BOWLING
PORTFOLIO MANAGEMENT LLC

The first quarter of 2010 was another strong one for U.S. stocks. The S&P 500 extended its bull market rally, posting a gain of 5.4%. Over the last year, the S&P has now gained 50% and is up an incredible 77% from its March 2009 low. The question on every investor's mind is, "Will the market's next move be up or down?" Our short, tongue-in-cheek answer is, "Yes." We say that half-jokingly because as we've discussed in past letters, no investor can accurately predict the market's next move with any degree of certainty. However, what we can do is analyze how past bull market rallies behaved in their second year of recovery and beyond. Based on the evidence, it looks like the current bull market could still have plenty of good days ahead of it.

THE BULL MARKET MILESTONE

Before we begin, we should note that we are defining "bull" markets as at least a 20% rally that was preceded by at least a 20% decline. With that said, the current bull market recently reached a very important milestone in March 2010 – its first birthday! This is significant because bull markets that pass the one year mark almost always last two years or more. In fact, this has been the case every time in the 10 complete bull markets since 1947. So how much further can this market go? One way to look at this is by analyzing the 25 bull markets since the Great Depression that eclipsed the one year mark. Those bull markets averaged a gain of 152% and lasted an average of 4.4 years. In this context, the current 77% one-year rally seems tame by comparison and gives us reason to believe the rally can go both higher and longer.

However, we always caution investors that markets do not progress in straight lines. Markets will go up and down - hence our answer above! But, by accepting this inherent volatility, investors are also rewarded with the opportunity to earn outsized returns. In fact, since 1928, the S&P 500 has generated an average return of more than 9% per year, including dividends. On the other hand, it should be noted that along the way, it has also averaged pullbacks of 5% nearly four times per year, 10% roughly once a year, and 20% (generally considered a bear market) about once every three years. For long-term investors, these pullbacks create opportunities to increase holdings at more attractive prices.

Based on current conditions, we have many reasons to be optimistic. Bull market endings and bear market beginnings are usually associated with problems such as high stock market valuations, excessively tight monetary policy, problematic inflation or overly bullish market sentiment. In our view, none of these conditions are in place today.

To the contrary, we are encouraged by the level of economic activity, simulative fiscal and monetary policies, loosening credit conditions, better-than-expected corporate earnings, muted inflation and reasonable valuations. All these criteria are supportive of a continuation of the current economic recovery and will hopefully continue to propel this bull market forward.

We are not alone in this view. Earlier this month, Robert Hall, who is in charge of dating recessions for the National Bureau of Economic Research (the official arbiter of such things), made headlines saying it was "pretty clear" that the recession is over.

ECONOMY

Here are a few additional data points we are watching that support Robert Hall's statement:

- The Leading Economic Indicators ("LEI") Index increased again in April, marking the 12th straight monthly gain. At its current level, the LEI now stands at its highest point since 2004. In addition, LEI for the developed world expanded at its fastest rate in more than three decades during the first quarter, providing further confirmation that the global economy is on the road to recovery.
- Consumer spending grew on a year-over-year basis during Q4 2009 for the first time in six quarters. This was reflected in retail sales, which increased by 9.1% in March, marking the 7th consecutive month of growth.
- Home prices rose modestly on a seasonally-adjusted basis for an 8th consecutive month while new home sales surged the most since 1963.
- According to the Commerce Department, exports swelled in the first two months of the year by nearly 15% compared with a year earlier.
- In March, the U.S. Institute for Supply Management ("ISM") manufacturing index hit 59.6, the highest reading for the survey since July 2004. The ISM non-manufacturing index (service sector) registered a level of 55.4, the highest reading in this index since May 2006. The combined level of both indexes at 115 is at its highest since November 2005.

INTEREST RATES & INFLATION

Thus far, there are still no obvious signs of inflationary pressures and interest rates remain low. Consider the following points:

- The Fed has assured market participants that short-term interest rates will remain at exceptionally low levels for an extended period. This has helped create a "steep" yield curve, meaning that a large difference exists between long-term rates (measured by the 10-year Treasury) and short-term rates (measured by the 3-month T-bill). Steep yield curves have historically preceded economic recoveries since long-term interest rates generally rise in anticipation of a strengthening economy.
- A steep yield curve is also good for the banking sector because it allows banks to rebuild their capital levels by earning high profit margins. Because banks can borrow at low short-term rates and lend at higher long-term rates, a steep yield curve can drive profits and help repair damaged balance sheets.
- Core inflation (excluding volatile food and energy prices) for the 12-months ending March 2010 was running at just 1.1%. Even the more volatile measure of inflation (which includes food and energy) was only slightly above 2%. This is well below the long-run average of 3% since 1926.
- Inflation expectations are quite low as well. Investors in Treasury Inflation-Protected Securities (TIPS) are pricing in an expected inflation rate of just 2.24% annually over the next ten years.

