

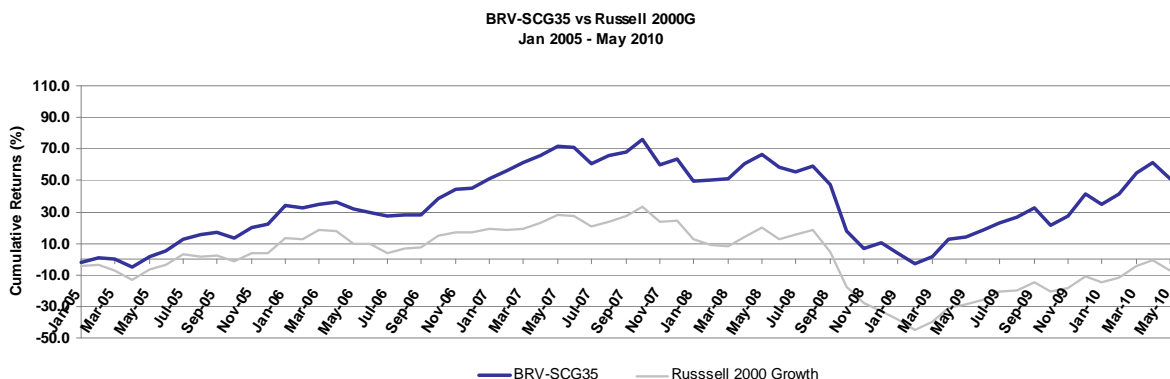
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Expect Rebound in Staples and Financials

The Russell 2G returned -6.65% for the month of May and was most negatively impacted by performance in the Healthcare and Consumer Discretionary sectors which were down 7.9% and 4.9%, respectively. Negative returns permeating every sector in the benchmark were mitigated in our model portfolio by our Industrials, Utilities and Telecom picks. On average, we invested in names that were trading at lower price-book multiples, had higher profitability and lower financial leverage relative to the benchmark. In the current month, we are selecting companies with these same characteristics.

- The BRV-SCG35 model strategy demonstrates consistent outperformance when compared with the Russell 2G, producing an annualized return of 7.94% versus the benchmark at -1.33% during the January 2005—May 2010 period*. For the month of May 2010, the BRV-SCG35 strategy returned -6.33% vs. the Russell 2G at -6.65%. The top performers in our portfolio included GeoEye, Inc. (NASDAQ: GEOY, \$31.91) +11.5%, Take Two Interactive. (NASDAQ: TTWO, \$10.03) +6.6% and Luminex, Corp. (NYSE: LMNX, \$17.31) +5.2%. The majority of positive returns in our portfolio were associated with bets on financial leverage (debt-to-equity).
- This month, Consumer Staples represent our most overweight position relative to the benchmark, comprising 12.1% of our model portfolio (Table1, page 2). With returns down 5.2% in the Staples sector last month, Staples weathered the downdraft better than the Russell 2G. We expect Staples to at least match performance of the index in the coming month. Earlier this month, a negative jobs report put pressure on the sector, however we anticipate a rebound given the most recent U of M consumer sentiment number which shows an uptick from May 2010. Our new positions this month include PriceSmart, Inc. (NASDAQ: PSMT, \$24.81) and Nu Skin Enterprises, Inc. (NYSE: NUS, \$27.06). These names show a strong history of profitability with top-line growth exceeding 9% in the most recent quarter and are trading at or below the sector forward EPS multiple of 13.6x.
- Financials, our second most overweight position this month, comprise 13.3% of the portfolio. With a return of -6.6% in May, performance was comparable with that of the Russell 2G, however, we anticipate increased price momentum in the financial sector going forward. In our view, the sector remains oversold and greater clarity regarding the details of the financial reform bill could remove some of the pervading overhang. This month, we have added Investors Bancorp, Inc. (NASDAQ: ISBC, \$13.03), Signature Bank (NASDAQ: SBNY, \$37.19) and Assured Guaranty Ltd. (NYSE: AGO, \$14.57). These names have projected EPS growth of at least 40% in the next quarter and are trading at or below the middle of their 52-week trading ranges.

Small-Cap Strategy Update



* For more information regarding historical performance contact Blaylock Robert Van LLC.