



PERSPECTIVES

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Pendulums swing; and recently the swinging feels more like a metronome than the arm of a grandfather clock. Perceptions are swinging from optimism to pessimism and back; the mood from greed to fear and from recovery to double dip. Sometimes the shifts come almost daily. Obviously, investors are having a debate among themselves as to the sustainability of the recovery. Each piece of economic evidence is parsed for greater meaning and its effect on various investments.

Europe has gone through its own crisis based upon fears that a few governments have borrowed far more from banks and investors than they can possibly pay back. This belief was precipitated by Greece finally admitting to borrowing far more than it had previously acknowledged. It had been cooking its books, making its debt load look smaller than it really was. This fact made the European Union address weaknesses in its structure and make substantial changes to fiscal policy. Led by Germany, European governments across the board put in place austerity

measures designed to bring finances back toward prudence.

There has been plenty of evidence to support either an optimistic or pessimistic viewpoint. (To see where Riverplace Capital thinks the truth lies, see the next section.) In the mean time the markets rock. Rocking markets are not what investors want. In fact this volatility quickly brings back the memory of the financial crisis and its devastating impact on investment portfolios. Because these feelings are so fresh, many investors are quick to react, fearing a replay.

The flash crash of May 6 didn't help matters. In a matter of minutes the stock market declined 700 Dow points and convinced some investors that earning nothing on the sidelines was better than losing in "that crazy market." Even though recovery was quick, the damage to the nerves of many was done. Unfortunately the sidelines, especially if it involves sitting on longer-dated bonds, may not be safe either. What's an investor to do?

Forecast

Economy

The economy continues to recover. Most measurements of activity are well ahead of where they were this time last year. In six months time, RCM believes they will have improved further. However, the pace of recovery has clearly slowed. That is not unusual. No trend is a straight line. There is always some variation around any progression; up or down. It should come as no surprise that after nine months of recovery, lots of government stimulus and pent-up demand that the economy would get to a point of consolidation.

That is what we believe is occurring. Past economic recoveries have gone through similar phases. The crisis in Europe hasn't helped matters, fraying nerves and causing some buying and investing decisions to

be put on hold. After a pause, we believe that the recovery will pick up once again. Strong evidence is emerging from the transportation sector that activity has clearly improved not only in the U.S., but worldwide. Commodity prices are firming and emerging markets seem to be on a tear.

International activity will help sustain our recovery. Future growth for many of our companies lies in new markets in many emerging economies around the world. Supplying and serving these new markets are where new jobs will come from, as well as improving our own infrastructure and efficiency here in the U.S.

Remember, Riverplace Capital previously predicted that this economy would recover with some sectors left behind. Housing and

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Talk With Us

Every prediction or opinion about the future is a hypothesis, i.e., a theory. That hypothesis needs to be continually checked against evidence as it presents itself. When evidence supports the original theory then one can gain confidence in the correctness of the prediction. However, when evidence to the contrary emerges then the theory needs to be changed or overturned. To ignore facts is to be stubborn or worse.

Because you may not like the evidence is of no consequence; evidence is evidence. Obviously there are periods when facts do not all line up, but offer contradictions. It is there where observers need to be smart to discern the underlying trend from aberrations.

Too many analysts and investors have recently been letting their political views color their perception of reality. This has kept them from seeing that the preponderance of evidence has indicated an improving economy and investing environment. They have missed one of the great opportunities of our lifetimes.

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Notice

Riverplace Capital offers our clients free financial planning. We believe strongly in the value of planning as it helps document goals and objectives, plus provides a benchmark to measure progress. Planning also helps us provide better, more targeted financial service to you. If you would like a financial plan, contact your portfolio manager at (800) 391-1212

MAJOR INDICES AS OF 6/30/2010

Large Cap Stocks (S&P 500)	-11.8
Dow Jones Industrial Average	-10.0
Mid Cap Stocks (S&P 400)	-7.4
NASDAQ Composite	-6.8
Small Cap Stocks (Russell 2000)	-9.9
MSCI EAFE	-14.7
Lehman Corp. Bond Index	4.85
Inflation	2.0

(EQUITY INDICES ARE SIX-MONTH RETURNS EXCLUDING DIVIDENDS)



Forecast *(continued)*

real estate in general may be left in the doldrums for years. The economy is shifting from one led by the consumer to one that is focused on providing more goods and services to newly emerging areas of the world. Therefore, much of the consumer discretionary sector may undergo consolidation and poor performance too. These are only two examples in a complex shift taking place. Knowing where that shift is heading is a key to making future investment returns.

