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Investors Shift to Safer Investments in June

Equity markets steadily fell through most of June before reversing direction in the final days of the month. The S&P 500 reached a low of 1,258.07, but managed to rally approximately five percent and finish the month at 1320.64. Still, the S&P 500 slipped 1.67% on a total return basis in June with all ten industry sectors closing lower. While the past several months have seen investors shift into more stable sectors such as health care and consumer staples, that was not the case in June. The top performing sector in the S&P 500 was consumer discretionary, followed by the materials sector. Large caps outperformed small and mid-capitalization stocks. Interest rates were also mixed in June. Intermediate and long-term Treasury rates plunged at the start of June, but rallied during the last half of the month. The yields on five and thirty year Treasuries rose six and sixteen basis points, respectively, while the rates on ten year Treasuries remained unchanged for the month. During the first three weeks of June, poor economic data and sovereign debt concerns in Europe led to a sell-off in risky assets. In the last week of June, better economic data, the potential emergence of a short-term solution in Europe, strong corporate earnings, and oversold conditions, set the stage for a powerful rally in equity markets.

S&P 500 Sector Data as of June 30, 2011									
	Adjusted Market Cap (\$Million)	Index Level	Performance				Performance Versus S&P 500		
			1 Day	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	2,241.66	1.01%	-1.67%	0.10%	6.02%			
PRICE RETURNS									
S&P 500	12,021,158	1,320.64	1.01%	-1.83%	-0.39%	5.01%			
PRICE RETURNS BY									
Health Care	1,407,819	410.93	0.34%	-1.31%	7.29%	12.65%	0.52%	9.12%	7.64%
Energy	1,523,790	559.46	1.51%	-1.93%	-5.07%	10.40%	-0.10%	-3.24%	5.39%
Consumer Discretionary	1,280,351	317.89	0.92%	-0.32%	3.08%	7.56%	1.51%	4.91%	2.55%
Industrials	1,353,230	321.86	1.68%	-0.82%	-1.21%	6.89%	1.01%	0.62%	1.88%
Utilities	406,668	170.03	0.37%	-0.48%	5.01%	6.71%	1.35%	6.84%	1.70%
Consumer Staples	1,279,408	322.66	0.89%	-2.85%	4.47%	6.29%	-1.02%	6.30%	1.28%
Telecom Services	371,707	134.34	0.83%	-1.47%	0.82%	4.35%	0.36%	2.65%	-0.66%
Materials	440,502	245.93	1.34%	-0.45%	-1.37%	2.64%	1.38%	0.46%	-2.37%
Information Technology	2,138,518	410.91	1.44%	-2.64%	-1.61%	1.57%	-0.81%	0.22%	-3.44%
Financial Services	1,819,164	206.87	0.38%	-2.92%	-6.27%	-3.68%	-1.09%	-4.44%	-8.69%

*Source: Standard & Poor's.

Earnings Remain the Key

The most important reason we remain optimistic on equity returns in the second half of the year remains corporate profits. The last two weeks of June saw a diverse group of companies including Oracle, Nike, and Federal Express deliver strong profits. More importantly, these companies all issued positive revenue guidance going forward. JLAM thinks that profit margins do not have a lot of room for expansion. If equities are going to rise, most of the earnings per share growth will have to be generated on the top-line. Seeing key companies in economically sensitive sectors give positive revenue guidance reinforced our positive outlook for the market despite the well known macro risks.

In addition to strong corporate revenue growth, several key risk factors that JLAM has been monitoring have started to reverse. Japan is rapidly recovering from the supply chain disruptions caused by the earthquake. Its Trade and Economics Industry reported that industrial production rose 5.7% in May compared to April. We think a pick-up in Japanese production will reverberate around the world and lead to increased production in the United States, and in turn, lead to an improvement in the unemployment rate.

Another short-term positive that we see developing is stabilization in housing prices. Several key housing market indices have shown signs of bottoming or have turned up. While JLAM thinks this is mostly due to the positive seasonal effects of the summer selling season, it should nevertheless provide a floor for consumer confidence. We continue to believe that the broad housing market will remain range-bound for several years. Once consumers start to believe that prices have bottomed, we think consumer confidence will stabilize and economic growth will improve.

