



Premier Bank Market Review

July 2012 [In This Issue]

[Economy [page 2](#)]

Weaker economic data but outlook remains positive.

[Fixed Income [page 5](#)]

Investors abandon safe-haven sectors of the market for higher risk asset classes.

[Equities [page 8](#)]

Early summer stock rally helps offset May declines.

[Alternative Investments [page 10](#)]

Commodities and Hedge Funds struggle while REITs remain strong.

[Disclosures [page 12](#)]

Weaker economic data but outlook remains positive.

Recent Economic Indicators

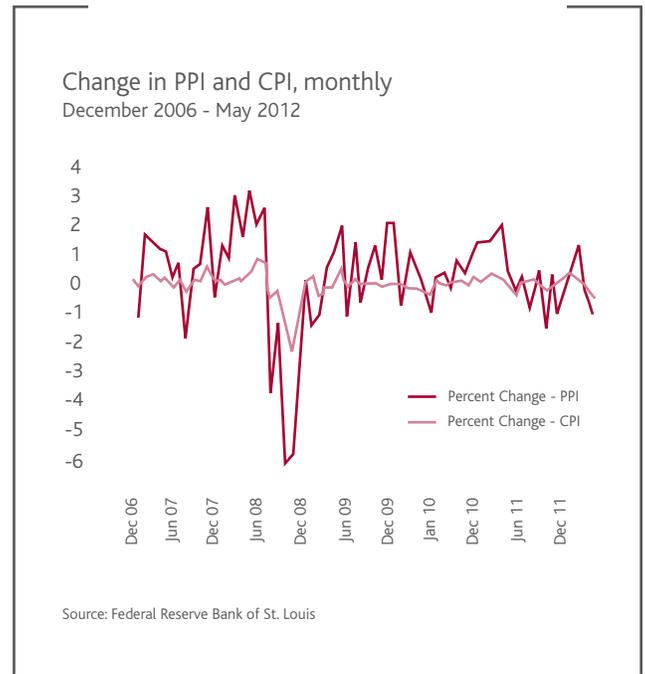
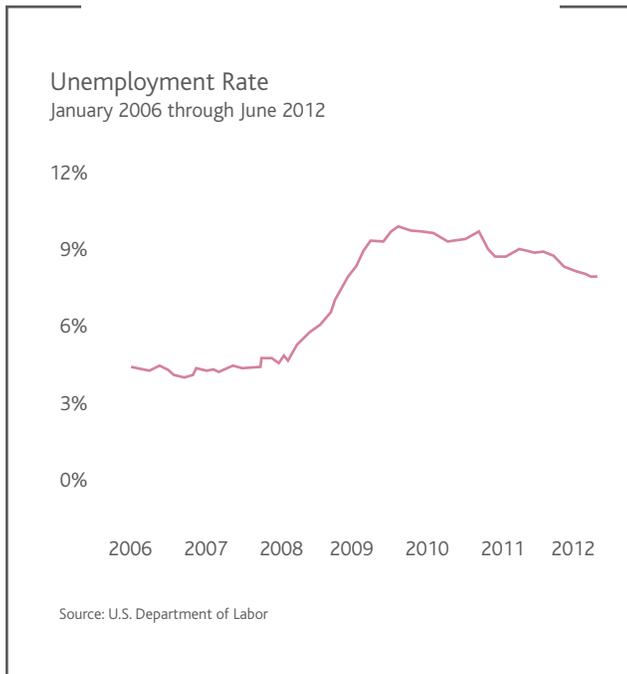
Thomson Reuters/ Univ. of Michigan Consumer Sentiment	73.2
Consumer Confidence	62
Existing Home Sales, Monthly Change	-1.50%
New Home Sales, SAAR*	369,000
Personal Income, Monthly Change	0.20%
Personal Consumption Expenditures, Monthly Change	0.00%
Non-farm Payroll Increase/Decrease	80,000
Unemployment Rate	8.2%
ISM Non-Manufacturing Index	52.1%
ISM Manufacturing Index (PMI)	49.7%
New Durable Good Orders, Monthly Change	1.1%
Industrial Production, Monthly Change	-0.1%
Capacity Utilization	79.0%
Retail Sales, Monthly Change	-0.2%
CPI, Monthly Change	-0.1%
CPI Core, Monthly Change	0.1%
PPI, Monthly Change	-1.0%
PPI Core, Monthly Change	0.2%
U.S. Trade Deficit	\$50.1 billion
1Q12 Non-farm Productivity, Quarterly Change, SAAR*	-0.9%
1Q12 Real GDP, Quarterly Change, SAAR*	1.9%

*Seasonally Adjusted Annual Rate
Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thomson/Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.
Values reflect most recent data available at time of publication.

