

The first half of 2009 saw some of the wildest swings in stock market history. Stocks began the year with a strong one-day rally, but soon commenced a tumble that lasted two seemingly endless months. By March 9th, the S&P 500 stock index was down 25% and trading at levels not seen since 1996. Then suddenly, as a remarkable homage to the difficulties of market timing, equities started rallying. Significantly, U.S. stocks posted the best quarter in more than a decade. The S&P 500 ended the second quarter up 15.93%, 36% above the March closing low. But the rally did not end with June. As we write this letter, the S&P 500 is up almost 45% since the March 9th bottom, and we have just concluded the best two week run for the Dow since 2000.

The bulk of this rally was based upon taking cataclysm off the table. Once it became clear that financial Armageddon had been avoided, and that the Great Depression II was unlikely, stocks began their march toward a new equilibrium. As market consensus shifted from “Depression” to “Recession”, stocks moved higher accordingly. When doomsday scenarios began to look far-fetched, investors’ appetite for risk returned. While stocks rebounded sharply from the March low, “safe havens” such as gold and the 10-year Treasury bond were essentially flat, and the long-term Treasury bond was down by over 10%.

There are many reasons to continue to be wary, but we are cautiously optimistic based on several fundamental tailwinds which could propel the market to higher levels. These include: the amount of cash on the sidelines, improving economic conditions, better than expected earnings, the healing of the credit markets, continued accommodative government monetary/fiscal stimulus and historically attractive valuations. Throughout the remainder of this letter we will discuss each of these potential catalysts in greater detail.

CASH ON THE SIDELINES

In March 2009, money market assets swelled to nearly half the total value of all U.S. stocks. Even though the market has rallied nearly 45%, this cash level is still at 40% Of total market capitalization, and much of this cash is languishing at interest rates near 0%. To put the current 40% money market figure in historical perspective, this level of cash remains much higher than the 27% peak seen during the 2000-2002 bear market, and is 2.5 times the historical average rate of 16%.

It is worth noting that the recent 10% reduction in cash on the sidelines (from 50% to 40% Of total stock market capitalization) contributed to a 45% increase in stock prices. In fact, during the 3-month period that ended in May 2009, the stock market rallied 26%, while assets in money market funds fell only 2.8%. This would indicate that a sizable number of investors didn’t fully participate in this vibrant rally and watched it from the sidelines. The cash stockpile remains so much larger than its historical norm that it would only take a small percentage of investors to reenter the equity market to provide a significant boost to stock prices.

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Keep in mind that these figures do not account for the vast sums currently allocated to bank deposit accounts, CD's, Treasury securities, bond funds and cash hidden under mattresses. Nor does this fully take into account the current oversized cash and bond positions of 401(k) accounts, pension plans, endowments and foundations that have not yet rebalanced to their mandated equity weightings. If these assets are considered, a clearer picture emerges of the staggering amount of dry powder that could spark future market gains.

ECONOMY

Although we continue to confront significant challenges amidst a slew of negative forecasts, the consensus view is that the worst is behind us. Some important economic indicators have gone from negative to neutral and in some cases have turned positive. Much has been made of these so-called "green shoots" pointing to early signs of recovery.

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Others have taken a more pessimistic view, but we would point out that most economic numbers are measures of where we have been, not where we are going. These backward-looking measures are called "lagging indicators". Unemployment is a classic lagging indicator and one that garners considerable media coverage. However, in each of the last 4 recessions, economic growth (GDP) turned positive well before unemployment began to improve. Thus, unemployment is likely to remain high well into the early stages of the economic recovery. If equity investors wait for unemployment to unambiguously improve before committing capital, they will likely be waiting well into the recovery and will have missed the first leg of the next bull market.

Investment decisions are best made by taking into account forward looking economic indicators which signal turning points in the economy. One such indicator is the Conference Board's Leading Economic Indicator Index ("LEI") which blends 10 distinct leading economic indicators into a composite measurement to help see emerging trends more easily. For instance, the S&P 500 is one of these ten leading indicators. As we have talked about on numerous occasions, the market typically recovers well in advance of an economic upswing.

The U.S. leading indicators index was up in April, May, and June by a total of 3.1%. In June, eight of the 10 indicators were either stabilizing or positive. It is the first time the index has climbed for three months in a row since 2004. This is significant because increases in the LEI for at least three months in a row are among the signals that determine the end of recessions. The LEI also rose 6.2% over the past six months through June, its best performance since the first quarter of 2006.

