JOHNSTON LEMON ASSET MANAGEMENT, INC.

David Straus, CFA
Senior Portfolio Manager

Joshua Olds, CFA
Portfolio Manager

Equities Fall in July Though Large Capitalization Stocks Hold up Relatively Well

We thought equity markets were choppy during the month of July, but August made us yearn for July. In fourteen of the twenty-three (61%) trading sessions during August, the S&P 500 finished with at least a one percent change from the previous day. The bulk of these moves were to the downside and as a result, the S&P 500 finished the month down 5.68% at 1218.89. Safe-havens outperformed riskier assets by a wide margin. The top performing sectors in the S&P 500 were utilities and consumer staples as investors shed risk. Large capitalization equities outperformed small and mid-capitalization equities, and the S&P 500 outperformed foreign market indices. Gold and Treasury bonds performed exceptionally well for the month as investors sold equities to purchase investments perceived to be stable stores of value.

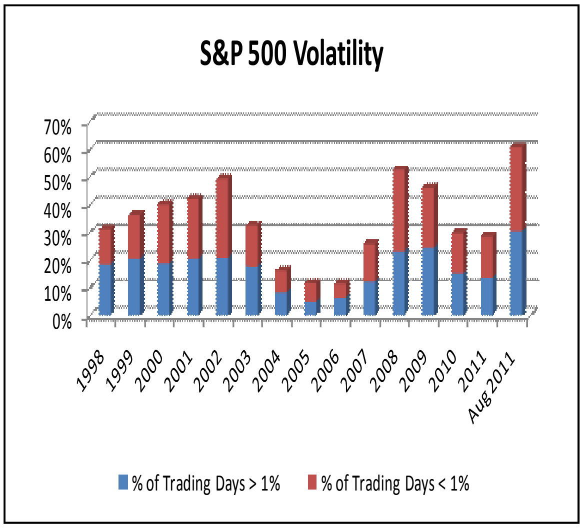
S&P 500 Sector Data as of August 31, 2011

	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
TOTAL RETURNS								
S&P 500 (TR)	N/A	2,076.78	-5.43%	-7.36%	-1.77%			
PRICE RETURNS								
S&P 500	11,128,054	1,218.89	-5.68%	-7.70%	-3.08%			
PRICE RETURNS BY								
Utilities	408,954	170.98	1.69%	0.56%	7.31%	7.37%	6.24%	10.39%
Health Care	1,317,889	385.31	-2.38%	-6.24%	5.63%	3.30%	-0.56%	8.71%
Consumer Staples	1,262,931	318.50	0.37%	-1.29%	4.92%	6.05%	4.39%	8.00%
Consumer Discretionary	1,189,102	296.14	-5.45%	-6.84%	0.20%	0.23%	-1.16%	3.28%
Energy	1,379,575	506.52	-10.04%	-9.46%	-0.05%	-4.36%	-3.78%	3.03%
Information Technology	2,075,118	391.57	-6.18%	-4.71%	-3.21%	-0.50%	0.97%	-0.13%
Telecom Services	342,716	123.68	-1.36%	-7.94%	-3.93%	4.32%	-2.26%	-0.85%
Industrials	1,171,144	278.84	-6.82%	-13.37%	-7.40%	-1.14%	-7.69%	-4.32%
Materials	396,283	221.25	-6.88%	-10.04%	-7.66%	-1.20%	-4.36%	-4.58%
Financial Services	1,584,341	179.83	-9.71%	-13.07%	-16.27%	-4.03%	-7.39%	-13.19%

**Source: Standard & Poor's.*

Volatility Increases

When the year began, JLAM expected the S&P 500 to generate a total return of 5-10% for 2011. That equates to a year-end close in the 1300 to 1350. We still see high single digit total returns for 2011 as the most likely outcome. JLAM also expected the year to be more volatile than 2010 as the bull market aged and economic growth slowed. However, we did not expect the volatility in August. During the month of August, the S&P 500 closed up or down by more than one percent 61% of the time. As a comparison, the S&P 500 closed up or down by more than one percent 23% of the time through July 2011, and 30% of the time in 2010.



**Source: Standard & Poor's*

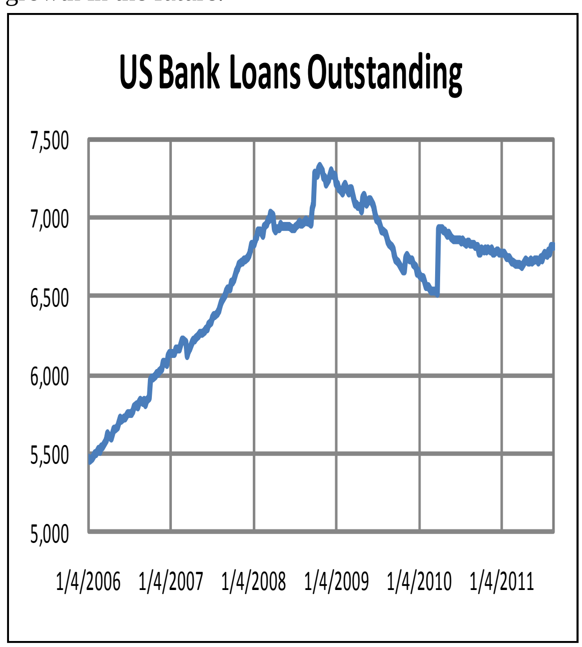
Some of the issues that created the volatility have abated, and some remain. The disruption to the global supply chain caused by the Japanese earthquake has been corrected. Automobile sales appear to be coming back nicely. The budget impasse has been temporarily solved and hopefully Congress and the President will learn a lesson for future negotiations. Energy prices have fallen from their 2011 highs, but they are still elevated.

