

General Market Overview

Whether the financial markets are efficient or not, we continue to see sporadic movement throughout 2010. For nearly three months, investors saw the Dow Jones Industrial Average climb from 9,908 in early February to 11,205 late April - a 13.1% incline. However since its peak, the index has shed roughly 10%, while the CBOE Volatility index nearly tripled from its April low of 15.58 to a May high of 45.79. Despite volatility in equity markets, fixed income markets are facing problems of their own. While bonds can offer stability, inflation and higher rates on the horizon are causing investors to be weary of locking-in longer maturities at paltry yields.

Source: finance.yahoo.com (6/2/2010)

Major Indices and Rates (as of 6/1/2010)

Indices	3 Months	1 Year	YTD
Dow Jones	-3.65%	14.9%	-3.9%
S&P 500	-4.03%	13.6%	-4.0%
Nasdaq	-2.25%	21.5%	-2.1%
Russell 2000	-0.26%	22.9%	2.5%
Asset	3 Months	1 Year	YTD
10yr T-Note*	-8.86%	-11.32%	-14.55%
Gold	9.17%	23.58%	10.48%
Crude Oil	-8.23%	5.31%	-9.02%

Source: eia.doe.gov, ustreas.gov, lbma.org.uk, finance.yahoo.com *Change in yield

Fixed Income Focus

While the bond markets may be a far cry from exciting, modern portfolio theory tells us that including bonds as an asset class should help diversify our portfolio. Furthermore, for individuals who are approaching, or are currently in retirement, the necessity for bonds often becomes even greater, as they are typically used to supplement current income. One caveat, however, is at rock-bottom rates, the bond markets seem like an unattractive place to store one's nest egg.

Unfortunately, the common alternative -money market funds and CDs- are paying a fraction of a cent on the dollar. A word of advice from John Bogle, founder of Vanguard, is to avoid bonds with longer maturities, and turn to a combination of short- and intermediate-term bonds and bond funds. Although bonds with longer maturities generally pay higher yields, they also have a higher *duration*, which shows us the sensitivity of a bond's price with respect to a change in interest rates. Therefore, if there are any expectations that interest rates will increase, the price of bonds and bond funds with greater duration will likely fluctuate more (in this case downward), in comparison to bonds with shorter maturities (and lower duration).

Source: morningstar.com

June 2010 Earnings Calendar

Date	Company	Sym.	Price*	Est.
6/8	Texas Instruments	TXN	25.00	0.61
6/15	Best Buy	BBY	40.42	0.50
6/16	FedEx	FDX	84.74	1.31
6/22	Adobe Systems	ADBE	33.04	0.43
6/22	Jabil Circuit, Inc.	JBL	13.68	0.34
6/22	Red Hat, Inc.	RHT	29.37	0.18
6/22	Walgreen	WAG	32.50	0.57
6/23	Nike	NKE	73.60	1.05
6/30	Monsanto	MON	50.61	0.87
6/30	General Mills	GIS	75.00	0.82

Source: finance.yahoo.com, earnings.com *(6/3/2010)

Eyes on the Analysts and Company Outlook

If there is one company that has stolen the media spotlight, it is none other than British Petroleum (BP). On the one hand, BP faces responsibility for the worst oil catastrophe in U.S. history, as well as a permanently damaged reputation. Conversely, although BP has spent some \$1 billion on the mess, its market value has lost roughly \$78 billion from its 52-week high, or about \$25 per share since the incident. Even though BP may be down some 40% from its high, the shares come with a 300-foot question mark attached to the price tag: What will be the total costs associated with the oil leak?

Source: finance.yahoo.com, earnings.com

Economic Indicators and Announcements

- The second estimate for first quarter real GDP announced a 3% increase from fourth quarter 2009. Real GDP accounts for inflation by comparing GDP to 2005 dollars, however in current dollars -ie.not including inflation- GDP grew 4.1%.
- National unemployment stood at 9.9% in April, however the number of jobless who entered the workforce increased dramatically. An additional 805,000 unemployed workers began looking for work, which may temporarily increase the unemployment rate, but ultimately is a good sign that people are looking for work again.
- Inflation fell slightly, down 0.01% from the previous quarter.
- Keep an eye out for the May jobless data release.

Source: bls.gov, bea.gov

Quote of the Week

"Individuals who cannot master their emotions are ill-suited to profit from the investment process."
-Benjamin Graham

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