Over the last three months, the LEI has risen at a 12.8% annual rate. This index is now rising at a rate that has accurately indicated the end of all seven recessions since the index began to be compiled in 1959. As to time horizon, six of these seven recessions ended within two months of the indicator first showing a 12% annualized gain.

EARNINGS

Ultimately, earnings are the engine that drives stock prices. Heading into this earnings season, investors were worried that this quarter's numbers might be dismal, causing the market to struggle. However, the current

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earnings season has come in much stronger than last quarter and much better than expected. So far this quarter, 77% of S&P 500 companies reporting have beaten consensus forecasts and have done so by an average of 19% over the original estimate. In fact, this would be the highest percentage of companies beating the analysts' earnings estimates since 1993.

Additionally, so far this quarter, 9.5% of companies have raised their future earnings guidance while just 4.4% have lowered guidance. This gap of over 5% represents the widest gap in over five years.

CREDIT

Looking ahead, another potential catalyst for the stock market is improvement in the credit markets. Seismic disruptions in the credit markets were at the epicenter of the financial crisis, and it is safe to say that stocks cannot fully recover until credit markets have healed. Credit is the lifeblood of the economy. Without it,

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consumers cannot finance expenditures and businesses cannot fund working capital, purchase inventory, replace key equipment, or expand into new markets. Not only did bank loans dry up last year, but the commercial paper markets, which help fund day to day operations, also became distressed. Thus, when credit is not available, this can quickly cause the economic system to break down.

In the last few months, there are two very positive trends developing which indicate substantial improvement in this sector. The first positive trend is the increased availability of credit to corporations via the bond market. During the first six months of this year, investment-grade corporate bond issuances reached nearly half a trillion dollars. By comparison, this number was a mere \$150 billion during the final six months of 2008. The second positive trend is the dramatic decrease in the cost of this capital. Historically, corporations with investment-grade credit ratings paid interest rates roughly 1.5% higher than the interest rates paid on comparable maturity Treasury notes in order to attract investors. This number skyrocketed to 6% above Treasuries at the peak of the crisis. Meanwhile, the rate of interest on bonds below investment-grade exceeded 20%. At these rates, the bond market ground to a halt and access to much needed capital was essentially closed to most businesses.

However, beginning in March, investors' appetite for risk began to return, and the economy started showing signs of improvement. As a result, the interest rates on investment-grade corporate bonds have now fallen to just 2% over the rate on Treasury notes, a dramatic improvement, and a figure within 0.50% of long run averages.

When rates fall, businesses can invest in new projects to help grow top-line revenue and also become more profitable. This is because as a company pays less interest to its bondholders, more profits accrue to the bottom line, and this can help fuel an earnings-driven increase in the stock price. Clearly a symbiotic relationship exists between stock and bond markets, and as the fundamentals of each improve individually, they also help stabilize and reinforce each other.

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GOVERNMENT MONETARY/FISCAL STIMULUS

The government continues to throw all of its firepower at the economy. Accommodative monetary policy has reduced short term interest rates to nearly zero and the Fed has committed to keeping rates at these levels until there are clear signs of economic recovery. This is key to keeping rates on consumer and business loans at a level that will enable the resumption of economic growth. In addition, banks can borrow at these low rates and lend at profitable margins. This will facilitate the strengthening of our financial institutions. Their sins of the past notwithstanding, for our economy to ultimately recover, our financial institutions must be able to function effectively (and prudently).

As to fiscal stimulus, while some have condemned the government's efforts as ineffective, it's probably more accurate to criticize it as being tardy (and bureaucratic and overwrought and full of pork...). In fact, most of the money has yet to be spent. This delay could have been a serious problem if the economy continued to deteriorate, but now it sets up as a stabilizing force in 2010 when most projects are scheduled to begin.

As an aside, many people are concerned about inflation in light of the stimulus money flowing into the system. In truth, many of the government programs we detailed last quarter, such as TALF and PPIP, have only been minimally implemented. For this reason, many estimates of government support have been far overstated, as commonly cited statistics include money earmarked for such programs, rather than how much has actually been deployed. Although we acknowledge there will be some inflationary pressures, we think these are exaggerated given the fact that only a portion of the oft quoted \$10+ trillion designated for programs has been, or likely ever will be, actually disbursed. For example, of the \$2 trillion earmarked for TALF and PPIP, only \$22 billion (1%) has been spent. Additionally, some money has actually been returned to the government coffers as a large number of firms have already repaid their TARP loans.

