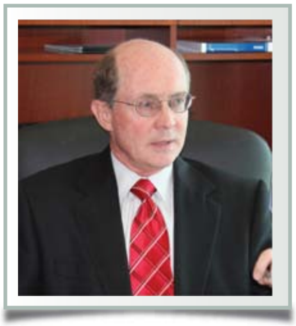
VERITY Asset Management

Market Commentary and Outlook

JUNE 30, 2011

CORE ALLOCATION | **INDEPENDENT ADVICE ACTIVE MANAGEMENT**



Gordon T. Wegwart
Chief Investment Officer

Have the past two years been the road to recovery, or the eye of the storm? It is not a riddle seeking a solution. The die is not yet cast; each is a possible outcome. Only time will yield the answer.

We won't itemize the risks again; one would have to be in a coma to be unaware of them. Suffice it to say they remain as frightening as in 2008, in some ways perhaps even more so. Domestically and globally, leaders have bought valuable time, but solved little.

Unfortunately, investors cannot afford to merely step aside and wait. There is no risk-free option ...

Target Allocation by Asset Class / Strategy

57.0%	Equities - Domestic & Foreign
16.5%	Gold, Energy & Commodity Related
5.0%	Merger Arbitrage
8.5%	Equities - Short (Leveraged 200%)
4.0%	Bonds
7.5%	Bonds - Short
1.5%	Cash

- Bonds are no longer a legitimate "safe haven". With interest rates fluctuating near the likely end of a 30 year decline toward zero, a rush to the "safety" of bonds followed by a spike in interest rates could prove devastating to investor capital.
- Cash cannot be too heavily relied upon, as the potential for severe inflation and currency debasement could deeply erode its value.
- CDs, annuities, and the like - all can be tools, but, honestly assessed, none is a solution.

With severe inflation one serious possibility, investors ***must*** be positioned to make money. And given the potential for extreme market declines, they also ***must*** be positioned to avoid substantial losses. That's a tough equation. Solving it will take considerable skill and continuing vigilance.

We are not pessimists. We believe in opportunity; we believe there are solutions. But it is crucial to recognize that the game has changed in fundamental ways, and investment strategy must deal insightfully with current reality. Strategies designed for most circumstances are no match for what may come, except perhaps over very long periods of time. Not all investors can wait that long.

The primary themes guiding our strategy over the past several quarters have not changed:

- Interest rates - For reasons already noted, and others, rates are likely to trend higher over time, possibly much higher.
- Commodities - Finite natural resources and arable land are being depleted, while growing world populations and emerging middle classes are creating greater demand. For this reason and others, prices of many commodities are likely to work their way higher.
- Gold - Lacking space to address the multiple factors and complex relationships that drive the price of this oft debated commodity, it seems clear that gold continues to occupy a unique role as a more stable alternate "currency" as compared to fiat currencies across much of the developed world. For the foreseeable future, we do not see an end to this condition, and as long as sovereign governments continue to support the price with their own purchases, gold should continue to provide a strong defense against those systemic concerns most likely to cause major upheavals.
- Europe - The conditions that threatened to bring down the world's financial system in 2008 have not been eliminated. While an unprecedented response by governments and central banks staved off the immediate global crisis, both the staggering debt and the trillions in credit derivatives remain, with the greatest risk apparently concentrated in Europe.
- Emerging markets - Certain emerging economies appear better positioned for robust growth than those developed economies burdened with aging populations, large entitlement obligations, and the drag of overwhelming sovereign debt.
- U.S. equities - Though it is also struggling under the weight of daunting challenges, the U.S. is relatively more attractive than Europe or Japan, particularly in selected economic sectors.

All of us hope that global recovery accelerates and the most serious of problems are gradually resolved. But - we're not the first to say it - "hope" is not a strategy. At all times, and particularly now, it is important to focus less on predictions and more on preparation. By design, the course we chart will not track the market - sometimes trailing, sometimes leading - and not every element will prove correct. But properly executed, its cumulative intent is to move your portfolio more confidently and reliably toward its intended destination, across market conditions of every type.