CAPITAL INVESTMENT Advisors, Inc.

June 25, 2010

The Capital ReCap

ReCap

Economic Activity

- Existing home sales fall 2.2%, despite expectations for an increase. (-)
- New home sales tumble 32.7%, down to lowest annual level ever. (-)
- Initial claims down 19K, continuing claims fall 45K. (+)
- Durable goods decrease 1.1%, less than expectations. (+)
- Final Q1 GDP revised down to 2.7%; indicating subpar recovery. (-)

Equity Activity

- WAG earnings fall 11%, revenues still higher than expectations.
- NKE sees profits jump 53% and revenues climb 7.7%.
- BBBY reported a higher profit of $137.6B and revenue increase of 14%.
- RIM's profit exceeds, but sales underwhelm at only $4.24B.
- ORCL profits jump 25% on heels of Sun Micro. acquisition.
- CAG earnings decline 48% in week shortened fiscal 4th quarter.

Other Market Activity

- Congress has agreed on Financial Reform. They are expected to vote on the legislation this week and some sources say the President will sign the bill into law this weekend.

Inside the Numbers

Markets had a week to forget last week as we got some disappointing housing data. The S&P 500 dropped more than 3.5%. The end of the second quarter cannot come soon enough for the S&P 500 which is down close to 8%.

The housing sector, again, stole the headlines this week but in ugly fashion. The bad news started with the existing home sales falling and continued when new home sales data came in and showed an even steeper plunge. Existing home sales fell 2.2%, despite expectations for a 5% increase. New home sales fell 32.7% to a record low 300,000 unit annual rate.

The silver lining to these recent numbers is that the inventory for both existing and new home sales is drying up. The inventory for existing home sales declined 3.4%, while the inventory for new home sales fell 0.5% to its lowest level since 1970.

The other idea, regarding housing, which investors need to remember, is that the new home buyer tax credit pulled forward, into earlier months, the recent home sales. Thus, these recent and upcoming housing numbers will likely disappoint. But if the credit would not have been in effect, we would likely see more consistent housing readings, rather than these volatile movements we have recently seen.

Lastly, the final revision of GDP for the first quarter came in 0.3% below the last reading of 3.0%. Some big areas that were revised downwards were personal consumption expenditures, net exports and non-residential fixed investments. The largest upward revision came in the form of inventories.

The Capital Course

During the course of the past few years, investors have become more concerned about the stability of investing in the United States and U.S.-based companies. Two recent Wall Street Journal articles have led us to look further into this concern and what we have found is that this should actually be of minimal concern to investors.

One of the ways for investors to gain greater diversification within their portfolios is to invest internationally. Therefore, economic shocks here domestically will have a lesser impact on investors' portfolios. This is the same rationale that investors have been using forever in terms of diversifying their equity positions.

It seems that U.S.-based corporations are already doing this for us. One of the Wall Street Journal articles spoke about Proctor and Gamble making a strong push into the emerging market of India. Based on the article, the consumer packaged goods industry in India is growing at a rate of 12% per year. The other article pointed out that General Motors is creating a South American unit that will be based in Brazil. South America saw overall vehicle sales grow by 20% in the first quarter compared to the year earlier levels.

What both of these articles show us is that U.S. corporations are becoming less reliant on what happens here domestically. This is a trend that we have never seen before within the domestically-based corporations. In the past, these corporations were always depending on the U.S. consumer to drive their income statements, now they are becoming diversified and less dependent on the consumer at home. This recent trend has been driven by the advances in technology and the mentality of a more integrated market across all countries.

We can look at some of the quality U.S.-based companies and see how they have already lessened their dependence on the U.S. consumer. Look at Proctor and Gamble who sees 60% of its net sales come from outside the U.S. Or we could look at McDonald's who sees 65% of their revenues generated from outside our borders. Pittsburgh-based and high dividend payer Heinz sees greater than 60% of its income from continuing operations generated abroad. And retailing giant Nike sees greater than 60% of their revenues come from outside the U.S.

So, with all this recent concern around the U.S. consumer and some investors' uncertainties regarding the U.S. economy, we can see that quality companies that are likely to be around for years to come are positioned to weather a potentially weak U.S. recovery. These companies have been able to position themselves for weathering problems domestically by becoming less reliant on our ability to open the checkbooks.