Overview

The third estimate for first quarter GDP was unchanged at 1.9%. There were modest upward component revisions to fixed investment and net exports as well as offsetting downward revisions to personal consumption and inventory investment. Overall economic activity was modest, and expectations for the second quarter should not be much different. The Conference Board Leading Economic Index for the U.S. increased 0.3% in May to 95.8 after edging down 0.1% the previous month. The weaker stock market in May kept the number down, but the index is still in expansionary territory and points to lower risk of a downturn in the second half of the year. Ken Goldstein, economist at The Conference Board said in the report "Economic data in general reflect a U.S. economy that is growing modestly, neither losing nor gaining momentum. The result is more of a muddle through. Continued headwinds, both domestic and foreign, make further strengthening of the economy difficult."

There was a great deal of news out of Europe during the month. Spain requested a €100 billion bailout from the European Union to provide capital to their struggling banks; Greece actually managed to form a government; and European leaders reached a deal to stabilize the eurozone and move closer to a so-called banking union. Under the deal, a single supervisory body will be created to oversee the eurozone's banks. That body would have the authority to use the eurozone's rescue funds – the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) – to give banks direct aid without adding to government debt. The move was greeted warmly by global equity markets, but it is by no means a cure for all of Europe's problems. The ESM and EFSF have about €500 billion between them, but Spain and Italy have about €2 trillion in debt needs.



Employment

Initial jobless claims fell a respectable 14,000 to 374,000 in the final week of June, according to the Labor Department. There was also good news from the ADP report which showed a higher-than-expected 176,000 increase in payrolls for June, and planned job cuts fell to a 13-month low of 37,511 according to Challenger, Gray and Christmas. Despite all this, the monthly employment situation report showed only modest growth with 80,000 jobs added. Seasonal factors appear to still be working against the number. The economy needs to add about 125,000 jobs per month to keep up with population growth. The unemployment rate remained at 8.2% as more people returned to the labor force than actually became employed. It is noteworthy there are still a lot of positives for the job market, despite recent sluggish reports; job openings are at a four-year high, consumer sentiment regarding the job market is improving and the number of small businesses reporting poor sales as their biggest problem is declining.

Consumer Confidence and Spending

Consumer confidence fell for a fourth consecutive month in June and now stands at 62.0, according to the Conference Board. The report said "Income expectations, which had improved last month, declined in June. If this trend continues, spending may be restrained in the short-term."

Consumer spending has in fact stalled recently. Retail sales declined 0.2% in May, but it was not all bad news as lower gas prices were one of the culprits. Without the 2.2% drop in sales at the pump the retail number would have been up 0.1%. Motor vehicle sales continued to show strength up 0.8%, and gains were also seen in clothing, electronics and furniture. Building materials & garden equipment sales dropped 1.7%, but it is possible warmer weather earlier in the year pulled some sales forward, taking away from May. Meanwhile consumer spending was flat during the month, according to the Commerce Department. It remains to be seen whether the U.S. consumer will rally to help keep the U.S. recovery on track.

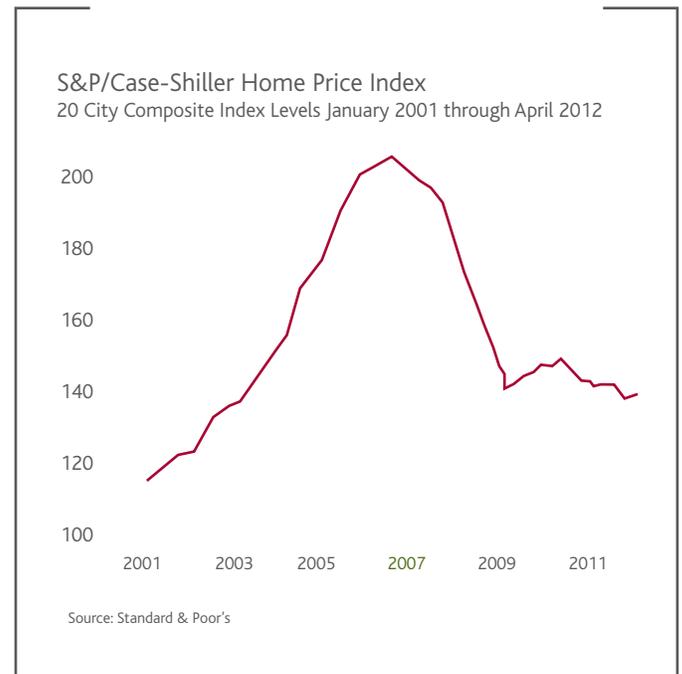
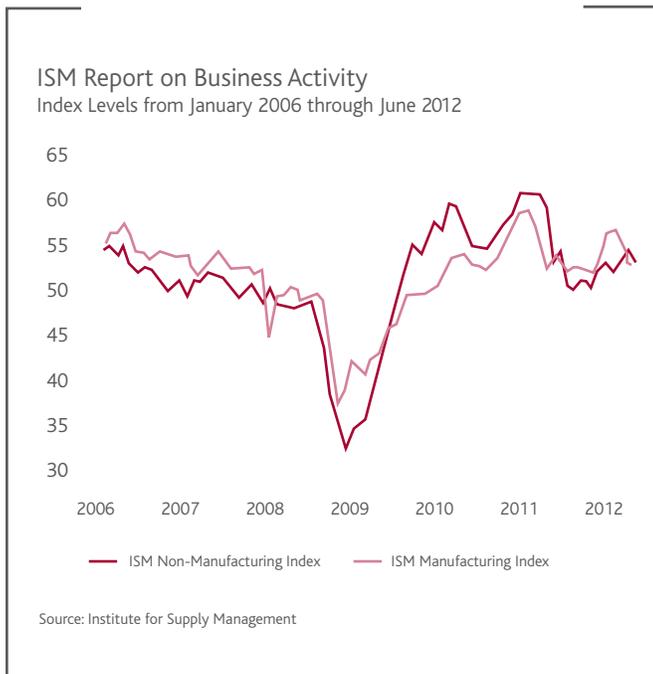
Inflation

