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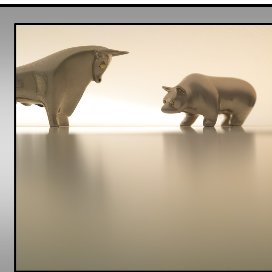
Registered Investment Advisor

July 2010 Update



Current Market Environment

Most investors will view June as a very negative month for their investments due to the continued sell-off in global equities markets. However, many markets saw gains in June. Corporate bonds finished June up 1.70%. 10-year Treasuries again benefited from a global "flight to safety" and were up 1.55% for the month. Yields on the 10-year dropped from 3.30% to 2.97%. The dollar gave back 0.65% on the Euro finding a bottom.

Hard assets had a mainly positive June. Gold was up 2.74%. The CRB Index was up 1.46%. Oil was up 2.24% to $75.63 per barrel of light sweet crude. REITs were down 5.63%.

Equity markets in June were every bit as brutal as May, reflecting the feeling that the world's biggest economies would suffer a "double dip" recession in the second half of the year. The S&P 500 followed May's drop of 8.20% with another drop of 5.39% in June, but the BONY Emerging Market Index was down less than 1%. This indicates a feeling among investors that the "double dip" scenario is likely to impact the US more than it would developing economies.

BLW Growth Portfolio

We have about 10% in "hedge-like" mutual funds. They have a relatively low correlation with stocks, which is why they are a core position. Another core position is the Direxion Commodity Trends fund which is long and short 16 different commodities. That fund is currently long gold and silver, and short copper and all grains.

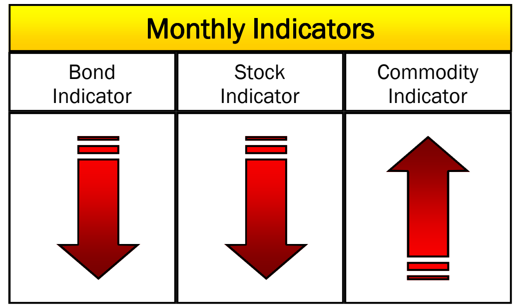
We also closed our short position in the S&P 500 on June 16th once the market reached extremely oversold conditions. This position was liquidated at a profit and can be seen below on the chart below.

The Dollar has had a strong move higher and is pulling back from an overbought condition. We will be watching this position and look to close it out at a profit should support be broken as the Euro is gaining strength. A favorable stress test of European banks may very well act as a short-term catalyst for further strength in the Euro. We are still long precious metals stocks. They are still trading at a discount to gold bullion and have held up relatively well in the equity market collapse. Similarly, our long positions in high yield bonds and real estate are down in the sell-off, but not as much as the market itself. Real estate (REITs) has been very weak over the last week or so and we may look to liquidate it on a technical bounce.

We are long oil and gas stocks, which have been hurt on two fronts - economic recession fears and the punishment the market has handed BP stock specifically. This market is very weak and, like real estate, may be liquidated on the next technical bounce. Our current portfolio allocation to domestic equity sectors is approximately 25% with a significant cash position that can be used to hedge the portfolio again if necessary.

We are short Treasuries, which is the appropriate play for the phase of the business cycle we are currently in, however, the weakness of the Euro zone has forced a "flight to safety" driving up Treasury bond prices and hurting this position. Either the US economy will go into a recession or it will not. The bond market is currently betting on a recession. Yields will continue to drift lower until this is proven to be the wrong conclusion. A few scenarios may reverse the short-term trend: (1) better economic data on housing and employment, (2) surprisingly strong results of the European bank stress tests, and (3) a falling appetite for the seemingly endless stream of supply of US debt. Short-term, the Treasury bond market is extremely overbought. At some point, yields on fixed income investments will be so low, money will be forced to flow out of bonds and into riskier assets, like stocks.

Where We Are



Our position in the financial cycle has not changed for the month of June. We are currently in Phase 5 of a 6-phase cycle. Although the numbers have changed, our Bond Indicator is still down; our Stock Indicator is still down; and our Commodity Indicator is still up. The chart to the right reflects this.

Our leading indicator of the financial cycle is our Bond Indicator. For the prior month, there were 2 bullish indicators out of 11 for an index value of 0.1818. There are now three bullish bond indicators which gives an index value of 0.2727. The indicator which turned bullish was the ISM Prices Paid statistic. This value plummeted in June, bullish for bonds. Any value below 0.5000 still indicates a bearish environment for bonds.

Our coincident indicator of the financial cycle is our Stock Indicator. In May, 4 of 11 indicators were bullish for an index reading of .3636 - clearly in bearish territory. In June, one more indicator turned bearish bringing the number of bullish indicators to 3 of 11 and an index reading of 0.2727. The indictor which turned bearish is based on the yield curve, which flattened in June. A contracting yield curve has traditionally been bad for stocks. Since the current index value of 0.2727 is well below 0.5000, it is bearish.

Our lagging indicator of the financial cycle is our Commodity Indicator. In April, all 12 indicators were bullish. In May, only 10 of these indicators were bullish. In June, 9 of 12 indicators were bullish for commodities. While the new index value of 0.7500 is still well above 0.5000 and therefore still bullish, the index is weakening. The indicator that turned bearish for commodities in June was a moving average of the S&P 500.

Phase 5 generally indicates a need to raise more cash, modestly increase exposure to commodities and decrease exposure to stocks globally. Bonds should still be considered a poor total return bet.

Financial Cycle