



GRAY & COMPANY

CAPITAL MARKET REVIEW

First Quarter 2010

CAPITAL MARKET HEADLINES

THE BIG DEBT ISSUE

A Greek Tragedy

The southern European country of Greece has caused an international disruption across the capital markets. Last fall a new government administration disclosed that the country's budget deficit exceeded 12% of the nation's Gross Domestic Product (GDP), nearly twice the figure reported by the previous administration. Furthermore, the ratio of public debt to GDP was forecasted to increase to over 120% of GDP in 2010 (the highest of any country in the European Union). This debt load caused the major rating agencies (S&P, Moody's, and Fitch Rating) to downgrade the debt of Greece to the lower of investment grade levels, due to the increase in likelihood of a default.

The fiscal challenges have impacted the national banks of Greece. These institutions have suffered from declining deposits as individuals transfer funds to banks outside of Greece, and declining reserve portfolios (heavily invested in the downgrade debt).

The debt crisis represents the accumulation of years of fiscal irresponsibility by the government, and the sudden decline in GDP associated with the global recession. The government has been unwilling to raise taxes or reduce spending despite the mounting debt burden. Additionally, as a member of the European Union, the country is unable to dictate monetary policy to manage the issue.

The current government has initiated cost saving programs (salary cuts for government employees) and revenue increases (gas, tobacco, and alcohol taxes). The Greek citizens have generally supported the idea of reform. However, not all have accepted the changes, staging protests and strikes. Current estimates predict that the budget deficit should decline to a level below the European Zone target of 3% of GDP by 2012. These governmental actions will hinder future economic growth within the country.

The other nations in the Euro community are troubled by the influence Greece has had on their currency and capital markets. Additionally, these nations fear the crisis may spread to other Euro nations, notably Italy, Portugal, Spain, and Ireland. At this time it appears that the leading European nations and the International Monetary Fund (IMF) will provide assistance to Greece, helping them with their fiscal challenges and avoiding defaulting on their obligations.

<u>Country</u>	<u>2009 GDP est.</u> <u>(\$MM)</u>	<u>Public Debt</u> <u>(% of GDP)</u>
Japan	\$ 4,137,000	192.1%
Italy	\$ 1,760,000	115.2%
Greece	\$ 341,000	113.4%
France	\$ 2,110,000	79.7%
Germany	\$ 2,811,000	77.2%
Portugal	\$ 233,400	75.2%
Canada	\$ 1,285,000	72.3%
United Kingdom	\$ 2,149,000	68.5%
Ireland	\$ 176,900	63.7%
India	\$ 3,560,000	59.6%
United States	\$ 14,260,000	52.9%
Spain	\$ 1,368,000	50.0%
Brazil	\$ 2,025,000	46.8%
Australia	\$ 824,300	18.6%
China	\$ 8,789,000	18.2%
Russia	\$ 2,116,000	6.9%

Source: CIA - The World Factbook

The U.S. public debt figure is a measure of "Debt Held by the Public," which includes all debt instruments issued by the Treasury that are owned by non-US Government entities. The data include Treasury debt held by foreign entities. The data exclude debt issued by individual US states, as well as intra-governmental debt. Intra-governmental debt consists of Treasury borrowings from surpluses in the trusts for Federal Social Security, Federal Employees, Hospital Insurance (Medicare and Medicaid), Disability and Unemployment, and several other smaller trusts. If data for Intra-government debt were added, "Gross Debt" would increase by about 30% of GDP.

The American Dream

The U.S. is facing similar fiscal challenges in the coming years as governmental expenditures continue to increase at a faster pace than tax receipts and GDP growth. The Treasury will issue a record level of securities this year to fund the recurring expenses, stimulus programs, and new projects. Using the current 25% budget to GDP relationship, the Congressional Budget Office projects the debt ratio to reach 90% of GDP by 2020.

However, the U.S. benefits from a unique position in the world, providing global security (at no explicit fee). This role may provide our government with greater flexibility in borrowing from other nations.

