CENTURION Asset Management

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July 2010, Mid-year review

In this month's Market Letter we will review the year-to-date figures for the markets and the economy, and touch on our view of active sector rotation strategies for investors.

Half-way through the year

Major Indices	Q2 2010	YTD 2010
S&P 500	-11.4%	-6.7%
MSCI EAFE (USD	-13.8%	-12.9%
MSCI Emerging Markets	-8.3%	-6.0%
Trade-weighted U.S. dollar	+4.2%	+4.2%

Performance shown in total return terms
Source: S&P, MSCI, JP Morgan

During the first quarter of the year we experienced some volatility in the markets, however there was greater momentum to the upside and by the time April 30th arrived the S&P 500 was up nearly 7%. Since then, the markets have struggled giving back all of those gains and more. Near the end of April the troubled governments of Europe impacted world markets creating a fear of default similar to 2008. Rating downgrades and upward deficit revisions caused growing risk aversion among investors. The developed markets were affected more than emerging markets, while the dollar strengthened against virtually all global currencies resulting in an exacerbated fall in international markets. Investment grade and low quality bonds that were good performers over the preceding twelve months turned ugly in May and June amidst the turmoil. The prospect for growth in the global economy came under question again, causing many strategists to lower their expectations for the commodities markets as well.

Considering the issues with Greece and Portugal's debt, the International Monetary Fund – an international organization that seeks to maintain stability in the global economy and supported by 185 member nations - handed out €250 billion in loans, while the European Central Bank extended its repurchase operations to make purchases of troubled assets (think TARP). Several other remedies were considered and implemented, all adding up to another episode of governments crafting new financing options to ease the pain of the overextension of credit.

Economic recovery does not progress in a straight line, there will be diversions and bumps along the way. From the market lows of March 9th 2009 through April 2010 there was only one meaningful correction (February 2010) of over 5% in the markets. Thus it was fairly easy to predict we would have a pause or retreat in the markets, however we could not place a finger on exactly what the catalyst would be. In this case it was mostly the negative assessment of the European financial crisis during April to June. The real test is whether all of factors will lead the global economy to a double dip.

Double-dip – A long-term macroeconomic trend characterized by a recession, a recovery, and then another recession.

The rash of disappointing economic figures from the U.S. has, at least temporarily, pushed the economic double-dip scenario to the top of the list of investors' concerns. But while expected rates of growth and earnings are being pared back, our view remains that levels of activity and profitability will continue to rise at a slow pace given the strong balance sheets of non-financial corporations and the cycle of capital expenditure, labor income and consumer spending already in evidence.

From our research we conclude that a double-dip will not occur due to a few factors. First, business inventories and expenditures remain very well managed. Second, infrastructure spending has begun to hit the system, and after-tax income has risen. Couple these factors with better moderation of personal spending and we conclude that while the recovery will not exponentially accelerate, we will have economic growth at a reasonable pace.

And while peripheral Europe will likely remain in a slump as fiscal policy is tightened aggressively, we do not expect the measures being taken by core European countries to tip them back into recession, especially as the European Central Bank and even the Bank of England maintain their emergency policy settings, or even consider further easing measures. Even in Japan, the central bank has taken new steps to reflate the domestic economy, introducing a ¥3 trillion Fund Provisioning Measure to provide companies with one-year loans via the banking system[1]**.** In short, economic recovery is already underway in the vast majority of the global economy; and while fiscal belts are being tightened in Europe and, to a lesser extent the U.S., the supportive role of monetary policy should serve as a crucial offset.

Sector Rotation – the overweight/underweight strategy of successful active investors

An active investor is one who attempts to stay on the right side of the market. Our role, as an active investment manager, is to seek opportunity and avoid peril for investors. It is not as simple as having capital in the market or out of the market, investing today and catching an upswing in the market, then selling and remaining out of the market tomorrow when it falls. Rather, an active management approach should hold separate investments in several sectors of the market, say Health Care, Energy, or Utilities, or market cap weighted investments such as large, medium, or small companies, and overweight or underweight their exposure to each of these investments depending upon the projections of growth for any of those sectors.

By using investments in each sector, the investor has accomplished two important goals: diversification, and control. The diversification you achieve is obvious, but the control that is gained is the key to investing success. Passive investors do not want the responsibility of making decisions, and choose to

allow the market, the economy, and other investors decide their fate. An active investing strategy is more in control of the situation, and with expertise in the financial markets they can preserve their investments along with assuring their growth.

The Business Cycle

Investors who want to outperform the market must have a strong understanding of the business cycle. The business cycle is the long-term pattern of changes in Gross Domestic Product (GDP) that follow four stages: expansion, prosperity, contraction, and recession. After a recessionary phase, the expansionary phase can start again.

During each phase of the cycle, certain industries and sectors outperform others. An investor needs to identify the most significant fundamental factors that influence each sector. For example, in financials, it may be monetary policy that is pushing the extension of credit by lowering the fed funds rate, or it could be the Health care sector where population and expansion of healthcare coverage are major drivers.

At CAM, we seek to understand the business cycle, and then identify which phase is upon us to help guide us where to look for opportunities. Forecasting the cycle is difficult, thus passive investors throw up their hands and do not put forth the effort to pull it all together. We view it differently, and believe, and have proven, that with our resources we can see which sectors are improving and which ones are falling back. This gives us an opportunity to anticipate where an investor should start to place capital and where they should start to close out positions.

Current Sector Weightings

As an example of overweighting and underweighting, here is how our Sustainable Dividend Portfolio is weighted at present compared to the S&P 500:

SECTOR	portfolio	weighting
Consumer Discretionary	**11.5%**	over
Consumer Staples	**13.5%**	over
Energy	**12.0%**	over
Finance	**11.0%**	under
Health Care	**14.5%**	over
Industrials	**12.0%**	over
Information Technology	**7.0%**	under
Materials	**2.0%**	under
Telecom Services	**2.0%**	under
Utilities	**5.5%**	over
Cash	**9.0%**	over
	100%	

If we are to assume that we are in the recovery phase of the business cycle, and we want to invest in the likely sectors to benefit from a pick-up in demand, fueling the need for greater supply, then we would likely have an overweight to the Consumer and the Industrial sectors. However, the portfolio appears to be offset by a strong position in cash (9%, which was 15% as of the end of June), which provides the ability to reinvest money at potentially lower prices if we are too early in the cycle for our projections, a bit of a foot on the brake approach.

According to industry research[2], 49% of a stock's movement is tied to its industry group and sector performance. Changes in the regulatory environment, technology, and the economy, all have an impact on the performance of a sector. Staying on top of these developments by utilizing an active portfolio management style may provide increased performance of your portfolio, and perhaps even shrink its volatility.

Considering the content of this month's Market Letter, you may have questions. If you would like to discuss your current investment plan, we encourage you to contact us. Please call 610-629-0660, or email us at PaulL@centurionassetmgt.com , to discuss your feedback or questions.

Sincerely,

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Past performance is no guarantee of future results. Indexes are unmanaged, do not incur fees or expenses and cannot be invested in directly. Investing in sectors may involve a greater degree of risk than investments with broader diversification. International investments are subject to additional risks such as currency fluctuations, political instability and the potential for illiquid markets. Investing in emerging markets can accentuate these risks.

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[1] JP Morgan Market Monitor, July 2010

[2] Investors Business Daily, June 17, 2010

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