Mendham Capital Management, LLC
Independent Firm

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THIRD QUARTER 2011 NEWSLETTER

Equities posted a strong finish this past week after languishing for most of Q2 on fears of economic weakness.

Review of Previous Quarters:

	12/31/10	03/31/11	06/30/2011	YTD Change as of 06/30/2011
S&P 500	1,257.64	1,325.83	1,320.64	+5.01%
Dow	11,577.51	12,319.73	12,414.34	+7.23%
NASDAQ Composite	2,652.87	2,781.07	2,773.52	+4.55%
MSCI EAFE	1,649.69	1,702.66	1,798.08	+9.00%
10-Year Treasury Note	3.29%	3.47%	3.17%	-12 basis points
3-Month T-Bill Rate	.13%	.096%	.02%	- 11 basis points
Price of Gold (COMEX)	1,422.00	1,433.50	1,501.70	+5.60%
Crude Oil (NYMEX)	91.40	106.65	94.71	+3.62%

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

- ***Treasury Bills*** *are certificates reflecting short-term (under one year) obligations of the U.S. government.*
- *The* ***S&P 500*** *is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S .stock market.*
- *The* ***NASDAQ*** *composite is an unmanaged index of securities traded on the NASDAQ system.*
- *The* ***Dow Jones Industrial Average*** *(DJIA) commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.*
- *The* ***MSCI Europe, Australasia and Far East Index*** *is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.*

The tragedy in Japan, fighting in Libya, and tornados and flooding in the Midwest dominated the airwaves throughout Q2. Beyond that, the political drama in Europe over Greek debt and in Washington over the debt ceiling created even more uncertainty.

The public, which has been quick to embrace any negatives, remains apathetic and underinvested in stocks. The rally at quarter's end may well have represented an unwinding of the tremendous negativity built up in preceding weeks.

In our view, many of the factors that have weighed on the market appear temporary in nature. Economic activity is already on the rise in Japan and the Midwest. Crude oil prices are back below $100 after approaching $115 earlier in Q2. The Greek debt drama has been pushed down the road. Finally, while there continues to be a great deal of gamesmanship and political theatre surrounding the debt ceiling debate, it is widely expected that a compromise will be reached. With the 2012 elections approaching, few on Wall Street believe that anyone in Washington has an appetite for the potential uncertainty of an actual default on US Treasury debt.

For all the reasons referenced above, it is likely the GDP growth will slow to 2.5% in 2011 after advancing 2.9% in 2010. It is anticipated that inflation will be a little higher this year but will largely be held in check by the lack of upward pressure on wages. Unemployment continues to hover around 9%, as job growth remains sluggish.

Interest rates remain near historic lows and may persist at modest levels given the sluggish pace of progress in the economy. A low rate environment calls for caution among fixed income investors; however, it is fair to say that attractive opportunities abound in the post crisis environment.

Municipals have experienced heightened volatility over the past 8 months as a host of analysts and observers have voiced negative sentiments about the creditworthiness of state and local issuers who are struggling to balance budgets in the aftermath of the financial crisis. While we must always be careful about managing credit risk, it is our opinion at MCM that the selloff has been overdone and attractive values are now available. Some of the best values appear in intermediate and longer maturities rated A and BBB. Said another way, municipal investors are being rewarded with higher yields if they are willing to accept some credit risk and extend maturities. Relative to taxable bonds, municipals seem quite inexpensive. Recently, federally tax-exempt 10-year municipals have actually been yielding more than taxable 10-year Treasuries!

We also believe that many corporate bonds are attractively priced relative to Treasuries. Once again, the fixed-income investor is being rewarded for accepting greater credit risk. Ironically, at the moment it would seem that the corporate sector has its house in order much more than the government sector, yet investors are garnering significantly better yields. If rates continue at low levels, higher coupon issues should produce more returns for bond investors. Beyond that, higher coupons should prove helpful once rates do begin to rise.

