



INVESTMENT MANAGEMENT UPDATE

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MARKET PERFORMANCE UPDATE

<u>Market Index Returns</u>	<u>1st Qtr</u>	<u>1-Year</u>	<u>5-Year</u>
S&P 500 Index	5.4%	49.8%	2.8%
Russell 2000 Small Cap	8.9%	62.8%	3.4%
Foreign Stock Index	2.0%	61.5%	6.1%
Aggregate Bond Index	1.8%	7.7%	5.4%
Municipal Bond Index	0.8%	7.6%	3.6%

EQUITY MARKETS

The First Quarter 2010 showed continuing signs of the economic recovery in the securities markets. Although the overall economy still struggles from high unemployment, the housing crisis, weak consumer demand and volumes of government debt, the stock and bond markets reflect an optimistic outlook. Over the past three months, the Dow rose 4.8% and the S&P 500 rose 5.4%. They're also back to levels not seen since September, 2008. However, they're still 25% below where they stood 2 ½ years ago in October, 2007.

In terms of valuation, Price/Earnings Ratios on stocks have also moved up significantly. The Value Line Investment Survey universe of 1,700 stocks features a median P/E of 17.9X. Compare that with the cheap P/E level of 10.3X at the bottom of the market a year ago. It's also much closer to the market peak P/E of 19.7X in mid-2007 and near the long-term average of 18.2X.

Corporate earnings and productivity have both been drivers and beneficiaries of this recovery. But that may not bode well for some segments of the economy and the labor markets. Many companies have discovered they can operate just fine using a smaller labor force and taking advantage of technology. That will constrain job growth, but should also make the U.S. more competitive with foreign companies and economies.

Overall, we continue to be optimistic about equity markets and a continuing recovery. But that outlook doesn't dictate our rather agnostic asset allocations and portfolio decisions.

FIXED INCOME MARKETS

Meanwhile, the bond market continues to offer wide disparities in market performance. Corporate & municipal bonds have further strengthened in price as the credit freeze continues to thaw. Plus, slightly rising Treasury rates reflect a growing demand for credit – a good sign for economic growth and activity.

The increase in Treasury rates over the quarter has been incremental, probably less than expected. 30-year and 5-year rates are about the same, 4.7% and 2.6%, respectively. The 10-year rate is now 3.9%, just above the 3.8% rate on January 1. Meanwhile, 90-day T-Bills have tripled, all the way up from 1/20th of 1% to 1/7th of 1% -- still virtually 0%! So the yield curve is still very steep, causing savers to be as yield-hungry as ever. There's also lots of cash on the sidelines, most of it earning virtually nothing.

The corporate, high yield, mortgage and municipal markets still offer more attractive values, but with more risk. Prices and liquidity continue to strengthen, but we believe many of these issues still don't fully reflect their underlying fundamental value based on collateral, cash flows, or both. Real estate, mortgage and energy bonds continue to undergo better market acceptance, some based on restructuring of troubled assets and some based on recognition of fundamentals. The recovery appears to be slow, but steady.

MUTUAL FUND & MODEL PORTFOLIO UPDATE

- **Mutual Fund Models.** In an effort to stave off the drag of low Money Market rates, we are shifting some cash balances into short-term bond funds. Other than that, we've made no fundamental changes in our fixed income & equity asset allocation models. All the models continue to perform solidly with every one beating its indexed benchmark during the 1st Quarter.
- **Portfolio Rebalancing.** In conjunction with our shift of cash to short-term bonds, we are rebalancing portfolios. This generally has the intended effect of harvesting gains in the better-performing domestic equity markets and reinvesting in foreign equity funds, which have lagged this year. Also, some gains were reallocated into PIMCO taxable bond funds and the Vanguard muni bond funds.

RE-CAP OF FEBRUARY 17 INVESTMENT SUMMIT

We had a great turnout for our 2nd Annual Investment Summit. Our guest speaker was Kent Gasaway, CEO and Portfolio Manager for the Buffalo Funds, a \$5 billion mutual fund manager. We have used their **Buffalo Small-Cap Fund** in our Model Portfolios since 2003. It has been an outstanding fund as you can see from the performance report on Page 2.

Kent is cautiously optimistic about economic and market trends, but emphasized that such forecasts don't dictate how they manage portfolios. They use a "bottom-up" strategy focused on intensely analyzing small companies, including meetings with their management, customers, suppliers and competitors. They also ignore "Wall Street" research. We like their style!

