WASHINGTON CROSSING ADVISORS

Market Commentary
August 11, 2010

Joseph V. Battipaglia
Market Strategist
215-504-1623

Kevin R. Caron
Portfolio Manager
973-549-4051

Chad A. Morganlander
Portfolio Manager
973-549-4052

washingtoncrossing@stifel.com

Investing in a Quasi-Recession

"The U.S. is in the midst of a pause in a modest recovery that feels like a quasi-recession."

- Alan Greenspan on NBC's "Meet the Press," August 1, 2010

"Information received since the Federal Open Market Committee met in June indicates that the pace of recovery in output and employment has slowed in recent months."

- Federal Reserve Press Release, August 10, 2010

Despite the hoopla about the summer market rally, we continue to see a market that is basically without a trend. Bonds have generally outperformed stocks over the past six to nine months, and the momentum has come out of a broad array of indicators that we rely on for managing portfolios. In fact, our interpretation of the array of data we review has become more bullish for bond investors and less bullish for stock investors since our latest quarterly report (see table on last page).

The most leading of our indicators, the WCA Credit and Capital Market Conditions Index™, is in a downtrend and currently is registering a reading of 46, down from a high of 90 in March. In the past, this index tends to lead our WCA U.S. Economic Conditions Index™ by three to six months. While economic conditions had been showing improvement, the recent pause in the recovery (as Alan Greenspan recently described the current situation) has caused the index to dip to 75 from 85 back in May. Although most observations we make on the economy are moving in the right direction, the rate of improvement is deteriorating, and in a growing number of cases, some data points have begun moving the wrong way. Looking at the United States' economy, things like trends in personal consumption, automobile sales, capital goods orders, and jobless trends have actually been moving in the right direction, but now appear to be prematurely leveling off. There are signs of rising business inventories relative to new orders, the four-week moving average for initial jobless claims has stopped improving, and the percentage of employed Americans has fallen for the last two months. It is clear why the recovery seems to have gotten "stuck" lately.

Lastly, the WCA Foreign Conditions Index™ slumped to 35 from a high of 95 last winter largely as the result of the sovereign debt crisis, along with slippage in a number of leading indicators ranging from areas such as India and China as well as indications of slowing in Canada.

Investing Amid an Anemic Recovery

Nobel prize-winning economist Joseph Stiglitz recently described the recovery as "anemic." This apt description of the current situation raises questions about how to position a portfolio. Beginning last spring, we saw two things dominating the investment climate in 2010. First was the decline of the Euro relative to the dollar, and the effect that the sovereign debt crisis would have on growth in that part of the world. Second was the falloff in speculative appetite by investors in capital assets as the result of concerns about the clouded outlook for recovery.

Dollar / Euro Volatility

We saw a sharp widening of spreads in the market for sovereign credit default swaps take place last winter. As concerns of potential default spread across the region, the dollar began to move higher versus the Euro, which caused us to reallocate assets away from foreign markets back into dollar assets here in United States capital markets. Later in the spring, following a roiling of European debt, equity, and currency markets, central banks opened up swap lines of credit, various loan packages were put in place, banks were "stress tested," and bank capital requirements were relaxed. To date, it appears that markets have been relatively happy with these actions, but not altogether satisfied. Credit default swaps on Greek debt, for example, have narrowed but remain far above levels that suggest they are "out of the woods."

While credit conditions remain in a state of flux in Europe (as best we can figure it), there is near unanimity in opinion that newly enacted austerity measures throughout the region are a net negative for future growth rates. These lower growth rates suggest that the rate of improvement in GDP may have peaked for the near term at least in that region of the world.

Speculative Appetite Unclear

The realization that growth would likely slow was not lost on the speculative equity investor who, despite the July bounce back from the Euro-crisis lows, has generally lost money over the past six to nine months. The trend of equities underperforming bonds is not generally associated with economic recoveries.

Investors in corporate bonds, too, seem concerned about the pace of recovery. Since the start of May, the spread between Baa corporate bonds and comparable Treasury bonds has risen by 60 basis points (0.60%) to 3.00% from 2.40%. This likely indicates somewhat higher concerns about credit quality and a preference for safety.

A movement away from risk is out of step with the "V"-shaped recovery thesis. Instead of seeing markets behaving as they are, we should be seeing stocks outperforming bonds, the yield curve flattening, and corporate bond spreads narrowing. However, this is not happening. Instead, we see trendless market conditions, lack of consensus about the recovery, and a decidedly mixed picture with regard to the economic data (see "snapshot" table of the component data points included in our diffusion indices).

In light of all this, we have tapered portfolio risk over recent weeks back to a more "neutral" position awaiting additional information regarding the next phase for the economy.

