2.86	11.79	12.82	17.39
9/21/76	3/6/78	-19.41	18.76	17.20	25.80	-11.19	48.59	18.24
11/28/80	8/12/82	-27.11	66.11	6.80	18.52	34.65	40.98	31.90
8/25/87	12/4/87	-33.51	25.92	33.76	-3.74	20.31	17.12	17.97
7/16/90	10/11/90	-19.92	33.55	8.82	17.71	3.93	27.75	17.83
3/24/00	10/9/02	-49.15	36.15	9.91	8.51	15.09	18.05	17.14
10/9/07	3/9/09	-56.78	72.28	N/A	N/A	N/A	N/A	N/A
Average of 12-month returns			55.95	16.14	10.26	15.15	11.70	Avg.: 18.95

The percent decline is based on the index value of the S&P 500 excluding dividends and/or distributions. Each market downturn reflects a period of more than 80 days and a decline of about 15% or more in the S&P 500's index value. The index is unmanaged, and its results include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions or expenses.

"It is fun to be in the same decade with you." Franklin D. Roosevelt, in a letter to Winston Churchill