July 23, 2012

RE: 2nd Quarter 2012

Since the market began its recovery in March 2009, the general mood of our nation has been one of disappointment. In spite of the crisis passing, the economy improving, the S&P 500 up 9.5% this year, and inflation less than 2% no one seems to be very happy.

Our assessment is that current expectations for greater market performance are not reasonable when the facts are considered. Today's expectations are primarily the result of a bull market that began in 1981 and did not end until 1999, and a housing boom that resulted in home prices soaring from about 1998 until early 2006. The S&P 500 Total Return Index grew 18% at a compound annual rate during the great bull market compared to its long-term average of about 9%. Housing prices soared a 16% compound annual rate over 2004-2005, nearly four times the historical average of 1%-2% after inflation.

Those returns were and are not sustainable. More importantly, they are not likely to be seen again for many years. They may be best described as once-in-a-lifetime occurrences. They were anomalies.

I believe it is very important for all of our investors to understand that we invest for the long term. We recognize and respect that risks are everywhere in our lives and include physical, natural and economic. One of our primary responsibilities, perhaps our most important, is to identify risks before they are understood in the economy and before they are manifested negatively in market prices.

Curran recognized in the late 1990s market values being given to technology company shares were an anomaly. The technology boom and the advance of the Internet has certainly been life altering for all of us. However, technology shares proved to be speculatively priced. Those who predicted the huge impact of technology on the economy proved to be right. If anything the impact of technology and the changes it spawned have proven to be even greater than most predicted. Still technology share valuations proved to be speculative. Now everyone understands it was a bubble.

As the real estate market boomed, especially in 2002-2005, greater than normal increases in residential real estate prices were recorded. The result was another bubble burst.

Both the technology and real estate bubbles were driven by greed. But greed is not the only emotion that provides the impetus for a bubble. Fear is equally potent.

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The bull market in fixed income is now marked by historically low interest rates. Routinely investors are buying fixed income securities that have yields less than the inflation rate. Even negative rates are being paid by fear-induced purchases. United States Treasury bonds maturing in 30 years pay less than the inflation rate of the past 30 years. The current 30-year Treasury yield is 2.7%. The inflation rate over the past 30 years is 2.9%.

Many investors do not realize the risks inherent in fixed income securities. Bubbles and the psychological states they induce, make it nearly impossible to explain and even more difficult to understand. If bubbles were easily explained and understood, the technology and real estate bubbles would not have been possible.

I will simply say the potential financial losses possible in fixed income are enormous by standards of measuring real financial wealth.

Let's return to views about expectations. The United States, as well as the entire world, is recovering from the intoxicating high returns that led to bubbles in technology stocks and real estate. Eventually, those bubbles resulted in the financial crisis and the "Great Recession."

The Federal Reserve has acted to stimulate the economy with historically low interest rates. In June, the Fed decided to extend Operation Twist, a program to sell short-term securities and buy the same amount of long-term debt to depress long-term borrowing costs. The Fed also announced this year that it plans to keep short-term rates very low to 2014. While some borrowers are helped by these actions, many savers and investors are taking risks to realize higher returns to pay bills and stay solvent.

Some are taking exorbitant risks to receive higher income; others are avoiding risk by keeping money in short-term interest bearing securities like CDs and shorter term United States Treasury securities.

Data from the Investment Company Institute (ICI) show mutual fund investors are selling equities and buying fixed income. The ICI estimated $7 billion in domestic equity mutual funds were sold in June while bond funds and income-producing investments were being purchased.

Prudent investing requires diversification. Risk increases when money is flowing from wise, historically proven allocations to allocations driven by greed and fear.

