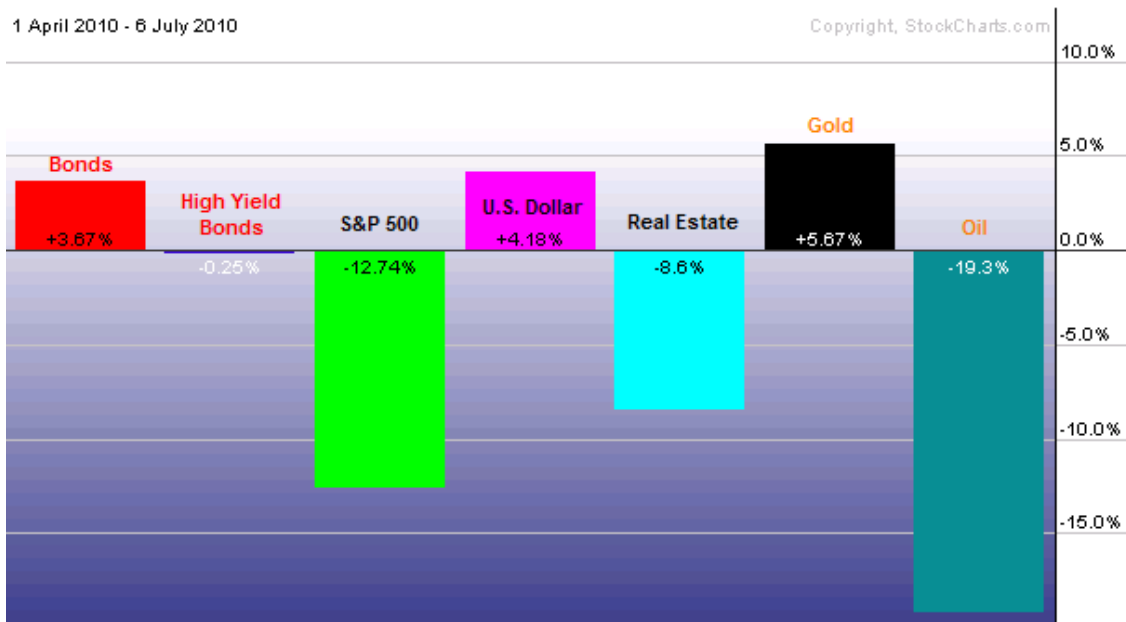


July 2010

Dear Valued Clients and Friends,

Coming into the April-June quarter, stocks were on a roll. A slow grinding rally in March and April suggested that investors had put the Greek credit crisis and fears of a slowing Chinese economy behind them. However, despite the rally in U.S. stocks through April, there were troubling undercurrents as emerging markets and other international stocks tired and turned weak. By the end of April and beginning of May, those undercurrents took the rest of the market down. A frightening “flash crash” on May 6<sup>th</sup> looked like it might have offered the capitulation day that brings corrections to a conclusion. But it turned out to be only the beginning as the depth of investor concerns delivered a horrendous month of May. That was followed by a near 10% drop in the final two weeks of June as the market limped into quarter-end.

We have wondered whether second quarter corporate earnings reports will deliver some good news and support the cyclical bull move in place since last summer. So far, however, negative news and global worries have snuffed out every rally effort this year. Though July began with an oversold bounce, it’s certainly not clear that the market will be able to mount any sustainable move higher. Still, unlike the fall 2008 “sell everything!” liquidity crisis, the recent move lower has not been as pervasive, thus far. For example, our MTA Income portfolio (+3.6% for the year) is reflecting broad strength in income positions, including positions that are occasionally correlated to stocks, such as pipelines and mortgage REITs. Similarly, high yield bonds have overcome the May weakness and bounded back upward, diverging from stocks as shown in the chart below.



This support for at least some risk assets keeps hope alive that the market can put in a bottom and return to better days.

In a broader context, this is playing out in classic secular bear market fashion. Investor psyches remain damaged from the 2008 market meltdown leading money to flow into bonds rather than stocks, despite

the attractiveness of a sharp stock rally in 2009. Investor's preference for bonds remains undeterred despite yields at extremely low levels. P/E ratios are continuing to fall as earnings recover while stocks stall. Investors are unwilling to commit to stocks at any price, overwhelmed by myriad fears. This is what a secular bear market delivers. It's not about the economy so much as investor reluctance to take risk. Some combination of news events usually feeds these fears preventing them from being fully overcome and kicking off the type of secular bull market enthusiasm seen throughout most of the 1990s.

The market's current angst can be traced back to last October. After a sharp rise in stocks ushered in a possible new bull market, sovereign debt woes came to the fore, first in Dubai and then in Greece. The Dubai issues were fairly quickly resolved, but the Greek problems would not go away and instead spread to include other Eurozone nations. Europe's lack of experience in having to address such a collective European Union financial crisis was evident perhaps in the halting manner of the prescribed remedies. This uncertainty of solution fed the uncertainty markets were feeling already in their gut. Adding fuel to this nervousness was a growing feeling that things were not all well in China. Clearly concerned with a possible real estate bubble, China continued taking steps to rein in lending and slow down the economy. Compounding these factors has been a general stalling of improvement in U.S. economic metrics. Though it's quite common for a recovering market to pause and consider the oft-rumored though seldom realized double-dip recession, the list of worries above has caused this market to be very fragile and increasingly volatile.

With corporate earnings kicking off any day, it remains possible that the market will shift gears again by determining that a double-dip recession is not on the horizon. First, companies must convince investors that a positive future holds continued strong earnings growth; in other words, convince investors that the stalling macro indicators are a temporary blip. Second, investors need to become believers that stocks can hold and deliver future gains, gains over and above the 4-5% that bonds are offering. There has been little to suggest investors are anywhere near that point given the action of the past couple of months.

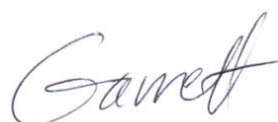
Here at MarketTrend Advisors, our MTA Wealth Builder, MTA Sector, and the newest kid on the block, MTA Income, are all well ahead of the market thus far in 2010. Our MTA Index and MTA World Index are largely tracking the S&P 500 as we turn the corner into the second half of the year. Find our performance charts on our website at [http://www.markettrendadvisors.com/images/MTA\\_performance.pdf](http://www.markettrendadvisors.com/images/MTA_performance.pdf).

Note that we have streamlined our fee structure which resulted in a 10% reduction in fees for clients of our MTA World Index strategy. As always, feel free to contact us at 512-255-8722 with any questions or concerns.

Thank you for your continued confidence and support.



Don Lansing  
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MTA Index, MTA World Index,  
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