
CAPITAL MARKETS REVIEW

Q2 2011



An independent firm

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ECONOMIC OUTLOOK

By: Kevin J. Meehan, CFP®, ChFC®, CLU®, CASL® and Todd B. Diven, CPA(Inactive), CFP®

The U.S. economic recovery remains on track, but the increase in oil prices will likely dampen the pace of growth to some extent.

Private sector payrolls rose by 230,000 in March, a 188,000 monthly average in 1Q11 – good, but not great. There are some signs that small and medium-sized businesses have begun to hire in the last few months. State and local government continues to shed jobs. The unemployment rate dropped a full percentage point from November to March (from 9.8% to 8.8%). However, reductions in labor force participation make that figure look a lot better than its actuality. The employment population ratio, a better measure of capacity utilization in the labor market, has edged up slightly in recent months, but is essentially the same as a year ago. The labor market still has a long way to go.

Most of the recent economic data have been unable to reflect the impact of higher gasoline prices, which surged in late February and early March. The exception is consumer attitude measures, which reflected a sharp decline in economic expectations. The impact of higher gasoline prices depends on the magnitude and duration of the increase, and falls harder on those households in the bottom half of the income distribution. To date the drag from higher gasoline prices has offset the positive effect from the reduction in payroll taxes for most households.

Japan's earthquake, tsunami, and nuclear disaster have led to supply chain disruptions, but the impact on global trade is expected to be short-term. Japan should easily be able to finance rebuilding.

On the inflation front, higher food and energy prices are putting upward pressure on consumer price inflation. Food and energy price increases are typically short-term in nature, leveling off or reversing after a while. In addition, wage increases are low and long-term inflation expectations remain contained.

While many fret about the large federal budget deficit, the bigger problem is longer-term (it's Medicare). Austerity measures at all levels of government, while perhaps well-intended, will have some dampening effect on economic growth and do little to reduce borrowing costs in the short term. Long-term interest rates should be range-bound in the near term, eventually moving gradually higher as the economy improves. However, again, a lot depends on the price of oil.

Residential commercial construction levels remain depressed with little need to build new housing or retail, office, industrial, or other large category commercial properties. The jobs lost in the housing and commercial construction sectors during the downturn are not expected to return in 2011 or the intermediate term.

ECONOMIC OUTLOOK (CONT.)

By: Kevin J. Meehan, CFP®, ChFC®, CLU®, CASL® and Todd B. Diven, CPA(Inactive), CFP®

Despite the drag from the construction sector of the economy, we believe the market is becoming more convinced of the resiliency of the economic recovery and, as a result, we expect the stock market to continue to work higher. Considering current valuation levels, we favor equities over fixed income in this environment.

Overall, we still have a mixed bag of signals. In addition to the mixed economic numbers, there are plenty of geopolitical issues that also come into play (Middle East tensions, European economic situation, European debt problems, etc.). Our opinion is that our economy will continue to make modest gains despite the challenges we see. We feel that as the economy makes modest gains, we will see housing stabilize and employment should pick up. This should help overall business improve as demand increases. This can lead to improvement in the stock markets. It can also lead to increasing inflation expectations. This is why we are still concerned about the fixed income market performer's.

To be sure, the country is still going through what is described as “creative destruction,” whereby the dying industries like the building of McMansions or giant SUVs, fade away but are replaced by new growth industries.

The same factors that have served the U.S. well in the past are the same factors we believe will lead us to future prosperity:

- 1) The United States is the home of the entrepreneur.
- 2) The U.S. is the most open/flexible society the world has ever seen.
- 3) The brightest minds from around the world dream of coming to the U.S.
- 4) English is the universal language.
- 5) Americanization remains a powerful and growing – though resented – economic and social trend throughout the world. (To quote the advertising/marketing giant WPP Group's CEO, Sir Martin Sorrell, “Globalization is a misnomer. The better word is Americanization.”)

ECONOMIC SNAPSHOT

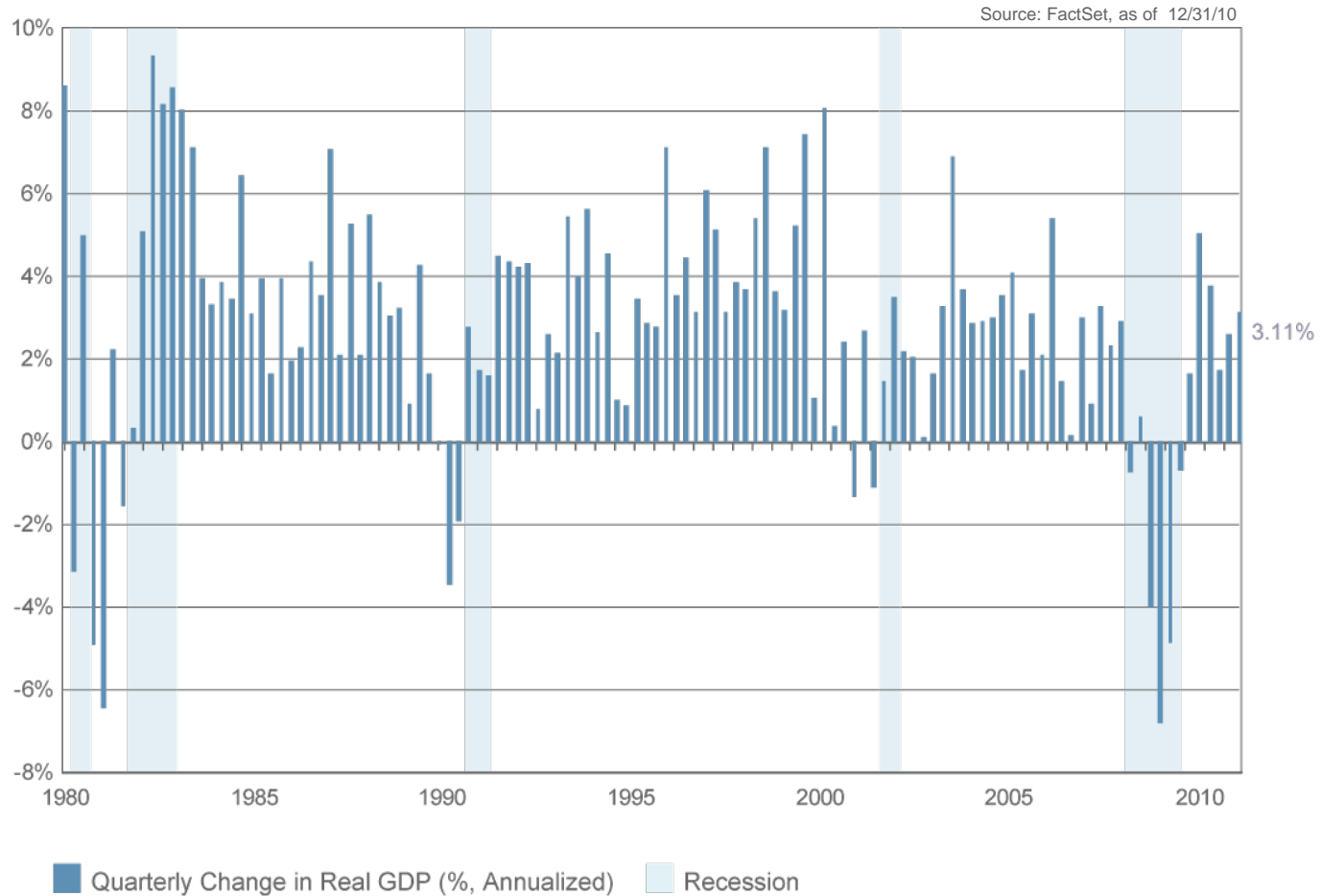
Economic Indicator	Status	Comments
Growth		Real GDP growth appears to have risen at a moderate pace in Q111. However, consumer spending growth slowed to some extent (from a strong Q410). Expectations of GDP growth in 2011 have decreased (from 3.5%-4.0% seen in February, to 2.5%-3.0% more recently).
Employment		Job losses continue to trend at a low level, except in state and local government. Small and medium-sized businesses have increased their hiring, but improved job growth has not done much to reduce the large amount of slack in the labor market.
Consumer Spending		Consumer spending ended 2010 on a strong note, but slowed in Q111. The impact of reduced payroll taxes has been offset by the expiration of the Making Work Pay tax credit (for low-income households) and by higher gasoline prices (for low- and middle-income households).
Business Investment		Corporate profit growth has remained strong, helping to fuel business fixed investment. However, factory shipment data were a bit soft in Q111.
Manufacturing		New orders and production have been uneven, but the trend is higher. Inventories are lean. Factory jobs are being added.
Housing and Construction		Home sales and residential homebuilding activity have been weak and home prices have continued to soften. Stronger job growth should provide some support for housing, but we need to see much better employment gains in the months ahead.
Inflation		Higher prices of food and energy have boosted consumer price inflation. However, such increases tend to be transitory. Core inflation trended down in 2010, but appears to have firmed slightly in early 2011. There is no inflation coming through the labor market, which is the widest channel for inflation pressure. Long-term inflation expectations remain contained.
Federal Reserve		The Federal Open Market Committee is expected to complete its asset purchase program (\$600 billion in long-term Treasury securities by the end of Q211). Short-term interest rates are likely to be unchanged until 2012, but the Fed will have to begin normalizing policy at some point.
Long-Term Interest Rates		Bond yields normally move higher as the economy recovers, and we may see some increase when the Fed stops buying. Higher oil prices are likely to be seen more as an impediment to economic growth than as a catalyst for a higher underlying trend in inflation.
Fiscal Policy		Austerity measures at all levels of government may be well-intentioned, but these moves imply somewhat slower economic growth in the near term.
The Dollar		Still a mixed bag. The dollar is not expected to strengthen until the Fed begins raising rates, which is some time off.

TACTICAL OVERLAY OF OUR STRATEGIC ASSET ALLOCATION MODELS:

- Asset Allocation: Slowly improving economy warrants tilt toward equities.
- Equities, Regional Allocation: US stocks remain attractive while international has become more with some areas having attractive valuations.
 - Emerging economies have recovered more quickly than developed.
- Equities, Market Cap: Broadly neutral, with slight leaning to small-mid cap space, although we like large cap for dividend income.
- Equities, Style Allocation: Broadly neutral
- Fixed Income, Duration: Effectively neutral, as rates remain low and range bound.
- Fixed Income: Favor high-yield, corporates, international, municipal fixed income over Treasury, agency, and inflation protected fixed income.
- Fixed Income, Regional: US dollar decline and solid performance from international markets warrants rebalancing.
- Commodities: Strong long-term outlook, but price momentum may be fading.
- Currencies: Expect weakness in developed market currencies (including US dollar) vs. emerging.

