

Q2
2010

Points of Interest

P1 Dow closes down 1,082 points and S&P 500 closes down 138 points in 2Q 2010

P2 Amount it took to equal \$1 in 1913

1920	\$2.02
1940	\$1.41
1960	\$2.99
1975	\$5.43
1990	\$13.20
2005	\$19.73
2008	\$21.57

P3 Humans are born with 300 bones and by adulthood they have 206 since some fuse together

P4 Biggest

Businesses in US 2007	Rev B
Walmar	\$3.5
Exxon	\$3.4
General Mot	\$2.1
Chevron	\$2.0



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Pension Fund Evaluations, Inc.

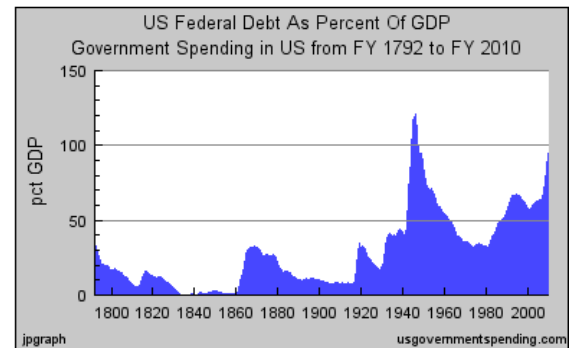
Second Quarter Market Update

The quarter slowly deteriorated! The S&P 500 drops -5.23% YTD -6.65%

The rosy picture in the first quarter slowly appeared as the wicked witch of Wall Street! All equity asset classes suffered one of their worst quarters in a while. They were down about 6% in the month of June, which turned the year to date numbers negative during the month.

Bonds continued to show some strength, with the U.S. Long Treasuries posting the best return. Again, the flight to quality issue prevailed during the uncertainty. Long Bonds were up 13.2% for the first 6 months of 2010, with the broader indexes up about 4.5%.

Earnings season looks to be strong. All estimates are pointing to a better than expected earnings season, which should help to continue the rally to 6 consecutive quarters of "better than expected". That would mirror the earnings surprise rebound that began in the first quarter of 2003.



Equity Markets

The stock market rally that began in March 2009 came to an abrupt halt in the second quarter. Despite excellent first quarter corporate earnings in the U.S., investors fretted about larger issues that could overwhelm the economy in the months ahead. These "macro" issues include unsustainable government debt levels in numerous countries, the unwinding of stimulus spending, possible deflation, persistently high unemployment, financial regulation, and a government-orchestrated economic slowdown in China. These concerns helped send the S&P 500 index to an 11.9% decline in the quarter.

A variety of economic reports over the past few weeks suggest the economy is slowing down. For example, home sales dropped, consumer confidence

P5 Venus is the only Planet to rotate clockwise

P6 In ten minutes a Hurricane releases more energy than all the world's nuclear weapons combined

P7 Bats always turn left when leaving a cave.

Equity Markets

Slumped, manufacturing growth cooled off, and new claims for unemployment insurance remained high, according to Bloomberg, July 3. However, let's not get too carried away. A slowdown does not necessarily mean we are headed for another recession.

Today's weak economy puts policy-makers in a tough spot. Normally, fiscal and monetary stimulus is enough to jumpstart growth. Unfortunately, we've shot those two rockets and we still haven't reached escape velocity. If the economy rolls over from here, the question becomes, "Where do we find a third rocket?" our third rocket might consist of time, devaluations, and debt restructurings. If fired, this third rocket could be painful for many Americans.

Winners

Country	Return
Sri Lanka	25.7%
Peru	5.9
Philippines	5.8
Iceland	4.6

Losers

Country	Return
Greece	-39.3%
France	-22.3%
Spain	-20.5%
Brazil	-14.6%

NY State Borrower or Lender!

Governor Patterson and the state legislature leaders have agreed to allow the state and municipalities to borrow nearly \$6 billion from the pension plan to help them make their required annual contributions to the state pension fund for the next three years. Just to be clear... the State pension plan will borrow the money to make their required annual payments to the pension fund (Contributions) – from itself! In what looks like a political shell game, state legislators are resistant to make the difficult and appropriate decisions to cut government spending and reduce pension benefits. The state legislatures rejected a \$2 billion budget cut in favor of this borrowing strategy. Harry Wilson, candidate for comptroller who holds a MBA from Harvard, said "It's a classic Albany example of kicking the can down the road". Such borrowings will be paid back with interest over the following decade starting in 2013. The bet is that pension assets will have rebounded such that pension contributions will be much lower starting in three years. The State Senate estimates that this strategy will cost state and local governments about \$1.85 billion in interest payments based on borrowing

06/30/10	QTR	YTD
S&P 500	-11.40%	-6.70%
R 1000 G	-11.80%	-7.70%
R 1000 V	-11.20%	-5.10%
R Mid Cap	-9.90%	-2.10%
R 2000 G	-9.20%	-2.30%
R 2000 V	-10.60%	-1.60%
MSCI EAFE	-0.97%	-13.75%

Pension Fund Evaluations

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	Quarter	1 Year
Utilities	-6.10%	-2.50%
Materials	-17.40%	23.60%
Consumer Stap	-10.00%	14.60%
Financial's	-14.10%	16.20%
Consumer Discr	-12.30%	21.20%

at 4.5% to 5.5%. However, pension assets are expected to grow at an 8% (ROA) creating a return arbitrage in the State's favor. Robert Megna, the state budget director, is quick to argue that this is not borrowing but a way to amortize or smooth pension contributions. Gee, I wonder why they charge interest on this transaction if it is *not* borrowing? New York State faces a **\$9.2 billion deficit** this fiscal year ending March 31. Lawmakers are expected to rely heavily on borrowing, raising taxes, fee increases and an array of accounting maneuvers to placate this budget deficit.

Interest Rate Diverge

As the stock market declined, yields on U.S. government securities declined, too, as investors fled to the perceived safety of our government paper. During the quarter, the yield on the 10-year note declined from 3.8% to 3.0%, according to data from Yahoo! Finance. This decline in yield occurred even though the government issued more than \$300 billion in new debt during the quarter, according to *The Wall Street Journal*, July 1. It was a different story in the corporate bond arena. Yields on investment-grade corporate bonds and high-yield corporate (junk) bonds rose as investors began pricing in added economic risk. In a sign of growing risk aversion,

Interest Rate Diverge

The spread between yields on corporate bonds and government bonds rose significantly, as investors required a higher yield to hold the potentially riskier corporate bonds.

Dollar Remains Popular

Some naysayers think the dollar's days are numbered, but that countdown had yet to begin in the second quarter. The dollar index, a measure of the dollar's strength compared to a trade-weighted basket of six other currencies, rose a solid 5.9% in the second quarter. Two major trends are apparently tugging at the dollar and in any given week, one trend seems to outweigh the other. The euro zone debt crisis helped spark a flight to the U.S. dollar and was a major reason why the dollar jumped sharply in the second quarter. However, toward the end of the quarter, disappointing economic numbers out of the U.S. and new austerity measures in the euro zone led some investors to rethink their dollar-haven strategy