ANALYTICS INVESTMENT ADVISORS, LLC

Mid-Year Assessment

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The S&P 500 declined 13% from May 1st to June 30th in spite of continued improvement in key economic data. The following statistics indicate, in my opinion, why the stock market is oversold and undervalued, and thus likely to rebound and trend higher between now and the end of 2010.

• Retail sales growth reported today was the most rapid in four years bolstering optimism that consumer spending is weathering the recent decline in consumer confidence.

• Orders for non-defense capital goods, excluding aircraft, increased 2.1% in May indicating businesses are not altering spending plans in light of recent macroeconomic headlines.

• Profits for S&P 500 companies are now projected to increase 34% in 2010, compared to the March 29th estimate of 27%; which if true, should help equities rebound from their lowest valuation (12.5 times earnings) since the bull market began in 2009.

• While GDP growth was revised downward from 3.0% to 2.7% for 1Q2010, estimates for the second half of 2010 continue to be in the 3% range. This should obviate most concerns about a double dip recession.

• Leading and coincident indicators have shown a steady increase since May of 2009.

• ISM manufacturing index declined in May, however, an examination of the details reveal a strong underlying recovery. The ISM service index is less cyclical than the manufacturing sector and thus does not command as much attention; but nevertheless, remains in expansion mode at 54.

• Capacity utilization is 74% implying there is supply elasticity and inflation will not likely be a significant factor in the near term. Moreover, year over year productivity is 6% which is helping keep cost push inflation pressures from rising; i.e., unit labor costs are declining 4%. This should help serve as an incentive for businesses to start hiring again.

• Total nonfarm payroll fell 125,000 in June; however, the drop was due largely to a decline in temporary workers hired by the census bureau. Excluding those personnel, total payrolls increased by 100,000 in June and private payrolls gained 83,000. Once private payrolls stabilize above 100,000 there should be a noticeable improvement in the labor market.

In spite of the optimism suggested by the above data, a major impediment to sustained market improvement is the uncertainty generated by a lack of congressional fiscal and monetary leadership; no budget, continued deficit spending, pending expiration of tax cuts and financial reform legislation all contribute to an atmosphere of ambiguity that discourages investment and risk taking. Hopefully this ambiance of indecision will change soon.