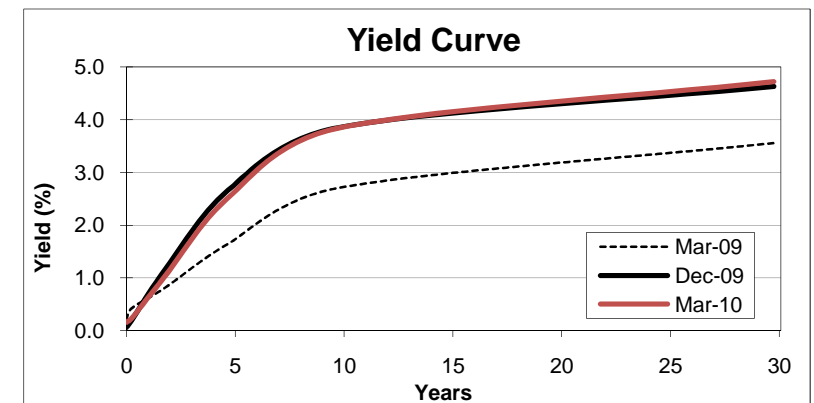
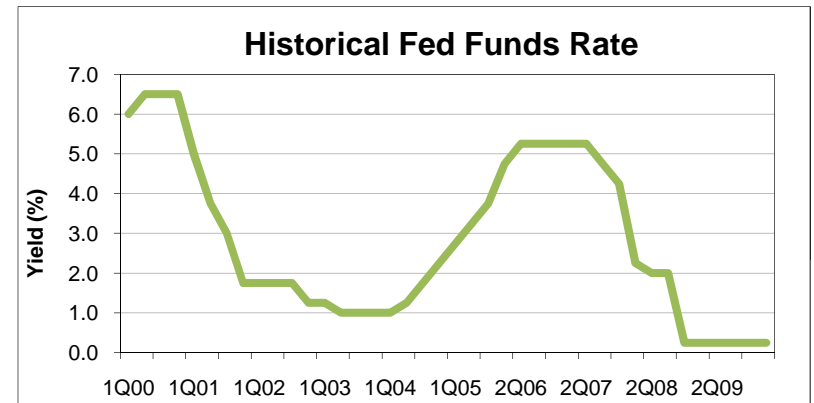
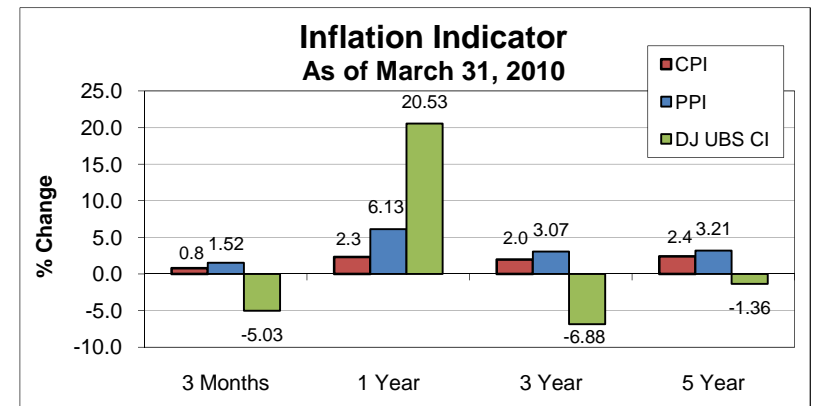
CAPITAL MARKET REVIEW

Far From Clear: U.S. economic expansion has been moving forward since the lows of the recession. Real GDP grew at a 5.7% annualized rate in the fourth quarter of 2009. The expansion has been given some credence by the fact that economic data on manufacturing, retail sales, productivity, and durable goods have shown improvement. In addition, interest rates and inflation remain low, corporate profits continue to impress, and investor optimism appears to have some wind in its sails. However, the sustainability of the recovery remains in question. Stimulus programs instituted by the government and central bank have ended or are scheduled to end in the near future and unemployment is relatively high at just under 10%. The U.S. government is awash in debt and is issuing vast amounts of treasuries to finance its revenue shortfall, primarily due to stimulus efforts. The economic impact of health care legislation is still unclear. The viability of consumer spending, which generally accounts for 70% of GDP, is tenuous. And debate continues as to when the Federal Reserve might raise the anchor on interest rates.

Shorter-term core inflation expectations remain subdued in the wake of high unemployment. The CPI and PPI moved higher this quarter, driven in part by increases in energy costs. Commodity prices moved in different directions; oil and gold moved slightly higher while natural gas and sugar fell sharply. Overall, commodities declined due to the news of tighter monetary policies and credit conditions in some emerging markets.

The Federal Reserve once again indicated their intent to maintain the Fed Funds Rate at between 0 to 0.25% for an extended period. The debate continues as to whether tightening will take place in the latter part of 2010 or push into 2011.

