



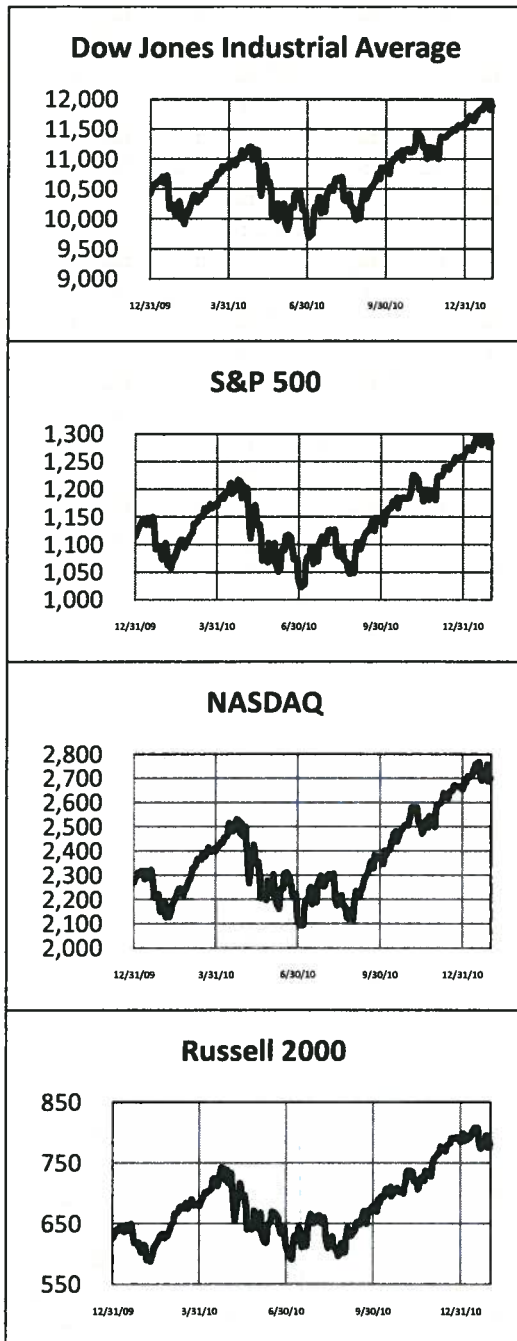
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Blue Chip Stocks Shine in January

US financial markets were mixed during the first trading month of the 2011. The strongest gains were seen in large capitalization stocks and agricultural commodities, while bond markets, gold and small company stocks edged lower. The gains in the major stock indices were impressive, driven by strong earnings growth and signs of improvement in the economic recovery. With fundamentals improving, investors showed a growing willingness to move from safe havens such as money market funds and government bonds, and into equities. The Dow Jones Industrial Average finished with its best January performance in 14 years. The Dow jumped 2.7% and came tantalizing close to breaching 12,000, a level not seen since June 2008. The S&P 500 posted a +2.3% gain, re-establishing the latest phase of the strong uptrend that began in early December. However, the gains were not evenly distributed. The industrial, technology and energy sectors rallied strongly as investors flocked to the economically sensitive areas of the market, while geopolitical tensions pushed oil prices higher. Financial stocks were market performers while consumer, basic materials and telecom stocks moved lower. The Nasdaq Composite rallied +1.9%, trailing the gains seen in the other two indices as investors shied away from the smaller more speculative companies that are a large component of the index. Still, the Nasdaq traded just 2.2% below its previous bull market peak reached in the fall of 2007, while the Dow and S&P remained 15% below their 2007 peaks. The Russell 2000 small company stock index slipped -0.3% for the month, a sign that investor interest in the most speculative stocks was waning.

