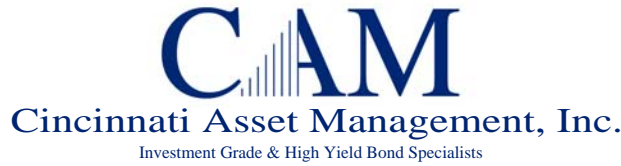


Second Quarter
2011
Bond Market Review



Current Events & Important Factors

The Deleveraging Blues and the Structural Unsustainables

Outlook : Executive Summary:

The U.S economy remains in fragile condition. GDP growth has been low and economists' forecasts continue downward revision. Europe appears to be a slow motion train wreck as the EU commissioners and countries refuse to address the root causes of their collective debt problems. Many consider China, India, Brazil and other emerging markets as the primary (and maybe sole) driver of global GDP growth.

Inflation should remain low, since global demand is tempered by low GDP growth. Potential game changers are oil supply disruption and low reserve replacement, unexpected pronounced deterioration of the dollar exchange rate, and sustained commodity price increases. A wage-price spiral driven inflation scenario seems remote given 9.2 % unemployment, persistent falling home prices and rising foreclosure forecasts, a low, 74.3% capacity utilization rate and tepid aggregate demand in the U.S. and Europe.

Therefore the macroeconomics supports an investment allocation to intermediate maturity bonds. Certain types are preferable, while others should be avoided. U.S. Treasury yields are too low and most sensitive to political "static" that we are sure to experience as the presidential election cycle develops. Many municipal bonds are subject to pressures of heavily indebted cities and states that are struggling with budget woes. Residential mortgage backed bonds still face years of foreclosures. Continuing declines in commercial real estate values that have fallen about 40% over the past few years cause their debt to remain unattractive. European Sovereign Bonds are questionable given the debt problems in Greece, Ireland and Portugal and disturbing developments in Spain's Banks and Cajas and, now Italy. That leaves us with emerging markets bonds, corporate debt (both investment grade and high-yield), bank loans, and asset backed bonds excluding real estate as attractive bond sectors.

While short term yields on bonds of many sectors remain less attractive, the steep yield curve amply compensates for the risk of maturity extension. Additionally, corporate yield spreads over Treasuries remain elevated with the High Yield Index offering an additional 569 basis points. This is near the 20-year average of 595 basis points. Risk is relatively low given the one standard deviation of 250 basis points over the 20-year period (of 240 data points). Yield premium to Treasuries statistics heighten the attractiveness. The current premium is 757%. The 20-year average is 298%. The premium is abnormally high given the standard deviation of 263 (Credit Suisse 6/30/11).

Industry sector investment portfolio weightings are heavily influenced by the macroeconomic outlook. The consumer has very limited discretionary income and states and municipalities will reduce workforces and infrastructure spending.

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- Federal spending in 2011 will total at least \$3.8 trillion, double what was spent 10-years ago.
- Consumers still have 37% more non-mortgage debt than 10-years ago and home mortgages have increased from \$4 trillion to \$9.9 trillion, today (Federal Reserve).
- Federal debt was \$5.6 trillion in 2000 and \$8.9 trillion in 2008. The 2012 Federal Reserve projection is \$16.3 trillion.
- European debt crisis debt/GDP ratios 2011: Greece 153%, Italy 120%, Ireland 114%, Portugal 98%, France 88%, Germany 80%, Spain 68% (Wall Street Journal & IMF). Compares to USA 2012 projection of +100%.
- NLRB sues Boeing for building additional facility in right to work state. This is a job creating initiative for the U.S.'s largest exporter?
- Teen unemployment is at 24.5%. Over the past two years it has been above the historical peak at the end of the severe 1981-82 recession.
- Government's business skills? Comparison of annual budget spent on salaries & benefits: U.S. Post Office 80%, FedEx 43%, UPS 61%. USPS lost \$8 BB.

