



April 22, 2010

Kanaly Trust Quarterly Investment Outlook & Strategy Conference Call

For audio please dial 866.951.1151 (or 201.590.2255 outside the US & Canada). Access code: 7249252

James H. Shelton, CFA
Chief Investment Officer

2010 Market Performance

Index Performance as of March 31, 2010

EQUITIES	<u>1st Qtr</u>	<u>12 Months</u>
S&P 500	5.4	49.8
DJIA	4.8	46.9
Nasdaq	5.9	58.4
Russell 2000	8.9	62.8
MSCI EAFE	0.9	55.2
MSCI Emerging Mkts	2.5	81.6
 FIXED INCOME		
BarCap US 1-3yr Govt	0.7	1.8
BarCap Int Govt/Credit	1.5	6.9
BarCap High Yield	4.6	56.2
BarCap 5yr Muni	0.8	5.9
 ALTERNATIVES		
HFRI Global Hedge Fund	1.6	14.5
DJ Wilshire REIT	9.8	113.5
DJ UBS Commodity	(5.0)	20.5
Gold	1.5	21.1
Crude Oil	5.5	68.7

Kanaly Trust Investment Model Performance – 2010

(Equity/Fixed Income/Alternatives/Cash)

	<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-10</u>	<u>Year to Date</u>
Balanced Models				
Growth Portfolio (35/25/33/7)	-0.6%	0.9%	2.8%	3.1%
Growth Portfolio - Taxfree FI (35/25/33/7)	-0.9%	1.3%	2.6%	3.0%
Balanced Portfolio (30/30/33/7)	-0.6%	0.9%	2.5%	2.8%
Balanced Portfolio - Taxfree FI (30/30/33/7)	-0.9%	1.3%	2.2%	2.6%
Conservative Portfolio (15/50/24/11)	0.1%	0.7%	1.5%	2.3%
Conservative Portfolio - Taxfree FI (15/50/25/11)	-0.6%	1.2%	1.1%	1.7%
Equity Only	-3.2%	2.2%	6.4%	5.3%
Fixed Income - Taxable	1.6%	0.0%	0.7%	2.2%
Fixed Income - Tax Free	0.2%	0.5%	-0.5%	0.2%
ALTs - No MLPs	-0.7%	2.0%	1.0%	2.3%
ALTs - With MLPs	-0.5%	1.2%	1.4%	2.1%
S&P 500 (60%) / Intermediate Taxable (40%)	-1.6%	1.9%	3.6%	3.9%
S&P 500 (60%) / Intermediate Muni (40%)	-2.0%	2.2%	3.6%	3.7%
S&P 500 Index	-3.6%	3.1%	6.0%	5.4%
iShares Barclays Aggregate Bond	1.4%	0.2%	0.0%	1.6%
iShares S&P National AMT-Free Muni Bd	0.4%	0.8%	-0.1%	1.2%

The asset allocation models above represent an approximation of how the portfolios perform; actual results may differ from the models. Returns are shown before fees and are not AIMR/GIPS compliant. The return information provided above represents past performance and is not necessarily indicative of future results. Further, specific client portfolio(s) investment returns and results may vary from figures noted above based on account-specific circumstances.

Performance Attribution – 1st Quarter 2010

- Energy MLPs were the top performers, gaining approximately 10%
- Small cap equities rose nearly twice as much as large cap equities
- Actively managed international equity funds significantly outperformed the benchmark
- The PIMCO Commodity Real Return Fund was the only significant detractor (-3.2%), offset by our position in the U.S. Dollar (+3.1%) and gold (+1.5%)
- Given the strong rise in domestic equity markets, our positions in alternative investment strategies lagged the S&P 500