Global Risks are Still an Issue

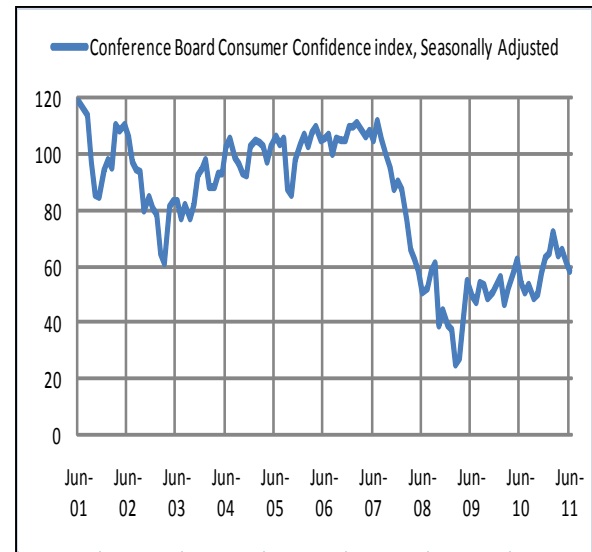
One cannot turn on the news without hearing about problems in Greece and Europe. While the news emanating from Greece is clearly negative, the Europeans seem intent on kicking the can down the road for as long as possible and lengthening the pain over a long time frame. If Greece defaults, it will be bad for the Greeks, but it will also be bad for European Banks that hold Greek and other European debt. European politicians are worried about a credit freeze and a collapse in liquidity should Greece

default. JLAM expects the problem to be deferred and dealt with over a long period of time and result in sub-par economic growth. We think some type of restructuring and partial default is inevitable.

If Greece were to default on its debt, we do not think it would cause a global recession as some analysts believe. It is easy to forget that Russia defaulted on its debt in 1998. Thanks to higher energy prices coupled with writing off debt, it is now growing rapidly and is able to access credit markets. While we would not expect Greece to recover as quickly, we think the problems would be contained. Just in case, we have sold money market funds that contain European bank debt and purchased ones that hold Treasuries. We do not expect major problems, but there is no point in taking unnecessary risk when yields are close to zero.

The payroll data has continued to disappoint us. One of the keys to a robust recovery is strong job growth. Unfortunately, that is not occurring. We are hopeful that employment will increase in the third quarter, but until the data improves, it is just hope.

High unemployment, falling housing prices, and high energy prices are among the contributing factors that have led to a collapse in consumer confidence. Consumers account for approximately seventy percent of the economy. Until the headwinds reverse or moderate, it will be hard for economic growth to be anything other than sub-par.



Micro Versus Macro

We remain concerned about European debt problems. However, we think that the problems are

manageable. Should a sell-off occur, we think it would create a great buying opportunity. Outside of Europe, there are a host of macro-economic risks including the United States budget deficit, the disruption to the global supply chain due to Japan, and persistently high commodity costs.

While global risks exist, corporate balance sheets remain flush with cash and earnings are still growing rapidly. U.S. corporations continue to raise

dividends and increase share repurchases. We are witnessing a tug-of-war. On the one hand we are still able to invest in good businesses with reasonable valuations. On the other hand, there is a variety of global risks that could adversely affect equity valuations. In such an environment, positive returns along with modest valuation compression should be expected.

Monthly Market Statistics							
				Monthly	YTD	52-week	
	12/31/10	05/31/11	06/30/11	% Change	% Change	High	Low
DJIA	11,577.51	12,569.79	12,414.34	-1.24%	7.23%	12,810.54	9,686.48
S&P 500	1,257.64	1,345.20	1,320.64	-1.83%	5.01%	1,363.61	1,022.58
S&P Midcap 400	907.25	1,000.25	978.64	-2.16%	7.87%	1,015.26	700.16
NASDAQ Composite	2,652.87	2,835.30	2,773.52	-2.18%	4.55%	2,873.54	2,091.79
NASDAQ 100	2,217.86	2,372.54	2,325.07	-2.00%	4.83%	2,413.59	1,728.34
Russell 2000	783.65	848.30	827.43	-2.46%	5.59%	865.29	590.03
NYSE Arca Tech 100	1,084.81	1,193.33	1,168.40	-2.09%	7.71%	1,201.97	840.49
NYSE Financial	4,958.62	5,062.83	4,934.25	-2.54%	-0.49%	5,414.71	4,251.42
NYSE Healthcare	6,501.53	7,441.28	7,309.26	-1.77%	12.42%	7,441.28	5,712.12
NYSE Energy	12,520.29	13,796.77	13,516.39	-2.03%	7.96%	14,536.17	9,359.33
MSCI EAFE	1,658.30	1,732.85	1,708.08	-1.43%	3.00%	1,809.61	1,337.85
MSCI EM	1,151.38	1,167.97	1,146.22	-1.86%	-0.45%	1,206.49	909.30
U.S. Dollar Index	78.963	74.638	74.303	-0.45%	-5.90%	88.405	72.930
Gold	1,421.10	1,535.90	1,502.30	-2.19%	5.71%	1556.70	1158.00
Oil	91.38	102.70	95.42	-7.09%	4.42%	113.93	71.63
5 yr. Note	2.02%	1.69%	1.75%	3.55%	-13.37%	2.41%	1.02%
10 yr. Note	3.30%	3.05%	3.16%	3.61%	-4.24%	3.72%	2.38%
30 yr. Bond	4.36%	4.22%	4.38%	3.79%	0.46%	4.79%	3.46%

*Source: Wall Street Journal

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