The yield curve maintained its steepness with minimal upward shift from last quarter. Concerns surrounding the supply in treasuries, inflation, and the hunt for higher yielding investments has continued to impact the demand for treasuries. Reported fiscal issues in Greece and other parts of Europe, however, may have limited the increase in yields for the quarter as concerns over sovereign debt trigger a brief flight-to-quality response.



CAPITAL MARKET REVIEW

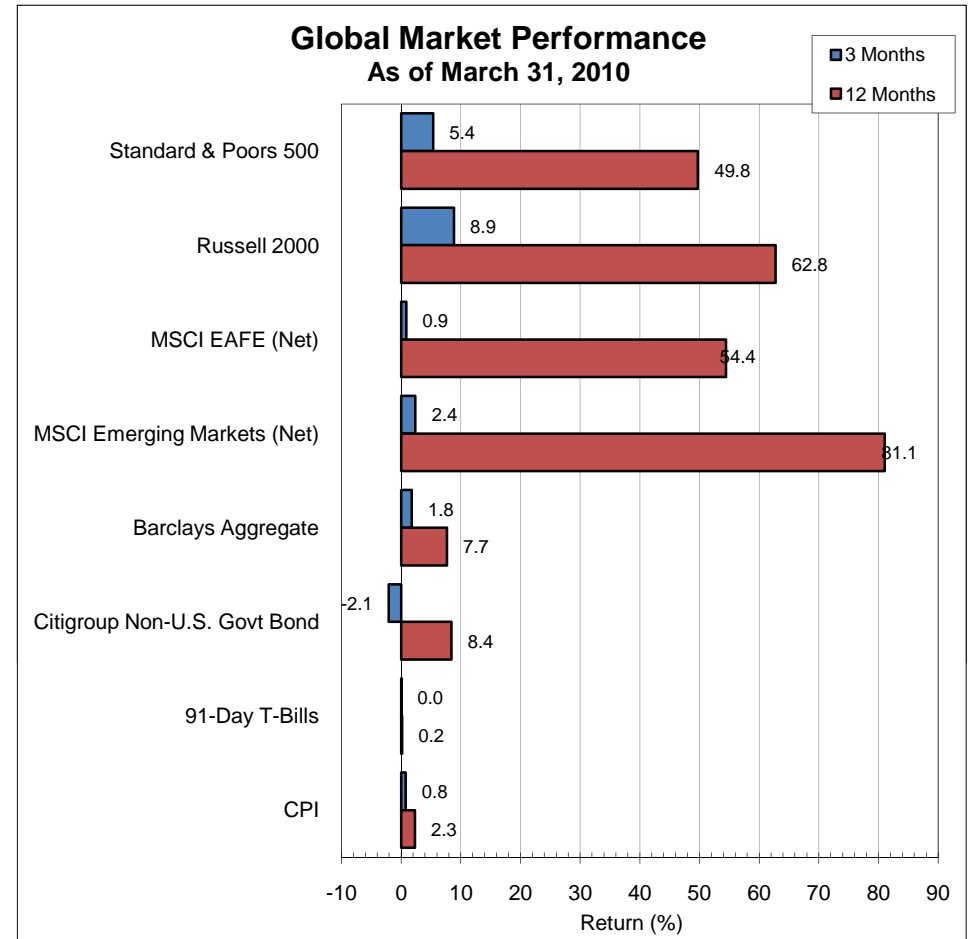
Economic Growth Powers Markets: The economic recovery gained strength this quarter in many countries. However, most economies appear quite fragile and depend heavily on governmental assistance for near term expansion. This governmental intervention has improved liquidity, repaired financial institutions, and aided equity and fixed income investors.

Equities finished the quarter on a positive run after a difficult period in January. Developed markets generally out performed emerging markets this quarter. China's market under performed due to fears of an over heating economy and related policy adjustments. Longer-term, the global equity markets have risen over 50% in the past twelve months, led by many of the sectors that suffered the most severe losses in the 2008. Volatility measures and country correlations are returning to pre-crisis levels.

The fixed income markets responded to the recovery as spreads continued to narrow this quarter, particularly for lower quality issues. Shifts in yield curves were minor, as central banks generally left rates unchanged. European markets focused on sovereign debt issues, led by Greece.

Private real estate showed signs of life, with the NFI-ODCE Index posting a positive return (+0.81%) after six consecutive negative quarters. This provides hope that liquidity may be returning to the private markets.

The next step in this recovery is for economic growth to be driven by the private sector and not by the governmental stimulus programs.