Consider the following:

INDEX (%)	2nd Quarter 2012	Year to Date	LATEST 12 MONTHS
Domestic Equity			
S&P 500 Index	-2.75	9.49	5.45
S&P 500/Citi Growth Index	-2.05	9.97	7.76
S&P 500/Citi Value Index	-3.58	8.92	3.00
Dow Jones	-1.85	6.83	6.63
Russell Midcap	-4.40	7.97	-1.65
Russell Midcap Growth	-5.60	8.10	-2.99
Russell Midcap Value	-3.26	7.78	-0.37
Russell 2000	-3.47	8.53	-2.08
Russell 2000 Growth	-3.94	8.82	-2.71
Russell 2000 Value	-3.01	8.23	-1.44
International Equity			
MSCI ACWI ex US	-7.38	3.13	-14.15
Domestic Fixed Income			
Barclays Gov/Credit Int. Bond	1.48	2.10	5.42
BofA ML 0-3 Year Treasury	0.15	0.09	0.59
BofA ML Muni 1-3 Year	0.24	0.67	1.49
Consumer Price Index	0.04	1.69	1.66
Cash Equivalents			
Citigroup 3-Mo. Treasury Bill	0.02	0.03	0.04

Our fixed income strategy emphasizes the highest quality, but at the same time includes some higher yielding securities. Curran is currently focused on buying maturities of 5 years or less. We are prepared to shorten our average maturities and reduce income before we believe the Federal Reserve will act to raise interest rates.

Those who wait are likely to experience excessive market losses. In a 0%-3% interest rate environment, an increase in market rates of 1% could cause losses of 5%-10% in principle value in intermediate and long-term bonds in a few trading days. It makes no sense to us to risk years of interest earned for minimal incremental returns.

We continue to see the greatest returns with the least risk in equities. We are constantly looking for those companies that demonstrate the highest measures of quality. In our view companies that employ the least debt, earn the highest consistent returns on equity and enjoy the most predictable and dependable earnings growth prove to be the best companies to own.

Currently, we are emphasizing revenue growth more than we normally do. It is our view that companies proving capable of growing sales as well as earnings have substantially better prospects. Cost cutting has proven to be effective in growing earnings since the recovery began. But it is our view that reducing costs is becoming less effective in its impact on earnings per share.

Our outlook is for the debt markets to remain stable in the short term. However, there is persistent danger when risks are not generally understood, which is the case today in fixed income.

We are concerned that fund flow indicators continue to show individual investors liquidating equity funds and buying fixed income. We presume they are doing so to reduce risk. Ironically, it is our view those selling are increasing their risk for the following reasons.

1. They are buying fixed income at historically low interest rates that are not producing returns greater than inflation.

2. They are concentrating assets in fixed income and reducing prospects for future growth.

3. Most troublesome is those executing 1 and 2 do not care because their objective is to avoid risk. Fear is their driving force. Future consequences are not a consideration.

Our outlook for the equity markets remains positive. We expect continued volatility, driven by uncertainty over the Euro area debt crisis and the future of U.S. fiscal policy. The Eurozone needs more fiscal and banking integration. The U.S. Congress needs to act to avoid or reduce the automatic spending cuts and tax increases triggered at the start of 2013. Also essential is a credible long-term plan to reduce U.S. government debt.

We are optimistic effective solutions will be found, and that the U.S. will grow at a moderate pace as the economy works through its structural challenges. In fact, there were some signs of improvement in the housing sector in the second quarter. For the year, the IMF forecasts 2% real GDP growth; the Fed forecasts growth in the 1.9 to 2.4% range. Both forecast a modest pick-up in 2013.

For those with a long-term view, broad diversification to include both stocks and bonds will prove to be the best course as it has always been.

In broadly diversified portfolios not all holdings will always be in favor. Likewise they will not always be out of favor. The folly is the belief that timing markets is possible. Now the prevailing belief is that avoiding stocks and buying bonds is the best way to invest in the current markets. It is folly in our opinion.

We encourage you to keep focused on the long term. We assure you we are and will continue to do so with persistent diligence.

Curran Investment Management is grateful for your trust in us. Kevin and I welcome your opinions and invite you to call us to discuss your portfolios.

Curran Investment Management® is Defining Quality.®

Sincerely,

Thomas J. Curran	Kevin T. Curran, CFA	Deborah M. Lyttle
President	Vice President	Senior Research Analyst

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In the second quarter of 2012, the following changes were made in the portfolios we manage.