GROSS DOMESTIC PRODUCT

The U.S. economic recovery continued with 3.11% GDP growth in Q4.



CONTRIBUTIONS TO % CHANGE IN REAL GDP

Private investment was a drag on real GDP for the first time since the recession ended. Net exports provided a boost.

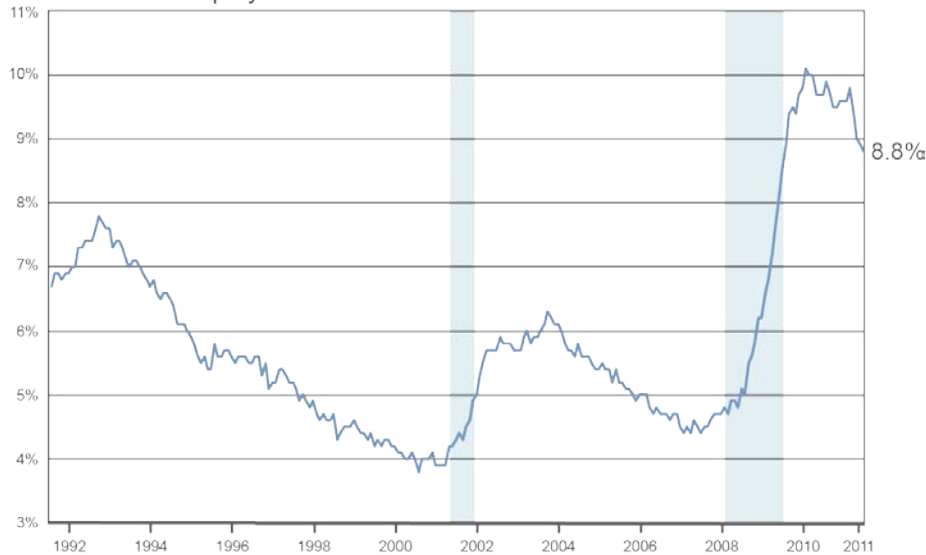


EMPLOYMENT

Declining unemployment could be misleading based on calculation methodology and may spike as individuals resume job searches.

Civilian Unemployment Rate

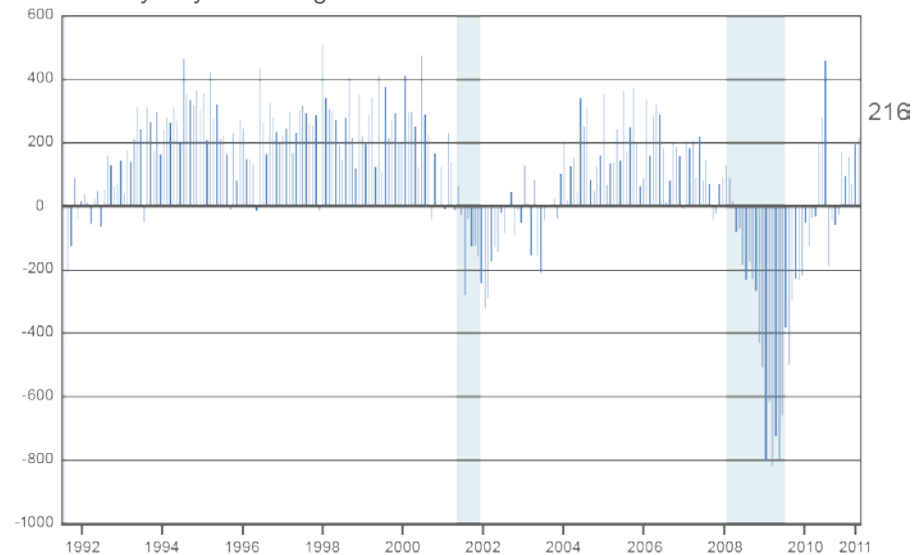
Source: FactSet, as of 3/31/11



■ Civilian Unemployment Rate ■ Recession

Monthly Payroll Changes

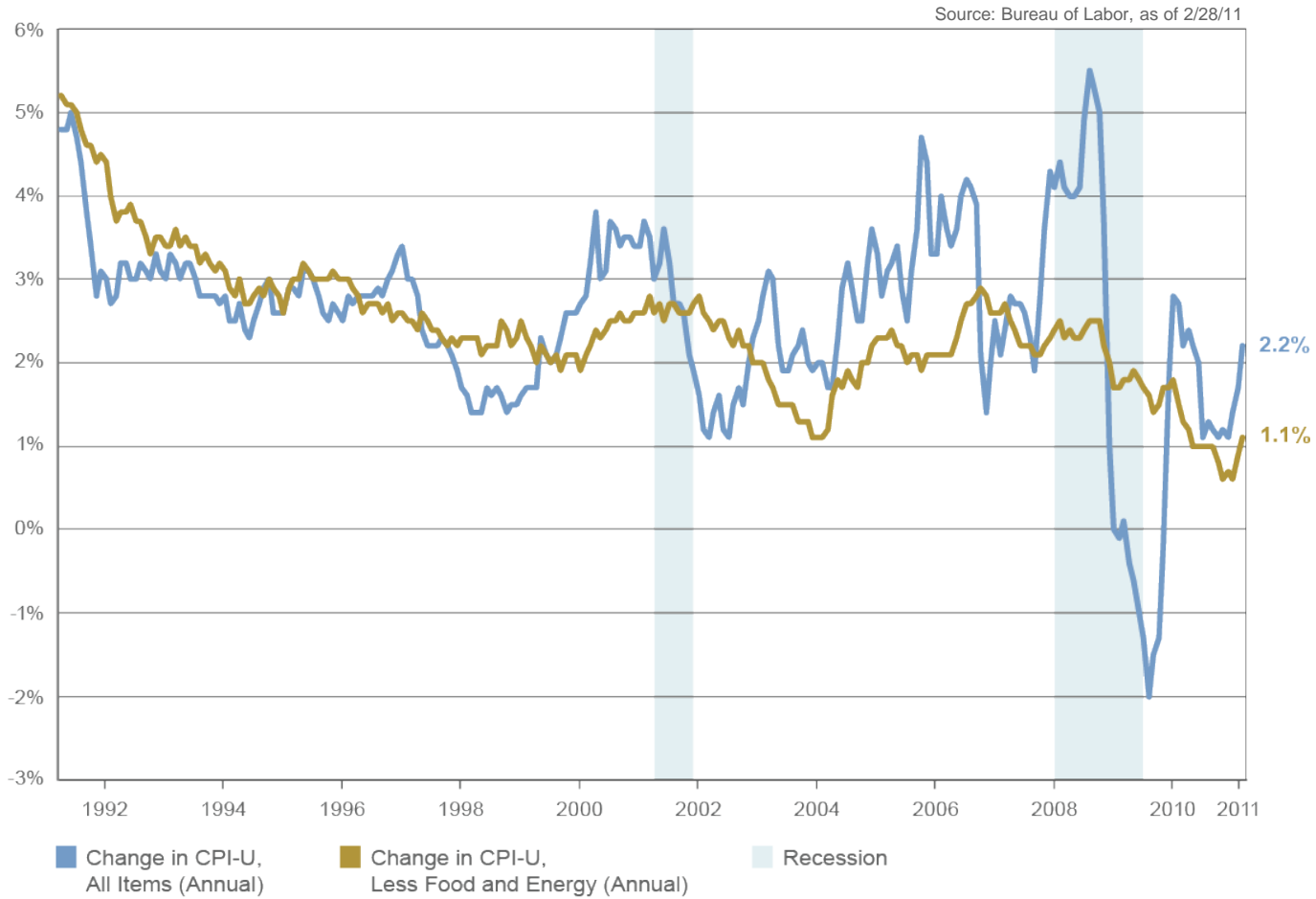
Source: Bureau of Labor Statistics, as of 3/31/11



■ Monthly Change in Nonfarm Payrolls (000s) ■ Recession

INFLATION

Overall inflation levels remain low. Higher energy costs may have a near-term impact.



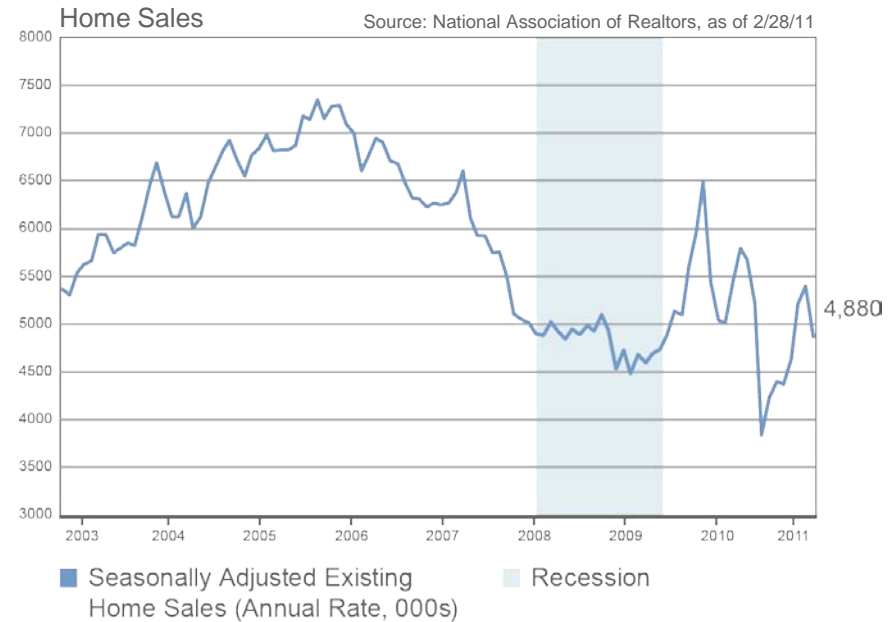
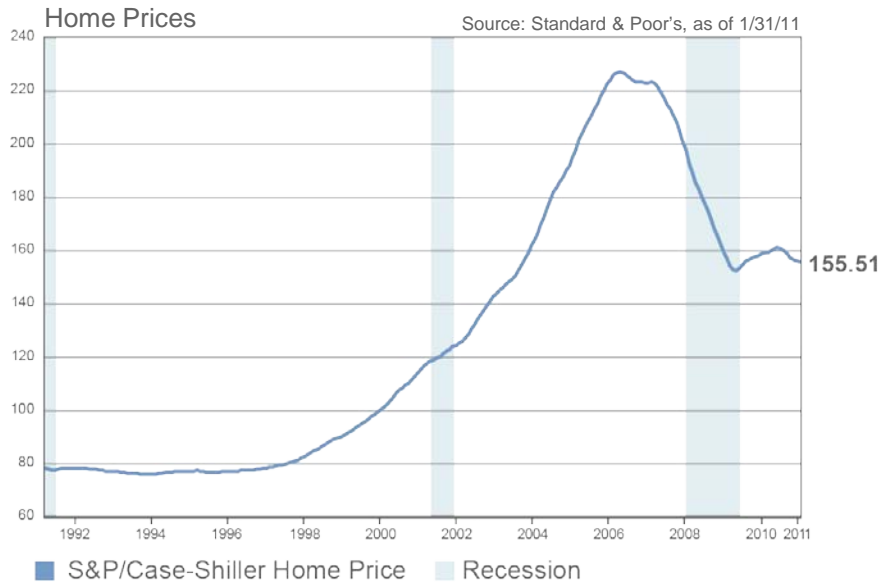
KEY INTEREST RATES

Key rates remain mostly unchanged from prior quarters with mortgage rates inching slightly higher.