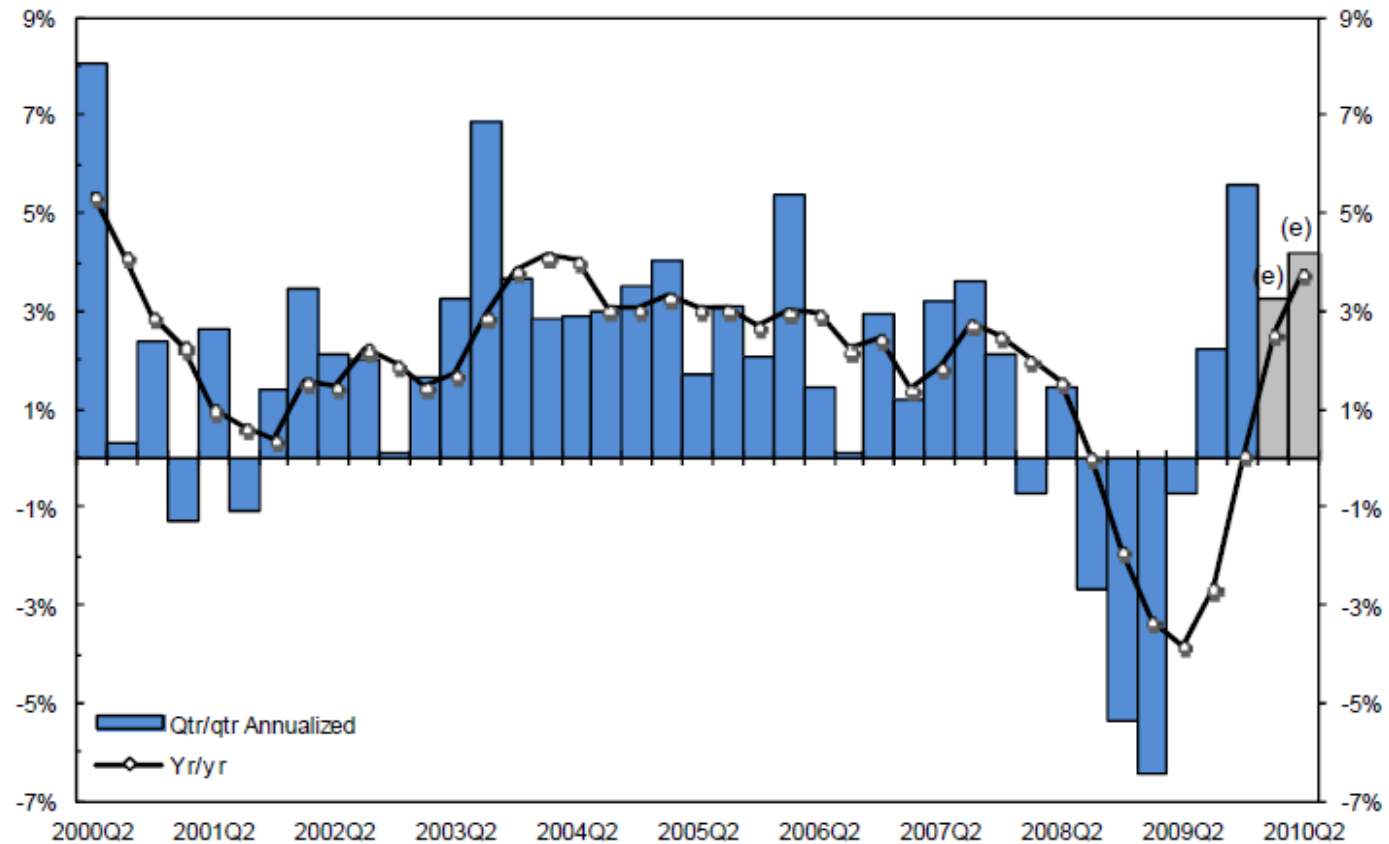
Key Economic Issues in 2010

Markets are anticipating continued improvement in the economy, which likely hinges on a recovery in business spending and employment. Some of the key economic issues to watch include:

- Withdrawal of fiscal and monetary stimulus programs
- Efforts by China to slow economic growth
- Potential for higher interest rates to entice investors to buy Treasuries
- Potential for mortgage resets, commercial real estate troubles, and sovereign debt to create fresh credit concerns
- Continued deleveraging of consumer balance sheets
- State and local government budget deficits