<u>Yields to Maturity * on 6/30/11</u>	YTM
CAM Broad Market (corporate core plus) Strategy (8.2 year maturity; 5.7 duration)	4.90%
CAM Investment Grade (100% corporate bonds) Strategy (7.7 yr maturity; 6.2 dur)	3.93%
CAM High-Yield Strategy (only BB & B rated purchased) (9.3 year mat; 4.8 dur)	7.01%
CAM Short Duration Strategy (4.4 year maturity; 3.2 duration, 50% IG & 50% HY)	4.49%
Tax Equivalent Muni GO Bond (7 yr. = 2.84%. Barclays Institutional Index.) To right shows after 40% tax equivalency & 3-point retail price mark-up for small buys under \$1 M)	3.99%
U.S. Treasury** (10 year maturity)	3.16%
U.S. Treasury** (5 year maturity)	1.76%
3 Month Treasury Bill**	0.03%

* yield is to maturity or the "worst" call date, that producing the lower yield. ** Source: Barclays.

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CAM's Key Strategic Elements

- Bottom-up credit analysis determines value and risk.
- Primary objective is preservation of capital.
- Larger, more liquid issues preferred.
- Target is always intermediate maturity.
- No interest rate forecasting.
- All clients benefit from institutional trading platform & multi-firm competitive bids & offers.



CAM returns are after CAM's average management fee & all transaction costs but before any broker, custody or consulting fees.	2Q '11	1-YEAR	3-YEARS	10-YEARS
CAM Broad Market Strategy 1/3 high yield, 2/3 Investment grade	1.76%	7.72%	8.06%	6.13%
CAM High Yield "Upper Tier" Strategy only purchase BB & B no purchases of CCC & lower	0.23%	12.66%	8.57%	6.53%
Lipper High Yield Mutual Funds Average	0.61%	14.92%	9.30%	7.06%
CAM Investment Grade Strategy 100% corporate bonds	2.61%	5.56%	7.68%	6.08%
Lipper A-rated Bond Funds Average	1.98%	5.11%	6.69%	5.26%
CAM Short Duration Strategy 1/2 investment grade, 1/2 high yield 6/2004* start	1.17%	7.38%	6.16%	<u>5 years*</u> 5.76%

tom quartile of High Yield Bond Funds for the quarter and the year, but we were in the top half of the second quartile for the 5-year period (*Morningstar*).

The **Broad Market Strategy** (our corporate core plus strategy that blends the IG and HY Strategies), trailed the weighted benchmark for the quarter (1.85% vs. 2.35%), underperformed the benchmark for the twelve months, and trailed the benchmark for the 3-,5-and 10-year periods. The superior performance of CCC rated bonds during 2009 resulted in our longer-term trailing of the weighted benchmark. With respect to General Bond Funds, It ranked at the top of the first quartile for the quarter, the year and the five years. (*Morningstar*).

The **Short Duration Strategy** (our short maturity corporate core plus strategy) trailed the Barclays Weighted Intermediate benchmark for the 3-months (1.25% vs. 1.29%) and the 12-month and longer periods as the high yield component of the **Strategy** lagged its benchmark (see above). Relative to General Bond Funds, the **Strategy** ranked in the top of the top quartile for the three months, 12-months and 5-years (*Morningstar*).

CAM claims compliance with Global Investment Performance Standards (GIPS ®) and such compliance has been verified by independent verifiers (Ashland Partners, PricewaterhouseCoopers & Deloitte & Touche) through December 31, 2010. Please call for a copy. Returns of Mutual Funds Averages are reported by Lipper Analytics. Mutual funds are referred to for informational purposes only; their composition is different from the composition of the accounts included in the performance shown above.

Performance Review 6/30/11

Our **Investment Grade Corporate Strategy (IG)** outperformed the Barclays Corporate Index for the 3-months (2.68% vs. 2.28%) and trailed the Index by 45 basis points for the twelve months. We trailed that Index for the 3-year period as Baa rated bonds significantly outperformed the Index (we are always underweighted that credit subsector) during 2009; however, we slightly exceeded or approximated the Index for the 5- and 10-year periods. Our 3 month performance relative to the Index benefitted by the low returns of 1-5 year maturity bonds, which comprise less than 10% of our portfolio. Our 12-month performance was impacted by the strong performance of Baa rated bonds as well as the strong performance of the Bank and Finance Sector (this

accounts for 34% of the Index and we do not exceed 30% exposure to any Sector). The **IG Strategy** ranked in the top half of the first quartile of the General Bond Intermediate Term peer group for the 3-months, at the top of the second quartile for the year, and in the top of the second quartile for the 5-years (*Morningstar* data, NY Times, July 10, 2011).