The retail sales numbers look better when you factor in inflation which turned negative during the month. The Consumer Price Index (CPI) fell 0.3% in May after being flat the previous month, according to the Labor Department. Year-over-year CPI inflation continued to trend downward falling to 1.7% from 2.3% in April and a recent high of 3.9% in September. A sharp 6.8% drop in gas prices was again at work here, which frees up cash for U.S. consumers allowing them to spend more on other things. The energy impact was seen even more at the producer level with PPI falling 1.0%. The year-over-year rate fell to 0.8% from 1.9% in April. Lower inflation opens the door again for speculation on further stimulus from the Fed.

Business Activity

Things were looking up in the manufacturing arena early in the month. New factory orders for durable goods rebounded 1.1% in May after slipping 0.2% the previous month. The gains were driven largely by the transportation component which jumped 2.7% on strong aircraft orders. Excluding transportation, orders were still positive, up 0.4%.

The purchasing managers indices painted a more negative picture for manufacturing. The Philly Fed survey set off alarm bells as manufacturing in the region fell at its fastest pace in almost a year. The general economic index contracted for the second consecutive month to a severe -16.6 level. It proved to be a harbinger for the Institute for Supply Management's (ISM) broader manufacturing index which showed contraction in June for the first time since July 2009, falling 3.8 percentage points to 49.7. The new orders component plummeted into contraction as well, but the prices index for raw materials also fell considerably which should help margins for manufacturers. Comments from respondents were still positive, but there are some concerns that weakness in Europe and China will be a headwind for demand. The ISM non-manufacturing report, on the other hand, showed the service sector grew for the



30th consecutive month. Given that automobile sales are still strong and construction spending is picking up, the weaker manufacturing report is not nearly enough to signal an impending recession.

Housing

Foreclosures jumped 9% in May, according to RealtyTrac. This is coming on the heels of the \$26 billion dollar “robo-signing” settlement in April that cleared the way for banks to resume the foreclosure process with less uncertainty. Increases in foreclosures are likely to put downward pressure on home prices.

Existing home sales declined 1.5% in May to a 4.55 million annual rate, according to the National Association of Realtors. The report cited constrained supply of quality homes, not softening demand, as the likely cause for the drop. Meanwhile housing starts dropped 4.8% in April, according to a report from the Census Bureau. On a positive note, though, building permits increased to an annual rate of 780,000 – the highest level in four years – indicating builders are getting more bullish on the housing market.

Sales of new homes were up a solid 7.6% to an annual pace of 369,000 in May. The surge in buying activity brought current supply down to 4.7 months – the lowest since 2005. The increased activity may have been brought on by concessions as both the median and average prices softened a bit. Tighter supply in both the new home and existing home spaces, coupled with the spike in building permits could indicate more residential construction on the horizon, which would certainly be good for the overall economy.

World Economy

The €100 billion bank bailout from the European Union to provide capital to Spain’s struggling banks may not be enough. The assets of Spain’s largest two banks exceed the GDP of the entire country, and as such further aid will likely be needed. The move prompted rating agency Egan-Jones to downgrade Spain’s debt even further to “CCC+” with an 18% probability of default within the next year.

Antonis Samaras was sworn in as the new Prime Minister of Greece after his New Democracy Party was able to form a coalition with the Pasok and Democratic Left parties. After the inconclusive May 6 election, the results of this second election signal the country’s desire to remain part of the 17-nation eurozone. At the same time the coalition plans to fight to loosen the austerity requirements put upon them as part of the bailout agreement. Time will tell if other European leaders are willing to grant the struggling nation any leeway.

Investors abandon safe-haven sectors of the market for higher risk asset classes.

