NORTHWEST CRITERION
ASSET MANAGEMENT, LLC

34 Chambers Street, Princeton, NJ 08542 . 609-924-4488 . FAX 609-924-1155 . www.nwcriterion.com

May 11, 2010

Dear Client,

ACTIVITY

Over the past couple months we have rebalanced both the Equity Select (Mike's Picks) portfolios and the Mutual Fund Mix portfolios, and put some of the remaining cash to work in the markets. On March 24th we bought Chubb Corporation (CB) at $52.04 for the Equity portfolios. Chubb is a property and casualty insurance company with an excellent reputation for superior customer service and a disciplined pricing approach. For the Mutual Fund portfolios we bought the First Eagle Overseas Fund (SGOVX) at $19.87 on March 9th. The fund follows a value-investing approach in looking for global companies that tend to be in the small- to mid-cap size. We have also seen continued interest from the client base in our Dividend portfolio.

OBSERVATIONS

Lately the headlines have not only been grabbing our attention, they have been frightening investors as well. The Greek debt crisis and its potential contagion, the Gulf of Mexico oil spill, the bungled terrorist explosion in Times Square, the momentary 1,000 point drop in the Dow, and the SEC charges against Goldman Sachs have each contributed to the "fear factor". These headlines and "events" seem to be dominating the daily trading in equities, fixed income, and commodities. We aren't ignoring these things and we don't think you should either, but they need to be put in some type of perspective. Much of the good news on earnings and the fundamental economic news is being reported below the fold or off the front pages.

Corporations sailed through the Q1 2010 earnings reports this last month with over 60% reporting earnings that beat expectations. Many companies are also reporting revenues that have exceeded expectations and improved outlooks for their businesses. In addition to earnings, the level of cash on corporate balance sheets is significantly higher. According to Bloomberg.com, at the end of 2009 the companies in the S&P 500 had cash and short-term investments on their books equal to $2.18 trillion! That cash won't sit idle with short-term rates close to zero. Our point is that some of this money will be used to increase dividends, buy back stock, enter into mergers and acquisitions, hire new workers, or reinvest in their businesses. These are the kind of things that will be good for the markets and shareholders.

The economic numbers have shown us a steadily improving, if unspectacular, recovery from the recession. The Philadelphia Federal Reserve Index of General Business Conditions for April was the strongest in four months and exceeded expectations, while showing solid growth in its new orders component. The Institute for Supply Management (ISM) Manufacturing Survey was 60.4 (over 50 indicates economic growth) and the highest in six years! Its new orders component has shown 10 straight months of strength and the employment component was the strongest in six years. Similarly, the Chicago Purchasing Managers Survey reached 63.8 in April with gains in new orders and employment. Speaking of employment, last Friday's employment numbers showed a broad-based 290,000 increase in non-farm payroll, well above the expected gain of 180,000 after a 230,000 gain the month before. The work week also increased and temporary workers showed another gain. Leading Indicators increased for the 12th month in a row with a large 1.4% increase for March. Retail sales and consumption have improved, albeit gradually. Housing has improved to a less-than-hoped-for degree in fits and starts, but the Case-Shiller Composite 20-City Home Price Index for February showed its first YOY increase since December 2006. On a global note, the International Monetary Fund (IMF) is forecasting 3.0% global growth for 2010 and 3.4% for 2011 with the emerging economies of the world leading the way. The Fund is forecasting China's growth to be 10% in 2010 and 9.7% in 2011.

We have a final thought about the recent equity market correction. After climbing 80% from last year's March low, it would not be unusual in this bull market to see a 10% correction from time-to-time. The S&P 500 (very) briefly touched that level last Thursday and Friday. The equity markets rallied after European policy makers and the IMF announced an almost $1 trillion loan package to address the sovereign debt crisis, although tougher fiscal discipline still needs to be put in place.

In closing, we believe it is always necessary to read more than just the headlines, balance the positives with the negatives, and keep the big picture in perspective. Please contact us with any questions or comments you may have.

Michael A. Camp
Principal

Joseph F. Hunt
Principal