The **High Yield Strategy (HY)** trailed the Barclays High Yield Index during Q2 (0.33% vs. 1.05%) and for the 12-months and longer periods. Our underperformance has been attributable to the performance of CCC securities within the Index. During calendar 2009, that credit subsector, accounting for more than 20% of the Index, was up more than 90% (we do not purchase securities rated below B-/B3). We ranked in the bot-

Barclays Bond Indexes Returns vs CAM		
Periods ended 6/30/11	10 yrs	20 yrs
US Aggregate	5.74%	6.80%
US Corporate	6.33%	7.33%
CAM Investment Grade Strategy	6.33%	7.70%

**Better Asset Allocation Might Result from
More Exacting Analysis**

The chart to the right shows that high yield bonds, with the exception of the lowest rated (CC & D rated bonds), have outperformed both the Barclays US Aggregate Index and S&P 500 stocks. The highest rated bonds in the universe (BB) significantly outperformed the Aggregate and the S&P 500. The lowest rated bonds have underperformed the higher rated high yield bonds.

The chart also indicates that CCC rated securities have slightly outperformed the BB and B rated bonds for the 10-years. However, the volatility of that subsector has been pronounced. For example, during 2008, when the high yield index was down 26%, CCC rated bonds were down 44%; and during 2009, the index was up 58% while CCC bonds were up 91%. So the longer term results were achieved with significant volatility relative to the index.

Finally, not only have the BB and B rated bonds outperformed the S&P 500, but they have done so with about half the volatility of that Index (Ibbotson), suggesting that better credit quality high yield bonds deserve consideration as a core holding in an investor's portfolio allocation.

Performance of High-Yield Bonds by Credit Quality

(periods ended 6/30/2011) Source: Credit Suisse First Boston

High-Yield Bond Sectors	5-years	10-years	20-years
BB-rated bonds	9.29%	8.78%	9.63%
B-rated bonds	6.73%	8.42%	9.17%
CCC-rated bonds	8.18%	10.20%	8.42%
CC & D-rated bonds	-1.58%	3.53%	-4.07%

Performance of Other Asset Classes

(periods ending 6/30/2011) Source: Barclays & Ibbotson

S & P 500 Stocks	2.85%	2.67%	8.50%
Barclays U.S. Aggregate	6.52%	5.74%	6.80%

Yield Spreads Over U.S. Treasuries: relative value is attractive since spreads remain above average. Also, an unusually steep yield curve enhances the risk/reward trade off of maturity extension to the 10-year area.

Yield spreads tightened toward average over the course of 2009 and 2010. But, given the low level of Treasury rates, the relative premium of corporates and high yield bonds remain attractive. The steep yield curve, low inflation expectations and problematic economic trends could result in good relative returns.

Credit Rating	1986-2Q2011 average spread*	6/30/11	12/31/10	12/31/09	High Yield at 5/31/07, Tighest this decade
A	1.18%	1.46%	1.51%	1.56%	N/A
BBB	1.87%	1.84%	1.91%	2.12%	N/A
BB	3.49%	3.88%	3.97%	4.54%	1.76%
B	7.48%	5.20%	4.92%	7.64%	2.48%
CCC	12.95%	7.65%	7.66%	10.01%	4.75%

(continued from page 1)

More Detail on Macro Economic Analysis

The turning point to a better, higher growth economy will be triggered by a significant increase in jobs (much lower unemployment) and aggregate loan demand. Until these two factors show pronounced improvement, the economy will remain fragile.

Unfortunately the Federal Reserve recently forecast that the unemployment rate will remain high "through 2011 and into 2012" (Federal Reserve 7/7/11). At 9.2% for June, that is the third consecutive monthly increase in the unemployment rate. This is the highest rate ever experienced two years into "a recovery" since data analysis began in 1948 (Associated Press 7/9/11).

New weekly claims for unemployment benefits remain elevated at over 400,000 (Bureau of Labor Statistics 7/8/11).

Temporary employment trends, a leading indicator of non-farm payroll growth posted its largest drop in 2-years. The declines have been with us for 3-months and the trend is deteriorating more (Bureau of Labor Statistics). Part-time workers who are seeking full-time work plus unemployed workers are now at 16.2% up from 15.8% in May (Bureau of Labor Statistics 7/8/11).

The most recent Case-Shiller index of home values fell 4% in April from a year ago. This is the largest drop since November

2009 and follows March's 3.8% decline. Shiller forecasts further declines of 10% to 25% (Bloomberg News 6/28/11).

