APPLETON *PARTNERS,* INC.

MARKET OVERVIEW - QII 2010

The stock market continued its strong performance for only the first few weeks of the second quarter, before sliding into a correction. For the quarter, the S&P 500 Index was down -11.4%, bringing the year-to-date return to -6.7%. Sector returns continued to vacillate, with Utilities, Telecom, Consumer Staples, and Consumer Discretion outperforming the broader market for the quarter, albeit all with negative returns. Year-to-date, the Industrials and Consumer Discretion sectors remained the leaders while the Energy and Materials sectors were the laggards. Taxable and municipal bond market returns were up moderately, improving upon positive first quarter returns. Below, we offer our views about this past quarter and the period ahead.

The second quarter presented numerous challenges to the recovering economy and stock market. While the first quarter earnings season saw nearly 80% of S&P 500 companies exceed earnings estimates, the lack of top line revenue growth and stagnant guidance left the market vulnerable. An earthquake, volcanic ash eruption, and oil well disaster were hardly the catalysts investors were hoping for to further first quarter gains. Add to these the potential contagion of sovereign debt concerns in Portugal, Ireland, Italy, Greece, and Spain, the concern over tightened lending restrictions in China, and the disappointing employment and housing reports in the US, and in hindsight, it is not so surprising that the market slid into a correction.

To start the year, the savings rate stood at 2%, down from 6% last year mainly due to increased consumer optimism leading to increased household consumption. However, as uncertainty over jobs and housing linger, we've seen the savings rate rebound up to 4% as people have begun pulling in the reigns on spending. This renewed pessimism is also evident on Wall Street as treasury and t-bill yields hit historic lows in a flight to safety. Household employment fell off in the recent reports, and further deterioration in the unemployment rate is possible, as there are simply not enough companies willing to hire in such a low demand environment. Furthermore, the paring off of census jobs, as well as offshore oil drilling jobs lost, will further burden unemployment data. Housing data has also been equally uninspiring as sales have declined seasonally and new mortgage applications dropped substantially in May. We are currently stuck on a merry-go-round of low consumption demand due to low employment, and low hiring due to low consumption demand. With uncertainty surrounding the economy, healthcare legislation, and fiscal policy, corporations will likely resist additional capital expenditure or raising of guidance until significant sales improvement is registered. Though this seems to outline a dire situation, not all the news is as negative.

While all these challenges have left the market bemused, the long term seeds of recovery remain. Though down from the fourth quarter, first quarter GDP growth of 2.7% marked the third straight quarter of positive GDP growth in the US which, while slowing, is expected to remain positive for the second quarter as well. Economic progress is slow, but at least visible. Inventory reductions and cost cutting over the past couple years have led to a strong environment for manufacturing activity to remain positive which has been evident in ISM Manufacturing Survey results indicating expansion. Furthermore, with the market indicating no near-term concerns of inflation, interest rates should remain low enough to foster longer-term growth.

If we are indeed still in the midst of a recovery bull market, we are likely approximately 1.3 years into the typical post World War II bull market average duration of approximately 4-5 years. As detailed on the accompanying chart from Crandall, Pierce, & Co., bull markets typically display four distinct segments of behavior. The first segment usually accounts for 37% of the bull market performance, which we likely witnessed from March of 2009 thru this April. The second segment which we are likely currently in has historically produced the weakest returns, before the market then resumes an uptrend in the final two segments. Ultimately, fiscal policy programs or other triggers may be necessary to spur the recovery back into motion, but the final stage of market resurgence is out there on the horizon, the time table is just uncertain. We will continue to closely monitor the government's action, as well as economic activity as we weather these market headwinds before clearer skies can emerge. Meanwhile, we remain positioned conservatively, emphasizing stocks that possess the characteristics needed for growth in spite of a respite in the market. Discount

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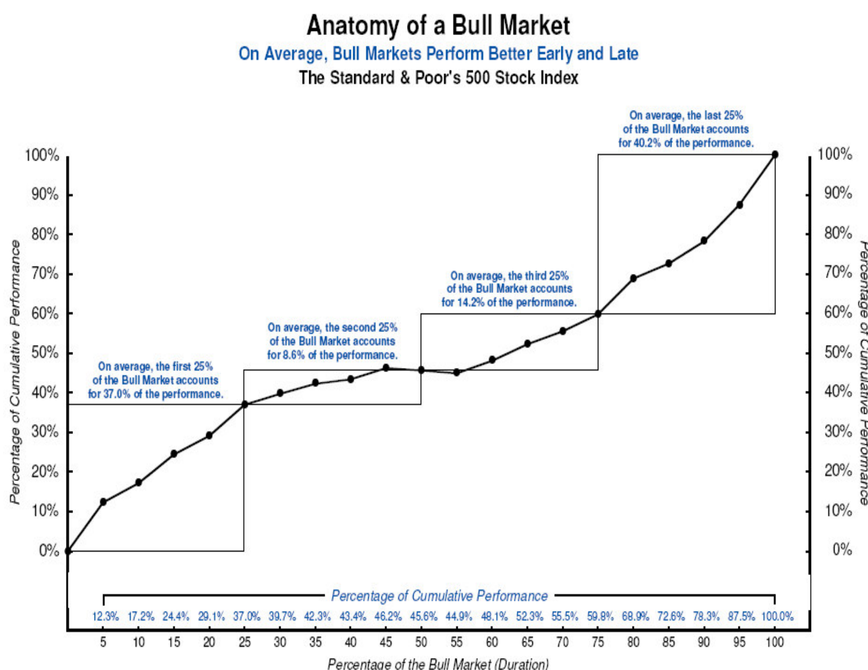
retailers and innovative technology companies should benefit from continuing to garner a greater percentage of spending, while industrials remain poised to capitalize on their historically high margins, should the economy pick up steam.

On a personal note, we regret to inform you of the passing of our dear friend and colleague Jonathan Noonan. Jon had courageously battled cancer over the past few years, but a recent relapse silenced a truly gifted voice and an exceptional father and husband. We are all saddened by his passing, though very grateful of the legacy of investment and market knowledge he bestowed upon us all here at Appleton Partners.

Please contact us if there are any changes to your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account.

June 30, 2010 DJIA: 9,774.02 S&P 500: 1,030.71



Data: Average of post-WWII Bull Markets as defined by the Standard & Poor's 500 Stock Index.

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