As we mentioned last quarter, it looks like 2011 will be a year of record profits for the S&P 500. Sales growth remains sluggish; however companies have demonstrated an ability to realize peak profit margins from the revenues they are achieving. Equity valuations appear reasonable given the high level of profits and the low level of interest rates. Given the modest yields available from cash and high quality bonds, the recent rally suggests that stocks may represent *the prettiest girl at the dance* in today's environment. Ultimately, just like the nervous teenage boy, we'll need more of the cautious investors on the sidelines to work up the nerve to approach the pretty girl if stocks are to move substantially higher.

We believe that high quality large cap companies are attractive in today's environment. Large caps have lagged behind small and mid caps in the recovery thus far. The relative stability of large caps is attractive in an uncertain environment. In particular, we look for companies with strong dividends, and the potential for dividend growth, to do well in an environment where investors are seeking income alternatives.

It has been said that investing is more about the management of risks than the management of returns. We believe this is especially true in today's environment. At MCM, it is our feeling that investors must accept some suitable level of risk if they are to invest in the more attractive opportunities available in the marketplace, such as equities and certain municipal and corporate bonds. It is our job to carefully manage risk for our clients. An investor can achieve little success today by avoiding risk entirely. The rates available on cash and cash 'alternatives' continue to hover just above zero. The moral of the story; *we must accept some risk if we are to participate in the sectors we find most attractive; it is not so much that risk should be avoided but rather that it be managed carefully.*

Among the tools we use for managing risk are: asset allocation across cash, bonds, equities and real estate/tangibles; regular portfolio rebalancing; trend analysis; trailing stop loss orders, and; an allocation to investments which provide a reliable income stream.

Raymond James Accolades

In May 2011, Raymond James was named the No. 1 full-service brokerage firm by *SmartMoney* magazine as part of its annual broker survey, noting stock picking as one of the reasons the firm earned its top ranking. In fact, Raymond James was one of only two in the full-service survey with model portfolios that beat the S&P 500 for the year.

Also, the Raymond James Equity Research Department has recently received quite a bit of recognition from several of the industry's top publications, including the *Financial Times*, *The Wall Street Journal* and *Forbes* magazine. We are proud of the accolades Raymond James continues to receive for its equity research. Just let us know if you would like to learn more about any of these honors.

MCM Philanthropy

We are thankful to be part of the greater Mendham community and proudly support quite a number of area charities and organizations.

A partial list is as follows:

The Morristown Community Theatre at Mayo Center for the Performing Arts – event sponsor. (The Go-Go's – great fun!)
Mendham High School Project Graduation
The Schiff Nature Preserve
Mendham Borough Library
The Rotary Club of the Mendhams
Mendham High School Competition Cheerleaders
Randolph Area Chamber of Commerce
Oratory Prep School of Summit
The Pastime Club of Mendham
Children's Day Nursery & Family Center of Passaic
The Susan B. Koman Foundation Rally for the Cure

Our practice has grown, and continues to grow, primarily through the friends and family of our existing clients. If you have a friend or family member who might like to learn more about our practice, please forward this link to our website so that they may learn a little more about us.

www.raymondjames.com/MendhamCapitalManagement

Thank you for your continued trust and support.

Sincerely,

William F. Burke, Jr.
Registered Principal/Investment Consultant
Raymond James Financial Services, Inc.

Hilary L. Larkin
Investment Consultant
Raymond James Financial Services, Inc.

Robert J. Burke
Investment Consultant
Raymond James Financial Services, Inc.

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Income from municipal bonds is not subject to federal income taxation; however, it may be subject to state and local taxes and, for certain investors, to the alternative minimum tax.

A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency. Ratings do not remove market risk. Insurance relates to the timely payment of principal and interest. Insurance does not guarantee market value or protect against fluctuations in bond prices. High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality.

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27 East Main Street, Mendham, New Jersey 07945 * Tel: 973-543-6670 * Fax: 973-543-6680
www.raymondjames.com/MendhamCapitalManagement