EARNINGS & VALUATIONS

Earnings will always be the primary driver of stock prices, and companies are continuing to beat expectations. During the last earnings season in January, 71% of companies in the S&P 500 beat expectations. More significantly, 70% beat revenue expectations, and for the first time since the 3rd quarter of 2008, year-over-year sales growth was positive. This is significant because while much of the earnings growth in 2009 came from cost-cutting, revenue improvements are indicative of sustainable growth. The net result is that companies will benefit from both lower cost structures and expanding revenues.

Meanwhile, results thus far for the April earnings season point to continued strength. First quarter sales are expected to expand by 9%, while earnings are expected to increase by 33% from a year earlier. So far, companies are exceeding these expectations. In the current quarter, 173 companies of the S&P 500 index have reported, and of these, 80% have beaten analyst's consensus expectations. If this pace continues, it would set a new record for earnings "beats" for the third time in 4 quarters. The magnitude of these surprises has been equally impressive, averaging 21% more than estimates.

Earnings are inextricably linked to valuations through the P/E ratio, which is a quick way to gauge how much you have to pay for each $1 of a company's earnings. Currently, the S&P 500 forward P/E is 14.1x. That compares favorably with an average multiple of approximately 17x over the last 60 years. To put this in perspective, this is lower than any time since 1990, except for the months after the collapse of Lehman Brothers. After reaching this identical valuation of 14.1x in November 1990, the S&P went on to rally 92% in the following five years.

Today's low interest rates and inflation rates might even justify a higher P/E ratio. For example, historically when inflation rates are below 2% (as they are now), stocks had an average P/E ratio of 22x. If P/E ratios start expanding above their current levels, this could send stocks higher.

FUND FLOWS & CORPORATE CASH

Two other areas which are supportive of future stock market gains are mutual fund flows and historically high levels of cash on corporate balance sheets. Bull markets typically end when investors are euphorically buying stocks without regard for risk. Currently, investor behavior towards equities can hardly be classified as exuberant. Since the market bottom in March 2009, and despite a nearly 80% rally in the S&P 500, investors have invested 16 times as much money into bond funds as they have into stock funds - $369 billion for bonds versus $23 billion for stocks. This hardly qualifies as a stampede into equities.

Another group that has been equally cautious is corporations. S&P 500 companies are sitting on $1.05 trillion in cash ($3.2 trillion including banks), or 11% of total corporate assets. This is the highest level since 1955 and well above the average of 8% over the last 60 years. With free cash flow accumulating at an annual rate of nearly a trillion dollars, the balance is rapidly growing. As economic conditions improve, corporations with large cash positions will be more likely to make acquisitions, buy back stock, and raise dividends. These would all be welcome developments for investors. Some of these funds will also likely be used for capital investment or hiring more workers, which could both provide a boost to the economy as a whole.

THE "LOST DECADE"

Before bringing this letter to a close, we wanted to reiterate a point that we've touched on before, but warrants mentioning again. While the last two years have demonstrated the short-term volatility of stocks, we believe the next ten years will demonstrate the long-term value of stocks. Much has been made in the media about the last ten years being a "lost decade" for equity investors. And for many investors it was, as the S&P fell by more than 5% over the last ten years.

Fortunately, investors in Bowling Portfolio Management's Large Cap Core Value strategy saw positive returns of 29.99% after all fees and expenses during this same period. We are pleased to have been able to

provide positive returns on behalf of our clients during a period where the market returns were negative.

By looking at the past decade's disappointing results, some investors are making the mistake of assuming the next decade's returns will be similarly bleak. However, this is the wrong conclusion based on historical precedent. Let us explain. First, it helps to understand how rare it is for stocks to have a negative 10-year return. Since 1926, stocks have had positive returns over 10-year periods 96% of the time. And, even in their worst decade, the magnitude of the cumulative loss was just 5%. In contrast, the average annualized return of the stock market since 1926 has been 9.8%.

As we indicated above, decades with negative returns are extremely rare, and as you might imagine, are extremely unlikely to occur twice in a row. In fact, in over 80 years of stock market history, rolling 10-year periods of negative returns have always been followed by positive returns over the next 5 and 10-year periods. There has never been a single exception. Never. We strongly believe that mean reversion, like death and taxes, has not been repealed.

In fact, stock market history shows that ten-year periods of negative performance have always been followed by periods of above-average returns. For instance, after the worst ten-year periods in the last century (the 1930s and 1970s), the market rose 9% and 15%, respectively, on an annual basis over the next decade. The following chart illustrates the performance of stocks during the 5 and 10-year periods following a decade in which returns were negative.

