

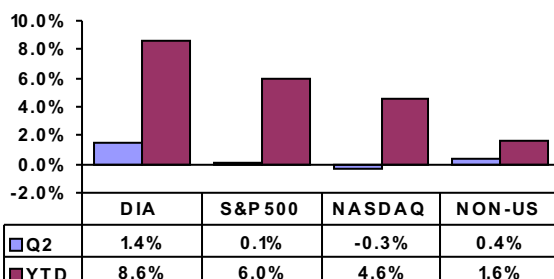
Economic and Market Commentary

There was no shortage of information for investors to digest during the course of the second quarter. Markets overcame the events of the first quarter including a spike in energy costs, the earthquake and Tsunami in Japan, worries over global debt levels, and a stubborn 9% unemployment rate yet still turned in impressive results. There seems to have been a lagging effect in the second quarter as the weight of these issues combined may have forced equity markets to stall and bond markets to rally. Without the late surge in June in global equity markets, we may have seen steeper drops across the board instead of what turned out to be nearly flat results. Economists had been broadcasting a potentially slowing economic recovery and were vindicated when the Federal Reserve officially lowered their expectations for GDP growth late in the quarter. Oil remained a nuisance each time it bounced over and under \$100 a barrel, while gold kept investors interested in its perceived safety. The Sovereign debt worries waged on with theories about the potential damaging effects of loan defaults from Greece, all contributing to the usual volatility in equity and bond markets we are now accustomed to. In the end, the S&P 500 was left nearly where it started the quarter and bonds won the race.

Equities

Equity performance was not all bad in the second quarter as Large Cap Stocks continued their influence pushing the Dow Jones Industrial Average up another 1.42%, settling at an 8.59% gain for the first half of the year. The S&P 500 and NASDAQ did not fair as well, experiencing similar levels of volatility. As a result of the late June rally, the S&P 500 held its ground with a slight gain leaving the index up 6.02% year to date, while the NASDAQ dipped slightly leaving it up 4.55% year to date. There was an increase in demand of what investors perceived as less risky stocks in response to the lowering of our economic growth rates. Energy stocks made a defined U-turn from the first quarter declining 5.1% after contributing to the market's success in the first quarter. The Materials Sector declined 1.5% as the commodities boom came to an abrupt halt. While crude oil still remains high, it actually declined 11% during the quarter (partly due to the release of the strategic petroleum reserve) followed by other commodities like cotton and corn to the dismay of speculators on the long side of those trades. The combined drop in commodities lead to a 6.6% decline in the Dow Jones commodity index. While this may be bad news for speculative traders of commodities, one sector's pain is usually another sector's gain as evidenced by consumer discretionary stocks which moved up a surprising 3.5% in the quarter. This demonstrates how quickly investor's habits adjust and react to economic changes.

Equity Performance 2011



The heroes in the second quarter were the old stand-by sectors like health care with a 6.9% gain, consumer staples with a 5.6% gain, and utilities garnering a respectable 5.3% gain. The health care industry as a whole has been out of favor for a few years as so much attention has been paid to the future effects of patent expirations, spiraling costs, and limited new drugs in their pipelines. The looming overhang of Healthcare reform has also weighed heavily on this industry with the uncertainty from the effects of the new plan. This uncertainty has pushed the prices of these stocks, like Eli Lilly and Merck, to levels where the dividend yield for the sector is now a respectable 3.3% versus the overall market at 1.65%. Financial stocks have experienced the greatest pains in 2011. This sector cannot seem to gain any momentum since the 2008 banking crisis and

continues on a wild volatile path. The entire financial sector is burdened with continued regulatory oversight, continued falling home prices, and the need to further cut costs. While there seems to be some light at the end of the tunnel, financial stocks may be viewed as out of favor for some investors until they can show consistent quarterly top and bottom line growth, and strengthen their balance sheets in order to increase their dividend yields to pre-2008 levels. On the other hand, dramatic sector drops often create investment opportunities as the stronger companies emerge.

There were similar results in the equity markets outside of the US as the average loss was 1.4% across Emerging and Developed markets. While usually not good news for any nation, the continued declining dollar added value to those invested outside of the US leaving non-US investments nearly flat at .04%. As noted in the first quarter of this year, Developed Markets held up better than Emerging Markets as measured by the MSCI EAFE Index with a gain of 1.6% as opposed to a loss of 1.1% as measured by the MSCI EM Index. The past stellar results from the BRIC countries (Brazil, India, Russia, and China) did not add any value to the indices as they all posted negative returns for the quarter as investors moved away from the more volatile areas of the globe.

Bonds

There was the usual flight to quality as investors increased their demand for high quality bonds. As money moved out of riskier assets like commodities and stocks, it flowed into bonds driving prices up and yields down. Bonds in general, as measured by the Barclays Aggregate Index, posted an impressive 2.3% for the quarter. In a reversal of previous quarters, riskier High Yield bonds only returned 1.1% for the quarter lagging behind Long Treasuries which returned 3.4%, and municipal bonds which rallied from their lows with an impressive 3.9% for the quarter. As demand drove up prices, treasury yields fell during the quarter leaving the 30 year treasury at 4.4%, the 10 year treasury at 3.2%, and the 2 year at a measly .5%.

While there were many issues causing anxiety last quarter, some of the more salient points on a global scale were debt, economic growth, employment, and housing. Debt levels still concern investors from the Euro zone nations to the political saber rattling in Washington over how to tackle the budget issues and address the debt ceiling. The results of restructuring efforts overseas and the US budget woes will most likely play out for the remainder of the year. Economic growth, or lack of it, was confirmed by the FOMC's decision to lower the US GDP forecast from 3.2% to 2.8% hinting at the chance of a dreaded double dip recession. There were a number of conflicting economic results month-to-month (which may have been influenced by fluctuating oil and prices and delayed effects in Japan) but unemployment remains stubbornly above 9.0%. The May employment results disappointed investors expectations as only 54,000 new jobs were created. While the housing bubble has already collapsed, according to the S&P Case-Schiller Index, home prices continue to fall near their 2002 levels confirming that this market is experiencing a double-dip, if not a soft patch. It appears that 2011 and 2010 share some similar characteristics as we were experiencing similar fears last year. Despite these fears, the last two quarters of the year turned out fairly well due to continued low interest rates, strong corporate profits, and the resilience of consumers even with stimulus packages fading away. We can only hope that this is a temporary soft patch in the economy due to unique circumstances and that the economy will return to its recovery path in the second half of 2011.

As always, the key to a successful investment strategy involves selecting an investment objective and asset allocation that matches your specific risk tolerance. Remember that we are investors for the long-term, not market timers, speculators, or traders. At Seacoast, your Wealth Management Team will continue to provide you with the highest quality service while enhancing total return within your desired risk tolerance parameters. Please feel free to contact your Wealth Management Team anytime with questions and comments at the below referenced phone numbers. As always, we welcome the opportunity to be of service and appreciate your valued relationship.



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