U.S. EQUITY MARKET

Total Returns - Periods Ending March 31, 2010				
	3 Months	1 Year	3 Years	5 Years
Standard & Poors 500	5.38	49.75	(4.16)	1.92
S&P MidCap 400	9.10	64.08	(0.82)	5.17
S&P SmallCap 600	8.60	63.99	(3.17)	3.47
Russell 1000	5.70	51.57	(3.99)	2.30
Russell 1000 Growth	4.65	49.75	(0.78)	3.43
Russell 1000 Value	6.79	53.57	(7.33)	1.04
Russell 2000	8.85	62.77	(3.99)	3.36
Russell 2000 Growth	7.61	60.32	(2.42)	3.82
Russell 2000 Value	10.02	65.06	(5.71)	2.75
S&P 500 Sector Performance				
	3 Months	1 Year	3 Years	5 Years
Energy	0.64	29.59	(0.51)	6.96
Materials	2.87	55.65	(3.24)	3.50
Industrials	13.00	72.86	(2.97)	1.64
Con. Discretionary	10.41	69.28	(3.30)	1.24
Con. Staples	5.82	35.86	4.44	6.48
Health Care	3.38	34.04	0.24	3.17
Financials	11.98	83.47	(21.03)	(8.26)
Info Technology	1.82	58.08	3.50	5.38
Telecommunications	(4.33)	14.77	(8.25)	2.86
Utilities	(3.22)	21.37	(5.65)	4.33

Returns are annualized for periods greater than one year.

Motoring Along: Despite questions of sustainability, the recovery in the equity markets continued to motor along, albeit with a brief pause. In the near term, the equity markets appear to be settling into single digit returns coming off the blistering double digit rallies from the lows of last March. The S&P 500 increased 5.3% for the quarter and most other equity indices increased in the mid to high single digit range. The shrinking or range bound risk premiums suggest that fundamentals are coming into brighter focus as the recovery continues (expectations are for slow growth).

All cap ranges and styles rose again this quarter, marking the fourth consecutive quarter of positive returns. Small/ Mid Cap regained the lead by outperforming Large Cap, which had outperformed during the fourth quarter of 2009. Shifting again from last quarter, Value was the preferred style across all market capitalizations.

Over the past year, Mid Cap/Small Cap outperformed Large Cap. Value overtook Growth. The difference was primarily due to significant index weighting to the rebounding Financial sector. Financials have benefited recently from reduced fear about the stability of the financial system and the health of its participants. From the lows in March 2009, Small/Mid Cap continues to outpace Large Cap - as has generally been the case in prior recovery periods.

Industrials was the strongest performing sector for the quarter. Inventory restocking and capital expenditure increases are the likely drivers of the performance in the sector. Financials once again reversed course, moving from the worst performer last quarter (the only sector with negative returns) to the second best performer this quarter. For the year, the Financials sector was by far the best performer. Earnings growth and subsiding fears about the health of the banking industry were the primary drivers for the outperformance in Financials.