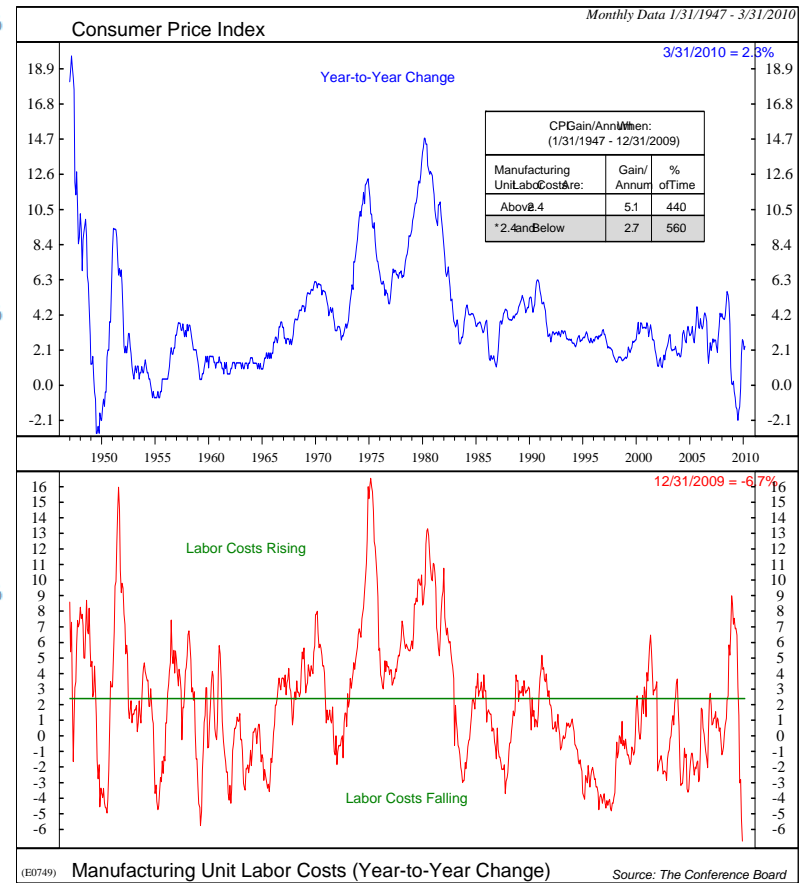
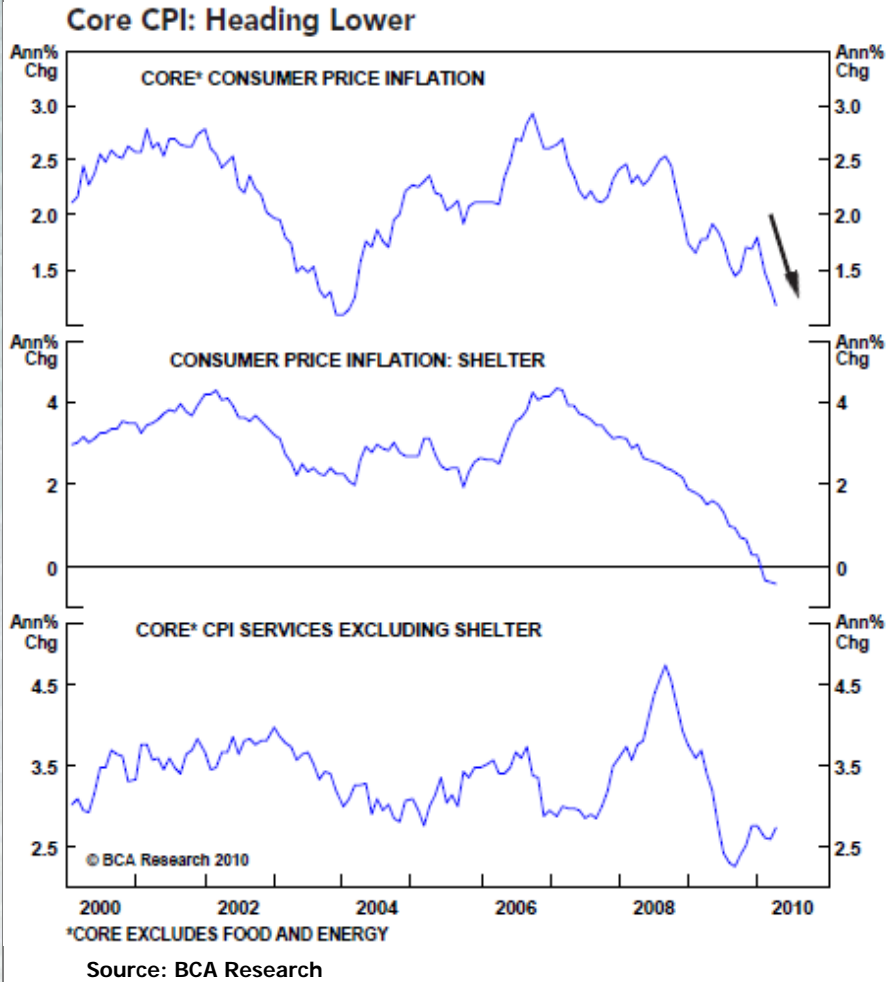
Economy is in Recovery

