



Letter from the Chief Portfolio Manager

A Nation of Haves and Have-Nots

The negative effects of the recent recession fell disproportionately on the middle and lower classes in America. As a group, they were the most exposed to falling home prices and excessive debt. Our middle class has experienced higher unemployment and more lost wages than in any other post war period.

This is why the stimulus packages of the past three years were largely devoted to transfer payments - unemployment benefits, welfare, food stamps and block grants to states which pro-

vided salaries for teachers, police and firefighters as well as the reduction in FICA taxes. The goal was to help plug the hole from lost consumption.

These were stop-gap measures intended to bridge the economy from the recession into an expansion - where the economy would be self-sustaining.

The two primary solutions are to be more globally competitive and completely rethink and rebuild our education system to meet the needs of the 21st century.

To be globally competitive,



Scott Spiering
 Founder & CEO

we need pro-growth tax reform; we need to adjust the level of entitlements to promises that can be fully funded; we need to eliminate earmarks; we need to invest in our future as we did in the 1960s with interstate highways and basic

continued on page 2

Inside this issue:

<i>Letter from the Chief Portfolio Manager</i>	1
<i>Investment Review</i>	1
<i>Market Index Returns</i>	1
<i>Letter from the Chief Portfolio Manager (continued)</i>	2
<i>Investment Review (continued)</i>	2
<i>The Modern Retiree</i>	3
<i>Company News</i>	3
<i>Reminders</i>	3

Investment Review



Jonathan L. Chatfield, CFA
 Portfolio Manager

As the month of June unfolded, it appeared that old adage "sell in May and go away" would be sage advice in 2011. Stocks sold off in the first two weeks after steep cuts in annualized

GDP growth expectations, which followed disappointing employment numbers and a steady rise in oil and gasoline prices during the first and second quarters. The S&P 500 was down 5.9% in the first half of the month, almost erasing the year-to-date return. However the market proceeded to rally over the second half of the month, recovering 4% and finishing the month down 1.8%, up 5% for the first half.

As the market fell, Anchor

Bay core portfolios benefited from our short S&P 500 position and from the overweight to cash that we had maintained throughout the first half. During the June slump we found opportunities to put cash to work and we also exited the short position. We felt the position had served its purpose, protecting the portfolio against downside during the selloff.

As stock prices fell we took the opportunity to add to several positions, and

invested in several new positions, at attractive prices. We were able to upgrade the portfolio's dividend yield as dividend increases and low stock prices

continued on page 2

Market Index Returns YTD 6/30/2011

Dow Jones Industrials	7.23%
S&P 500	5.01%
Russell 2000	6.21%
MSCI EAFE	4.98%
MSCI US REIT	10.32%
S&P/GS Commodity Idx	2.71%
BarCap US Aggregate Bd	2.72%

Investment Policies should be changed only reluctantly with a change in an investor's own circumstances not based upon market conditions

Dividend yields are attractive in the current investment environment

Letter from the Chief Portfolio Manager *(continued)*

research; we need federal tort reform; and we need an energy policy that puts America's interests first.

Our education system – once the best in the world – must refocus on its mission – to prepare students for the American jobs of this century. Somehow we got the idea that everyone in our school system should be on the same college bound track. Students that don't fit this mold are not provided an alternative education opportunity and often drop out – trained for nothing. In addition, those who are college bound or who are in college are not encouraged to evaluate their education choices in terms of available jobs. There are many good jobs in America today for which there are no qualified American job seekers. These are not only in fields like technology and healthcare but also in farming and trades (welders, plumbers, electricians, etc.).

Let's prepare our students for the real job market and rebuild and restore the American middle class.

Most stock and bond markets around the world have posted strong gains since March, 2009. However, we are in a very un-

certain environment, there is a higher than normal chance of more market swooning volatility event(s) ahead. We believe this justifies exercising some caution within our portfolios.

This does not mean that we are encouraging our clients to change their chosen asset allocations. This decision should be carefully made based on long-term risk/reward criteria unique to each investor's needs, goals and temperament. Investment Policies should be changed only reluctantly with a change in an investor's own circumstances not based upon market conditions.

On the other hand, Anchor Bay Capital clients should expect us to make judgments as to the appropriate level of aggressiveness or defensiveness within the context of each investor's portfolio given our view of the current market outlook.

Since this past fall, we have been positioned defensively versus our benchmarks. As such, our portfolios have gone down measurably less than our benchmarks during market declines. However, the corollary is also true. During the up moves we went up less than our benchmarks. This means that we are set up to modestly underperform for the balance of this cyclical bull market and to meaningfully *outperform* during the next

inevitable bear market ... from whatever point that occurs.

Stocks: Our goal firmly remains to outperform our benchmark returns over time *with less risk*. Our choice of equity's echoes this strategy. Our primary equity holdings currently are what we call "dividend paying defensive winners." Another feature of our current domestic stock strategy is to focus on large, high quality, multinational companies that have a proven ability to grow their revenues and profits in the new growth markets.

Investment Review *(continued)*

combined to offer attractive yields north of 3%. We bought Federated, Diebold, HCP Inc., Genuine Parts, Coca-Cola, AT&T, Bristol-Myers, PPL, and Automatic Data Processing at yields near or above 3%. We also increased our positions in the sector and broad market ETFs. In core portfolios we are now more fully invested, although we remain underweighted in equities. In the current environment it is prudent to maintain a cash position as a hedge against a potential correction, and we also are keeping a little dry powder to be able to buy at lower prices as opportunities arise.



Dená Baker
Financial Planning

The Modern Retiree

For years Retirement planning experts have advised that retirees will likely need 70% to 80% of their pre-retirement income to maintain their current lifestyles in retirement.

In fact, modern retirees may need more than 100% of their pre-retirement income in the first few years of retirement.

Why the increase? The expectations of those nearing retirement are generally optimistic for an active retirement that includes hobbies, travel, volunteering and families.

- Many of today's 65 year olds will live well into their 80's and 90's, increasing their time horizon,
- Couples are having children later in life, so during their retirement years they could be supporting young adults.

Company News

Please join us in welcoming Ilene Dunne, the newest member of our staff. Ilene is joining us as Administrative Assistant and will support client service and operations. Welcome to the team Ilene! We look forward to the valuable assistance you will provide to Anchor Bay clients.



Ilene Dunne
Client Services

- Remarriage is prevalent today, which means there could be more than one household and two sets of children for retirees to support.
- Modern retirees are carrying more debt into their retirement year. This may include mortgages, equity lines and college education payments.
- The recent economic downturn could mean pre-retirees and retirees are contributing to household finances of adult children.

A key variable for a comfortable retirement will likely be the ability to plan well and make their resources last. Every retiree and pre-retiree should have a written retirement income plan that realistically outline their essential and discretionary income expenses and seeks to ensure that they do not outlive their assets.

Reminder

Contact Anchor Bay regarding any change in your financial condition.

A critical part of the effective management of your assets is ongoing communication with Anchor Bay about your financial condition. Please keep us informed of any changes in your financial goals, concerns, or time horizon so that we may incorporate them into your financial plan and make the appropriate adjustments to your investment portfolio. Such changes might include the purchase or sale of a house, any large expenditure you may be planning for which we need to provide liquidity, or any change in your tolerance for risk which may require adjustment to a more conservative portfolio.