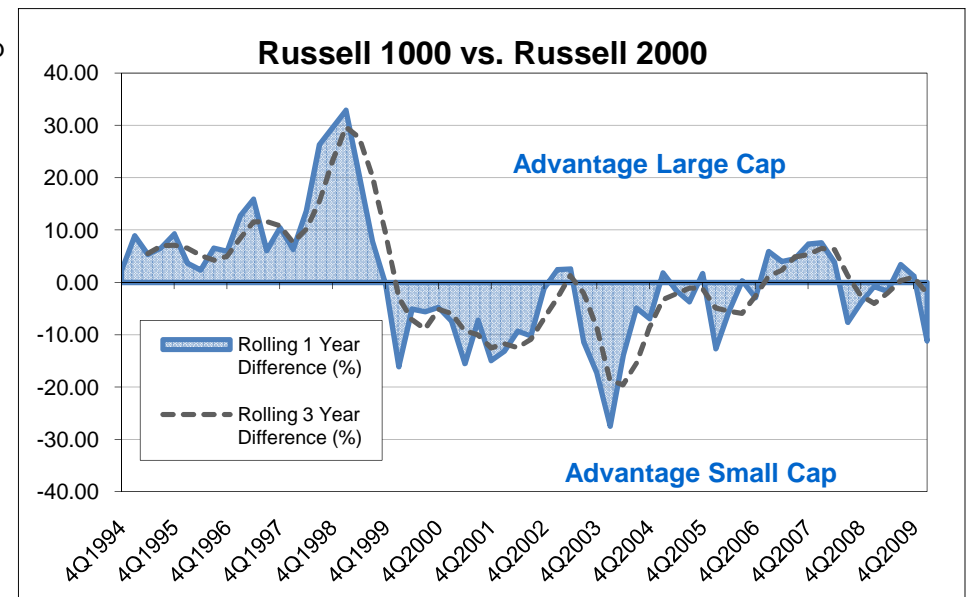
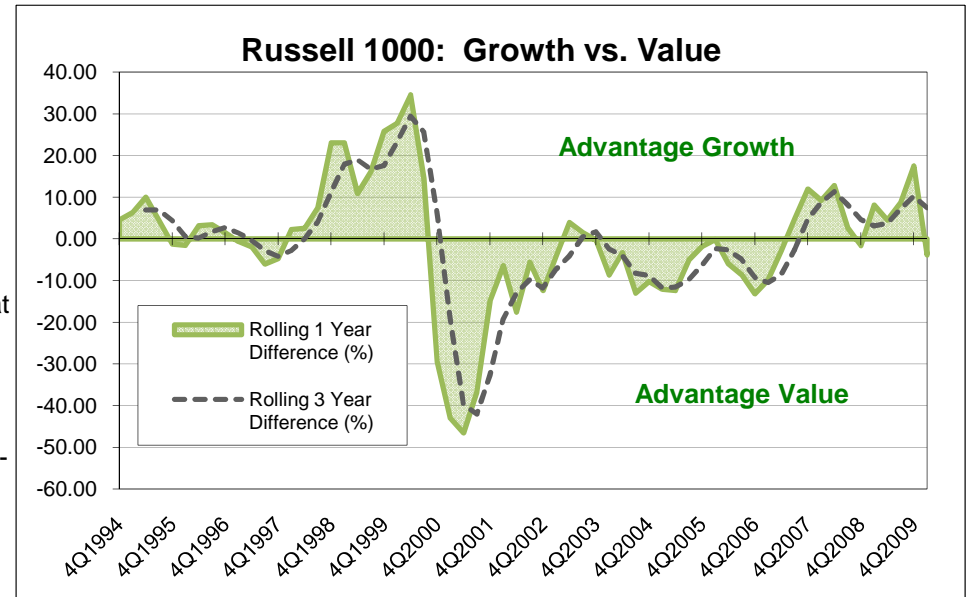
U.S. EQUITY MARKET

Flip Flop: In a reversal from last quarter Value overtook Growth and Small Cap beat out Large Cap. As the recession disappears in the rearview mirror and the market regains confidence, it is typical for Small Cap and Value to outperform Large Cap and Growth. Growth, however, still maintains an advantage over the past three and five year periods. With the single digit returns that have been exhibited over the last two quarters, the markets could be signaling their entrance into the mid cycle phase of the broad business cycle.

The cyclical sectors (Industrials, Consumer Discretionary, Financials) exhibited very positive returns for the quarter as fears about Greece somewhat subsided and business spending appeared to be showing some life. The quarter's performance was heavily influenced by the rebound in the Financials sector (Value). For the year ending March 2010, the continuing economic expansion and reduced fear of a double dip recession drove earnings growth and pushed Financials, and Value, to the front of the pack. In contrast the non-cyclical, defensive sectors (Telecom, Utilities, Healthcare) were weaker performers.

The Energy and Materials sectors (cyclical in nature) took a hit this quarter as China, India, and Australia looked to gradually put the brakes on their economies.

Going forward the performance expectations for Value and Growth, Small Cap and Large Cap will depend on the aggregate demand. Key factors influencing this demand include the unemployment rate/job growth, the reality of higher taxes, the retrenchment of federal stimulus, and the prospects for inflation and interest rate hikes.



U.S. FIXED INCOME MARKET

Clipping Coupons: With the yield curve holding steady during the quarter, fixed income returns were primarily generated by the interest component. This quarter, all segments of the fixed income market were positive.

Corporates benefited from a fourth consecutive quarter of narrowing spreads and easily outperformed the other core segments of the fixed income market. High yield was again the top performing segment as lower quality issues enjoyed the greatest contraction in spreads. Mortgage-backed securities (MBS) provided solid returns (between Credit and Government). TIPS underperformed this quarter after strong returns last year.

In the past two years the fixed income market has experienced two incredible swings - the flight to quality in 2008 and the rush to risk in 2009 and first quarter 2010. The magnitude of the reversal places the Barclays Credit Index above the Barclays Govt Index over all time periods in the table.

