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Investors Shift to Safer Investments in May

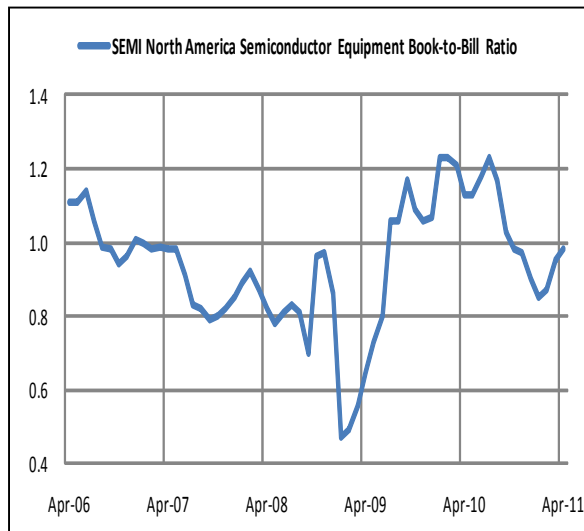
Equity markets pulled back in May on increasing signs of a slow-down in economic growth, both domestically and overseas. Despite robust earnings growth, equity markets posted their largest monthly declines of the year during May. Investors continued to rotate from the more economically cyclical sectors to stable growth sectors. Investors also turned to buying bonds and Treasuries for their perceived safety, pushing interest rates significantly lower. In May, the five and ten year US Treasury Note yields fell to 1.69% and 3.05% from 1.97% and 3.30% the previous month. The S&P 500 closed the month at 1,345.20, for a loss of -1.4%. The S&P 500 is still up +7.0% year-to-date. The Dow Jones Industrial Average lost -1.9%, while the more speculative small cap Russell 2000 average fell -2.0% as both small and large cap stocks participated in the decline. Healthcare is now the best performing sector year-to-date. The U.S. Dollar index rose +2.3% for the month, and U.S. equities outperformed international equity indices. The overriding theme for the month was a downshift in investor expectations for economic growth.

S&P 500 Sector Data as of May 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	2,279.66	-1.13%	1.80%	7.82%			
Price Returns								
S&P 500	12,269,461	1,345.20	-1.35%	1.46%	6.96%			
Price Returns By Sector								
Health Care	1,430,514	416.37	2.15%	8.71%	14.14%	3.50%	10.06%	7.18%
Energy	1,551,549	570.47	-4.61%	-3.20%	12.57%	-3.26%	-1.85%	5.61%
Consumer Staples	1,324,604	332.13	2.37%	7.54%	9.41%	3.72%	8.89%	2.45%
Consumer Discretionary	1,311,115	318.91	-0.46%	3.41%	7.91%	0.89%	4.76%	0.95%
Industrials	1,353,643	324.53	-3.00%	-0.39%	7.77%	-1.65%	0.96%	0.81%
Utilities	408,251	170.84	1.62%	5.51%	7.22%	2.97%	6.86%	0.26%
Telecom Services	376,584	136.34	1.64%	2.32%	5.91%	2.99%	3.67%	-1.05%
Information Technology	2,204,551	422.04	-1.81%	1.06%	4.32%	-0.46%	2.41%	-2.64%
Materials	441,583	247.05	-2.92%	-0.93%	3.10%	-1.57%	0.42%	-3.86%
Financial Services	1,867,067	213.09	-3.35%	-3.45%	-0.78%	-2.00%	-2.10%	-7.74%

*Source: Standard & Poor's.

Positives

Strong corporate profits continue to be a key factor contributing to economic growth. Despite what we believe is a normal mid-cycle correction, corporate earnings continue to grow and provide the impetus for capital investment and hiring. One source of strength continues to be the technology sector. As the chart below shows, the North American semiconductor equipment book-to-bill ratio has turned up over the last several months. This ratio of orders to shipments has historically been a good leading indicator of demand for the information technology sector and the economy. We still remain positive on technology stocks. Technology stocks make up approximately 18% of the S&P 500. As such, it is hard for us to be overly pessimistic on the equity markets while we are bullish on the technology sector's growth prospects and valuation.



**Source: SEMI*

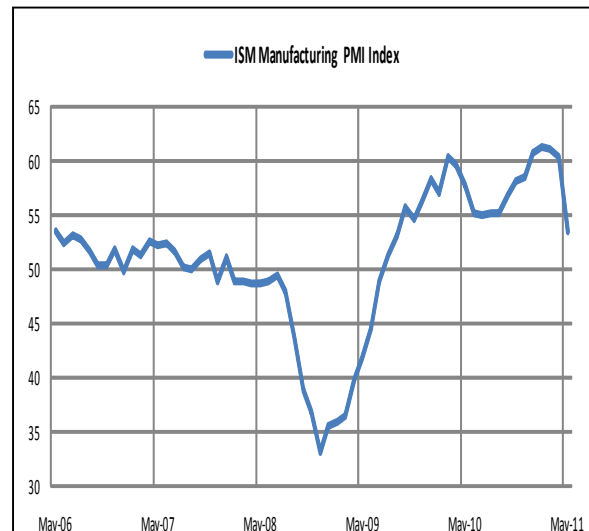
Commodity costs, specifically gasoline, have started to decline. According to AAA, the average price of unleaded gasoline declined approximately \$0.17, or 4.3% nationally for the month of May. This is significant as each one cent drop in gasoline results in annual savings of approximately \$1.4 billion.

