PERSPECTIVES

...thoughts and commentary on today's financial issues

Summer 2011

MARQUETTE ASSET MANAGEMENT, INC.

Investment Management and Trust Services for Individuals, Families and Institutions • Trust Services provided by Marquette Trust

FEATURED

IN THIS ISSUE

ECONOMIC UPDATE

John C. Beuerlein
Chairman,
Chief Investment Officer

The anemic economic recovery has continued through the first half of 2011. This economic recovery remains the weakest on record despite the monetary and fiscal stimuli being one of the largest. With the impact of the fiscal stimulus winding down, it is becoming clear that there is not enough bona fide demand in the economy to support above trend growth. It has been our expectation that this recovery would be frustrating to most in its inability to develop much sustainable momentum. High oil prices have simultaneously provided a negative growth shock and a headline inflation shock. It is not expected that high oil prices will precipitate another recession at this time, however. In fact, falling commodity prices may provide a temporary boost to spending growth in the second half of 2011.

The multiple headwinds to economic growth increase the likelihood that the Fed will remain on hold well into 2012. We do see improvement in many economic measures, but there remain issues around employment, real estate, and the banking system (particularly small and medium sized banks). Household balance sheets remain very weak, and disposable incomes will be hit by the expiration of some of the temporary fiscal stimulus measures.

For the second year in a row, there was no cost-of-living increase in January for the 58 million people receiving social security. The gains in gasoline and food prices during the first half of 2011 meant that household incomes were unable to stretch very far. Real consumer spending has grown only 1% on an annualized basis in the first five months of 2011.

Leading economic indicators are forecasting growth to remain between 2% and 3.5% into next year. Although any growth at these levels is appreciated, we need to see stronger sustained growth in order for unemployment to improve more quickly. Since employment peaked in December 2007, nearly 7 million payroll jobs have been lost. The earliest that we will see the peak employment levels of 2007 surpassed is likely to be 2014.

On a year over year basis, we are beginning to see some improvement in total loan growth. On an absolute basis, however, total loans remain 8% lower than the peak level recorded in October, 2008. The Fed's latest survey of Senior Loan Officers suggests that we could see a significant improvement in business lending later this year as the demand for business loans has jumped to a six-year high. Additionally, banks have continued to ease standards and terms. Lending to individuals, however, remains weak, especially for mortgages. The problem in the residential mortgage market is that relatively few people are able to qualify for a new mortgage.

In the corporate world, absolute profits have surpassed their peak levels of 2006 and real GDP has surpassed its peak level of 2007. However, labor is not close to recovering all of its losses, indicating that there are some structural changes occurring in the labor market that may cause high levels of unemployment to persist for longer than historical precedent.

In the housing market, the combination of favorable valuations and exceptional affordability has made housing look like a bargain. But structural constraints on demand are preventing households from taking advantage. Supply is still too high relative to demand and the foreclosure pipeline is filled with over 4 million houses. Nearly 30% of mortgage borrowers are underwater, and another 25% don't have the 20% of positive equity needed to refinance. Consequently, over half of all homeowners with mortgages can't move from their current residence.

In short, the recovery is progressing in line with historical precedent for economies that have experienced a credit crisis. Although there is a real possibility of slightly better economic growth in the second half of 2011, the US economy will continue to face the reality of the deleveraging process as a result of the excessive credit creation of the past twenty years.

We are cautiously optimistic regarding equity markets. An environment of low inflation, low interest rates, and positive economic growth are typically good support for the equity markets, and risk assets in general. Fixed income market yields, on the other hand, are at historic lows with the next major move likely to be higher. As long as this move up in interest rates is caused by improving economic activity, the impact on equities should be mitigated. On the other hand, if yields rise because of inflationary pressures or a lowering in sovereign debt quality, equities will suffer. For now we think the former case is more likely. Accordingly, we are keeping equity exposure slightly above target and have shortened the duration of fixed income portfolios.

New Alternative Investment Opportunities

Adam Mans
Managing Director

As Marquette Asset Management clients know, we spend a lot of time focusing on the importance of diversification and asset allocation. We believe that it makes the most sense for conservative investors to own several asset classes, each of which behave differently in changing economic environments.

We have recently begun recommending investment in two additional asset classes for our clients' portfolios: real estate and alternatives. While not appropriate for all clients, both of these asset classes provide attractive return potential and, perhaps more importantly, display relatively low historic performance correlation to other asset classes already being utilized.

For our real estate exposure, we have chosen Paladin Realty Income Properties, Inc. Paladin has a long history of managing real estate portfolios for institutional investors and has recently created a real estate investment trust (REIT) that allows individual investors to take advantage of Paladin's experience and expertise. The REIT invests primarily in multi-family housing across the United States.

For our alternatives exposure, we have chosen Altegris Investments. Altegris provides a platform of alternative investments designed to meet the needs of sophisticated investors seeking portfolio diversification with historically low-correlated assets. We are currently using a combination of three managed futures portfolios researched by Altegris.

We are excited to begin adding these investments to our clients' portfolios in appropriate situations. By adding these asset classes, we believe we can deliver even better long term, risk adjusted returns.

Please contact me at 612-661-3761 for further details on these new alternatives.

OUR GUIDING PRINCIPLES

Integrity	The core of who we are and the way we live
Expertise	Knowing our profession and practicing it with passion
Advocacy	Being active champions of our clients' financial interests
Confidentiality	Ensuring client privacy

INDEX PERFORMANCE THROUGH JUNE 30, 2011

	QTD	YTD	TTM
Domestic Equity Indices			
S&P 500	-0.40	6.03	30.69
Dow Jones Industrial Avg.	0.95	8.59	30.37
NASDAQ	-0.34	5.01	32.87
Russell 1000	-0.40	6.38	31.99
Russell 2000	-1.98	6.21	34.65
Russell 3000	-0.54	6.35	25.97
International Equity Index			
MSCI EAFE	1.40	5.37	31.02
Domestic Fixed Income Indices			
Barclay's Aggregate Bond Index	2.30	2.74	3.94
Merrill Lynch 1-12 Yr Municipals	2.71	3.48	3.84

*Trailing 12 Months

Announcements

Milestones

Marquette Asset Management now has over $1 billion in Assets under Administration for approximately 130 individuals, families and institutions.

New Staff

We are pleased to announce three new additions to our staff.

Roger is a Senior Vice President - Investments and a member of the Investment Committee. His responsibilities include investment research, portfolio management and relationship management. Roger brings over 25 years of experience in the equity capital markets and wealth management, having served as a Senior Investment Analyst and Investment Banker with Piper Jaffray and a Senior Investment Manager with the Wells Fargo Private Bank.

Andrew Loula is a Client Service Associate. He interacts closely with new and existing clients. He is responsible for providing a wide range of client administrative support services account transfer, cash processing, client on-line access support, and various other account service requirements. Prior to joining the Marquette team, Andrew was a Senior Brokerage Service Professional with Thrivent Financial.

Hugo Quinonez is an Operations Specialist. He provides operational and client service support to ensure accounts are set up and maintained in accordance with clients' expectations. Hugo is also responsible for monitoring, reconciling and reporting cash and account transfer activity and other support functions.

Past issues of this newsletter are posted under "News and Press" on our website at www.marquetteam.com.