WASHINGTON CROSSING ADVISORS

WCA Diffusion Indices "Snapshot" Table

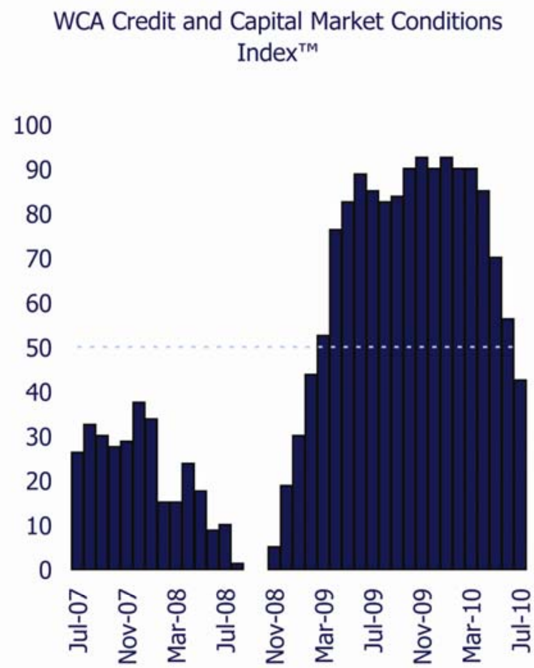
8/11/2010	Trend	Date of Last Change
	========	========
Credit and Capital Market Conditions		
Risk Appetite		
Performance of Global Equity Markets vs. Global Bond Markets	NEUTRAL	06/18/10
Performance of Global Equity Markets vs. Cash	BOND BULLISH	06/18/10
Market Breadth on U.S. Exchanges	NEUTRAL	07/09/10
Inflation & Money		
Slope of U.S. Treasury Yield Curve (10 Year / 3 Month Spread)	NEUTRAL	06/18/10
Inflation / Deflation Indicator (Breakeven Rate on 30Yr Treasury Inflation Protected Securities)	BOND BULLISH	07/16/10
Bank Expansion / Contraction		
Libor / Effective Federal Funds Rate Spread	NEUTRAL	07/16/10
Real Rates (Federal Funds Rate Less 5 Year TIPS Implied Inflation Rate)	EQUITY BULLISH	07/23/10
Interbank Funding (LIBOR / OIS Spread)	NEUTRAL	05/21/10
Cost of Credit		
Corporate Bond Spread vs. Treasuries (Moody's Baa Yield Less Treasury Bond Yield)	NEUTRAL	07/23/10
Municipal Swap Spread (Municipal Swap Yield Less LIBOR)	NEUTRAL	06/25/10
WCA Credit and Capital Market Conditions Index™ Reading: 45%	NEUTRAL	
U.S. Economy		
Leading Indicators		
Economic Cycle Resarch Institute's Weekly Leading Index	BOND BULLISH	06/30/10
Conference Board's Index of Leading Indicators	EQUITY BULLISH	05/31/09
Employment & Income		
US Employment Population Ratio	NEUTRAL	07/31/10
US Continuing Jobless Claims	NEUTRAL	11/30/09
Credit to Income Ratio	NEUTRAL	07/31/09
Production		
New Orders for Capital Goods	EQUITY BULLISH	09/30/09
Business Orders to Inventories	NEUTRAL	06/30/10
Consumer		
Personal Consumption Expenditures	EQUITY BULLISH	08/31/09
Weekly Chain Store Sales	NEUTRAL	06/30/10
Vehicle Sales	EQUITY BULLISH	05/31/10
WCA U.S. Economic Conditions Index™ Reading: 65%	EQUITY BULLISH	

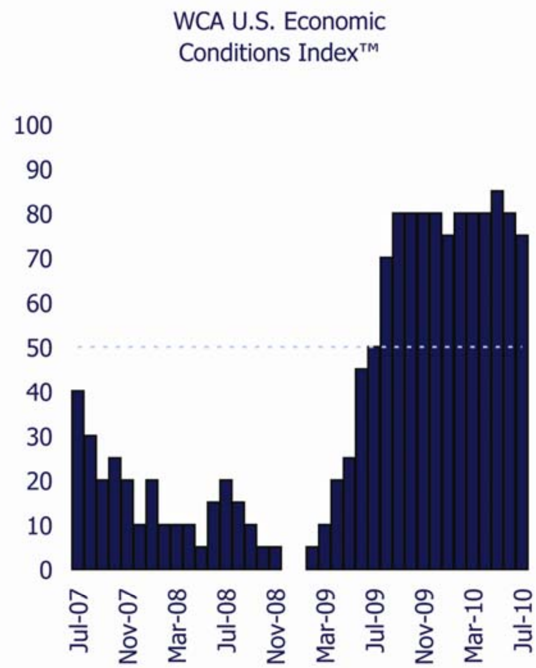
Continued on next page...