On the other hand, there are still problems in Europe and it is likely to slip into a recession within the next six months. As opposed to 2008 when the United States was the main cause of the problems for the global economy, now the United States is one of the more stable places in the world. This can be seen in the S&P 500, which has outperformed the MSCI Developed and Emerging Market indices by 3.62% and 3.51% year-to-date, while outperforming the Russell 2000 index by 3.13%.

The current expansion in the United States is extremely weak. Job growth remains anemic. It is imperative for the health of the economy and the financial markets that the United Sates starts creating jobs. Housing prices are still declining on a year-over-year basis, but they are clearly closer to the bottom than the top. While housing starts are not increasing, they are no longer declining and are now neutral to economic growth. JLAM does not believe a recession is imminent, nor does it believe that growth will be anything other than sub-par.

Bank Lending Stabilizing

JLAM expects municipal governments to continue reducing overhead and jobs through 2012. After the 2012 Presidential election, we expect the federal government to flatten or reduce expenses. In the short-term, this will limit growth while setting the stage for a sustainable expansion. The key to growth in the future will be the private sector. That being said, we are encouraged that total bank loans have begun to rise. While loan growth is slow and we expect loan growth to be less than GDP growth, it appears to have formed a bottom. This is a positive sign for the United States. We think it indicates that the corporate sector will be able to take the baton from the government in the future. As the government downsizes, economic growth will likely remain weak. This should set the stage for stronger growth in the future.



**Source: Federal Reserve*

No Change in Long-term Outlook

Defensive stocks with good dividends have been outperforming more economically-sensitive stocks. JLAM expects this to continue for the foreseeable future. In a slow-growth environment such as the one we are in, we expect investors to continue to favor companies with strong dividends and ones with balance sheets and cash flows that support dividend increases in the future. While we are favoring companies with dividend yields greater than the S&P 500, we are also finding value in companies with above-average growth prospects and price-to-earnings ratios in the mid-teens. We recently invested in gold-mining companies as a hedge. We expect gold to continue to outperform in a risk-averse world with negative real interest rates.

JLAM's economic outlook for 2011 hasn't changed. The sell-off in August provided a good entry point for several stocks we were looking to purchase, and for others that we already owned. We remain convinced that we are living in a slow-growth world. JLAM finds more value in equities due to the sell-off. We plan on using weakness to add positions. If the market rallies above our target, we will reduce our equity exposure at that point.

Monthly Market Statistics

				Monthly	YTD	52-week	
	12/31/10	07/31/11	08/31/11	% Change	% Change	High	Low
DJIA	11,577.51	12,143.24	11,613.53	-4.36%	0.31%	12,810.54	10,269.47
S&P 500	1,257.64	1,292.28	1,218.89	-5.68%	-3.08%	1,363.61	1,080.29
S&P Midcap 400	907.25	943.42	875.00	-7.25%	-3.55%	1,015.26	745.96
NASDAQ Composite	2,652.87	2,756.38	2,579.46	-6.42%	-2.77%	2,873.54	2,176.84
NASDAQ 100	2,217.86	2,362.81	2,241.01	-5.15%	1.04%	2,429.50	1,820.05
Russell 2000	783.65	797.03	726.81	-8.81%	-7.25%	865.29	624.99
NYSE Arca Tech 100	1,084.81	1,134.36	1,043.39	-8.02%	-3.82%	1,205.34	897.93
NYSE Financial	4,958.62	4,734.73	4,217.39	-10.93%	-14.95%	5,414.71	3,928.05
NYSE Healthcare	6,501.53	7,084.35	6,793.56	-4.10%	4.49%	7,441.28	5,981.74
NYSE Energy	12,520.29	13,530.76	12,069.57	-10.80%	-3.60%	14,536.17	10,147.78
MSCI EAFE	1,658.30	1,679.84	1,523.58	-9.30%	-8.12%	1,809.61	1,442.47
MSCI EM	1,151.38	1,137.73	1,033.15	-9.19%	-10.27%	1,206.49	966.06
U.S. Dollar Index	78.963	73.742	74.117	0.51%	-6.14%	83.261	72.930
Gold	1,421.10	1,628.30	1,828.50	12.30%	28.67%	1888.70	1244.50
Oil	91.38	95.70	88.81	-7.20%	-2.81%	113.93	73.52
5 yr. Note	2.02%	1.37%	0.95%	-30.66%	-52.97%	2.41%	0.79%
10 yr. Note	3.30%	2.80%	2.22%	-20.71%	-32.73%	3.74%	1.98%
30 yr. Bond	4.36%	4.13%	3.59%	-13.08%	-17.66%	4.79%	3.34%

**Source: Wall Street Journal*

Johnston Lemon Asset Management, Inc. 1101 Vermont Avenue, N.W. Suite 800 Washington, D.C. 20005 (202)-842-5506