Fixed Income Current Yields	6/30/12
3 Month U.S. T-bill	0.09%
2 Year U.S. Treasury	0.33%
5 Year U.S. Treasury	0.72%
10 Year U.S. Treasury	1.67%
30 Year U.S. Treasury	2.76%

Total Returns	Month	YTD
Barclays U.S. Aggregate	0.04%	2.37%
Barclays U.S. Govt./Credit	-0.02%	2.65%
Barclays U.S. Municipal Bond	-0.11%	3.66%
Barclays U.S. Corp. High Yield	2.11%	7.27%
Barclays U.S. Long Credit A	0.31%	5.81%
Barclays U.S. Treasury 20+ Year	-1.51%	4.27%
Barclays Global Aggregate	0.48%	1.50%
Barclays Emerging Markets	2.75%	6.95%

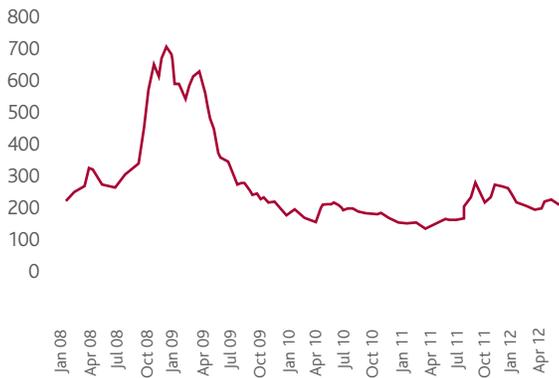
1 Month and 12 Month ending 6/30/12.
Source: U.S. Department of the Treasury, Barclays Capital
Values reflect most recent data available at time of publication.

Overview

A number of uncertainties that weighed on the markets in May have lifted in June, including the Greek elections, complications regarding the recapitulation of Spanish banks and an anticipated downgrade of global banks by Moody's. Separately, although the difference in yields between U.S. Treasuries and corporate bonds tightened for the month, the combination of declining interest rates and a still slow U.S. economic growth environment have left spreads significantly wider than levels seen in April. However, because credit spreads tend to fluctuate with the economic cycle and most strategists do not expect the U.S. economic recovery to be especially strong, spreads are not likely to tighten much from current levels.

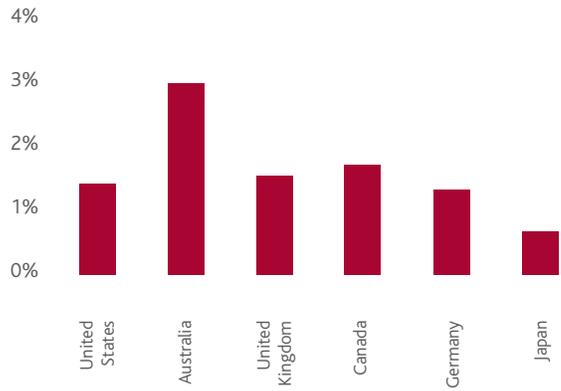
Despite a selloff in U.S. Treasuries, yields remain near historic lows, with traders suggesting interest rates are likely to remain range-bound in the near-term as continued uncertainties in the global markets remain in the fore. However, from a long-term perspective conventional wisdom says bond rates will rise given a reversion to the mean combined with very expensive current valuations for Treasuries. The Federal Reserve's "term premium" model indicates yields on government debt are roughly 0.85% lower than what is considered fair value. The average over the past decade was a 0.50% premium. Since yields on Treasuries with maturities out to approximately 2018 remain below the rate of inflation, we continue to feel U.S. Government debt offers investors an extremely low expected return/high risk proposition.

Investment Grade Corporate Spread
In Basis Points, through June 2012



Source: Merrill Lynch

10-Year Government Bond Rates
Latest Yield as of 6/30/2012



Source: Bloomberg

Corporate

The investment grade corporate sector finished the month higher by 0.35%, bringing year-to-date gains to 4.65%. From a sector perspective, Financials increased after a long awaited ratings review from Moody's was better than expected for large global banks. Morgan Stanley, considered a bellwether in this space, rallied closing at 5% on the day the report was released. Looking ahead, strategists expect new issuance to remain robust given a lack of high quality spread alternatives to Treasuries and the perception of investment grade corporates as a safe-haven asset during times of high volatility.

High yield bonds rallied 2.11% for the month, bringing year-to-date gains to 7.27%, as spreads tightened and investors focused on higher risk fixed income asset classes. For the second half of the year, strategists remain divided on the direction of this sector of the market. Some feel investors should avoid high yield going forward given the considerable rally during the first half of the year combined with historically low absolute yields. Opponents to this view believe the sector remains attractive amid robust mutual fund and ETF inflows for the year as investors continue to reach for relative yield in a low U.S. Treasury interest rate environment.

