NORTHVIEW ASSET MANAGEMENT

Second Quarter 2011 Market Review

Not much good news to report for the second quarter. We essentially lost the momentum we experienced in the 1st quarter of this year. With economic indicators moving downward, most economists and the FED adjusted their forecasts accordingly. The labor market continued its sluggish trend. Headline jobs fell to an unbelievable low of 25+ thousand in May and 18+ thousand in June increasing the unemployment rate from 9.0% to 9.2% at quarter end. Manufacturing and construction sectors were the hardest hit in terms of job losses and show no signs of recovering soon. In fact, the number of people working in full-time jobs at quarter end was actually less than the same time last year.

Debt growth and debt restructuring continued especially in the financial and household sectors. However, government intervention has delayed its real impact. Not until we see the private sector assume its role in these sectors will we see their true value. This brings us to June and the much-anticipated end of QE2. It almost felt like a non-event. Most of the blame for the weakening economy rested with the impact of the Japanese and European crisis, as well as, and high gas and food prices.

Corporate credit fundamentals remain strong and nominal yields are near low levels. We may have reached the end of the deleveraging trends we witnessed in the 1st quarter this year. We saw quite a moment in the Treasury market during the quarter. Yields increased 100 basis points during the first half of the quarter only to give it back in June (indicating, we're still looking for a direction).

OUTLOOK

Washington, not Wall Street, continues to dictate the economic landscape. Possible downgrades to U.S. Treasuries (a 1st time historical event) rests with Congress and their debt ceiling decision. *Note: The debt ceiling was established in 1917 as a control measure. It is the legal limit on the amount of money the U.S. Government can borrow to pay its bills. Since 1962, it has been raised 74 times.*

We continue our defensive posture until we can determine a clearer market direction. Low extension risk mortgage product and low levered corporates are sectors we will buy when available.