Performance Data				
Index Name	Adjusted Market Cap (\$Million)	Index Level	January 2011	OP (UP) Versus S&P 500
TOTAL RETURNS				
S&P 500 (TR)	N/A	2,200.54	2.37%	
PRICE RETURNS				
S&P 500	11,891,167	1,307.59	2.26%	
PRICE RETURNS BY SECTOR				
Energy	1,513,994	554.13	7.32%	4.95%
Industrials	1,324,535	318.76	4.23%	1.86%
Info Tech	2,258,371	429.05	4.21%	1.83%
Financials	1,928,135	225.51	2.76%	0.39%
Utilities	384,996	162.79	1.06%	-1.31%
Health Care	1,274,128	372.81	0.38%	-1.99%
Materials	439,046	246.02	-0.15%	-2.52%
Cons Disc	1,219,886	297.02	-0.72%	-3.09%
Cons Staples	1,202,469	300.37	-1.76%	-4.13%
Telecom Svc	345,606	125.33	-3.84%	-6.21%



Economy Continues on Growth Track

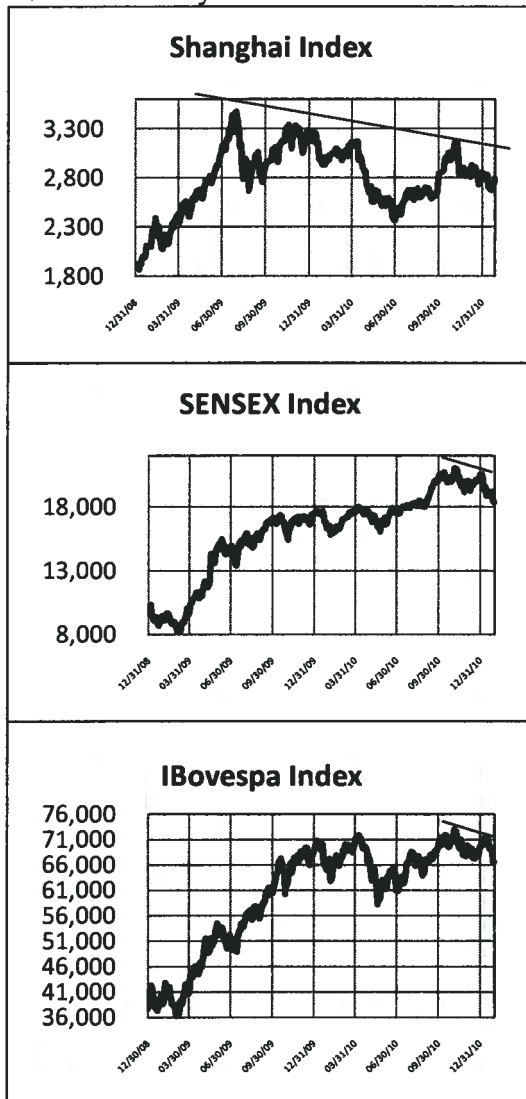
The Fed's second round of quantitative easing clearly had the desired effect of pulling the economy out of the slowdown experienced over the late spring and early summer. Real gross domestic product (GDP) in the US grew at a +3.2% annualized rate in the 4th quarter 2010, up from the +1.7% growth in the 2nd quarter and 2.6% in the 3rd quarter. Last year, the economy grew at an average rate of +2.9% compared with a -2.6% decline in 2009. Importantly, the level

of real GDP in the 4th quarter finally exceeded the previous peak, reached in the 4th quarter 2007. So far, the pickup in growth is occurring with inflation under control. Consumer prices rose just +1.5% last year compared with +2.7% in 2009. Excluding food and energy, prices rose a meager +0.8% in 2010 compared with +1.8% the previous year. The current low levels of inflation are giving the Fed a free hand to pursue a growth agenda but this could change quickly. As for employment, the news remains mixed. The unemployment rate fell sharply in December to +9.4% from +9.8% the previous month, but most of the improvement came as a result of people leaving the workforce. Private nonfarm jobs grew by 113,000 in December, greater than the 79,000 jobs created in November but below the 126,000 average of jobs added over the last six months. While job growth is on the right track, the Fed would clearly like to see much greater growth than we are currently experiencing. Finally, housing appears to be improving, but remains a concern. Sales of existing family homes rose sharply in December and posted its fourth rise out of the last six months. However, new home sales and housing starts remained mired at very low levels and the prices of homes continue to fall. Further deterioration in prices could put further pressure on the financial system, as a growing number of homeowners would see their loans exceed the value of their homes. The Fed will remain focused on seeing both employment and housing improve further before backing away from their quantitative easing program which is currently scheduled to end this June.