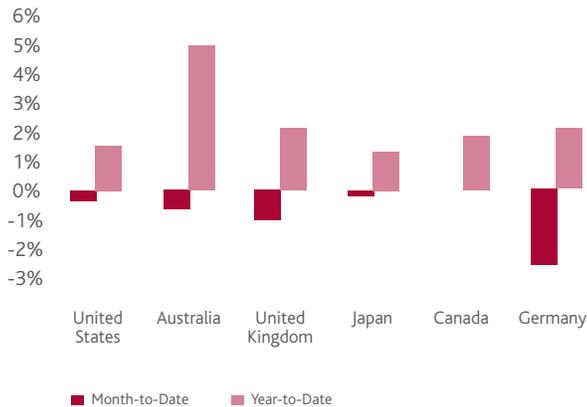
Municipals

Following the lead of U.S. Treasuries, the Barclays Municipal Bond index fell 0.11%, bringing year-to-date gains to 3.66%. Heavy muni supply weighed modestly on returns as issuers took advantage of near-record low rates. Yield levels on high-grade munis were essentially unchanged along the yield curve, as heavy primary market new issuance was absorbed with relative ease. Year-to-date, market participants have focused on yield with demand particularly robust on the long end of the yield curve and, in many instances, lower down the rating scale.

Looking forward, the muni market continues to wade through a long list of issues including new GASB pension accounting rules, the Supreme Court's healthcare decision, the Stockton CA bankruptcy, and the aftermath of the Moody's downgrade to junk of all California redevelopment agency debt. There has been no evidence that the market views the pension concerns as anything new, or that it anticipates any contagion from specific municipality crises. The new GASB changes are generally positive for state and local governments, as they will improve the transparency of pension reporting. Most strategists feel these GASB changes will not lead to any downgrades by the rating agencies because they are already well aware of the magnitude of underfunding faced by municipalities.

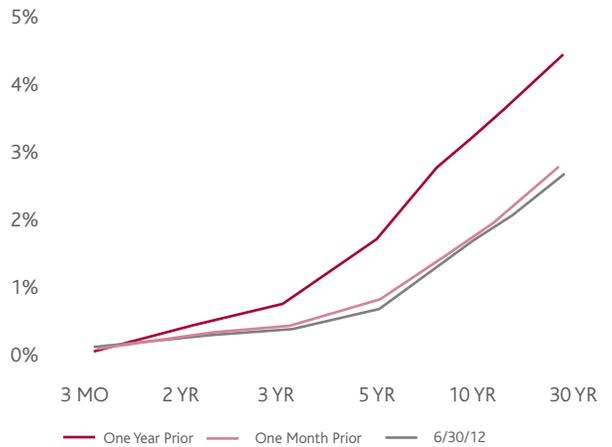
Our recommendation in the muni space remains mostly unchanged from last month; investors should pursue selective selling on the long end of the yield curve and among weaker credits rated BBB and below, given excessively robust demand in these areas. We continue to recommend high quality municipal bonds, with a focus on essential service revenue credits, in the five- to 10-year maturity range for moderate to aggressive investors, and a one- to five-year focus for conservative investors. However, because credit spreads of GOs typically rally at the end of budget seasons, we are now recommending exposure to A and AA general obligation bonds, and a one- to five-year focus for conservative investors.

Performance by Country
Unhedged Total Returns, June 2012



Source: Barclays Capital

U.S. Treasury Yield Curve
As of 6/30/12



Source: U.S. Department of Treasury

International

The Barclay's Global Treasury ex-US index gained 0.29% on an unhedged basis, but lost 0.37% on a local currency basis, consistent with a considerably weaker U.S. dollar against other major currencies. Many safe-haven countries gave back gains from last month, with Germany, Australia, France and the United Kingdom posting considerable losses for the month. Ireland (6.83%), Italy (2.08%) and Spain (1.52%) rallied, outperforming their eurozone peers amid a proposed plan to make the European Central Bank (ECB) the sole supervisor of the region's banking system – a key step toward a banking union.

Meanwhile, Bank of England Governor Mervyn King announced measures designed to protect the British financial system and economy from an escalation of the eurozone crisis. In addition to looser fiscal policy and central bank aid, Governor King said the central bank would begin a credit-easing operation designed to spark lending in the economy. He went on to explain "Banks are at risk of future losses from a further downturn in the economy and exposures to the euro area." Although British banks are not encountering liquidity problems at this time, these emergency measures are designed to help prevent a destabilization of the country's banking system. Although Governor King has clearly become gravely concerned about Europe's economic outlook, not all market strategists feel as bearish about the global markets citing, amidst other things, an expectation the U.S. Federal Reserve may hint at some type of additional fiscal stimulus in upcoming policy meetings.

Stockton California Municipality Bankruptcy

After declaring a fiscal emergency in May of 2011 and going through a mandatory mediation period, the city of Stockton, primarily an agricultural community, filed for Chapter 9 bankruptcy protection in late June. The debt issues the City has listed as subject to default under a restructuring plan are the \$302 million in bonds that rely on the City's "general fund" for all or a portion of its debt service plan. Fortunately, all of these issues except the Series 2009 Lease Revenue bonds are insured, suggesting they will be paid according to their terms, with the likely exception of interest payments. Because this bankruptcy is about fiscal mismanagement and the unwillingness of elected officials to make payments to bondholders, market strategists do not expect this to have any significant effects on the municipal markets.