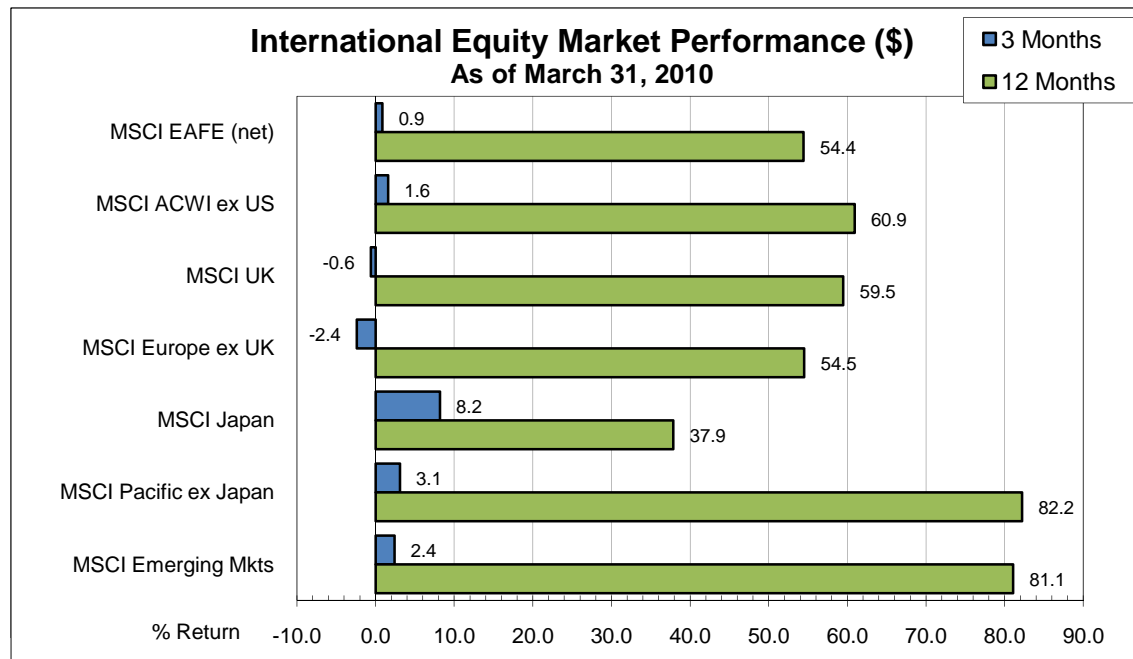
In the future, the fixed income market faces relatively low yields, spreads near longer-term averages, the withdrawal of the Government's intervention, and an increase in Treasury issuance. The market will also be influenced by the Federal Reserve's actions, as it manages the difficult task of balancing expansionary policies with inflation control.

Total Returns - Periods Ending March 31, 2010				
	3 Months	1 Year	3 Years	5 Years
Barclays Aggregate	1.78	7.70	6.14	5.44
Barclays Intm G/C	1.54	6.91	5.89	5.16
Barclays G/C	1.55	7.53	5.85	5.17
Barclays Govt	1.10	(0.13)	5.98	5.19
Barclays Credit	2.27	20.85	6.00	5.37
Barclays Mortgage	1.54	5.20	7.00	6.10
Barclays High Yield	4.62	56.18	6.65	7.78
Barclays U.S TIPS	0.56	6.18	6.01	4.84
Barclays 1-3 Yr Govt	0.72	1.82	4.79	4.38
Barclays Long Govt	0.97	(6.37)	5.70	5.23

Returns are annualized for periods greater than one year.

Credit Spreads (in basis points)				
	Dec-09	Mar-10	Change	10-Yr Avg.
Aaa	55	57	2	76
Aa	107	95	(12)	103
A	159	140	(19)	134
Baa	221	188	(33)	209
Ba	482	435	(47)	408
B	622	565	(58)	671
Caa	922	814	(109)	1277

INTERNATIONAL EQUITY MARKET



MSCI Country Indexes (Net) Three Months Ending March 31, 2010

	Return US\$ (%)	Return Local Currency (%)	Currency Effect (%)
France	-3.9	1.9	-5.8
Germany	-2.7	3.2	-5.9
Italy	-7.3	-1.7	-5.6
Spain	-15.3	-10.2	-5.1
Switzerland	4.0	5.9	-1.9
UK	-0.6	5.8	-6.4
Europe Total	-1.8	3.5	-5.3
Australia	4.2	2.1	2.1
Hong Kong	2.4	2.6	-0.1
Japan	8.2	8.6	-0.4
Pacific Total	6.3	5.9	0.3
China	-1.6	-1.4	-0.1
India	4.9	1.2	3.7
Brazil	-0.1	2.3	-2.4
Mexico	7.8	1.8	6.0
Emerging Total	2.4	1.4	1.0