Home foreclosures are another terrible economic forecast metric. A number of economists are forecasting an additional 6 to 7 million in addition to the 2 million foreclosures that have occurred.

We feel these are the two strongest influences on consumer confidence. In June the consumer confidence index fell to a 7-month low of 58.5 (Conference Board 6/28/11). A healthy reading is 90. At this point after the previous three recessions the index averaged 87. Since 70% of GDP is consumer spending, the GDP growth will remain weak, at best.

The director of the Conference Board's Consumer Research Center observed, "Consumers rated both current business and labor conditions less favorably than in May and fewer consumers foresee conditions improving over the next 6-months. This will cause them to remain cautious in their spending".

U.S. economic weakness and uncompetitive position in the global economy is reflected in the capacity utilization rate at 74.3%. This is 6.1 points below its 38-year average (Federal Reserve). So there is plenty of slack and little need for plant and equipment expansion. Troublesome is the utility component, which is running at 100%, showing a growing need for more electrical generating capacity. Also, with the manufacturing component

off 0.3% from a year ago, the effect of the Tsunami/Fukushima and predicted snap back may be of limited help to GDP growth later this year.

State and municipal finances will be a major drag on GDP. States incurred a collective \$400 billion in budget deficit over the past 3-years. Fiscal year 2012 which started 7/1/11 for the states will prove worse than 2011's \$130 billion deficit, since the federal stimulus bill's + \$400 billion payments to them ended 6/30/11. Wages and benefits account for 30% of states' general fund expenditures (National Governors' Association). States employ 15% of the U.S. workforce and account for 12% of GDP, so the cuts to balance the budgets will slow GDP.

At the local level matters are chronic. The U.S. Census Survey revealed that in the typical town or school district employee pay and benefits can consume 70% of the budget. Since the major source of income is property taxes, and with property values plummeting, local entities will have no choice but to reduce headcounts. For a feel for the way government employment has "supersized" consider this: since the mid 70s public K-12 school employees per student has doubled, with no improvement in outcomes. So there might be plenty of room to cut.

Global Debt Problem an Economic Drag for Years

A weak job market and declining housing values exacerbate a primary cause of the weak economy, too much debt. Today, U.S. consumers have more credit card and mortgage debt than

(Continues on Page 4)

Footnotes and disclosure

Cincinnati Asset Management, Inc., ("CAM") an independent privately held corporation established in 1989, is registered with the United States Securities and Exchange Commission as an investment advisor. The CAM High Yield, Investment Grade and Short Duration composites consist of all discretionary portfolios under management, including all securities and cash held in the portfolios, and has been appropriately weighted for the size of the account. All accounts are included after they are substantially invested.

The Investment Grade performance prior to January 1, 1993 represents Mr. Hale's investment management performance while managing his previous employer's insurance company's fully invested "higher grade" fixed income portfolio adjusted to net the highest CAM management fee of 25 basis points per annum from the total returns.

Returns are calculated monthly in U.S. dollars and include reinvestment of dividends and interest. Past performance is no guarantee of future results.

When compared to mutual funds' performance, CAM results are after deduction of all transaction costs and CAM advisory fees. CAM advisory fees used is the composite average. Accounts managed through brokerage firm programs usually will include additional fees. "Net of fees" herein refers only to CAM's management fee. Returns audited annually. Most recent audit available upon request.

Mutual fund averages and S&P 500, as published quarterly in Barron's as supplied by Lipper Analytics.

The indices and information shown for comparative purposes are based on or derived from information generally available to the public from sources believed to be reliable. No representation is made to its accuracy or completeness.

High yield bonds may not be suitable investments for all individuals. Before investing a thorough reading of all materials and consultation with an independent third party financial consultant may be appropriate.

This material was not intended or written to be used, and it cannot be used, by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

This information is intended solely to report on investment strategies and opportunities identified by Cincinnati Asset Management. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This material is not intended as an offer or solicitation to buy, hold or sell of any financial instrument. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

Fixed Income securities may be sensitive to changes in prevailing interest rates. When rates rise the value generally declines. For example, a bond's price drops as interest rates rise. For a depository institution, there is also risk that spread income will suffer because of a change in interest rates. The Indexes are referred to for informational purposes only and the composition of the Index is different from the composition of the accounts included in the performance shown above. Index returns do not reflect the deduction of fees, trading costs or other expenses.

