

*May 6, 2010*

Dear Clients:

Including Thursday's sharp sell off, there have been a handful of important issues that have impacted the markets over the past few weeks. The CIA Investment Committee has continued to monitor and discuss these issues and would like to keep you informed.

First, let's start with Greece —

The country is about to receive a bailout that equates to approximately \$143B over the next 3 years that will be funded by the International Monetary Fund and the European Union. Along with the actual funds, Greece will be required to make deep budget cuts as part of the "austerity" plan you have been hearing about. As the news outlets have shown, this has led to civil unrest throughout the country of Greece. Over time, the country's unrest with the bailout will fade but the issues that arise because of debt problems in Europe will continue to impact markets.

One of the market's major worries is not Greece's bond default, but the FEAR of possible defaults spreading to other countries. The idea of "contagion" frequently talked about in the news is one of the primary factors that has contributed to the market's recent sell off. A major concern will be if this debt crisis spreads to Spain, as the economic contribution that Spain makes to the EU is much greater than that of Greece.

So, what does all this mean for us right now? We feel that this will have an impact on the markets in the short term. It could lead to a slight slowdown in expected economic growth domestically and it will likely lead to interest rates staying lower for a longer than expected period of time. But in the long run we continue to maintain our initial forward-year outlook on the markets. We will eventually get back to a point where the markets are focusing more on results from domestic companies, but for now the market will continue to be cautious of the fears overseas.

The second issue deals with the oil spill in the Gulf. Currently, BP is attempting a process to contain these oil leaks by this weekend. But if the current attempt fails it could be months until the leaks are contained. The situation is definitely a disaster, and the wildlife and the seafood business will suffer greatly. We hope for a quick solution in order to stop the pain from spreading to more people and wildlife. In terms of how it impacts the markets, well it just shows the benefit of being diversified. The oil spill will have an immense impact on some of the companies involved with the oil rig and drilling itself. The impact on the energy sector as a whole, however, has yet to be felt and, we feel, is unlikely to be felt. Keep in mind that the portfolios with exposure to energy companies are in good shape because they are diversified between different companies and different energy investments (i.e. royalty trusts, MLPs, and sector indexes).

Both of these issues could be the catalyst for a slight market correction (10-15%), but we have been anticipating some sort of market correction since last fall. Our outlook continues to be the same as it was at the beginning of the year; we expect a market correction in the middle of this year with more positive moves in the markets towards the end of the year. We are going to continue to monitor these issues and will keep you all informed. If you have any questions about your individual portfolio, please don't hesitate to reach out to your advisor.

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  - Curt Klein
  - Tom Moore
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