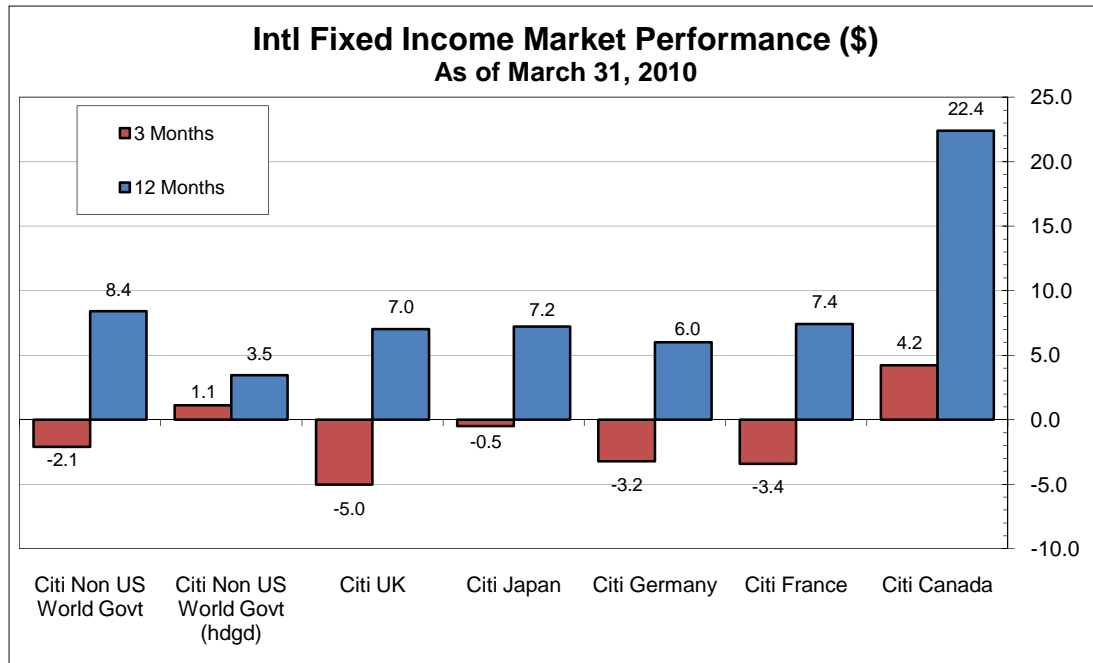
Mixed Bag: Returns around the globe were mixed for the quarter. The Pacific region posted the strongest returns, Europe finished second with slightly weaker results, and the Emerging Markets finished last. As was the case stateside, cyclical sectors led the way in foreign equity markets.

European markets stumbled a bit this quarter as concerns about Greece and bailouts were front and center. The concerns over spiraling deficits and cumulative debt spread to Spain, Italy and Portugal and caused the Euro to depreciate. As is the case in the U.S., European economies continue to be concerned with national debt levels and their potentially negative impact on future economic growth.

Asian markets had strong returns for the quarter led by Japan. Japan rebounded dramatically this quarter; the country posted strong economic results from the government's stimulus efforts and increased export activity to other Asian countries. The yen continues to be relatively strong but political uncertainty and deflationary concerns remain.

The Emerging Markets performance this quarter was less than stellar relative to previous quarters. China, in an effort to cool its economy amid concerns of asset bubbles, started to tighten their credit policies, causing a slight pullback in the equity market.

INTERNATIONAL BOND MARKET



Citigroup World Government Bond Indexes Three Months Ending March 31, 2010

	Return		
	Return US\$ (%)	Local Currency (%)	Currency Effect (%)
Austria	-2.4	3.5	-5.9
Belgium	-3.0	2.8	-5.9
Denmark	-2.6	3.3	-5.9
France	-3.4	2.4	-5.8
Germany	-3.2	2.6	-5.8
Ireland	-2.4	3.5	-5.9
Italy	-3.8	2.0	-5.8
Netherlands	-3.1	2.7	-5.8
Spain	-3.8	2.1	-5.8
Sweden	1.2	2.0	-0.8
Switzerland	-0.7	1.1	-1.8
UK	-5.0	1.1	-6.1
Europe Total	-3.6	2.2	-5.8
Japan	-0.5	-0.1	-0.4
Australia	2.7	0.6	2.1
Canada	4.2	0.9	3.4

Currency Dominates Performance: Fixed income markets around the world posted strong results in local terms. Encouraging economic data spurred additional contraction in spreads and corporate securities led the markets. However, a strengthening dollar offset these gains and caused U.S. investors to lose money in all but a few countries.