HOUSING MARKET

The housing market continues to show signs of weakness with declines in prices and sales.



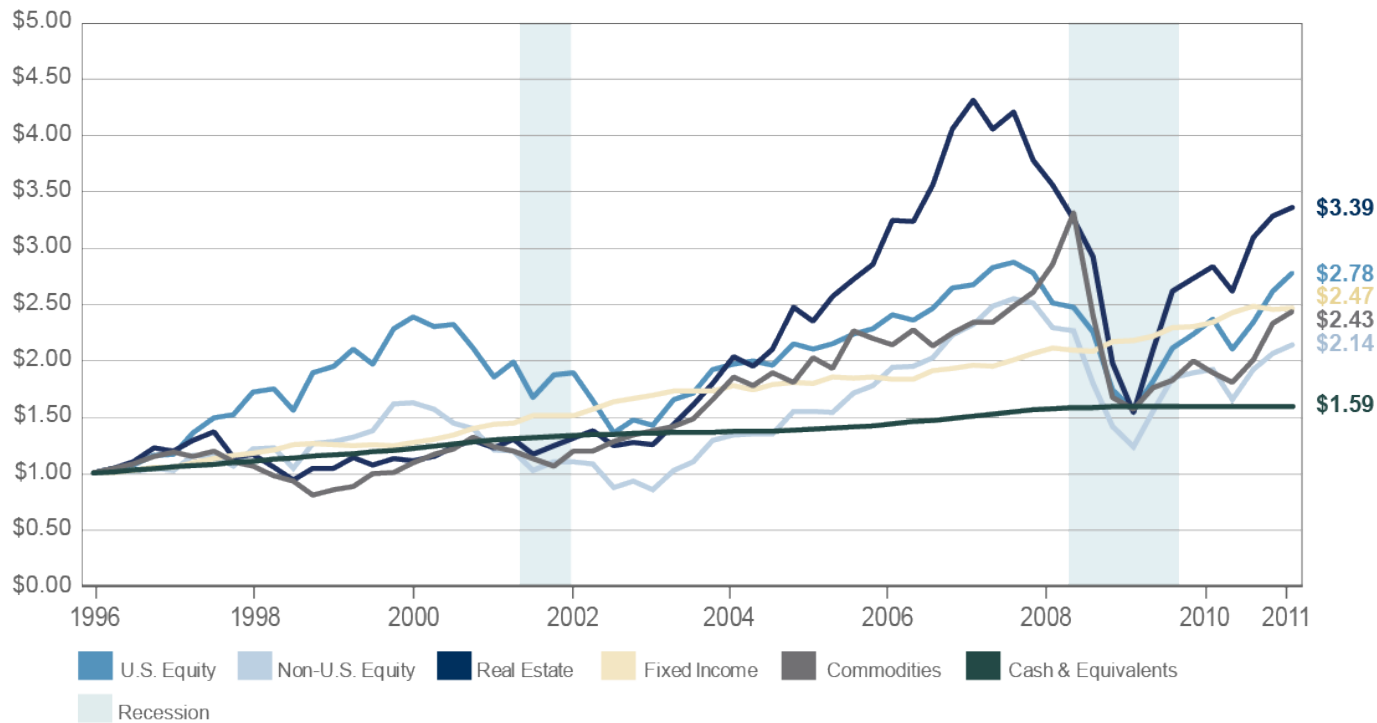
Top 5 Housing Markets	Quarterly % Change*
Idaho	103.1%
Vermont	55.0%
Minnesota	33.6%
Iowa	28.2%
Oregon	26.1%

Bottom 5 Housing Markets	Quarterly % Change*
Virginia	-5.4%
District of Columbia	0.0%
Indiana	0.5%
Alabama	2.5%
Kentucky	3.4%

Largest States by Population	Quarterly % Change*
California	5.6%
Texas	11.7%
New York	15.1%
Florida	19.9%
Illinois	16.3%

*Seasonally Adjusted Sales (Annual Rate, Q310 vs. Q410)

INDEX RETURNS GROWTH OF A DOLLAR



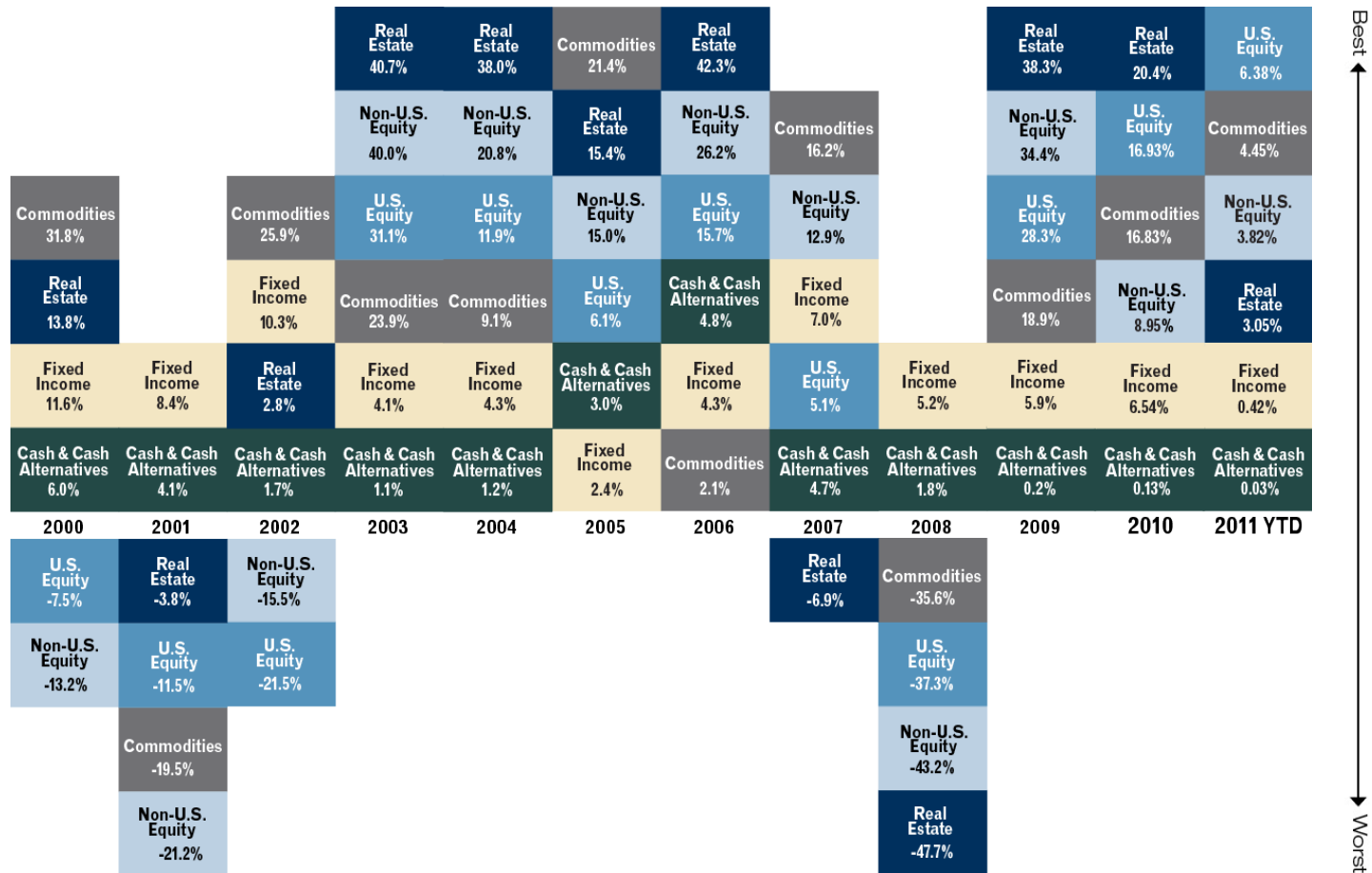
	YTD	1-Year	3-Year	5-Year	10-Year
U.S. Equity	6.38	17.41	3.42	2.95	4.13
Non-U.S. Equity	3.82	11.61	-2.23	1.99	5.96
Fixed Income	0.42	5.12	5.3	6.03	5.56
Real Estate	3.05	19.16	-1.69	0.83	10.72
Commodities	4.45	28.49	-5.2	2.57	7.06
Cash & Equivalents	0.03	0.15	0.47	2.09	2.12

Source: Callan, as of 3/31/11
 Investors cannot invest directly in an index. Past performance is not indicative of future results. See asset class benchmarks on slide 29.

ASSET CLASS RETURNS

U.S. equity outperformed international equity and other broad asset classes.

