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### Equities Up in April Along with Earnings

Equity markets posted solid returns for April thanks to a strong rally in the latter half of the month. After some initial hesitation ahead of the earnings reporting season, buyers were eventually enticed by the steady stream of positive earnings surprises. In addition, interest rates steadily declined throughout the month, making bonds a less attractive alternative investment. The S&P 500 reached a new recovery high of 1363.61 and closed out the month with a +2.9% gain. There was a clear change of market leadership during the month, favoring larger more stable companies. The Dow Jones Industrial Average posted a +4.0% return, well ahead of the more speculative small cap Russell 2000 average which rose just +2.6%. On a year-to-date basis and including reinvested dividends, the Dow and Russell 2000 showed returns of +11.5% and +10.8%, respectively, compared with a +9.1% return for the S&P 500. While energy and industrial stocks remained two of the best performing sectors year-to-date, healthcare and consumer staples were the two best performing sectors for the month. This seems to be a clear sign that investors are shifting towards safety. Meanwhile, precious metals and oil continued their rapid ascent, while the dollar continued to slip lower. Thus far in 2011, the dollar has declined -7.6% while gold and oil have risen +9.5% and +24.7% respectively.

S&P 500 Sector Data as of April 30, 2011								
	Adjusted Market Cap (\$Million)	Index Level	Performance			Performance Versus S&P 500		
			Month to Date	Quarter to Date	Year to Date	Month to Date	Quarter to Date	Year to Date
<b>Total Returns</b>								
S&P 500 (TR)	N/A	2,305.76	2.96%	2.96%	9.06%			
<b>Price Returns</b>								
S&P 500	12,429,943	1,363.61	2.85%	2.85%	8.43%			
<b>Price Returns By Sector</b>								
Energy	1,626,465	598.02	1.48%	1.48%	18.01%	-1.37%	-1.37%	9.58%
Health Care	1,400,361	407.59	6.42%	6.42%	11.74%	3.57%	3.57%	3.31%
Industrials	1,395,601	334.56	2.69%	2.69%	11.10%	-0.16%	-0.16%	2.67%
Cons Disc	1,317,163	320.38	3.89%	3.89%	8.41%	1.04%	1.04%	-0.02%
Cons Staples	1,294,673	324.45	5.05%	5.05%	6.87%	2.20%	2.20%	-1.56%
Info Tech	2,245,717	429.83	2.92%	2.92%	6.25%	0.07%	0.07%	-2.18%
Materials	455,108	254.48	2.05%	2.05%	6.21%	-0.80%	-0.80%	-2.22%
Utilities	401,737	168.11	3.83%	3.83%	5.51%	0.98%	0.98%	-2.92%
Telecom Services	370,506	134.14	0.67%	0.67%	4.20%	-2.18%	-2.18%	-4.23%
Financials	1,922,610	220.49	-0.10%	-0.10%	2.66%	-2.95%	-2.95%	-5.77%

\*Source: Standard & Poor's.

## Positives

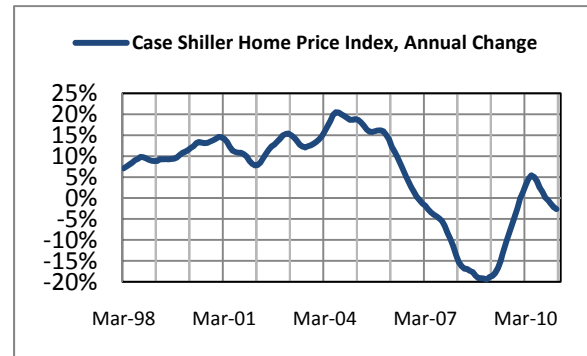
The labor market continues to slowly heal. While the weekly unemployment claims have edged higher, they still point towards rising employment. Several other surveys and reports point to improvement in the labor markets as well. The improving labor markets have contributed to rising consumer spending and allowed consumers to repair their balance sheets. This bodes well for future economic growth.

The manufacturing sector continues to be a major source of strength for the economy. Corporate sales and profits are robust, and should support the recovery. This, despite the temporary disruptions in the supply chain and higher input costs due to the Japanese earthquake.

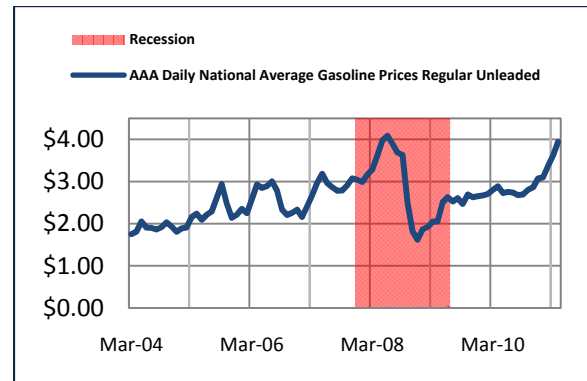
Another key positive is the rapidly improving fiscal situation in state governments. State tax revenues are rising due to increased employment and surging corporate profits. Coupled with a decline in state payrolls, many states have started to improve their finances a lot more rapidly than expected. The states still need to address their long-term deficits resulting from pension obligations. However, what once was a drag on the economy should at worst, have a neutral effect.