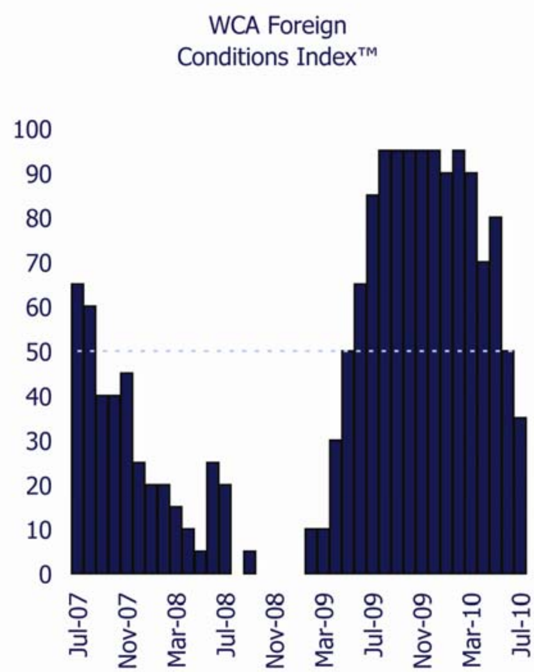
Washington Crossing Advisors

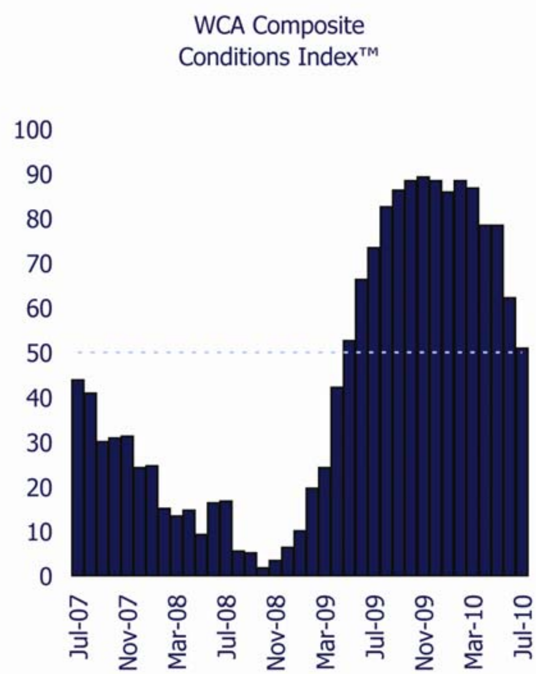
Foreign Conditions		
Capital Markets		
France: French Equity Markets vs. French Bond Markets	BOND BULLISH	06/30/10
Germany: German Equity Markets vs. German Bond Markets	BOND BULLISH	05/31/10
Japan: Japanese Equity Markets vs. Japanese Bond Markets	NEUTRAL	06/30/10
Emerging Economies		
OECD Russia Composite Leading Indicators	EQUITY BULLISH	06/30/09
OECD India Composite Leading Indicators	BOND BULLISH	05/31/10
China M2 Money Supply	BOND BULLISH	06/30/10
Trade and Production		
OECD Japan Composite Leading Index	EQUITY BULLISH	09/30/09
US Institute for Supply Management Survey of Imports	NEUTRAL	07/31/10
General Production Expectations: France	NEUTRAL	07/31/10
Canadian Unfilled Orders	NEUTRAL	05/31/10
WCA U.S. Foreign Conditions Index™ Reading: 40%	BOND BULLISH	
WCA Composite Conditions Index™ Reading: 50%	NEUTRAL	

Washington Crossing Advisors









The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. There is no guarantee that the figures or opinions forecasted in this report will be realized or achieved. Employees of Stifel, Nicolaus & Company, Incorporated or its affiliates may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Past performance is no guarantee of future results. Indices are unmanaged, and you cannot invest directly in an index.

The WCA Diffusion Indices™ are designed to help interpret a broad array of data. In general, the index is a measure of the percentage inputs that are moving in a positive direction. The WCA Credit and Capital Market Conditions Index™, WCA U.S. Economic Conditions Index™, and WCA Foreign Conditions Index™ each focus on a particular category of data. The WCA Composite Conditions Index™ is the average of the WCA Credit and Capital Market Conditions Index™, the WCA U.S. Economic Conditions Index™, and the WCA Foreign Conditions Index™. In general, levels above 50 suggest potential economic expansion, which typically benefits equity investors. Levels below 50 suggest potential business cycle contraction that typically tends to favor defensive assets like Treasury Bonds, Bills, and Cash.

There are special considerations associated with **international** investing, including the risk of currency fluctuations and political and economic events. Investing in **emerging markets** may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, **sector-based investments** typically exhibit greater volatility. **Small company stocks** are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of **real estate companies**. When investing in **bonds**, it is important to note that as interest rates rise, bond prices will fall. **High-yield bonds** have greater credit risk than higher quality bonds. The risk of loss in trading **commodities** and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.