Source: Callan, as of 3/31/11

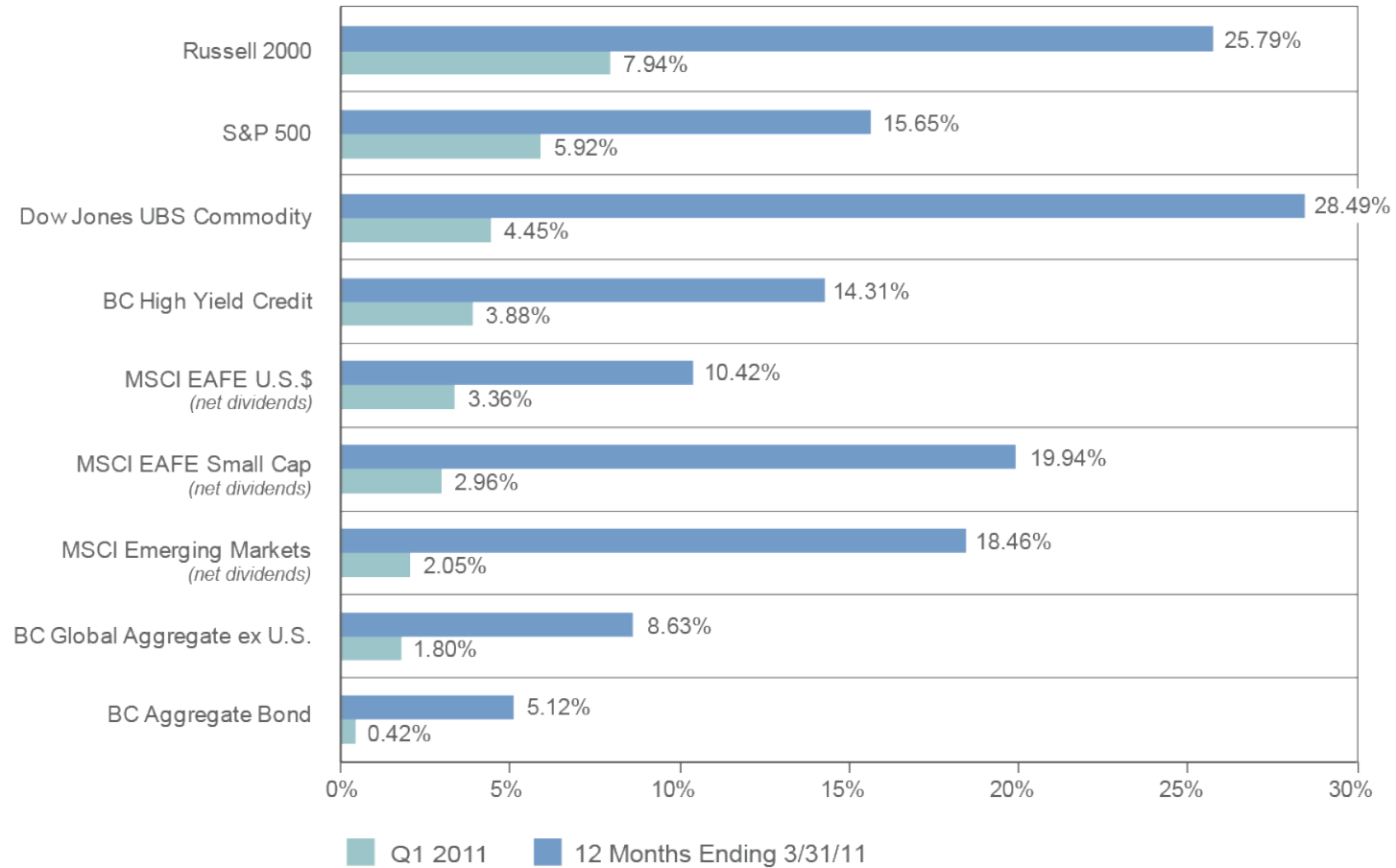


Past performance is not indicative of future results. Annual Returns for Key Asset Classes (2000-2011). See asset class benchmarks listed on slide 29.

ASSET CLASS RETURNS

Most major indices experienced positive returns in the first quarter with U.S. small caps leading the way.

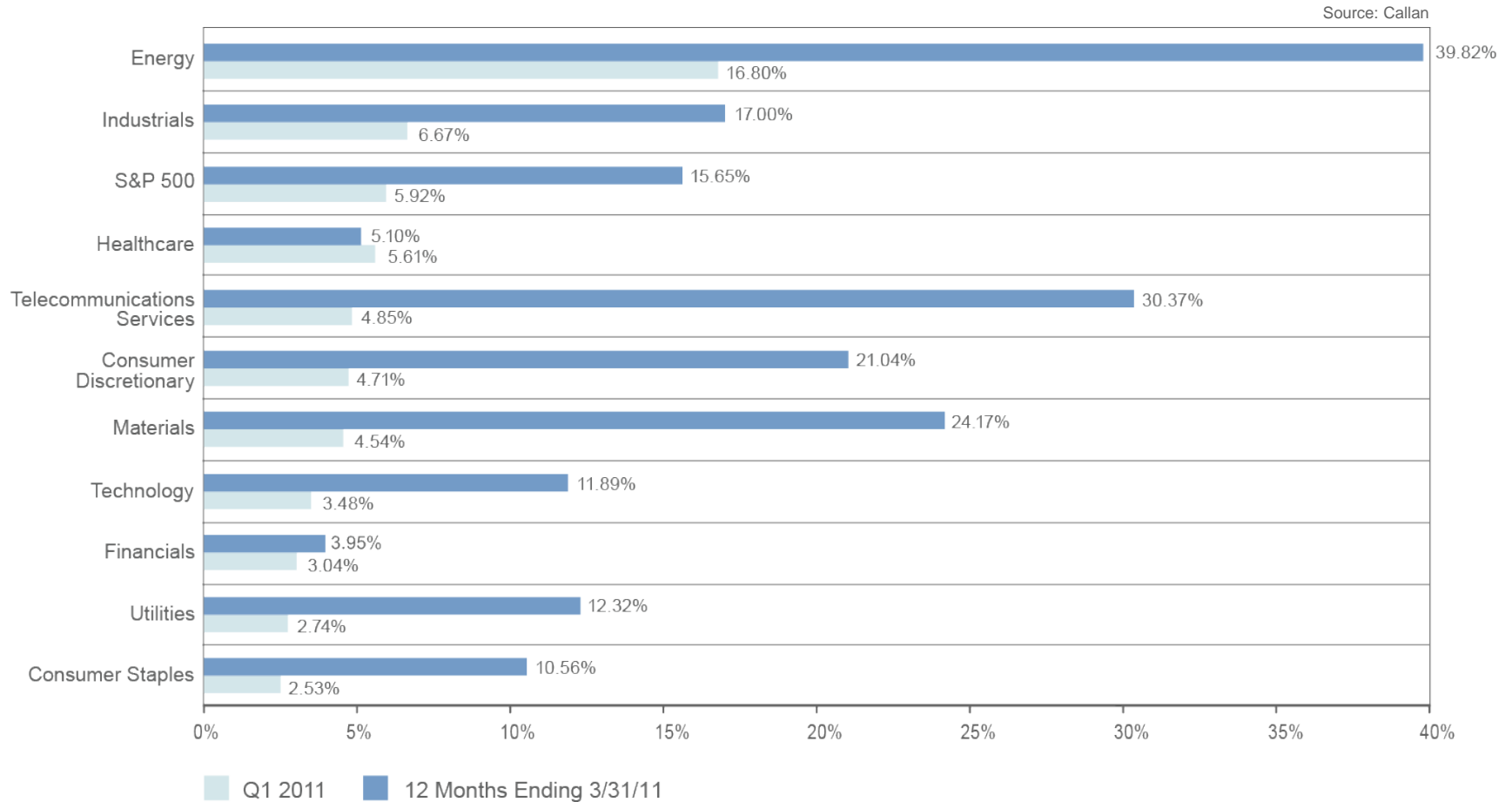
Source: Russell, Barclays Capital, Dow Jones, JP Morgan, Callan



Past performance is not indicative of future results.

S&P 500 SECTOR RETURNS

For the quarter and trailing year, energy is the largest contributor to S&P 500 returns as energy prices have risen dramatically.



Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends. Past performance is not indicative of future results.

EQUITY STYLES

Small cap outperformed large cap stocks with small cap growth leading for the quarter and year.

	Q111			12 Months ending 3/31/11			
	Value	Blend	Growth		Value	Blend	Growth
Large	6.5%	6.2%	6.0%	Large	15.2%	16.7%	18.3%
Mid	7.4%	7.6%	7.9%	Mid	22.3%	24.3%	26.6%
Small	6.6%	7.9%	9.2%	Small	20.6%	25.8%	31.0%

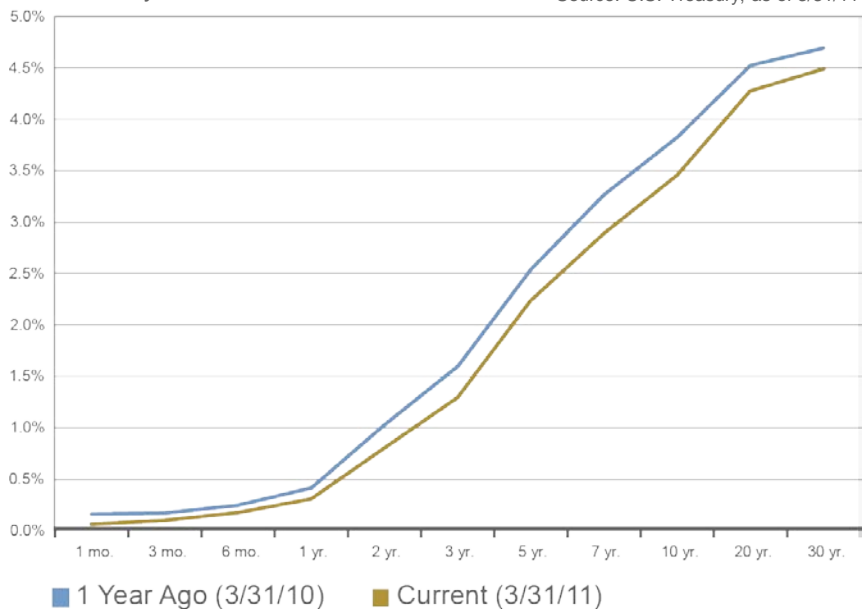
Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. The Indices used from left to right, top to bottom are: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-cap Value Index, Russell Mid-cap Blend Index, Russell Mid-cap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index. Past performance is not indicative of future results.

U.S. TREASURIES

Even with their recent rise, Treasury rates remain below levels from a year ago.