Equities

Currently markets seem confined in a trading range. Markets seem to be bound by around Dow 10,500 on the upside and about 10,000 on the downside. In the middle there is a lot of movement, bombast, and learned commentary signifying - not much. The really important evidence as to future activity and profitability is coming from companies themselves. So far, they are indicating continued improvement and cautious optimism for future growth. This is especially true for those companies that are in the forefront of favorable economic shifts.

Riverplace Capital believes, as it always has before, that improving business conditions will lead to higher stock prices. On average, current valuations are cheap and do not account for

future growth. Perhaps that is understandable given the market reactions over the past few years. However, this huge risk premium will gradually dissipate and corporate assets will be more appropriately priced – higher.

It eventually will be more important to own assets in the growing portions of the economy than either being in or out of the market. We are focusing our research on finding new and fresh opportunities in these sectors and we are finding them.

Fixed Income

Fixed income assets have become the safe haven from a turbulent stock market. However, this haven is not safe. Interest rates today do not reflect current economic activity, but fear. As money has left the stock market and sought the safety of bonds, bond prices have been bid up and therefore interest rates and value down (remember that as bond prices move higher, their interest returns decline). As confidence in the sustainability of the economic recovery improves, interest rates will rise. As a consequence, investors in bonds will lose value. Today's opportunities are in stocks not bonds; especially those in fast growing sectors.

Talk With Us cont'd

Politics can influence economics, but it is important to watch the economics, not the politics. Today companies are enjoying rising revenue and earnings. This drives stock prices more than any other factors. Interest rates are another important factor and so far these are also very favorable.

That is not to say that markets can not get ahead of reality or that shocks can't emerge. But what is not to be lost is that the current period is a normal economic recovery and investing environment. The normal investing tools of diversification and appropriate allocation, including cash reserves can help. However one shouldn't cower from this economy and this market. Risk is always present; it's just that the odds are presently very favorable.

Remember what John Maynard Keynes said in response to a question from a politician, "when the evidence changes, I change my mind; what do you do sir?" (Keynes was one of history's great economists and a very successful investor.) If you want to work with a firm that analyzes the evidence and not the perceptions,

Talk with Us.

Investment Strategy

Equities

In early April, our investment committee decided that portfolios needed to be pruned. It became obvious that some holdings were not performing as expected or had moved to unsustainable valuations. We believed that portfolios would be better off with this money on the sidelines looking for other opportunities. As a result, cash exists to take advantage of silly moves and favorable prices created by other investors. All our research is focused upon finding new growth opportunities at a discount.

Besides our core investment themes of participation in faster growing foreign markets, internet services, the mobile internet, clean water, and green energy, we are interested in copper, new battery technologies, high-tech materials, and medical technologies and services. There is a vast new vista of opportunities; we continue to be excited and optimistic for future returns. We are opportunistically buying at very favorable prices

Fixed Income

Caution, caution, and more caution is what drives our investing in

the fixed income area. We are seeing many investors making classic mistakes and we are fearful for their financial health. More money has been lost by investors reaching for yield than just about anything else. Remember, at its core, the desire to buy complicated mortgage obligations was a result of an attempt to improve returns over the generally available yields from other instruments.

Today some investors are attracted to higher yielding stocks, master limited partnerships and lower rated bonds at a most inopportune time. Changes in tax policy, business conditions, and future interest rates will affect the value of these instruments. The fixed income arena is not always a safe-haven. Our investments here are in high grade securities of limited duration. Caution is the word.

Wealth Management

Riverplace Capital is pleased with the current allocation weightings in its asset allocation portfolios. We are not contemplating significant changes in the near future.

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