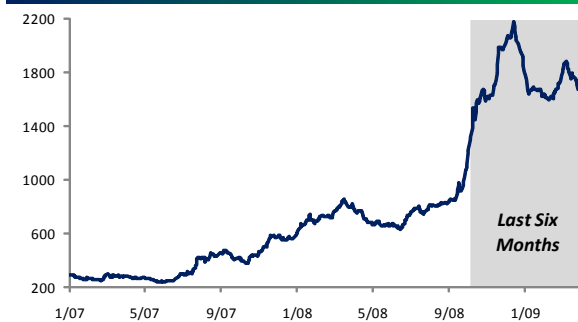


Debt Levels vs. Performance

Now that the S&P 500 has rallied more than 20% off the March lows, an increasing amount of investors are coming around to the idea that the current rally could be the real thing. Skeptics, on the other hand, point to the three prior rallies of 15% or more that ultimately ended up at lower lows for the market. They also point to the state of the credit markets and the continued stress evident in this area of the capital markets. While high yield spreads remain off their highs from December, outside of the last six months, things are anything but normal.

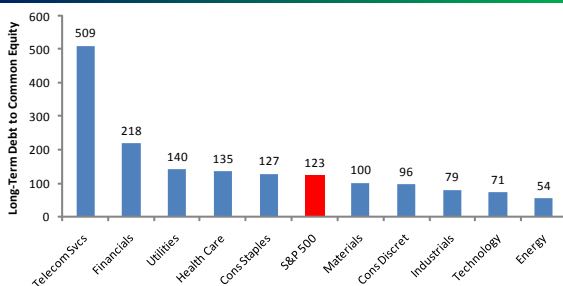
The chart to the right shows high yield credit spreads based on data from Merrill Lynch since 2007. The chart measures the spread (in basis points) between high yield bonds and US Treasuries of similar duration. Higher spreads imply that the credit market is tight, while lower spreads indicate easier credit conditions. After peaking out at a level of 2,182 basis points in mid-December, high yield spreads have retreated by 539 basis points. However, even with this contraction, high yield bonds are still yielding 1,643 basis points above comparable Treasuries. To put this level in perspective, six months ago, spreads were at 1,224 basis points, while spreads were only 758 basis points above Treasuries a year ago.

Merrill Lynch Index of High Yield Bond Spreads: 2007 - 2009

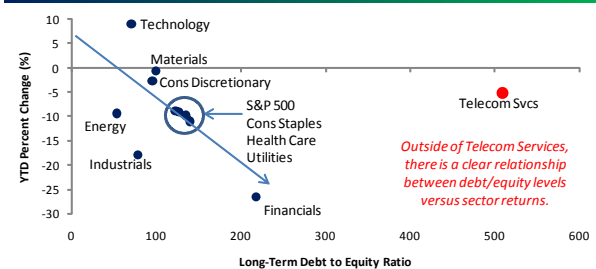


Based on these figures, the reality is that even if spreads continue to contract, companies with upcoming debt maturing are likely to face higher borrowing costs compared to the costs they incurred in the past. As a result, margins for these companies will be negatively impacted. With that in mind, we looked to see which S&P 500 sectors have the least long-term debt relative to equity. The chart to the lower left shows the median long-term debt to common equity for the S&P 500 and each of its ten sectors. As shown, Telecom Services, Financials, and Utilities have the highest debt levels while Energy, Technology, and Industrials have the lowest debt loads. We then compared these debt levels to each sector's YTD percent change and found that outside of the Telecom Services sector, there appears to be a linkage between a sector's debt level and performance. Technology, which is the only sector up YTD, has one of the lowest debt loads, while Financials, which have been the worst performers, have one of the highest levels of long-term debt to common equity. *Continued on page two.*