Stockton, as acknowledged in its own disclosure filings, is a study in poor fiscal management before, during and after an economic downturn. Specifically, this is a case of political unwillingness to restructure operations in favor of highly paid union employees. While admitting that the crises were brought on by years of mismanagement with above-market wages and benefits paid to employees, the city manager proposes to leave these unchanged while slashing debt service payments. After a bankruptcy filing, bond market analysts expect borrowers such as Stockton to manage their operations more prudently, raise revenues and reduce expenses so city operations can be maintained and debt serviced. This is not the case here – the average salary for a City employee was over \$102,000 in 2010, while the median household income was less than \$60,000. Analysts consider this a "selective default" in which the City chooses not to pay bondholders in favor of other parties. Given this lack of sound judgment, it is doubtful the municipality will be able to issue new bonds going forward.

Early summer stock rally helps offset May declines.

Total Return	Month	YTD
Dow Jones Industrial Average	4.05%	6.83%
S&P 500	4.12%	9.49%
NASDAQ Composite	3.91%	13.28%
S&P 100	4.58%	10.56%
S&P 400 MidCap	1.89%	7.90%
S&P 600 SmallCap	4.18%	7.98%
Russell 2000	4.99%	8.53%
MSCI EAFE	6.79%	0.77%

1 Month and YTD total return as of 06/30/2012.

Values reflect most recent data available at the time of publication.
 Source: Zephyr StyleAdvisor, Standard & Poor's, Russell Indices, The Wall Street Journal, Reuters, Morgan Stanley Capital International, MarketWatch, Financial Times, Bloomberg, Chinavestor.com

Overview

After two weak months, stock markets rallied back strongly to end June in positive territory. Despite the positive performance, many issues plagued the markets this month, including continued volatility amid spiking bond yields in Spain and Italy, Moody's downgrades of major banks, uncertainty regarding the outcome of the Greek parliamentary elections, and various signs of U.S. economic weakness. However, policy moves by central banks worldwide and improving housing data in the U.S. helped stocks look beyond near-term concerns. Most importantly, the European Central Bank (ECB) agreed to relax the repayment conditions for Spanish banks on the last day of the month, sending stocks soaring.

The return for the Dow Jones Industrial Average in June was 4.0%, helped by a 278 point jump on the last trading day. The broader S&P 500 Index gained 4.1%, while the technology heavy NASDAQ Composite Index returned 3.9%, with a 3% increase on June 29. Year-to-date through the end of June, the NASDAQ (+13.3%) continued to outpace the S&P 500 (+9.5%) and the Dow (+6.8%) on a total return basis.

Volatile stock prices negatively impacted the market for initial public offerings in the second quarter compared to the first quarter of 2012. PricewaterhouseCoopers reported the number of IPOs filed in the second quarter declined from 44 to 27. Excluding the \$16 billion Facebook Inc. offering, total IPO proceeds for the quarter were \$5.2 billion, an average of \$200 million per IPO, down 10% from the first quarter.

Equity Performance

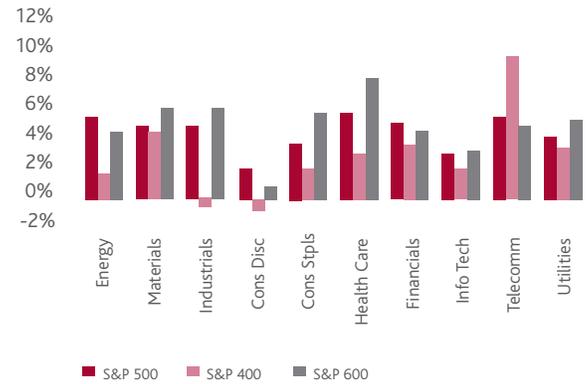
Trailing one Year Cumulative Price Return, as of 6/30/12



Source: Yahoo! Finance

S&P Sector Performance by Market Capitalization

6/30/12



Source: Standard & Poor's

Domestic Equity

The strongest S&P large cap sectors in June were Health Care (+5.8%), Energy (+5.7%) and Telecomm Services (+5.6%). In Health Care, Edwards Lifesciences (+21.0%) received approval for a trans-catheter heart valve, and Johnson & Johnson (+8.2%) bounced back from a six-month low reached in early June. In Energy, Exxon Mobil (+8.3%) also rallied from early month lows despite declining oil prices. No sectors declined, but Consumer Discretionary (+1.9%), Information technology (+3.0%) and Consumer Staples (+3.7) trailed the index return. For the first half of the year, Telecomm Services (+16.5%), Financials (+13.7%) and Information Technology (+13.3%) were the strongest sectors on a total return basis, while Energy (-2.3%) and Materials (+6.5) were among the weakest.

