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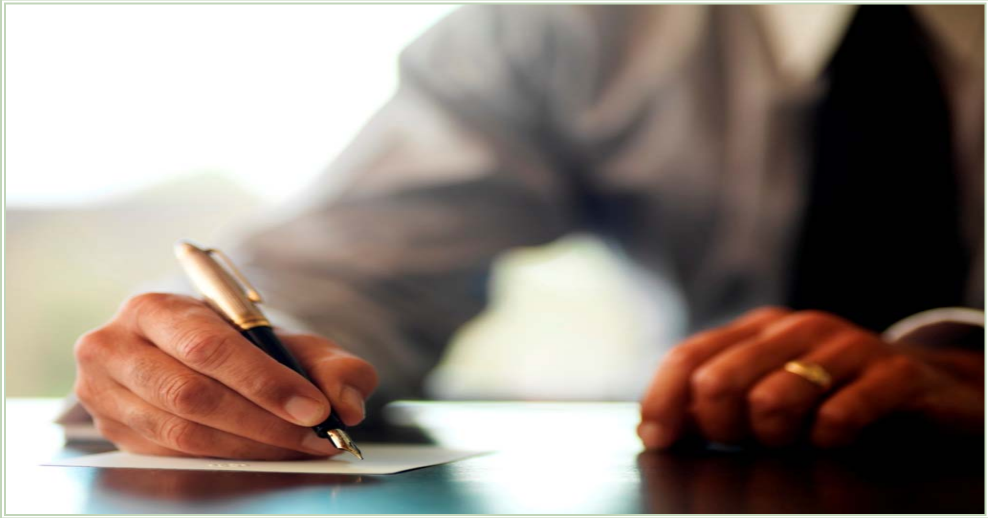

Quarterly Newsletter

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US & World Economy- The US economy, along with much of the world, has been experiencing an easing in the pace of recovery growth. This is common in post-recession rebounds and usually lasts 4-6 months unless accompanied by tightening from the Fed (fortunately, the US Fed is still very accommodating with low short term interest rates). Recoveries are usually uneven. Our housing market and bank lending industry are the largest laggers inside the country and euro-zone sovereign debt crisis along with China's inflation/growth fight are the current biggest international concerns. Nevertheless, we continue to slowly grow and the S&P 500 is expected to earn a record $100 per share this year for the first time. California businesses are also recovering and many valuations are back to or nearing all time highs as well.

However, the US recovery is more than ever dependent on global growth. Internationally there are two diverging economic camps. First, the euro zone, Japan and the US (developed economies) are dealing with deficits, debt and failed stimulus programs in the aftermath of a financial meltdown. Growth in these regions will be slow for many years until these long-term structural problems are mitigated. Second, the rest of the world did not have an internal financial meltdown or housing declines (most countries don't even have home mortgages). These developing economies, mostly Asia and South America, are growing rapidly but are battling the resulting by-product of local inflation. Their ballooning middle class wants western goods which is helping the developed economies, but leaves us at the mercy of demand fluctuations resulting from local problems. Therefore, interest rate hikes in China or elections in India have become ever more important to the US economy and financial markets.

The US dollar and commodity prices are under greater pressure as the above uneven economic growth unfolds. We expect the dollar to gain strength against the euro but continue to fall against the currencies of developing countries. Commodities are in a similar push/pull zone over the next 6-month term. However, supply constraints for oil/coal, base metals and agriculture will not be able to keep up drilling, mining and better farming techniques, but these will take years to develop and implement.

US Stock Market- Given this economic backdrop, we expect the financial markets to shrug off double dip fears and focus on the prospects of improving global growth led by the end of fiscal tightening in China (and renewed efforts on growth). We continue to forecast 1425 for the S&P 500 for year end. US debt and deficit fears, Europe's solvency questions, developing countries inflation, weak bank lending and the domestic housing market will keep us at below average P/E ratios as earnings continue to move up along with large hoards of cash on corporate balance sheets.