Treasury Yield Curve

Source: U.S. Treasury, as of 3/31/11



2YR/10YR Treasury Spreads

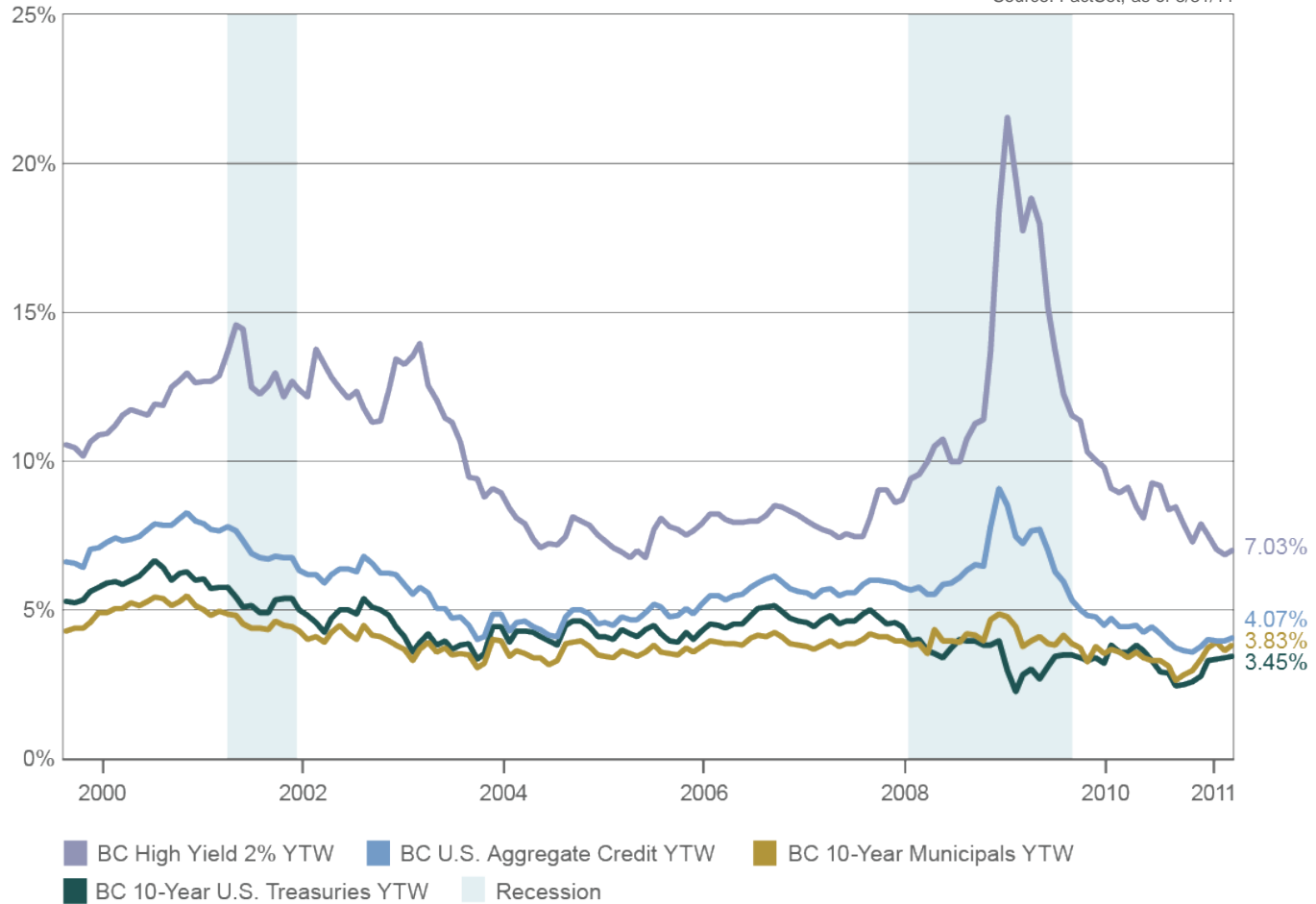
Source: FactSet, as of 3/31/11



FIXED INCOME YIELDS

Yields remain low especially on high yield debt, which is near long-term lows.

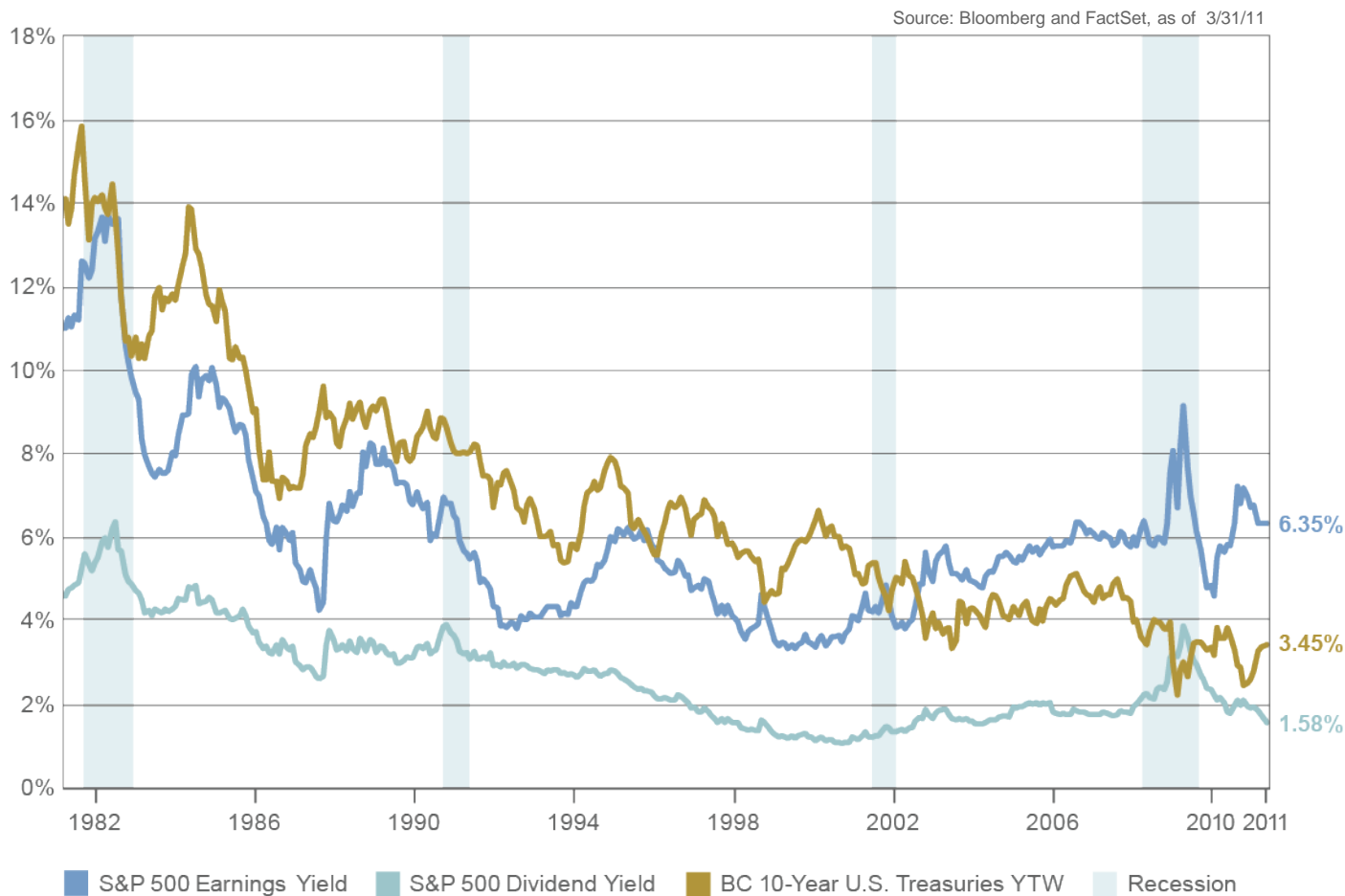
Source: FactSet, as of 3/31/11



Past performance is not indicative of future results.

S&P 500 YIELDS VS. TREASURY YIELD

The spread between the S&P 500's earnings yield and Treasury yields remain at historically wide levels.



Past performance is not indicative of future results.

PRICE-EARNINGS RATIO

Trailing 12-month P/E for the S&P 500 is mostly unchanged from the previous quarter.



FOREIGN EXCHANGE RATES

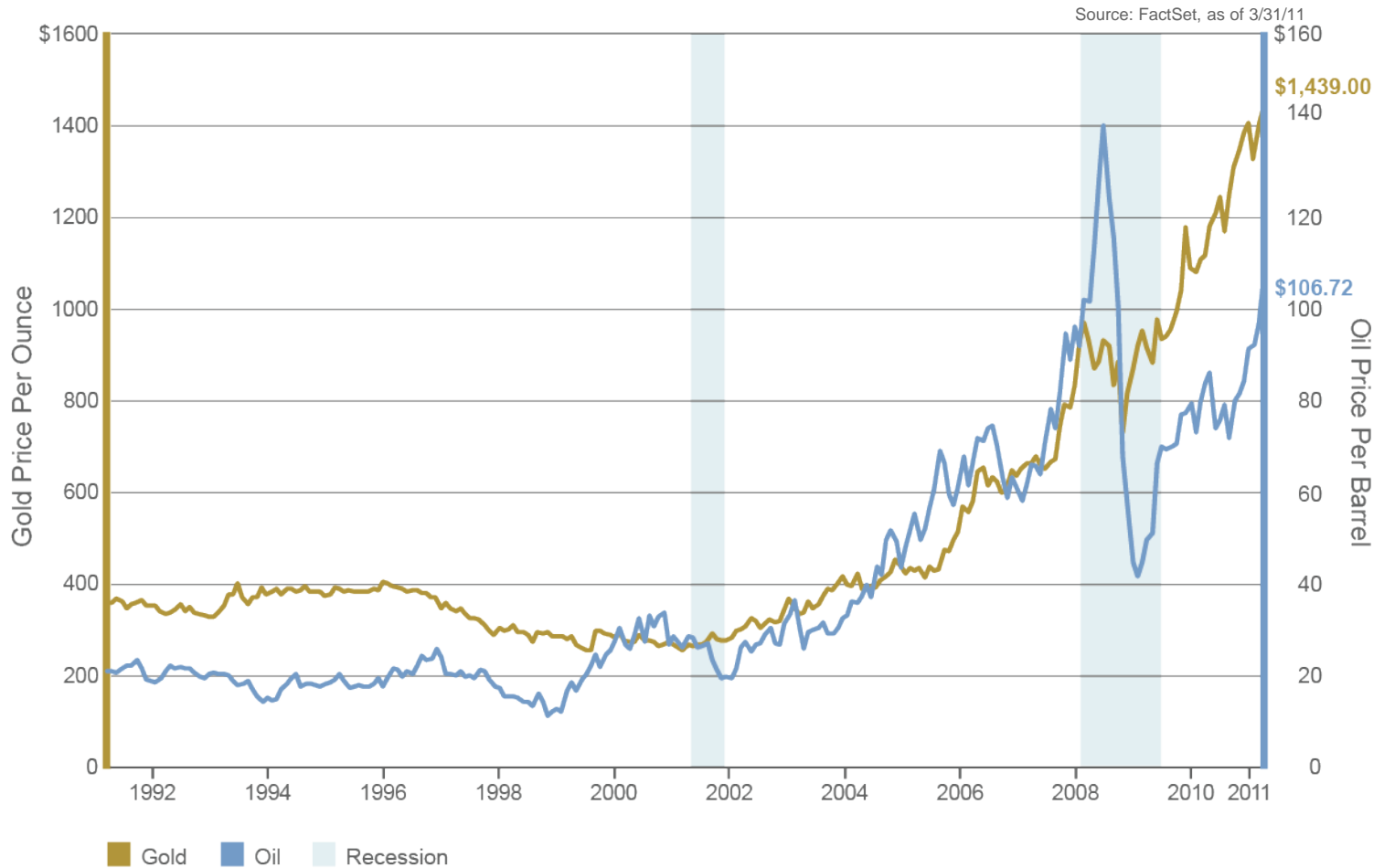
The U.S. dollar has been retreating over the last several quarters and is currently near recent lows.