Trust Company Mutual Fund Model Performance					Market Index & Sector Performance				
Returns to March 31, 2010	1st Qtr	1-Year	3-Year	5-Year	Stock Market	1st Qtr	1-Year	3-Year	5-Year
Aggressive Growth	5.0%	49.7%	-3.7%	2.7%	S&P 500 Index	5.4%	49.8%	-4.2%	2.8%
Aggressive Growth / Tax-Ltd	4.6%	46.9%	-4.2%	N/A	Dow Jones Indus Avg	4.8%	46.9%	N/A	3.3%
Growth	4.6%	44.9%	-1.9%	3.3%	Russell 2000 Small Cap	8.9%	62.8%	N/A	3.4%
Growth / Tax-Limited	4.0%	40.3%	-2.5%	2.8%	Foreign Stock Index	2.0%	61.5%	N/A	6.1%
Balanced Growth	4.3%	40.8%	-0.4%	3.8%	Science & Tech Funds	2.7%	55.0%	N/A	3.8%
Balanced Growth / Tax-Ltd	3.4%	34.3%	-1.8%	2.8%	Bond Market Indexes				
Balanced Income	3.9%	34.1%	2.0%	4.6%	Govt / Corp 5-Year	2.4%	15.7%	4.8%	4.5%
Balanced Income / Tax-Ltd	2.7%	26.5%	0.1%	3.2%	Mortgage Bonds	2.0%	8.2%	5.4%	4.8%
Conservative Income	3.5%	29.1%	3.5%	5.0%	5-Year Muni Index	0.8%	7.6%	3.8%	3.6%
Conservative Income / Tax-Ltd	2.1%	21.0%	1.1%	N/A	T-Bill Index	0.0%	0.1%	1.7%	2.8%

Trust Company Fund Performance & Comparative Rankings (A = Best; E = Worst)

STOCK FUNDS	1st Qtr	1-Year	3-Year	5-Year	10-Year	Expense Ratio
<u>LARGE-CAP VALUE FUNDS</u>						
Dodge & Cox Stock Fund	6.7%	64.5% - A	-7.9% - D	0.6% - D	6.3%	0.5%
Goldman-Sachs Structured Lg Value - Inst'l	6.9%	48.1% - D	-10.2% - E	-0.9% - E	1.9%	0.6%
Mutual Beacon Fund - Z	5.3%	48.9% - C	-6.9% - D	2.0% - B	5.5%	0.8%
Vanguard Value Index- Inst'l	6.2%	52.2% - C	-6.8% - D	1.5% - B	2.0%	0.1%
<u>LARGE-CAP BLEND FUNDS</u>						
Davis New York Venture	4.0%	56.6% - A	-4.8% - D	2.2% - C	2.2%	0.6%
Mairs & Power Growth	7.9%	54.4% - C	-0.7% - A	3.2% - B	7.7%	0.7%
<u>LARGE-CAP GROWTH FUNDS</u>						
Growth Fund of America - F-2	4.3%	46.3% - C	-2.1% - D	4.2% - A	1.2%	0.5%
Vanguard Growth Index - Signal	4.9%	49.4% - B	-0.5% - B	3.4% - B	-2.6%	0.2%
<u>SMALL & MID-CAP FUNDS</u>						
Fidelity Low-Priced Stock	8.4%	63.6% - B	-1.1% - B	5.1% - B	11.5%	1.0%
Buffalo Small Cap	10.8%	53.8% - D	0.8% - A	5.7% - A	10.2%	1.0%
<u>FOREIGN & GLOBAL FUNDS</u>						
Capital World Growth & Income - F-2	0.2%	48.3% - D	-2.0% - B	6.2% - A	6.8%	0.6%
Templeton Institutional Foreign Equity	-0.6%	53.6% - C	-4.3% - A	5.7% - B	5.2%	0.8%
BOND FUNDS	1st Qtr	1-Year	3-Year	5-Year	10-Year	Expense Ratio
<u>TAXABLE FUNDS</u>						
PIMCO High Yield - Institutional	5.1%	50.8% - B	5.4% - A	6.8% - A	7.0%	0.6%
PIMCO Total Return - Institutional	3.0%	15.5% - C	9.6% - A	7.5% - A	7.7%	0.5%
Vanguard GNMA Fund - Admiral Shares	2.0%	5.4% - D	6.8% - B	5.9% - A	6.3%	0.1%
Vanguard Short-Term Inv Grade Admiral	2.0%	14.2% - B	5.0% - B	4.9% - A	5.1%	0.1%
<u>TAX-FREE FUNDS</u>						
Vanguard Ltd Term Tax Exempt-ADM	0.5%	4.3% - C	4.2% - B	3.8% - A	4.0%	0.1%
Vanguard Intermediate Tax-Exempt - Admiral	0.8%	7.9% - B	4.5% - A	4.4% - A	4.9%	0.1%
Vanguard High-Yield Tax-Exempt - Admiral	1.8%	16.1% - B	3.4% - B	4.2% - A	5.3%	0.1%

Explanatory Notes: This chart reports independent, comparative performance data and rankings assembled by the Investment Staff of The Trust Company of Manhattan. Sources for this information include: Morningstar, Lipper and the Wall Street Journal. The fund performance figures are provided by Morningstar and Lipper. The letter rankings or "grades" for 1-Year and 5-Year Performance are assigned by the Wall Street Journal. These rankings are based on the WSJ-assigned sector for the fund, which may not necessarily correspond to the fund's objective as defined by its own prospectus, or the sector to which we have assigned the fund within The Trust Company's Model Portfolios. However, we believe this format provides the fairest and most effective method of displaying fund performance comparisons.