

Dear Friends,

This monthly market letter is my first with Coe Capital Management. While I had the pleasure of collaborating on this month's letter with Larry Stein, next month's letter will be my thoughts and conjectures on the market. Should you have any questions please feel free to email me at [Michael@coecapital.com](mailto:Michael@coecapital.com).

## Market Update

In June, the S&P 500 fell 5% to close at 1031, after a rally early in the first half of the month was more than erased by a sharp decline during the second half. This is a continuation of the decline that began from the closing peak of 1217 on April 23d. Since that April peak, the S&P 500 has retraced and fallen approximately 15%. Back in April, the market was encouraged by positive earnings reports and a growing perception by investors that the US economy was on more of a solid track of improvement. Since then perceptions have changed. As we suggested in our newsletter sent on May 4th, "the trigger to such a correction could be the European debt situation." While the European debt situation and the decline of the euro did indeed prove to be the trigger to the correction, more weakness has since appeared in the US economy and China's economy is showing signs of slowing down as well.

All told, there are a number of headwinds for the market. With the perception of continued weakness in the economy investors are turning towards the bond market for added protection. This can be seen by the contraction of the "yield curve" that has taken place over the past several weeks. The yield curve can best be described as the difference between the 10 year Treasury bond rate and the 2 year Treasury bond rate. By the end of June, 10-year Treasury bond rates declined to 2.96%, the lowest level since the spring of 2009 (rates approached 2% toward the end of 2008). The 2- year Treasury as this letter reaches you has hit .59% which is near a record low. In fact, mortgage rates are at the lowest level in 50 years. While we cannot predict how low rates will go, the bond market is likely to be a valuable indicator for the economy. We will continue to keep a close eye on developments in the bond markets and in the currencies. It is interesting to note that the dollar has been strong for many months and reached a high in early June. With the dollar showing some softness lately, international equities decreased only 1% in June, holding up much better than US equities.

<b>Index Returns As of July 1, 2010</b>	<b>Sector</b>	<b>Latest Month</b>	<b>Past 3 Months</b>	<b>Latest 12 Months</b>
S&P 500	Large Cap	(5.23%)	(9.08%)	23.38%
Russell 2000	Small Cap	(7.75%)	(11.11%)	30.62%
EAFE	International	(1.00%)	(10.03%)	16.64%
Barclays Aggregate	Bonds	1.57%	3.41%	8.75%

Source: iShares.com\*

## Strategic Comment

It appears as if this decline might have more downside potential. Last week's market bounce stalled when the Fed's June minutes lowered their estimate for the economy for the remainder of the year. Another interesting note from this announcement was the number of Fed governors who expressed concern over potential for deflation. Here's why deflation is a problem. The Fed can control inflation by raising short-term interest rates. It's done that many times during bouts of inflation. Deflation is tougher to combat and requires that the Fed lower interest rates. The problem is short-term rates are already near zero. So there isn't a lot the Fed can do to combat a deflationary threat. That's why deflation is harder to fight than inflation. The asset class that benefits most from deflation is bonds. Fortunately, as noted in prior letters, we previously positioned our clients conservatively through disciplined rebalancing, equity trimming (building of cash) and purchases of fixed income positions. It is impossible to say how much downside potential exists or the timing of the bottom; however, we are carefully watching valuation, market and economic indicators for opportunities to begin buying. We will look to strategically and gradually add to our equities positions over the coming weeks and months. As we navigate this opportunity, we continue to rely on the strength of our research team and the fundamental research that they perform to locate the outperformers.

Kind Regards,

Michael Peck

## Disclaimers and Notices

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**The S&P 500 Index** is a leading indicator of the U.S. equities market, reflecting the risk and return characteristics of the broad large cap universe. It covers 80% of the U.S. equities market and encompasses more than 100 different industry groups with just 500 stocks. Companies included in the index are domestic (based on operations locations, corporate structure, accounting standards and exchange listings), have market caps in excess of \$3 billion, and have a public float of at least 50%.

**The Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

**The MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

**The Barclays Capital U.S. Aggregate Index** covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. U.S. Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to the U.S. Aggregate Index on April 1, 2007, but are not eligible for the Global Aggregate Index. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The index was created in 1986, with index history backfilled to January 1, 1976.

The investment returns for the above indices are shown for comparative purposes. When comparing the investment returns of accounts to those of an index, you should take into account that the applicable accounts do not necessarily hold the same securities or have the same overall characteristics as the index. In addition, the index is not available for direct investment; therefore its performance does not reflect the expenses associated with the management of an actual portfolio. Neither the information nor any opinion expressed constitutes a solicitation by Coe Capital Management, LLC, to purchase or sell any securities or commodities. Since no one investment program is suitable for all types of investors, this information is provided for informational purposes only. You should review your investment objectives, risk tolerance and liquidity needs before selecting a suitable investment program.

**Past performance is no guarantee of future results. You cannot invest directly in an index.**