According to S&P, small cap equities slightly outperformed large cap, but both had returns well above mid cap for the month of June. The S&P Small Cap 600 Index returned 4.2% compared to 4.1% for the S&P 500 Index and only 1.9% for the MidCap 400 Index. Year-to-date through the end of June, large cap equities outperformed with a total return of 9.5%, followed by 8.0% for small cap and 7.9% for mid cap.

In contrast to May, value stocks outperformed growth across the market capitalization spectrum in June. The return for the S&P 500 Value Index was 4.7% compared to 3.7% for the S&P 500 Growth Index. The S&P MidCap 400 Value Index returned 3.1%, more than the 0.87% return for the S&P MidCap 400 Growth Index. Finally, the S&P SmallCap 600 Value Index outperformed the S&P SmallCap 600 Growth Index, +4.3% versus 4.1%, respectively. Year-to-date through June 30, growth outperformed value in large cap and small cap. The S&P 500 Growth Index outperformed the S&P 500 Value Index (+10.0% versus +8.9%), as did the S&P SmallCap 600 Growth Index over the S&P 600 Value Index (8.7% versus +7.3%). The reverse was true for mid cap equities as the S&P 400 Mid Cap Value index outpaced the Growth Index year-to-date through the end of June (+8.2% versus +7.6%).

International Equity

Most international equity indices were even stronger than U.S. equities in June. The broad MSCI EAFE Index of developed markets had a total return of 7.1% in U.S. dollar terms. Individual country MSCI indices in Spain (+21.0%), Italy (+14.9%) and Greece (+11.1%) were especially strong, rallying back from dramatic weakness in May. France (+9.3%) and the UK (+7.1%) also rebounded nicely from May's declines. A two-day European summit at the end of the month resulted in a deal that allows two of the European bailout funds to pump money directly into the most troubled European banks, as opposed to government loans to bail out the banks. The plan is intended to rescue banks without putting the countries further into debt. In Japan, the cabinet voted to approve a controversial plan to double the country's sales tax to 10% by 2015 to stem its mounting debt load.

The MSCI Index for Emerging Markets rebounded 3.9% in June with positive returns for China (+2.2%), India (+7.1%), Brazil (+1.1%) and Russia (+9.2%). China cut its benchmark lending rate and deposit rate by 25 basis points early in the month, its first rate cut since 2008. Chinese financial and utilities stocks were strong while consumer equities trailed the index in June. Brazil continued to lag its emerging market peers as the country's central bank cut the 2012 GDP growth forecast from 3.5% to 2.5% following first quarter's 0.2% growth. To combat further economic stagnation, the government announced a \$4 billion stimulus package.

Commodities and hedge funds struggle while REITs remain strong.

Price Change	Month	YTD
Dow Jones UBS		
Commodity Index	5.49%	-3.70%
Oil	-2.02%	-16.00%
Copper	3.64%	1.14%
Gold	2.56%	1.94%
NAREIT- All REITS	5.88%	15.43%
NAREIT-Industrial/Office	6.22%	15.99%
NAREIT- Residential	2.29%	9.50%
S&P Global Property Ex-U.S.	-7.72%	8.44%
HFRI Emerging Markets Index	0.58%	1.05%
HFRI Fund Wtd Comp. Index	0.05%	1.70%
HFRI Equity Market Neutral	0.45%	1.16%
HFRI Event Driven	0.14%	2.40%
HFRI Market Defensive	-2.11%	-1.49%
HFRI Merger Arbitrage	0.06%	1.10%
HFRI Short Bias	-3.03%	-8.29%

1 Month and YTD total return as of 6/30/12
 Values reflect most recent data available at the time of publication.
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard and Poor's, wsj.com - Market Data Center, Private Equity Online, FINalternatives.

Overview

Commodity performance was volatile for the month, corresponding with market reactions to news out of the eurozone. Hedge Funds continued to struggle, lagging the benchmark on both a monthly and year-to-date basis. REITs remain the best performing asset class, posting double-digit returns on the year.

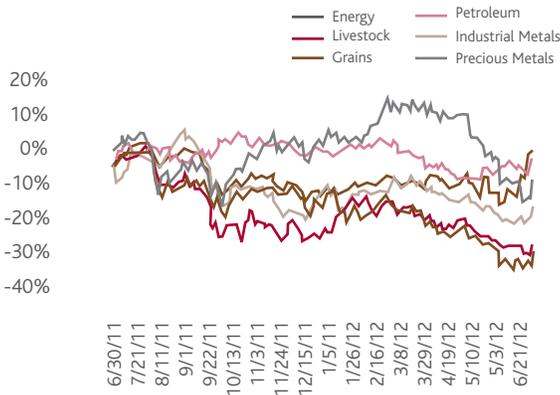
Commodities

Commodities gained close to 5% in June as agricultural items saw a major rebound from a very weak May. Spot prices for wheat were up almost 20%, corn and sugar gained 13% and 8%, respectively, and soybeans and coffee both gained around 6%. Natural gas was up 16% as it continued the recovery from March lows.