With inflation rates below target levels and economic activity showing modest improvements, the European Central Bank (ECB) maintained rates at 1% and curtailed liquidity programs. Greece again stole the headlines, the country appears unable to refinance maturing debt due to fiscal and credit issues and will need assistance from other European countries and the IMF. Greece was the only country in Europe to generate negative returns during the quarter in local terms.

In the United Kingdom inflation rose above their 3% limit. The Bank of England (BoE) continued with their current policies (0.5% rates and no changes to the Asset Purchase Plan), hoping prices will decline and the economy will improve in coming months.

In Japan, exports are improving, deflation continues to plague the country, and domestic spending seems reliant on the government's stimulus programs. The yield curve steepened slightly, creating minor losses in local terms.

The emerging markets offer relatively attractive fixed income opportunities. Fundamentally, these countries have lower debt levels and growing economies. The asset class is also benefiting from investors search for higher yields. The JP Morgan EMBI Global (\$ denominated debt) advanced 4.16% this quarter.

SELECTED INDEX RETURNS - PERIODS ENDING MARCH 31, 2010

	Quarter	One Year	Three Years	Five Years	Ten Years
US EQUITIES					
Dow Jones Industrial Average	4.8 %	46.9	(1.4)	3.4	2.3
Standard & Poors 500	5.4	49.8	(4.2)	1.9	(0.7)
Russell 3000	6.0	52.4	(4.0)	2.4	(0.1)
S&P MidCap 400	9.1	64.1	(0.8)	5.2	6.0
Russell Mid-Cap	8.7	67.7	(3.3)	4.2	4.8
S&P SmallCap 600	8.6	64.0	(3.2)	3.5	6.6
Russell 2000	8.9	62.8	(4.0)	3.4	3.7
Growth Stocks - Russell 3000 Growth	4.9	50.5	(0.9)	3.5	(4.0)
Value Stocks - Russell 3000 Value	7.1	54.4	(7.2)	1.2	3.5
US FIXED INCOME					
Barclays Aggregate	1.8 %	7.7	6.1	5.4	6.3
Barclays Intm Govt/Credit	1.5	6.9	5.9	5.2	5.9
Barclays Govt/Credit	1.6	7.5	5.9	5.2	6.2
Barclays Government	1.1	(0.1)	6.0	5.2	5.9
Barclays Credit	2.3	20.9	6.0	5.4	6.7
Barclays Mortgage	1.5	5.2	7.0	6.1	6.5
Barclays High Yield	4.6	56.2	6.7	7.8	7.5
Barclays U.S TIPS	0.6	6.2	6.0	4.8	7.3
Barclays 1-3 Yr Government	0.7	1.8	4.8	4.4	4.6
Barclays Long Government	1.0	(6.4)	5.7	5.2	7.0
INTERNATIONAL (Measured in US Dollars)					
MSCI EAFE (Net)	0.9 %	54.4	(7.0)	3.8	1.3
MSCI ACWI ex U.S. (Net)	1.6	60.9	(4.2)	6.1	2.8
MSCI Europe (Net)	(1.8)	56.1	(7.8)	3.5	1.8
MSCI Pacific (Net)	6.3	51.3	(5.5)	4.3	0.1
MSCI Emerging Markets (Net)	2.4	81.1	5.2	15.7	9.8
Citigroup Non-U.S. Govt Bond	(2.1)	8.4	7.5	4.7	6.5
REAL ESTATE					
NAREIT Index	9.6 %	98.9	(11.0)	2.5	11.0
NCREIF Property Index	0.8	(9.6)	(4.3)	4.2	
OTHER					
91-Day T-Bills	0.0 %	0.2	2.0	2.9	2.9
Consumer Price Index (percent change)	0.8	2.3	2.0	2.4	2.4
Producer Price Index (percent change)	1.5	6.1	3.1	3.2	2.7

Note: Returns for periods longer than 12 months are annualized.