Core Equity Portfolio	
Buy/*Increase*	**Sell/*Decrease***
Intuitive Surgical, Inc. (ISRG)	Joy Global, Inc. (JOY)
Tractor Supply Company (TSCO)	Potash Corp. of Saskatchewan, Inc. (POT)
	Apple Inc. (AAPL)
	priceline.com (PCLN)
Mid Cap Portfolio	
Buy/*Increase*	**Sell/*Decrease***
Panera Bread Co. (PNRA)	Coach, Inc. (COH)
Questcor Pharmaceuticals, Inc.(QCOR)	DeVry, Inc. (DV)
Small Cap Portfolio	
Buy/*Increase*	**Sell/*Decrease***
ClickSoftware Technologies Ltd. (CKSW)	Techne Corp. (TECH)
ClickSoftware Technologies Ltd. (CKSW)	
OpenTable Inc. (OPEN)	*Hibbett Sports Inc. (HIBB)*
International ETF Portfolio	
Buy/*Increase*	**Sell/*Decrease***
iShares: MSCI ACWX – ex US Index Fund (ACWX)	iShares: MSCI EAFE Index Fund (EFA)
Universe Top Performers Portfolio	
Buy/*Increase*	**Sell/*Decrease***
Sturm Ruger & Co Inc. (RGR)	Steve Madden, Ltd. (SHOO)
Liquidity Services Inc. (LQDT)	Ulta Salon, Cosmetics & Fragrance, Inc. (ULTA)
Ulta Salon, Cosmetics & Fragrance, Inc. (ULTA)	Nu Skin Enterprises Inc. (NUS)
SXC Health Solutions, Corp (SXCI) Renamed Catamaran Corp. (CTRX) in July	F5 Networks, Inc. (FFIV)
Buffalo Wild Wings Inc. (BWLD)	MercadoLibre, Inc. (MELI)
Cirrus Logic Inc. (CRUS)	Chipotle Mexican Grill, Inc. (CMG)
Visa, Inc. (V)	Fossil, Inc. (FOSL)
Align Technology Inc. (ALGN)	Celgene Corporation (CELG)
The TJX Companies Inc. (TJX)	Sturm Ruger & Co Inc. (RGR)
Dollar General Corporation (DG)	Dollar Tree, Inc. (DLTR)
Cerner Corporation (CERN)	Teradata Corporation (TDC)
Dollar Tree, Inc. (DLTR)	Lululemon Athletica Inc. (LULU)

Note: The following portfolios had no changes: Growth & Income, International Portfolio, Portfolio for Income and Portfolio for Growth.

In the second quarter of 2012, the following tax loss harvesting transactions were made:

Tax Loss Harvesting		
Sold	**Purchased Temporary Replacement**	**Status**
Core Equity Portfolio		
Joy Global, Inc. (JOY)	Cummins Inc. (CMI)	Replaced with Intuitive Surgical, Inc. (ISRG)
Potash Corp. of Saskatchewan (POT)	CF Industries Holdings, Inc. (CF)	Replaced with Tractor Supply Company (TSCO)
Mid Cap Portfolio		
Deckers Outdoor Corp. (DECK)	iShares Russell Midcap Growth Index (IWP)	Repurchased Deckers Outdoor Corp. (DECK)

Curran's Method for Capital Loss Harvesting (for managed accounts)

Throughout the year, and especially as the end of the year approaches, we review client taxable accounts (i.e., other than tax-deferred accounts such as IRAs) to identify equity positions with substantial capital losses.

Typically then we sell the position in order to book the loss for income tax purposes.

If it is a position we want to continue to hold indefinitely, we would buy a temporary replacement security, that is, something similar to the original security, and hold it for 30 days.

After 31 days we can sell the replacement position and repurchase the original security. This is necessary in order to avoid the so-called IRS "wash sale" rule, which suspends the recognition of tax losses on securities that are sold and repurchased within 30 days.

The result of this loss-harvesting is to create a pool of capital losses that can be used to offset capital gains and other income. By this means we minimize the amount of net capital gains on which taxes are due.