Verity Investments, Inc.

MEMBER FINRA, SIPC

REGISTERED INVESTMENT ADVISER

CORE ALLOCATION

JUNE 30, 2010

Market Commentary and Outlook:

Consistent with our concerns, market risk emerged from the background again during second quarter, and volatility returned with a vengeance. From its April 23 peak, the S&P 500 had fallen 15.3% by quarter end. Rising on the hope that economic expansion would continue and underlying systemic risks would dissipate, the market had become too richly priced for the economic and sovereign credit related realities that forced themselves back into the public consciousness.

GORDON T. WEGWART
Chief Investment Officer

While elements of the Core portfolio suffered in the downturn, the broad diversification and hedging strategies effectively tempered the decline. As interest rates fell sharply, our tactical short against 10 year Treasury notes lost significant ground right along with nearly all of our equity holdings. However, both gold and mining shares moved up strongly, and our leveraged short against foreign developed equities climbed 27.8%. With relatively neutral performances from our positions in grains and merger arbitrage also a factor, the overall portfolio decline was strongly buffered.

Target Allocation by Asset Class / Strategy

54.5%	Equities - Domestic & Foreign
16.0%	Gold, Energy & Commodity Related
5.0%	Merger Arbitrage
8.5%	Equities - Short (Leveraged 200%)
4.0%	Bonds
10.0%	Bonds - Short
2.0%	Cash

During extended periods of turmoil and deeply embedded risk, it is of premier importance to employ an investment process designed to move through it all effectively, for when such conditions ultimately end, growth opportunities can be outstanding and expansion typically extends for years. Markets characteristically rebound sharply in anticipation of an improving economy before actual recovery can be confirmed. Sometimes, as recently, they are disappointed by actual developments and begin to retrace at least part of their downward course. Investors who try to hop in and out are far too frequently burned in the process. And, with serious prospects of inflation looming somewhere out on the horizon, simply sitting on the sidelines is a retirement security risk far greater and more complex than many are equipped to comprehend.

To navigate such an era, our approach has relied upon several key elements:

- Adherence to ***sound principles***, a process sometimes more adaptable and resilient than mere application of historically successful but rigid systems.
- ***Stable portfolio positioning***, capable of weathering shocks in both directions without devastating losses or completely missed opportunities.
- ***Patience*** amidst turmoil. There is often considerable noise emanating from “the Street”. As the tenor of the news fluctuates, it sometimes seems the herd is running en masse from one side of the boat to the other, and getting caught up in associated “predictions” can be badly counterproductive.

To complement these themes, it is our continued effort to add incremental value. Recent examples include:

- **Active management of equity hedge.** A short position, particularly when leveraged, can cause a portfolio’s net equity exposure to fluctuate quickly up and down in volatile markets, sometimes eroding the effectiveness of the hedge. Our portfolio manager has added value during 2010 by adding and removing shares in response to fluctuations, not only to maintain the stability of the hedge, but also to strengthen performance.
- **Selective rebalancing.** The portfolio manager typically seeks to rebalance individual positions back to target based upon market dynamics unique to each security, potentially fine tuning the rebalancing process. During second quarter, appreciated mining shares were selectively sold and a NASDAQ 100 allocation was reduced, both on days that were near two-year highs. Moves of this nature aren’t always as timely or even correct, but careful day-to-day monitoring of market dynamics can provide opportunities to improve the risk/reward balance.
- **Opportunities in tangible assets.** With a belief that one solid source of growth over the next few years may lie in specific commodities if purchased during periods of weakness, we have expanded a position in grains during 2010 at prices we consider very attractive and will be alert to similar opportunities in other commodities.

As we survey conditions, the challenge, for now, remains significant. As we proactively address this challenge, we do so with a goal of making decisions intended to be right, not specifically for the next month or two or three, but for the ultimate financial success and security of each of our clients.