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Dear Hawk100 Member.

Summer greetings to you and your family from Hawk100. Please accept your Wealth Alignment Report, a quarterly discussion and presentation of your accounts to which you have entrusted Hawk100 with discretionary authority. We hope that you find the report useful and relevant and welcome your comments and feedback. Please contact me directly if you wish to arrange a personal consultation and discussion of your Wealth Alignment Report.

The following brief commentary on second quarter events and developments provides context to your Wealth Alignment Report. In summary, economic conditions show mixed signals of improvement and deterioration while financial markets –excluding treasuries – are advancing strongly. Meanwhile, your portfolio is providing a stable return through a volatile period in financial markets.

By advancing 15.9%, the second quarter marks the strongest calendar quarter since 1998 for U.S. stocks. The rapid ascent in stock prices belies unsustainable U.S. fiscal condition and a rising tide of anti-capitalist sentiment. Hawk100 attributes cautious U.S. financial market outlooks to this disconnect. Comparing and contrasting with 1998 leads to interesting observations of current conditions.

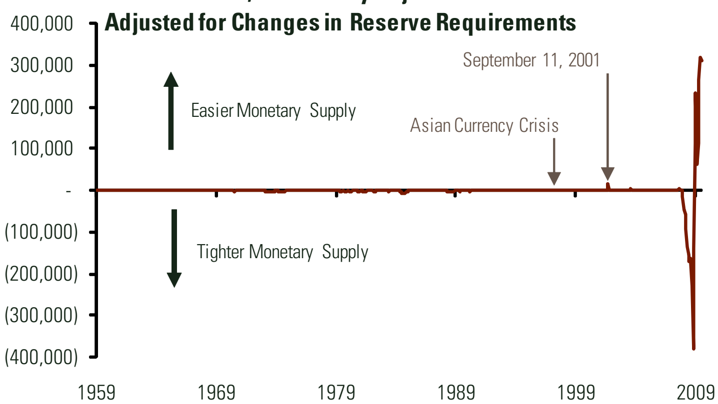
Remember 1998? The financial system is suffering from a financial crisis centered on collapsing asset values (then, Asian currencies; now, real estate) and a failing, systemically risky financial institution (then, Long Term Capital Management (LTCM); now, AIG, etc.). The Federal Reserve pumps liquidity into the banking system to combat the crisis and secure the firm(s) rescue crushed by the weight of leverage.

From September 28 to November 17, 1998, the Federal Open Market Committee (FOMC)—which sets domestic monetary policy targets for the U.S.—lowers its Federal Funds target rate from 5.50% to 4.75%. The target rate has served as the primary monetary policy weapon in the Federal Reserve's arsenal. Lower rates stimulate the economy and higher rates control inflation. Skeptics doubt the wisdom of the Fed intervening on behalf of a private enterprise, yet the coinciding rate reductions usher the intended economic and financial stability.

A lesser known gauge of whether monetary policy is stimulating or regulating, free reserves measures total non-borrowed banking system reserves less required reserves. A higher free reserves equates to greater supply of discretionary loanable capital and thereby stimulates the economy. The Fed's 1998 intervention barely registers on a graph of free reserves for the last fifty years. Following the 2001 terrorist attacks, the Fed injects theretofore unprecedented liquidity into the banking system to prevent further carnage. For a brief time, free reserves increase nearly 30-fold.

Today, free-reserves are approximately ten-fold higher than the previous all-time high in 2001. Observe the following from the foregoing chart: (1) current levels are in uncharted territory, (2) the 1998 and 2001 actions are barely discernable, and (3) the volatility of reserves has increased uncertainty and risk.

Free Reserves, Seasonally Adjusted
Adjusted for Changes in Reserve Requirements



Source: Federal Reserve Board

The chart depicts that the Federal Reserve has put itself at the start of a long tightrope walk. While crossing the crevasse, the Fed is burdened by the weight of its positions. Misstep to the left, and get caught in a vortex of rampant inflation. Slip just to the right, and the economy falls into another tailspin. The current position transfers unquantifiable economic risk onto taxpayers and investors.

Compounding matters while achieving its extraordinary height, the Fed has added weapons to its arsenal. When the FOMC adopts a near 0% Fed funds target rate as it has since December, it renders rate changes futile. So, the Fed relies increasingly on newly acquired monetary policy powers while accumulating vast sums of U.S. Treasury securities. Diminished appetites for treasuries by traditional investors, domestic and foreign, are driving yields higher. Treasury notes, like all fixed income investments, lose market value when yields rise. Treas-

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ury notes are the only asset class to decline during the quarter while the benchmark 10-year yield rose from 2.7% to 3.5%.

Hawk100 considers asset allocation to be the primary factor driving investment returns and prudently manages your Portfolio allocation according to the policy guidelines in your Wealth Alignment Plan. Hawk100 manages your active asset allocation to align your wealth, in light of aforementioned economic and market conditions. Your Portfolio holds securities designed for wealth Preservation and Income which reduce your Portfolio volatility. After much of the recent advance in stock prices had already occurred, Hawk100 hedged your Portfolio against risks that stocks would resume their downturn.

While security selection remains a crucial element to Hawk100 efforts to align your wealth with your life, current conditions lack opportunities to add newly selected securities to your portfolio. Hawk100 carefully considers fundamental valuation factors when managing your Portfolio. Hawk100 seeks income securities that offer a high yield relative to a low duration. Yield describes the current rate of income generated from securities. Duration measures the degree of price sensitivity to changing yields and approximates the percentage change in bond price for a 1% change in yields. As mentioned, yields rose this quarter, as Hawk100 expected, and we forecast continued rising yields meaning bond prices may fall. Therefore, Hawk100 maintains a shorter duration to mitigate potential price declines.

Valuation is the cornerstone of the Hawk100 security selection model, and Hawk100 primarily uses price to cash flow to gauge equity values. Cash flows are a reliable measure of enterprise economic returns whereas earnings can be susceptible to management manipulation. Hawk100 prefers to hold securities with low prices relative to cash flows which tend to improve long run risk adjusted returns.

Each of the professional staff associated with Hawk100 promotes standards of competence, care, and charity while serving our members and our community. I am delighted to report our continued leadership and competence. CFA Institute has invited me to its Education Advisory Council which sets the standard for investment professionals' global body of knowledge.

This August, Hawk100 will sponsor events geared to fight cancer. Cancer patients are too often left to choose treatments that can be more damaging and dispiriting than cancer itself. Inspired by my late father's courageous, spirited battle, I founded Clemens Cycle for Cancer to advance treatment options for cancer patients and their families. Now in its seventh year, Clemens Cycle for Cancer carries the fight through Miami Valley Hospital Foundation. Later, I will ride with Lance Armstrong in Pelotonia to benefit The James at Ohio State. Hawk100 will donate in your name unless you request anonymity.

Thank you for your loyal Hawk100 membership and for deciding to align your wealth with your life.

Warmest regards,
Richard Clemens, CFA
President
Hawk100

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