Inflation a Growing Problem

While inflation is not currently a problem in the US, it is a growing problem around the world. The popular unrest across northern Africa is in large part a consequence of rising food prices in an area with high unemployment. Instability in this region could have long term implications for the world economy and brings a new risk into play in an already uncertain world. More important for investors in the near term, is the rising inflation in such countries as China, India and Brazil. These countries, along with a growing list of emerging markets, are raising interest rates and tightening lending standards to contain inflation before it becomes a significant

problem. Their economies continue to grow, but many of their equity markets turned lower in January, in anticipation of slower growth in the months ahead. These markets are a significant source of marginal demand for a variety of products from the US and slowdown would have an impact on our domestic growth and ultimately equity prices. This is an area that bears close watching in the months ahead, especially if rising inflation overseas is imported into our economy.



Outlook Unchanged

Domestic equity prices were stronger in January than we expected, but our view on returns for the year remains unchanged. We still foresee S&P total returns for the year in the 5% – 10% range driven by strong earnings growth and low interest rates. The list of risks to this forecast is long, but on balance, we feel the massive amounts of both quantitative and monetary easing during the year will more than offset these concerns. On the other hand, the instability in the Mideast region, the ongoing European debt crisis, commodity inflation and declining home prices will likely limit upside potential during the year and create corrections in equity prices in the months ahead. We remain cautious at current levels and prefer to buy on weakness. We have used the recent strength to trim positions in industrial and technology stocks that have experienced sharp gains over the last six months. Technology remains our favorite sector, and consumer related companies our least favorite. Still, we see stock selection as key to good performance this year than in the previous two years, when stocks tended to rise and fall together. We remain neutral in the fixed income area and expect short rates to remain near zero for the remainder of the year and longer rates to show an upward bias this year, but not change significantly from current levels. We do see value in municipal bonds at current levels, but only in the shorter maturities and within diversified portfolios. Finally, we see commodities continuing to move higher and are keeping a close eye on the gold exchange traded fund for a possible entry point.

Monthly Market Statistics						
	12/31/10	01/31/11	Monthly % Change	YTD % Change	12-month High	12-month Low
DJIA	11,577.51	11,891.93	2.72%	2.72%	11,989.83	9,686.48
S&P 500	1,257.64	1,286.12	2.26%	2.26%	1,299.54	1,022.58
S&P Midcap 400	907.25	924.77	1.93%	1.93%	939.56	692.52
NASDAQ Composite	2,652.87	2,700.08	1.78%	1.78%	2,765.85	2,091.79
NASDAQ 100	2,217.86	2,281.91	2.89%	2.89%	2,330.07	1,728.34
Russell 2000	783.65	781.25	-0.31%	-0.31%	807.57	586.49
NYSE Arca Tech 100	1,084.81	1,109.09	2.24%	2.24%	1,141.94	821.94
NYSE Financial	4,958.62	5,117.20	3.20%	3.20%	5,354.68	4,251.45
NYSE Healthcare	6,501.53	6,493.00	-0.13%	-0.13%	6,626.14	5,647.67
NYSE Energy	12,520.29	13,344.42	6.58%	6.58%	13,148.97	9,359.33
MSCI EAFE	1,658.30	1,696.38	2.30%	2.30%	1,715.65	1,305.13
U.S. Dollar Index	78.963	77.754	-1.53%	-1.53%	88.405	75.882
Gold	1,421.10	1,333.80	-6.14%	-6.14%	1422.60	1052.20
Oil	91.38	92.19	0.89%	0.89%	92.19	68.01
5 yr. Note	2.02%	2.05%	1.49%	1.49%	2.76%	1.02%
10 yr. Note	3.30%	3.39%	2.73%	2.73%	4.01%	2.33%
30 yr. Bond	4.36%	4.48%	2.64%	2.64%	4.86%	3.46%

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