Source: FactSet, as of 3/31/11	3/31/2010	3/31/2011
Japanese Yen (¥) / U.S. Dollar (\$)	93.44	83.17
Euro (€) / U.S. Dollar (\$)	0.7400	0.7056
British Pound (£) / U.S. Dollar (\$)	0.66	0.62

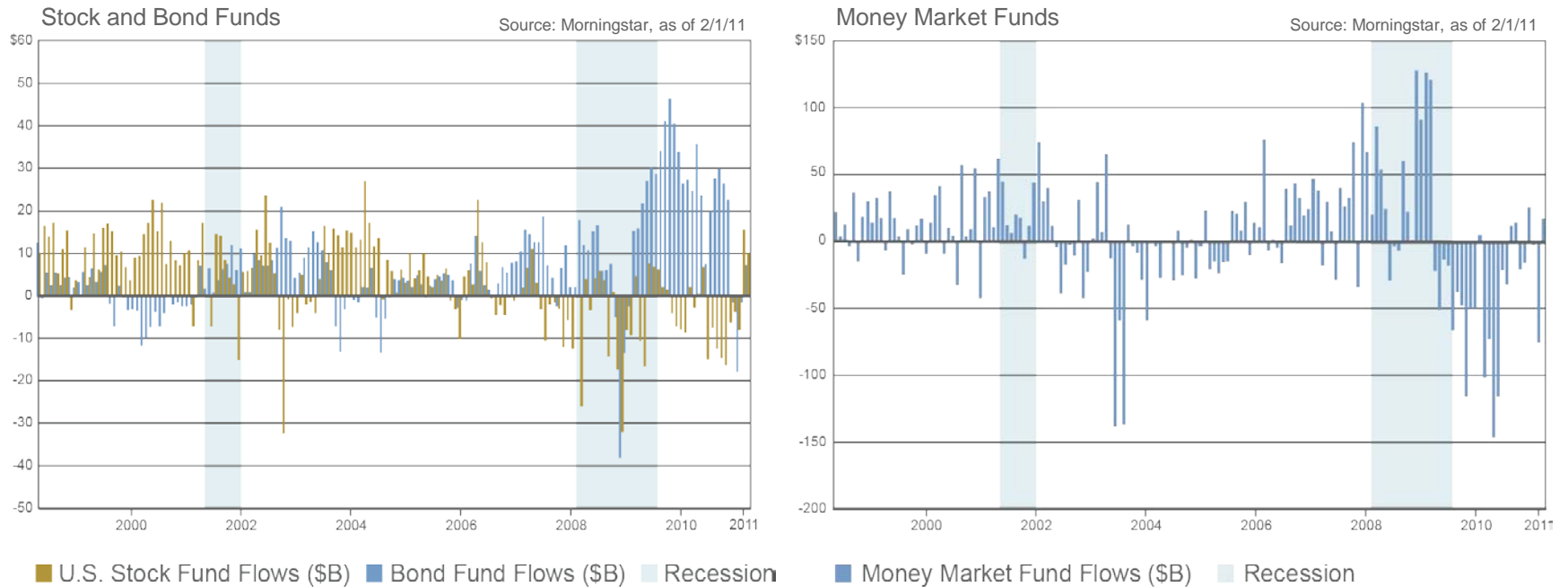
COMMODITY PRICES

Gold and oil prices continue to rise at an unprecedented rate.



MUTUAL FUND FLOWS

Flows into bonds are beginning to reverse with investments starting to flow back into U.S. equities.



TAX EQUIVALENT YIELDS

All else being equal, municipal bonds remain attractive on a tax-equivalent yield basis.

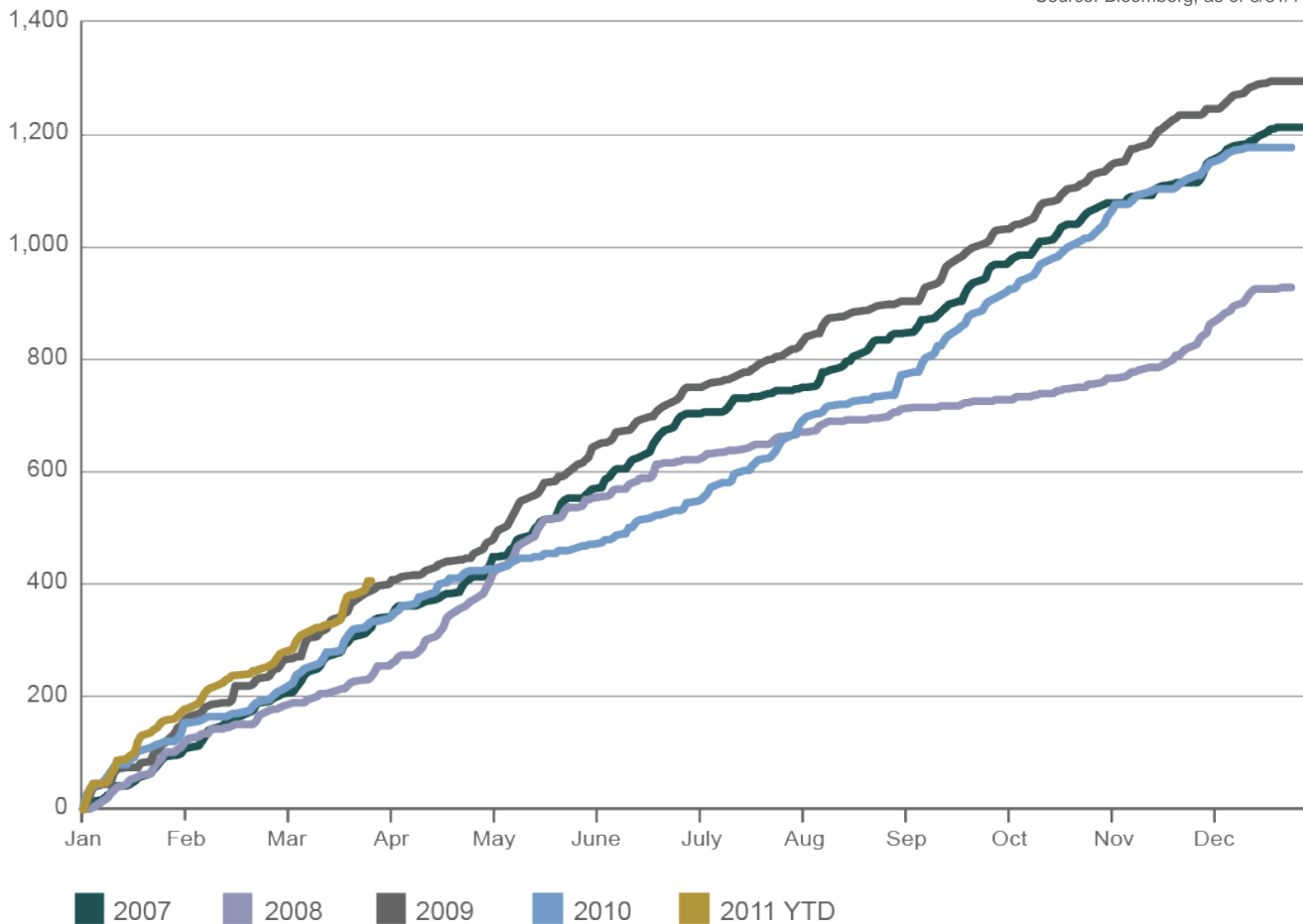


CORPORATE DEBT ISSUANCE

Issuance of corporate debt is on a pace to exceed each of the prior four years.