Crude oil prices jumped during the last week in June by over 6%, but WTI still finished the month down 1.7% and Brent down 5.0%. Crude prices have followed a downward trend since the end of February due to the deteriorating situation in the EU with demand forecasts shrinking as economic outlooks worsen. However, prices are expected to rise with the consensus out of Europe last week regarding not only the establishment of a single supervisory system to oversee eurozone banks, but also to bail out struggling banks, including those in Spain, using EU rescue funds. This positive news spiked oil prices and could be the turning point for crude's four-month slump as the price increase came even with the EIA reporting oil stockpiles rose by over 2.6 million barrels during the week. If demand outlooks improve following more positive EU news, prices may continue to rise. However, Brent is still down over 8% on the year and WTI is down 13% over the same period.

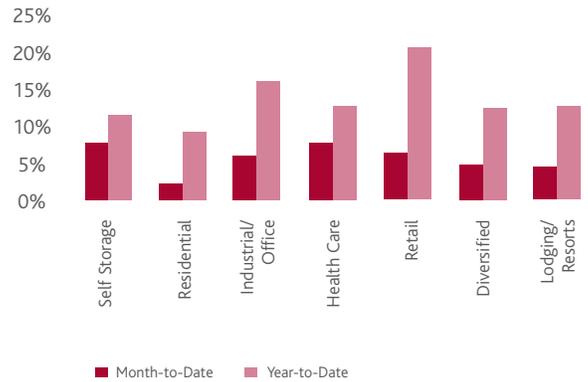
Gold was up 2.5% and Silver was down 0.5% in June to finish at \$1,604 per ounce and 27.61 per ounce, respectively. Bullion prices gained on the last day of the month alongside the equity markets and other commodities, but throughout the month prices were volatile. There has been a constant push-pull effect on precious metals as positive and negative news is released from the U.S.

Cumulative Return of Commodities Trailing One Year, as of 6/30/12



Source: Dow Jones

REIT Sector Performance Total Returns, June 2012



Source: NAREIT

and the eurozone. The euro saw a recovery versus the U.S. dollar, which was a factor in gold's success towards the end of the month, but it was modest due to other conflicting events, such as positive U.S. housing data. Gold is now up a modest 2% on the year, a signal that economic conditions are perceived as manageable and the U.S. dollar has gained some strength since last year.

Hedge Funds

Hedge funds posted a narrow gain to conclude the first half of the year as the HFRI Fund Weighted Composite Index returned 0.05% in June, according to data released by Hedge Fund Research (HFR). Hedge fund performance once again trailed the stock market though, continuing this year's trend, with the S&P 500 rising 4.12% last month. HFR went on to note hedge funds overcame conservative positioning in the final days of the month, as June ended on a bit of optimism with regards to the European sovereign debt crisis. Last month marked the conclusion of a positive, but quiet, first half of the year for the hedge fund industry. The HFRI Fund Weighted Composite Index gained 1.7% through the end of June, lagging the markets as the S&P 500 is up 9.48% over the same period. Hedge funds gained nearly 5% in the first two months of the year before posting three consecutive months of declines, including a slip of 2.4% in May. Equity Hedge strategies posted a gain of 0.9% in June and are now up 2.1% for the year. Equity Hedge strategies traded in a volatile range throughout the first half of 2012, gaining nearly 7.0% in the first two months of the year before experiencing a sharp decline of 4.6% in May. Event Driven strategies posted a slight gain of 0.1% in June, but are still up 2.4% year-to-date. Macro funds posted a decline of 1.6% for June, reducing Macro performance through the first half of the year to a loss of 0.6%. Emerging Markets hedge funds posted a gain of 0.6% in June, ending the first half of 2012 with a gain of 1.1%.

Real Estate

June was a good month for Real Estate Investment Trusts (REITs), with the FTSE NAREIT All REITs index gaining 5.88%, finishing the first half of the year up 15.43%. The FTSE NAREIT All Equity REITs index also had a strong month, adding 5.97% and now up 14.91% year-to-date. It was the same story when diving into the different sector and subsectors as well. The Industrial/Office sector ended June up 6.22%, now up 15.99% year-to-date. In the Retail space, which is composed of Shopping Centers and Regional Malls, June provided returns of 6.27%, bringing its year-to-date performance to 21.15%. Many analysts believe this sector will continue to outperform in the second half as well. According to a report from REIT.com, the mall space has positive rent spreads and most of the market cap and the companies in this area own "high-quality centers that are very productive and have pretty good pricing power over tenants." If business confidence and job growth continue to be dominant themes throughout the rest of the year in the space, REITs should have the ability to increase rents. Residential REITs, including Apartments and Manufactured Homes, also posted positive returns last month, up 2.29%, bringing gains to 9.50% year-to-date.



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