VALUATIONS

The only thing more contentious than a discussion of politics at a cocktail party is a discourse as to whether the market is over, under, or fairly valued. Not wanting to be outdone, we are going to weigh in with our opinion. Under. The S&P 500 is currently trading at 13 times next year's estimated profits versus a 50-year average of over 16 times. This is a discount of 20%. Some people prefer to look at "normalized" P/E ratios, as they tend to capture the impact of a full business cycle. The market is currently selling at 16.7 times trailing 5-year average annual ("normalized") earnings. Over the last 20 years, this figure has averaged 24.9 times normalized 5-year earnings. This is a 33% discount to its long term average valuation. It is worth noting in the never-ending large cap versus small cap debate, that the S&P 500 is currently selling at a 20% discount on a P/E basis to its small cap brethren.

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LONG RUN PERSPECTIVE

There is no doubt that this bear market has proven to be one of the most painful of the last century. The confidence of investors towards equities has been understandably shaken. In fact, equity returns over the last 10 years have been amongst the worst 10 year returns for equities in the history of the U.S. stock market. Yet we think it is important to point out that no period of 10 year negative returns has been followed by a subsequent 10 year period with negative returns. This is the power of mean reversion. Over time, the market

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trends towards its long-term average return of nearly 10%. Despite this vicious bear market, equities as an asset class have far outpaced any other over the last century. This is why it is vitally important for investors to keep the recent period in the proper long run perspective.

We recently came across a study using Ibbotson data which analyzed asset class returns beginning in 1926. This study compared stocks to long-term corporate bonds, long-term government bonds, intermediate government bonds, treasury bills and inflation. Stocks outperformed all other asset classes almost 2/3's of the time, or 52 out of the 83 years. Despite the fact that they are considered "less risky", long-term government bonds had negative returns 21 out of 83 years, which was only slightly less than the equity number of 24 out of 83 years.

An initial sum of \$1,000 invested in U.S. equities in 1900 grew, with dividends reinvested, at an annualized rate of 9.2% per year to become \$14,276,000 by the end of 2008. Such is the miracle of compound interest. However, in the real world, investors must contend with inflation. Since consumer prices have risen by a factor of 25 over this period, it is more helpful to compare inflation-adjusted returns. With inflation subtracted, the initial \$1,000 investment above would have grown to \$582,000 in purchasing power. The corresponding amount for long-term government bonds would have been \$10,000 and for short-term government bills \$3,000. These correspond to annualized inflation adjusted returns of 6% on equities, 2% on long-term bonds and 1% on short-term bonds.

We understand that it is sometimes difficult to see the long-term when you are suffering through the short-term. Unfortunately, in order to garner the superior long-run returns that stocks offer, equity investors must endure periods of extreme volatility which can be brutal.

SUMMARY

The catalysts that we noted above all provide potential tailwinds for a continued stock market advance. But they are only potential. The market does not go up in a straight line. Nor will this recovery be without its fits and starts. While the economic situation is hardly rosy, and there is much work to be done, the fact is that for the last several months now, the economy and earnings have largely been better than expected. If the market is efficient and has current events priced in, upside surprises should result in higher prices, just as the negative surprises of last autumn resulted in the free fall. Given the amount of cash on the sidelines, the improving economic conditions, better than expected earnings, the healing of the credit markets, continued accommodative government monetary/fiscal stimulus and historically attractive valuations, we feel there are plenty of empirical reasons to be cautiously optimistic. While we don't think the journey toward economic recovery and higher stock prices will be without obstacles, and we expect bumps in the road, the current backdrop remains supportive of cautious optimism.

The sentiments that we have expressed in this letter were recently voiced by Warren Buffett in an interview on CNBC:

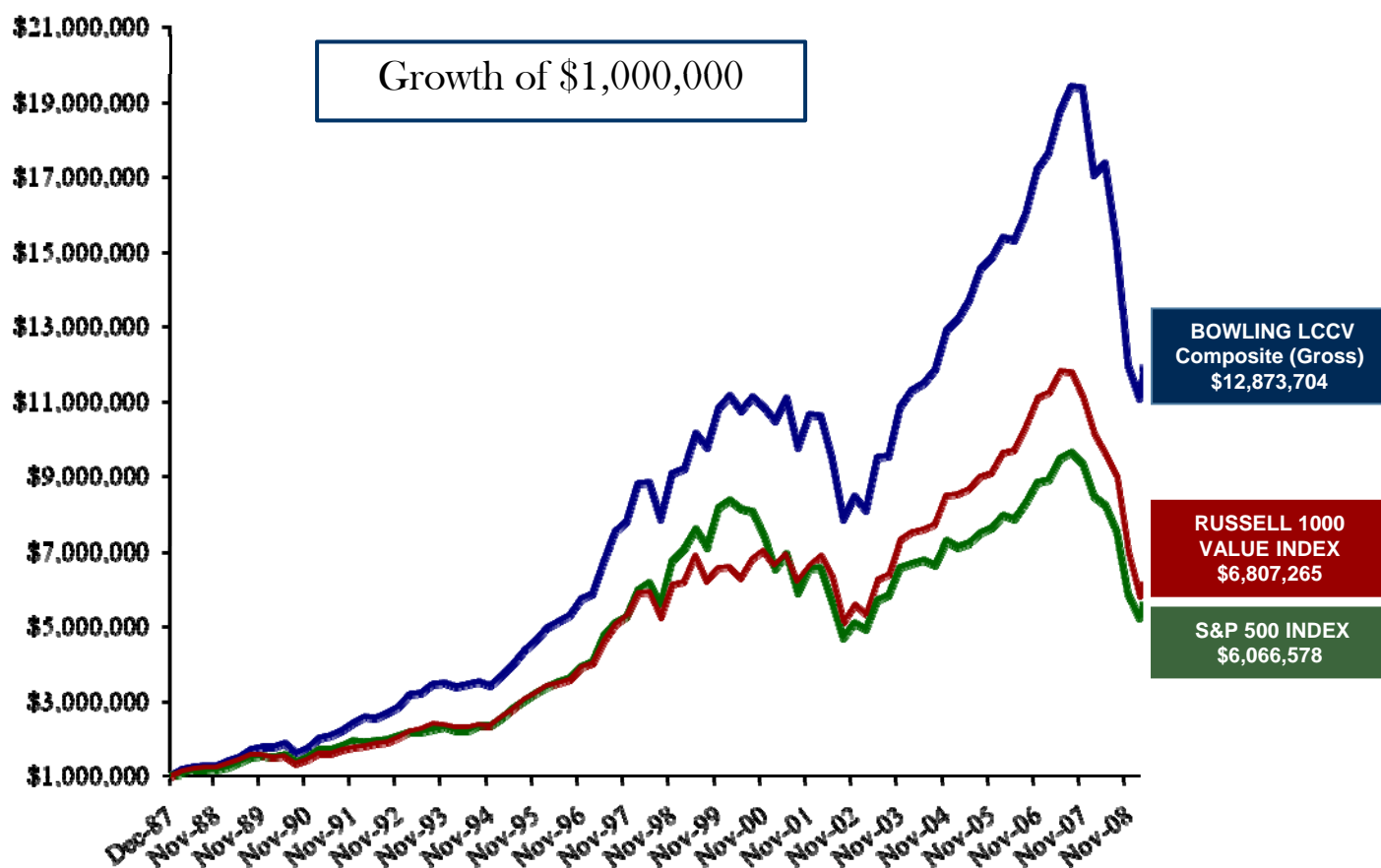
"If you wait until you see robins, spring will be over. You can't wait for business to turn up and be very clear about the fact it's turned up. You'll probably only figure it out three or four months later anyway. But the market is very, very likely to turn up before business. But I don't try and time stocks. I try to price stocks...people who think they can pick the market day-by-day are probably making a mistake..."

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“...In terms of the debt question, we came out of World War II with the national debt at 120 percent of GDP and there were all kinds of dire forecasts. This country works over time. We are in a movie that’s kind of an unpleasant movie and we haven’t seen this movie before and I can’t tell you how long it’s going to last. But I can tell you it has a happy ending. This country works. And we make mistakes along the way, but they get addressed eventually. So I’m not worried about the long-term future at all.”

We would like to point out that we have included an exhibit titled “Excess Annualized Return Over Benchmarks.” This exhibit illustrates the difference (“excess return”) between the return of Bowling’s Large Cap Core/Value composite and that of the S&P 500 and the Russell 1000 Value indices. We think it is worth noting, and it is certainly something we are very proud of, that Bowling has added meaningful value over the S&P 500 and the Russell 1000 Value over all measured time periods. We are very pleased that we have been able to add value on behalf of our clients, which in the end is our mandate.

Growth of \$1,000,000 from Inception 01/01/88 through 06/30/09



Data as of 06/30/09.

* See last page for disclosure information.

*For Use Only in One-On-One Presentations

Excess Cumulative Gross Returns Over Benchmarks

Large Cap Core\Value Strategy



	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Large Cap Core\Value vs. S&P 500	6.69%	22.70%	29.00%	47.11%	100.56%	401.31%

	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Large Cap Core\Value vs. Russell1000 Value	13.74%	22.16%	27.93%	28.44%	78.31%	370.81%

Data as of 06/30/09.