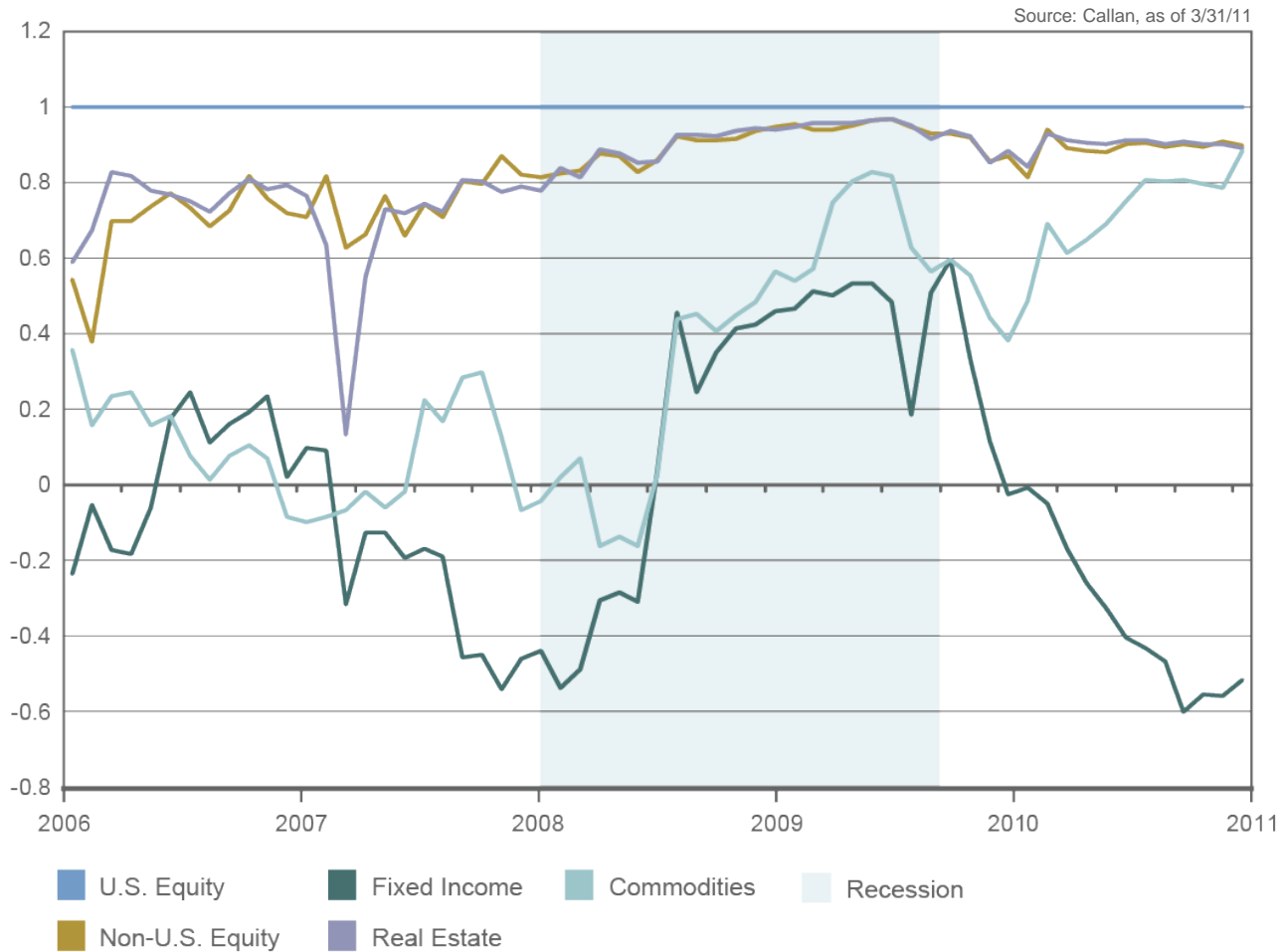
Issuance (\$B)

Source: Bloomberg, as of 3/31/11



CORRELATIONS TO U.S. EQUITY

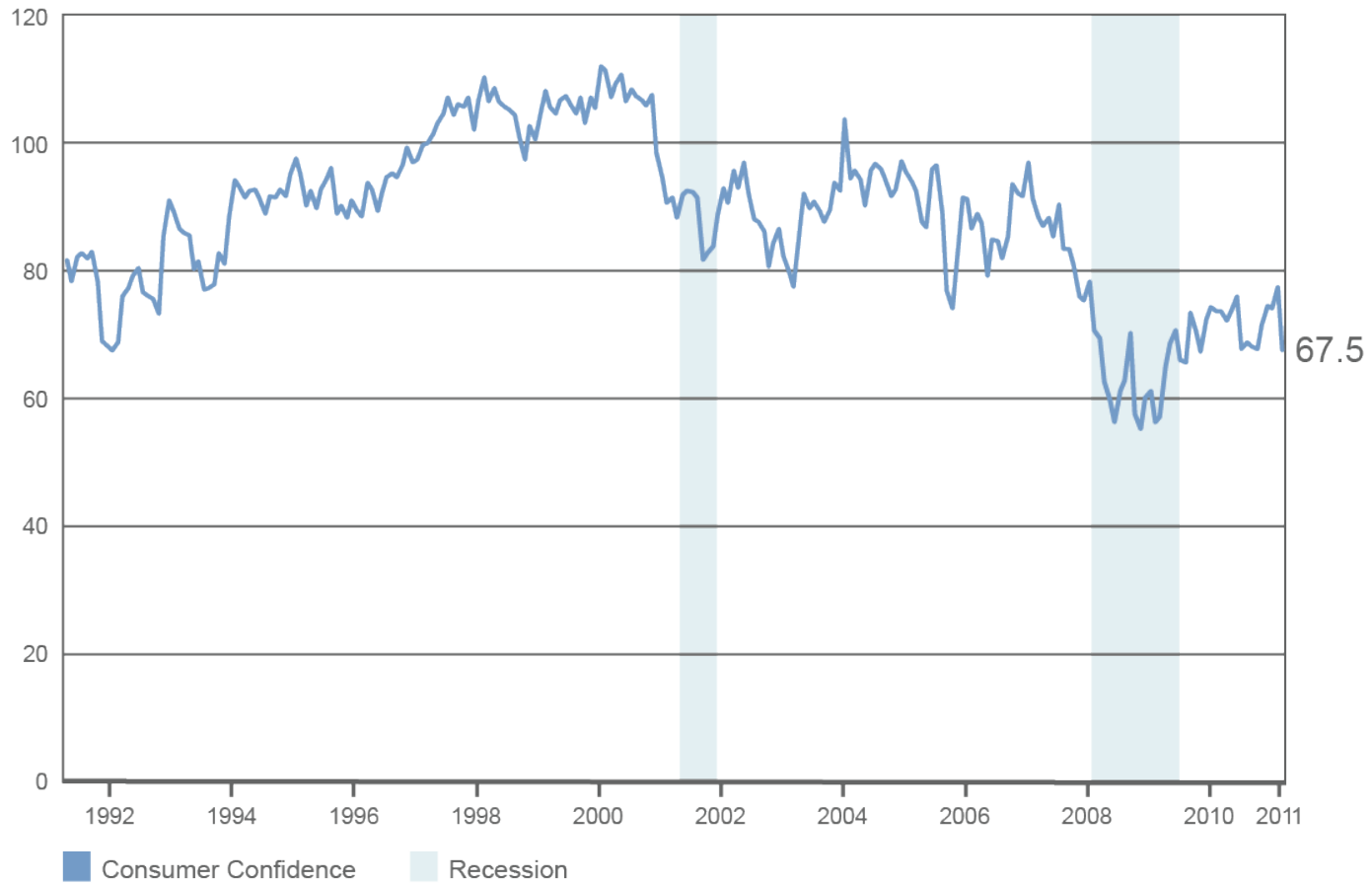
Correlations on most equity asset classes and commodities remain at historically high levels.



CONSUMER CONFIDENCE

Consumer confidence has been in a consistent range for the last several quarters.

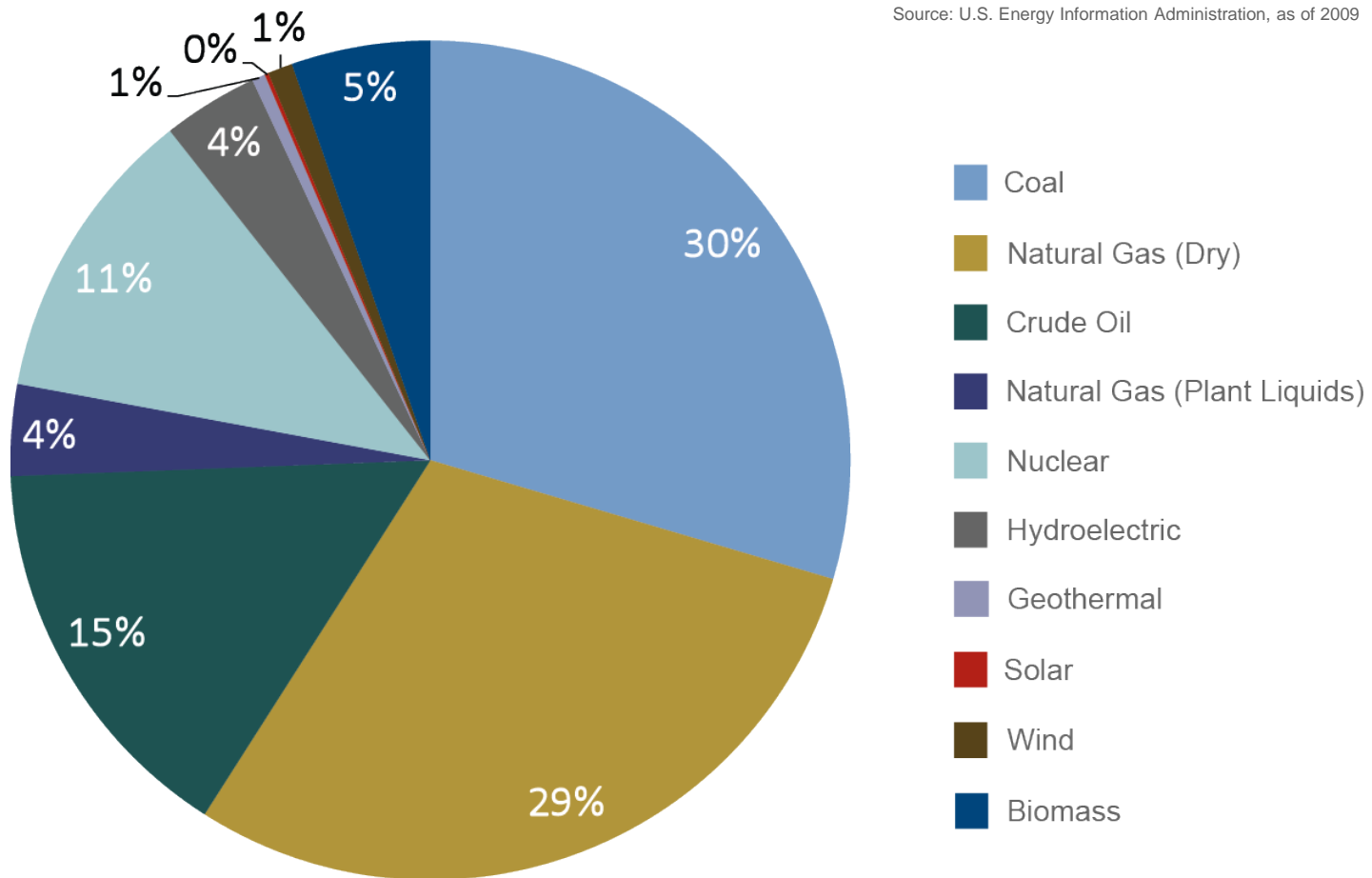
Source: Reuters/University of Michigan Consumer Sentiment Survey, as of 3/31/11



U.S. ENERGY PRODUCTION BY TYPE

Coal and natural gas are the largest sources of energy in the U.S.; renewable energy (excluding nuclear) makes up less than 15%.