Because of these current worries, US equities remain cheap. The S&P 500's forward P/E ratio (J.P. Morgan) at 6/30 was 12.4. While this is above the 10.3 low in 03/09, it is well below the 15 year average of 17.1 and even the previous bear market lows in 1997 and 2003 (16.0 and 14.1). We are also only 28 months into this recovery vs. 68 months for the average bull market. Style wise, large cap growth is the most undervalued with small cap value being the priciest. Corporate cash is at an all time high at 28% of overall assets. While cheap equity prices alone are not a recipe for success, they do indicate that the current stock market is being pulled up by earnings instead of pushed up by speculation.

Fixed Income- Interest rate swings have been tricky this year as they have moved counter intuitively to the Fed's QEII actions. Excess demand from QEII bond purchases led to lower prices (higher yields) and the end of the program's drop in demand resulted in higher prices and lower yields. Short maturity, high credit investments remain at negative returns compared to inflation. High-yield bonds remain attractive with spreads now at 5.7% vs. 5.9% average and defaults at a low 0.8% (vs. 4.3% average). These bonds have been volatile but have had an inverse correlation to the foreign bond funds and floating rate securities we have been paring them with. Our combination of "inflation balanced bonds" continues to provide good dividends and modest appreciation. Municipal bonds, after a press scare last year that never materialized, have remained strong this year. California's painful budget process and the prospect of higher taxes in 2013 are pushing this asset class up despite long-term interest rate risks.

US Housing- The aftermath of the US housing bubble on consumers has been devastating. At the peak, homeowners had $13.5 trillion in home equity that has now eroded to $6.1 trillion, wiping out a decade of appreciation. Construction related job losses were the worst and contributed the most to the high unemployment rates in the southwest and southeast. While the inventory of REO homes is still large, several positive factors are also emerging: household debt service ratio is back to 11.3% - a level equal to lows in the early '80s and mid '90s; personal savings rates are back to mid 90's levels; affordability of new home mortgages is the lowest since before 1975; housing starts are at their lowest since 1975 at 23% of the peak in 2007 and 38% of the last 35 years average.

A current healthier, deleveraged, consumer combined with home affordability and a growing population will soak up the excess housing inventory within a couple of years. We expect housing prices to firm and then resume their long-term pre-bubble growth rate near the CPI level. Homes will again become a desired possession, just not a "vehicle for investment" that it was never meant to be. Over the last 100 years, home appreciation has only surpassed the S&P 500 for 5 consecutive years – 2000-2005, and we know how that ended.

Summary- A step down in global growth and European solvency fears led the financial and commodity markets down in the second quarter. We believe this is a 4-6 month slow section of our recovery and once Asia resumes its heated growth, the global recovery will pick up speed again. However, markets are cautious and awaiting confirmations before moving up again. For now, the dollar and commodity prices are in a holding pattern with equal chances of rising or falling, keeping prices steady.

While US policies, debt and deficits provide plenty to worry about, we are still the safest country in which to live and invest. Stocks and commercial real estate are cheap and will reward patient investors.

Optivest News- Optivest is dedicated to continuously improving our service and performance for our valued clients. After a 6-month search with a specialized consulting firm and a great devotion of time and energy, Optivest has switched from over 23 years with Advent reporting software to a new leading edge system from Tamarac. You will quickly notice upgrades in your current quarterly reports which will be available to you online – updated daily. Further, your client window will be set to securely hold past reports, net worth accounting, tax returns, estate planning documents and other important paperwork in a dedicated “client vault” protected with “SAS 70 Type II” leading level of encrypted security and back up systems.

We have also added a new planning department headed by Donna M. Adam, CFP®, CAP™, CExP™, one of only two Certified Exit Planners in Orange County. We are now working closely with a team of outside industry leaders in business accounting, banking, insurance, law and M&A to form a powerful team to help the principles of companies reach their exit and estate planning goals with minimum taxation. In addition, Susan Chubbuck, CPA, our experienced in-house high net worth and foundation tax accountant, is offering a free review of your 2010 extended tax returns. Previous reviews have found tax savings along with lower accounting/reporting costs for our clients. Donna and Susan can be reached at (949) 363-8686.

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