Periods Following "Lost Decades"		
	Next 5 Year Cumulative Return	Next 10 Year Cumulative Return
Best	131.50%	300.01%
Worst	17.91%	101.55%
Average	57.42%	155.63%

As you can see, investing in periods following "Lost Decades" has generally been an attractive period of returns. This is just one of the many reasons we believe in the long term value proposition of stocks. During the past 84 years, all major U.S. asset classes have outpaced inflation, but the magnitude of the outperformance varied considerably. An investor who placed $1,000 dollars into the U.S. stock market in 1926 would have seen that grow to $2,571,000 as of March 31, 2010. By comparison, this would have only produced $120,000 from long-term corporate bonds, $87,000 from long-term Treasury bonds or $21,000 if invested in 1-month T-bills.

We've never tried to time the market or guess its next move. This is why we tend to equivocate when asked whether "the market's next move will be up or down?" Because we are believers in equities as an asset class and their long-term track record, we are much more comfortable answering the question "Will the market be up or down over the next decade?" And to that inquiry, we can confidently exclaim that we believe the answer is "Up."

Excess Annualized Gross Returns Over Benchmarks
Bowling Portfolio's Large Cap Core/Value Strategy

	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Bowling Portfolio's Large Cap Core/Value vs. S&P 500	1.08%	2.10%	3.46%	4.36%	2.52%	3.03%

	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Bowling Portfolio's Large Cap Core/Value vs. Russell 1000 Value	4.24%	2.97%	2.58%	0.60%	1.53%	2.33%

Data as of 03/31/10

Bowling's composite performance results for the Large Cap Core/Value Strategy include actual total returns for all non-wrap and fully discretionary accounts in this strategy above $50,000. These gross composite returns are calculated on an asset-weighted basis and include transaction costs and the reinvestment of dividends and income. The S&P 500 Index and the Russell 1000 Value Index are unmanaged asset-weighted indices of large U.S. based companies which include income but do not include expenses. Past performance is no guarantee of future results. For additional information, contact Bowling Portfolio Management LLC at 513-871-7776.

Annualized Gross Returns
Bowling Portfolio's Large Cap Core/Value Strategy

	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Bowling Portfolio's Large Cap Core/Value	-3.09%	4.02%	10.26%	3.70%	10.27%	11.69%
S&P 500	-4.17%	1.92%	6.80%	-0.65%	7.75%	8.66%
Russell 1000 Value	-7.33%	1.05%	7.68%	3.10%	8.74%	9.36%

Data as of 03/31/10

Bowling's composite performance results for the Large Cap Core/Value Strategy include actual total returns for all non-wrap and fully discretionary accounts in this strategy above $50,000. These gross composite returns are calculated on an asset-weighted basis and include transaction costs and the reinvestment of dividends and income. The S&P 500 Index and the Russell 1000 Value Index are unmanaged asset-weighted indices of large U.S. based companies which include income but do not include expenses. Past performance is no guarantee of future results. For additional information, contact Bowling Portfolio Management LLC at 513-871-7776.

Growth of $1,000,000 from Inception
01/01/88 through 03/31/10

$21,000,000
$19,000,000
$17,000,000
$15,000,000
$13,000,000
$11,000,000
$9,000,000
$7,000,000
$5,000,000
$3,000,000
$1,000,000

Jan-88 Jan-89 Jan-90 Jan-91 Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Mar- 10

BOWLING LCCV Composite (Gross) $ 16,077,908

RUSSELL 1000 VALUE INDEX $ 8,957,522

S&P 500 INDEX $ 7,837,810

*For Use Only in One-On-One Presentations

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*Bowling's composite performance results for the Large Cap Core Value Strategy include actual total returns for all non-wrap and fully discretionary accounts in this strategy above $50,000. Prior to 2002, the composite also included wrap accounts. These gross-of-fee composite returns are calculated on an asset-weighted basis and include transaction costs and the reinvestment of dividends and income. The S&P 500 and Russell 1000 Value are unmanaged asset-weighted indices of large U.S. based companies which includes income but do not include expenses. Past Performance is not a guarantee of future results. Bowling Portfolio Management LLC claims compliance with the Global Investment Performance Standards (GIPS). Performance is expressed in US Dollars. For additional information, contact Bowling Portfolio Management LLC at 513-871-7776.

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
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
2009	27.67	26.51	26.46	500	1.05	279.3	69.3
Cumulative *	1,426.00%	1076.77%	643.69%				
Annualized *	13.19%	11.86%	9.55%				

* Cumulative and annualized performance is calculated since inception (01/01/88) through 12/31/09.

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®).

1. 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.

2. 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.

3. 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.

4. Annual composite dispersion is calculated using the asset-weighted standard deviation of gross results for those accounts in the composite for the entire year.

5. 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.

6. 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.

7. The Firm’s compliance with the GIPS standards has been verified for the period January 1, 2006 through December 31, 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 December 31, 2009 by Ashland Partners & Company LLP and for the period January 1, 1988 through December 31, 2005 by Deloitte and Touche, LLP.

8. 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, 2000 through 2009.