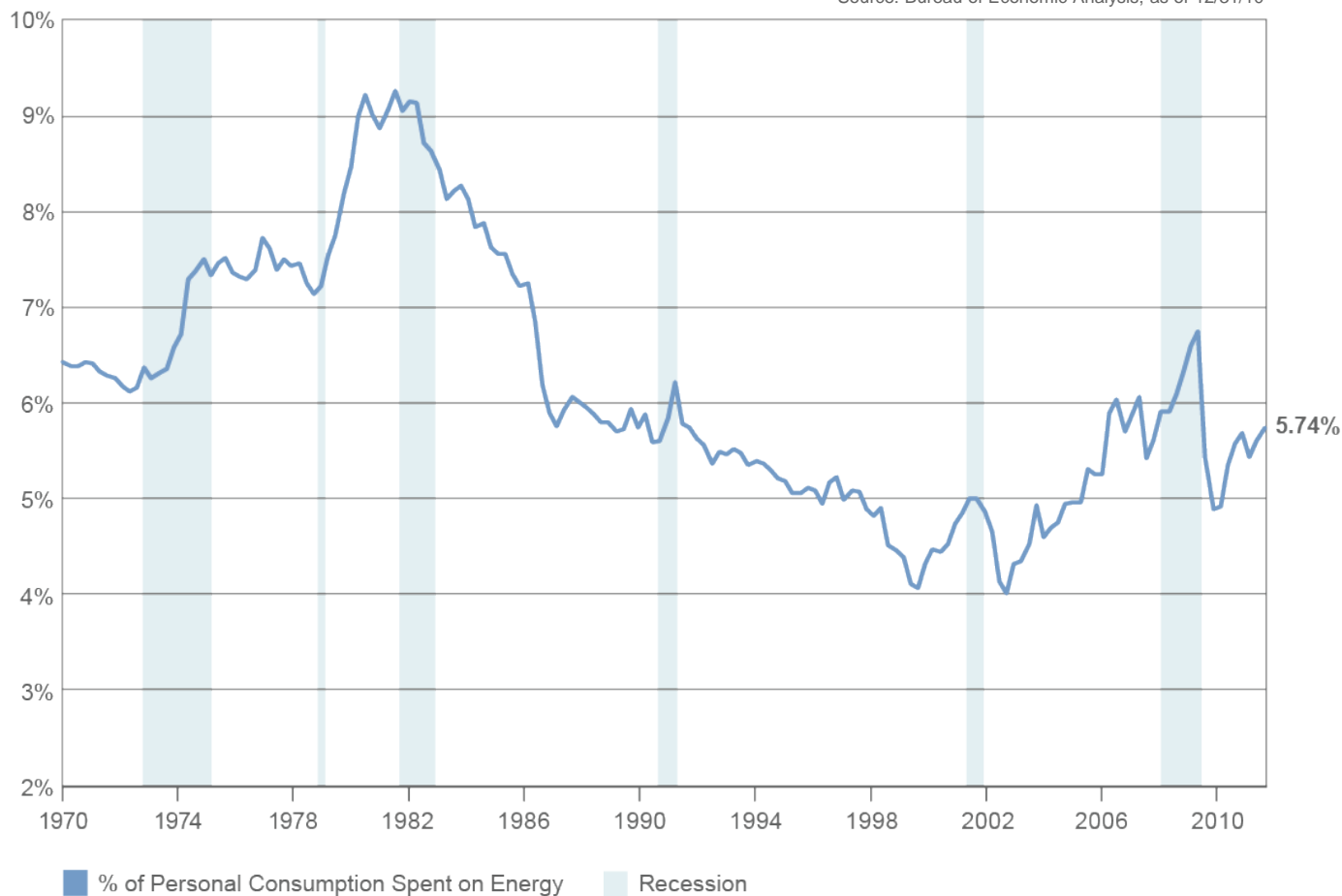
Source: U.S. Energy Information Administration, as of 2009



ENERGY CONSUMPTION EXPENDITURES

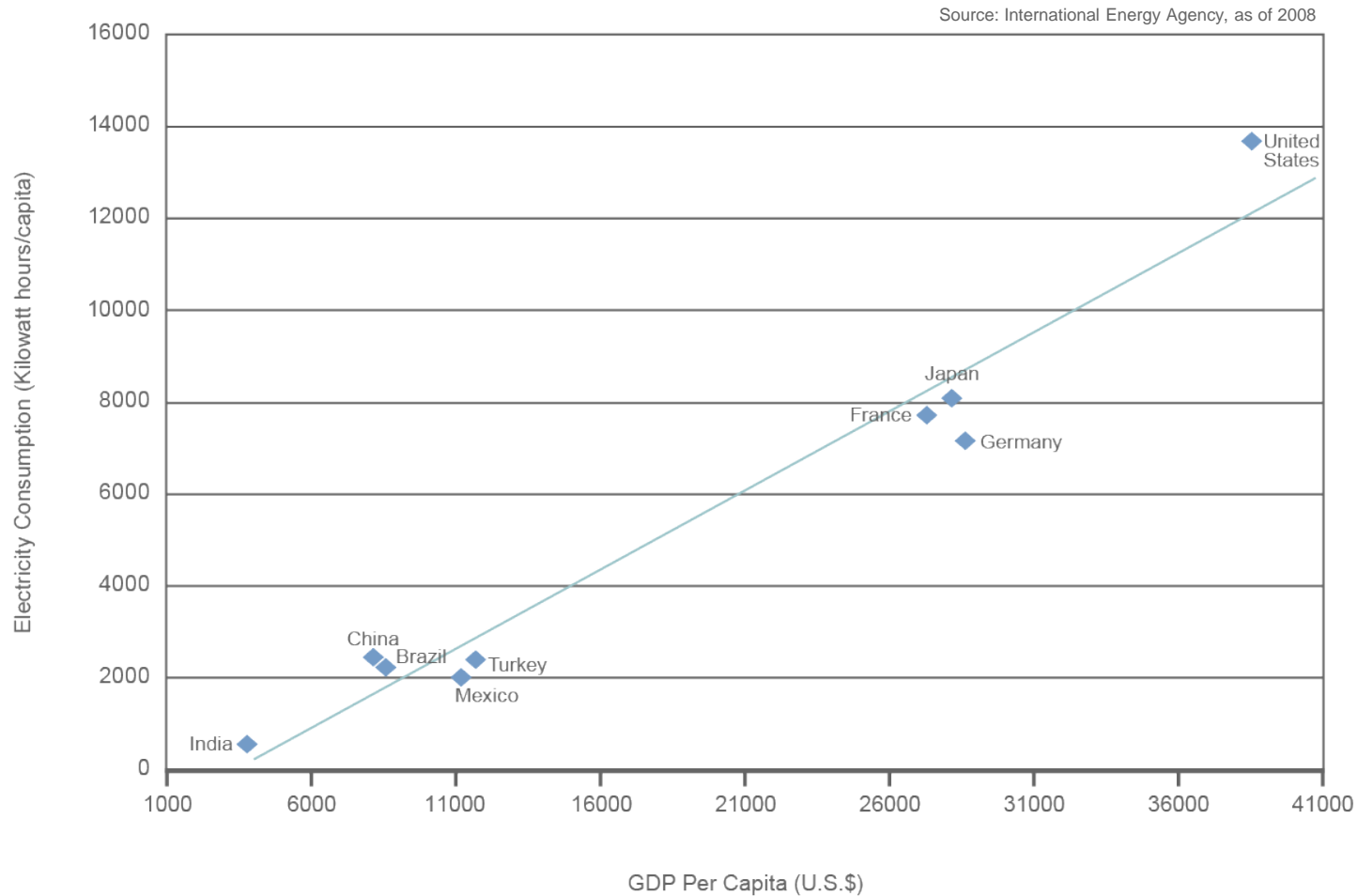
Spending on energy as a percentage of consumption is on the rise in the U.S. but has not yet returned to 2008 levels.

Source: Bureau of Economic Analysis, as of 12/31/10



GDP AND ENERGY CONSUMPTION

Energy use per capita tends to rise in concert with GDP per capita.



DISCLOSURE

Data provided by Raymond James Asset Management Services.

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account.

There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product that attempts to mimic the performance of an index will incur expenses that would reduce returns. Past performance is not indicative of future results. The performance noted in this presentation does not include fees and costs, which would reduce an investor's returns.

Fixed income securities are subject to interest rate risk. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.

The Consumer Price Index (CPI) is a measure of inflation.

Gross Domestic Product (GDP) is the annual total market value of all final goods and services produced domestically by the United States.

Investing in small-cap and mid-cap stocks generally involves greater risks, and, therefore, may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.

Commodities trading is generally considered speculative because of the significant potential for investment loss.

U.S. government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. U.S. government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term (less than one year) obligations of the U.S. government.

Fixed Income Sectors: Returns based on the four sectors of Lehman Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).

INDEX DESCRIPTIONS

Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK USED
U.S. Equity	Russell 3000
Non-U.S. Equity	MSCI World, Ex-U.S.
Fixed Income	BC Aggregate
Real Estate	FTSE EPRA NAREIT Global Real Estate
Commodities	DJ UBS Commodity Index
Cash & Cash Alternatives	Citi 3-month T-Bill

The Dow Jones AIG Commodity Index: Composed of futures contracts on 19 physical commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange. The index serves as a diversified and highly liquid benchmark for the commodity futures market.

The Dow Jones-UBS Commodity IndexesSM: Composed of exchange-traded commodity futures contracts rather than physical commodities.

Barclays Capital Aggregate Index: Measures changes in the fixed-rate debt issues rated investment grade or higher by Moody's Investors Service, Standard & Poor's, or Fitch Investor's Service, in that order. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities and the Asset-Backed Securities indices.

Barclays Capital U.S. Aggregate Index: Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

BC Global Aggregate ex-U.S. Dollar Bond Index: Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

BC High Yield: Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

Citigroup 3-Month T-Bill Index: This is an unmanaged index of three-month Treasury bills.

FTSE EPRA/NAREIT Global Real Estate Index Series: Designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

MSCI All Country World Index Ex-U.S.: A market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

INDEX DESCRIPTIONS (continued)

MSCI EAFE (Europe, Australasia, Far East): A free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: An unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE U.S. Dollar: An unmanaged capitalization-weighted index of companies representing the stock markets of Europe, Australasia and the Far East.

MSCI EAFE Value: Represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets: Designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

MSCI Local Currency: A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

Russell 1000: Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Russell 1000 Value Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid-cap: Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-cap Value Index: Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-cap Growth Index: Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000: Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 2000 Value Index: Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index: Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000® Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investible U.S. equity market.

Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investible U.S. equity market.



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