* See last page for disclosure information.

**BOWLING PORTFOLIO MANAGEMENT LLC
LARGE CAP CORE VALUE COMPOSITE
ANNUAL DISCLOSURE PRESENTATION**

Year	Gross Of Fee Return	Net Of Fee Return	S&P 500 Index	Number of Portfolios	Annual Composite Dispersion	Composite Assets End of Period (\$Millions)	Percent of Firm Assets
1999	19.09	17.63	21.04	544	5.05	286.4	78.7
2000	0.44	-0.75	-9.11	589	5.38	313.9	83.4
2001	-1.99	-3.13	-11.91	610	3.46	314.0	82.3
2002	-20.37	-21.28	-22.07	458	1.89	183.7	66.5
2003	27.83	26.54	28.68	343	1.38	202.9	66.1
2004	19.05	17.85	10.88	398	1.37	233.4	75.6
2005	15.01	13.88	4.91	472	1.14	311.1	78.1
2006	15.85	14.79	15.80	541	1.12	392.3	75.0
2007	12.72	11.71	5.49	613	1.20	460.7	75.7
2008	-38.36	-38.95	-37.00	528	1.08	242.0	65.4

Cumulative * 1,095.24% 830.27% 488.18%

Annualized * 12.54% 11.21% 8.80%

* Cumulative and annualized performance is calculated since inception (01/01/88) through 12/31/08.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

Bowling Portfolio Management LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

- Bowling Portfolio Management LLC ("Firm") is an investment management firm serving both tax-exempt and taxable clients, offering a variety of investment management strategies. The Firm is an SEC-registered investment adviser and is dedicated to the practice of professional investment management. Bowling Portfolio Management, Inc. was founded in 1982 and began managing equity accounts January 1, 1988. Effective July 1, 2001, Bowling Portfolio Management, Inc., became Bowling Portfolio Management, an independently operated division of The Renaissance Group LLC ("Renaissance"). Effective December 31, 2004, Bowling became a stand-alone entity and was no longer a division of Renaissance. The composite of Large Cap Core Value portfolios was created July 1, 1994.
- The Large Cap Core Value Composite includes the portfolios of all clients, whether taxable or tax-exempt, for which the Firm has full discretionary authority to manage in a diversified portfolio of large cap equities. Portfolios below \$50,000 are excluded from the composite.
- Performance results are calculated both gross and net of management fees. Gross returns include the reinvestment of income and are gross of the firm's management fees; they are reduced by transaction costs and administration fees. Net returns reflect the deduction of all fees and transactions costs. Beginning January 1, 2004 the composite contained bundled fee accounts which pay a fee based on a percentage of assets. This fee solely includes brokerage commissions. The percentage of composite market value of these bundled fee accounts at the end of each period is as follows: 2004: 19%, 2005: 8%, 2006: 2%, 2007: 2%, 2008: 2%. Beginning July 1, 2009, all fully discretionary, large cap equity accounts participating in a wrap or bundled fee program were removed from the composite. Additional information regarding policies for calculating and reporting returns is available upon request. The fee schedule is as follows: 2% of the first \$500,000, 1% of the amount above \$500,000, and a flat 1% on all accounts above \$1,000,000. Varying terms may be negotiated. Performance is expressed in U.S. Dollars. After-tax results will vary from the returns presented here for those portfolios that are subject to taxation.
- Annual composite dispersion is calculated using the asset-weighted standard deviation of gross results for those accounts in the composite for the entire year.
- The benchmark for the Firm's Large Cap Core Value Strategy is the Standard & Poor's 500 Index which is an asset-weighted index of large U.S. based companies that includes income but does not have any expenses. Prior to September 30, 2005, presentations included the Standard & Poor's 500/Barra Value and the Standard and Poor's 500 indices. The Standard & Poor's 500/Barra Value is no longer included in the presentation as the index is no longer available.
- A complete list and description of the Firm's composites is available upon request. From January 1, 2005 through January 1, 2008, the composite was named the Large Cap Equity Composite. Prior to January 1, 2005, the composite was named the Large Cap Value Composite.
- The Firm's compliance with the GIPS standards has been verified for the period January 1, 2006 through June 30, 2009 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte & Touche, LLP. In addition, a performance examination was conducted on the Large Cap Core Value Composite for the period January 1, 2006 through June 30, 2009 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte and Touche, LLP.
- For all periods presented, the composite contains non-fee paying accounts. The percentage of composite market value of these non-fee paying accounts is less than 1% at the end of each period listed, 1999 through 2008.