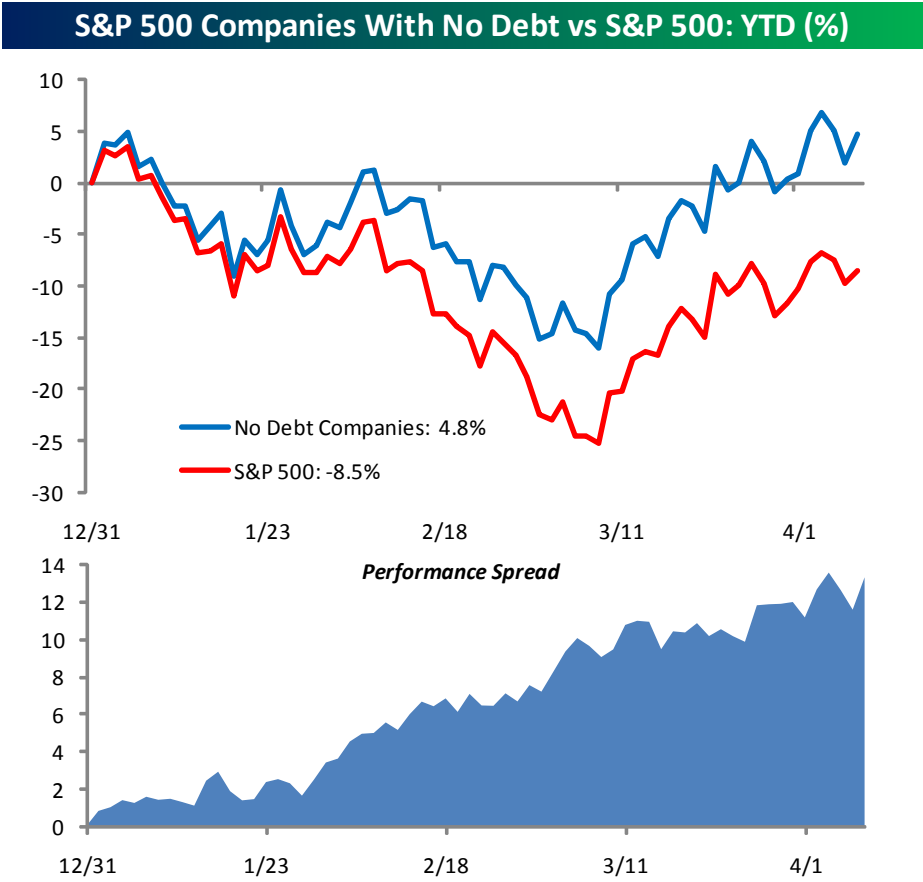
S&P 500 Median Long-Term Debt to Common Equity (%)



Sector Long-Term Debt to Common Equity (%) vs YTD Returns



In terms of individual stocks, we have also found that S&P 500 companies with no long-term debt have done extremely well relative to the S&P 500. The chart below shows the average return of the forty stocks with long-term debt to common equity ratios of zero. As shown, these forty stocks are up an average of 4.8% versus the 8.5% decline in the S&P 500 year to date. Additionally, the performance spread between the two has been steadily increasing all year regardless of whether or not the S&P 500 was falling (January through March) or rising (March through April). So even in an environment where risk aversion has waned, investors continue to reward companies that have the lowest debt burdens. For a list of the forty stocks (24 of which are from the tech sector) with long-term debt to common equity ratios of zero, please see page three.



S&P 500 Stocks With Long Term Debt to Common Equity Ratios of Zero

Ticker	Name	Sector	Price	Price vs 50-Day Moving Average
APOL	Apollo Group	Cons Discret	62.9	-16.63
BBBY	Bed Bath & Beyond	Cons Discret	30.97	34.80
BIG	Big Lots	Cons Discret	22.49	29.94
GPS	Gap	Cons Discret	14.24	19.87
LO	Lorillard	Cons Staples	63.41	3.53
STT	State Street	Financials	31.04	20.24
TROW	T Rowe Price	Financials	29.21	10.30
CELG	Celgene	Health Care	40.74	-14.92
FRX	Forest Labs	Health Care	21.57	-5.66
ISRG	Intuitive Surgical	Health Care	98.69	-2.13
SYK	Stryker	Health Care	34.03	-7.30
CHRW	C.H. Robinson	Industrials	45.44	1.93
EXPD	Expeditors Intl	Industrials	29.74	4.54
FAST	Fastenal	Industrials	35.97	11.86
AAPL	Apple	Technology	115.62	18.67
ADI	Analog Devices	Technology	20.09	0.87
ADSK	Autodesk	Technology	18.16	18.70
BMC	BMC Software	Technology	33.39	12.27
BRCM	Broadcom	Technology	22.01	20.71
CPWR	Compuware	Technology	6.94	12.01
CRM	Salesforce.Com	Technology	37.63	22.62
CTSH	Cognizant Tech	Technology	22.51	12.35
CTXS	Citrix Systems	Technology	24.82	9.71
EBAY	Ebay	Technology	13.801	12.17
GOOG	Google	Technology	362.7	6.38
JNPR	Juniper Networks	Technology	17.61	16.20
MFE	McAfee	Technology	34.79	12.79
MSFT	Microsoft	Technology	19.37	9.71
NOVL	Novell	Technology	3.95	7.13
NVLS	Novellus Systems	Technology	16.895	20.54
PAYX	Paychex	Technology	26.4	9.70
QCOM	Qualcomm	Technology	40.34	11.77
QLGC	QLogic	Technology	11.4416	6.80
TDC	Teradata	Technology	15.92	4.42
TER	Teradyne	Technology	4.84	8.06
TLAB	Tellabs	Technology	4.68	12.88
TXN	Texas Instruments	Technology	16.86	6.09
YHOO	Yahoo!	Technology	12.92	0.14
CF	CF Industries	Materials	70.86	15.46
TIE	Titanium Metals	Materials	6.14	-0.65