Moderating commodity costs have led to lower inflation in emerging markets. Slowing inflation overseas is likely to lead to a renewed expansion later in the year. China and other emerging markets have led the current global expansion.

However, they have been at risk of overheating due to rising food and energy costs which represent a greater percentage of consumers budget than in the United States. A reduction in inflationary pressures would set the stage for a renewed expansion in the emerging markets which would be a supportive of global growth.

Negatives

The ISM Manufacturing Purchasing Manager's Index fell precipitously in May to 53.5. This indicates that manufacturing is still expanding, but at a much lower rate. A contraction in manufacturing would be a big negative for equity markets and the economy. We believe that part of the drop was due to poor weather and the continued disruption in the automobile supply chain due to the Japanese earthquake, but the trend must be monitored.



**Source: Institute for Supply Management*

Payroll trends also worsened during the month of May. Several reports indicated a slowdown in job creation. We believe that there were a couple factors that distorted the May data lower. Similar to the PMI report, one month does not indicate a trend, but it also bears watching.

Housing still remains a key concern for the economy. This is primarily due to the glut of distressed houses. Several reports indicate that while home prices are still falling nationally, non-distressed housing prices appear to have already found a bottom. When sellers are able to sell on

their own schedule, they are able to wait for a better price. Additionally, there isn't the negative bias frequently associated with foreclosures by buyers. This is to be expected, but it points out the need to reduce distressed inventory before the market can bottom.

We Remain Cautious Short-Term

The U.S. economy is still suffering the after-effects of a housing and debt bubble. The consumer deleveraging process has created an environment of sub-par growth. In such an environment, a normal mid-cycle slowdown is liable to come dangerously close to negative

growth as we saw last summer. However, we do not think the U.S. will slip into a recession in 2011. We think the data will start to pick up later in the summer.

June has been a difficult month for the equity markets over the last decade. Since 2000, the S&P 500 has risen only two times and declined nine times during the month of June. While we remain cautious in our outlook for equities in the next month or two, we have not changed our outlook for 2011. We still expect high single digit equity returns for 2011.

Monthly Market Statistics							
				Monthly	YTD	12-month	
	12/31/10	04/30/11	05/31/11	% Change	% Change	High	Low
DJIA	11,577.51	12,810.54	12,569.79	-1.88%	8.57%	12,810.54	9,686.48
S&P 500	1,257.64	1,363.61	1,345.20	-1.35%	6.96%	1,363.61	1,022.58
S&P Midcap 400	907.25	1,015.26	1,000.25	-1.48%	10.25%	1,015.26	700.16
NASDAQ Composite	2,652.87	2,873.54	2,835.30	-1.33%	6.88%	2,873.54	2,091.79
NASDAQ 100	2,217.86	2,404.08	2,372.54	-1.31%	6.97%	2,413.59	1,728.34
Russell 2000	783.65	865.29	848.30	-1.96%	8.25%	865.29	590.03
NYSE Arca Tech 100	1,084.81	1,196.29	1,193.33	-0.25%	10.00%	1,201.97	840.49
NYSE Financial	4,958.62	5,254.14	5,062.83	-3.64%	2.10%	5,414.71	4,251.45
NYSE Healthcare	6,501.53	7,277.89	7,441.28	2.25%	14.45%	7,441.28	5,663.62
NYSE Energy	12,520.29	14,536.17	13,796.77	-5.09%	10.20%	14,536.17	9,359.33
MSCI EAFE	1,658.30	1,797.52	1,732.85	-3.60%	4.50%	1,809.61	1,310.97
MSCI EM	1,151.38	1,204.03	1,167.97	-2.99%	1.44%	1,206.03	889.66
U.S. Dollar Index	78.963	72.930	74.638	2.34%	-5.48%	88.405	72.930
Gold	1,421.10	1,556.00	1,535.90	-1.29%	8.08%	1556.70	1158.00
Oil	91.38	113.93	102.70	-9.86%	12.39%	113.93	71.44
5 yr. Note	2.02%	1.97%	1.69%	-14.21%	-16.34%	2.41%	1.02%
10 yr. Note	3.30%	3.30%	3.05%	-7.58%	-7.58%	3.74%	2.33%
30 yr. Bond	4.36%	4.41%	4.22%	-4.31%	-3.21%	4.79%	3.46%

*Source: Wall Street Journal

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