## Negatives

While we expect positive economic growth prospects, there are several key risks that must be monitored. Housing prices are declining according to several national price indices. This may just be a payback for prior tax credits, as there are signs of stability. However, coming at the time of record housing affordability according to the NAR, declines in housing prices remain a key risk and we don't think the economy could withstand housing prices falling another 10%. A significant decrease in housing prices from here would be problematic for the consumer and the economy. Rising household formations and apartment rents lead us to believe that the worst of the housing debacle is behind us, even if we don't expect prices to materially increase in the next couple of years.



Our second big concern is higher inflation. The Consumer Price Index has been increasing lately, primarily due to food and energy costs. Gas prices are increasing rapidly. Rising energy costs helped sink the consumer in 2008, while declining prices at the pump marked the bottom for the economy and the stock market in 2009. With an improved, but still fragile consumer, escalating inflation would not be good for the economy or the financial markets.



## Key Questions

The first key question is what will happen when quantitative easing ends? JLAM believes ending the Federal Reserve's easy monetary policy is necessary for the long-term health of the economy. However, the economy may slip into a recession without it. The end of quantitative easing in 2010 led to a growth scare and a slowdown in the economy. As for fiscal policy, we think reducing government spending is a long-term positive, but could slow growth in the short-term. It remains to be seen whether the politicians are willing to risk a growth pause before an election year. JLAM thinks the economy will continue to grow as rising corporate earnings coupled with improving

consumer and state balance sheets offset the fiscal and/or monetary tightening.

Another key question is the effect of the United States being placed on negative watch by Standard & Poor's. In our opinion, the effect is minimal in the short-term. If anything, it may be a positive if it jolts the leaders and citizens of the United States to develop rational spending policies. Not all analysts believe that the United States is still worthy of a stable AAA rating. If the country keeps on its current spending path, then a downgrade would be likely. Markets will react negatively before that occurs. Ratings changes should be seen as a lagging, not leading indicator of the health of the government's finances.

### Cautious Short-Term

The S&P 500 generated a total return of 9.06% through April 30, 2011. The S&P 500 is now at the top end of our valuation range. We are still able to find value in the equity markets, but we are being more selective and hope to be opportunistic if a pullback occurs. We currently prefer information technology and healthcare stocks, and hope to add to our positions in the energy and industrial sectors should a correction occur. We are not bearish, but believe a little bit of caution is merited after the equity markets have doubled off of their bear market lows.

Monthly Market Statistics							
				Monthly	YTD	12-month	
	12/31/10	03/31/11	04/30/11	% Change	% Change	High	Low
<b>DJIA</b>	11,577.51	12,319.73	12,810.54	3.98%	10.65%	12,391.25	9,686.48
<b>S&amp;P 500</b>	1,257.64	1,325.83	1,363.61	2.85%	8.43%	1,343.01	1,022.58
<b>S&amp;P Midcap 400</b>	907.25	989.05	1,015.26	2.65%	11.91%	989.05	700.16
<b>NASDAQ Composite</b>	2,652.87	2,781.07	2,873.54	3.32%	8.32%	2,833.95	2,091.79
<b>NASDAQ 100</b>	2,217.86	2,338.99	2,404.08	2.78%	8.40%	2,397.94	1,728.34
<b>Russell 2000</b>	783.65	843.55	865.29	2.58%	10.42%	843.55	590.03
<b>NYSE Arca Tech 100</b>	1,084.81	1,152.77	1,196.29	3.78%	10.28%	1,200.72	840.49
<b>NYSE Financial</b>	4,958.62	5,150.94	5,254.14	2.00%	5.96%	5,414.71	4,251.45
<b>NYSE Healthcare</b>	6,501.53	6,778.06	7,277.89	7.37%	11.94%	6,837.51	5,647.67
<b>NYSE Energy</b>	12,520.29	14,277.21	14,536.17	1.81%	16.10%	14,295.71	9,359.33
<b>MSCI EAFE</b>	1,658.30	1,702.55	1,797.52	5.58%	8.40%	1,797.52	1,305.13
<b>MSCI EM</b>	1,151.38	1,170.87	1,204.03	2.83%	4.57%	1,758.97	1,305.13
<b>U.S. Dollar Index</b>	78.963	75.857	72.930	-3.86%	-7.64%	88.405	72.930
<b>Gold</b>	1,421.10	1,438.90	1,556.00	8.14%	9.49%	1556.00	1158.00
<b>Oil</b>	91.38	106.72	113.93	6.76%	24.68%	113.93	68.01
<b>5 yr. Note</b>	2.02%	2.22%	1.97%	-11.26%	-2.48%	2.51%	1.02%
<b>10 yr. Note</b>	3.30%	3.45%	3.30%	-4.35%	0.00%	3.75%	2.33%
<b>30 yr. Bond</b>	4.36%	4.51%	4.41%	-2.22%	1.15%	4.79%	3.46%

\*Source: Wall Street Journal

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