CAM Broad Market Strategy .78
Barclays Weighted (2/3 Corporate and 1/3 High Yield) .71

CAM Investment Grade Strategy .75
Barclays U.S. Corp Index .68

CAM High Yield Strategy .53
Barclays High Yield Bond Index .44

CAM Short Duration .46
Barclays (1/2 Int HY & 1/2 Int US Corp) .33

(continued from page 3)

they did 5-years ago and the U.S. budget deficit is worsening. Servicing the interest and principal absorbs a significant share of income. Not to mention the added hit to consumer spending from homeowners inability to tap home equity lines.

U.S. federal debt to GDP will hit 100% this year up from 62% in 2007 (IMF). To meet our current federal budget, 45¢ of every dollar spent is borrowed (from China?!). These statistics don't include state and local government debt and deficits.

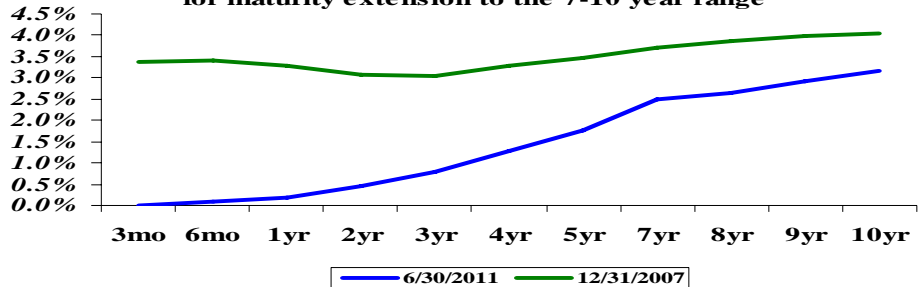
The European Union, too has dire debt problems resulting from similar structural problems of high unemployment, uncompetitive industrial and manufacturing regulations and social policies (healthcare, pensions). The IMF predicts that debt to GDP of the two core countries, France and Germany will hit 88% and 80%, respectively, up from 64% and 65% in 2007. Greece will have no alternative but to default, eventually. French banks have the largest exposure to Greek sovereign debt. German banks are second. Moody's just lowered Portugal's credit rating to "junk". Ireland's banks' real estate collapse related debt

One measure of our conservative philosophy is the Sharpe Ratio (from Firm inception 4/89 through 6/11) that measures total return per unit of risk assumed. This relative return measure is as important as, if not more important than, absolute return comparisons. Our constant objective is to deliver a good return with much less risk. These relative values measure the performance of our strategies against the benchmarks for Investment Grade, High Yield, Broad Market (corporate core plus), and Short Duration Strategies. The Broad Market Strategy has produced a return 11% greater than the Index, while the Investment Grade and High Yield Strategies have produced returns 10% and 20% greater than their respective benchmarks. The Short Duration Strategy has exceeded its benchmark by 39%.

US TREASURY CURVES

12/31/2007 & 6/30/2011

Today's steeper curve delivers significant yield advantage for maturity extension to the 7-10 year range



problems led to the EU forcing the country to guarantee the banks' debt (held by institutions in other European countries) through an onerous bailout loan package from the ECB and IMF. Ireland was forced to adopt an austerity plan that will restrict growth for years. Spain, too is in trouble with 20% unemployment and banking/real estate troubles. Italian banks are on Moody's watch list for potential downgrades.

The pattern in Europe is clear. The EU and elected officials are just propping up the banking sector, because the

write downs that are needed would seriously impair a significant portion of the European banking system. Some consider a collapse inevitable unless drastic measures are taken. The impact of such a collapse would dwarf that of the Lehman debacle. GDP growth will be constrained until the EU countries address debt reduction. That is the key element to watch.

The developed world almost can't borrow to spend and must spend less to reduce the debt. GDP growth will be muted for sometime. Some predict 7-years to unwind the debt from a study of past financial crises (C. Reinhart, WSJ 6/27/11).

Rating	BB	B	CCC	CC/C
Avg Spread	349	748	1,295	2,579
Std. Dev.	99	158	669	1,250
6/30/2011	338	520	765	2,668
Lowest Spread	175	248	398	1,213

Spreads to Treasuries by Credit Rating

shows significantly lower risk of BB and B rated