Real GDP Growth: Qtr/qtr Annualized and Yr/yr
 (quarterly, actual through Q4-2009, estimated through Q2-2010)



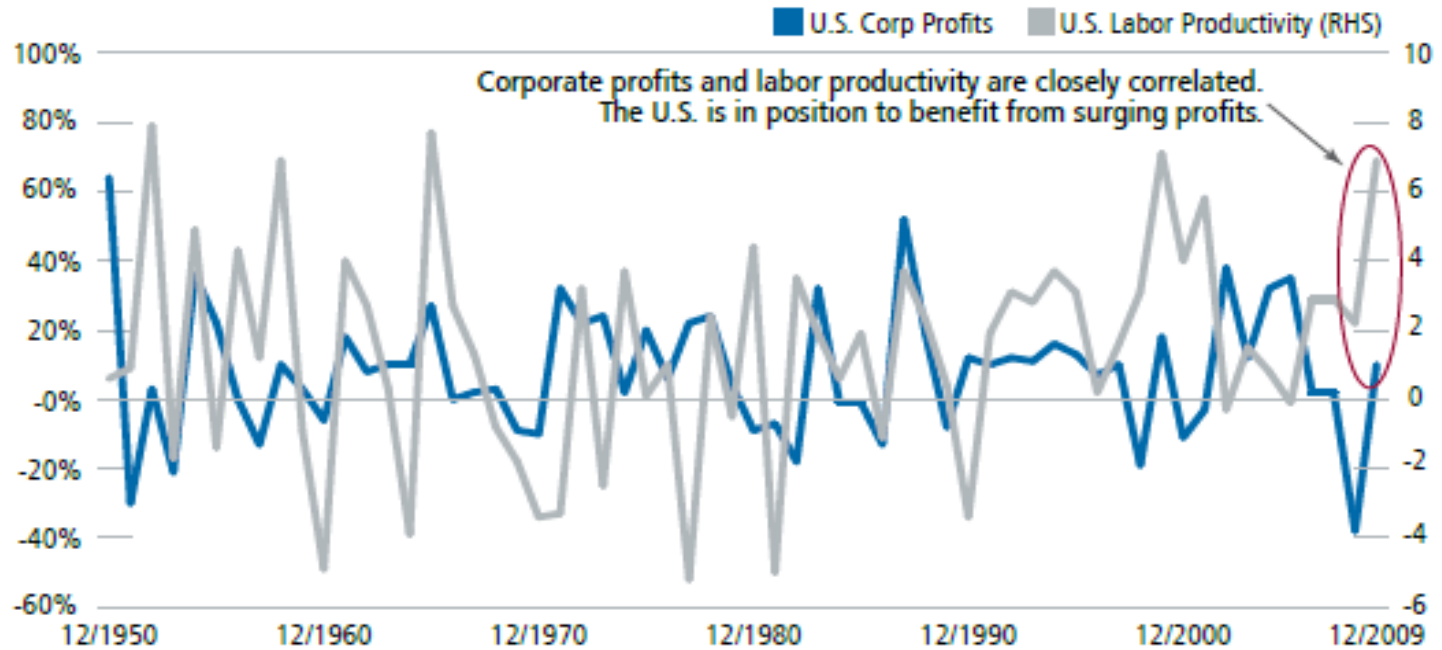
Source: Laffer Associates

Little Inflation Pressure (so far)



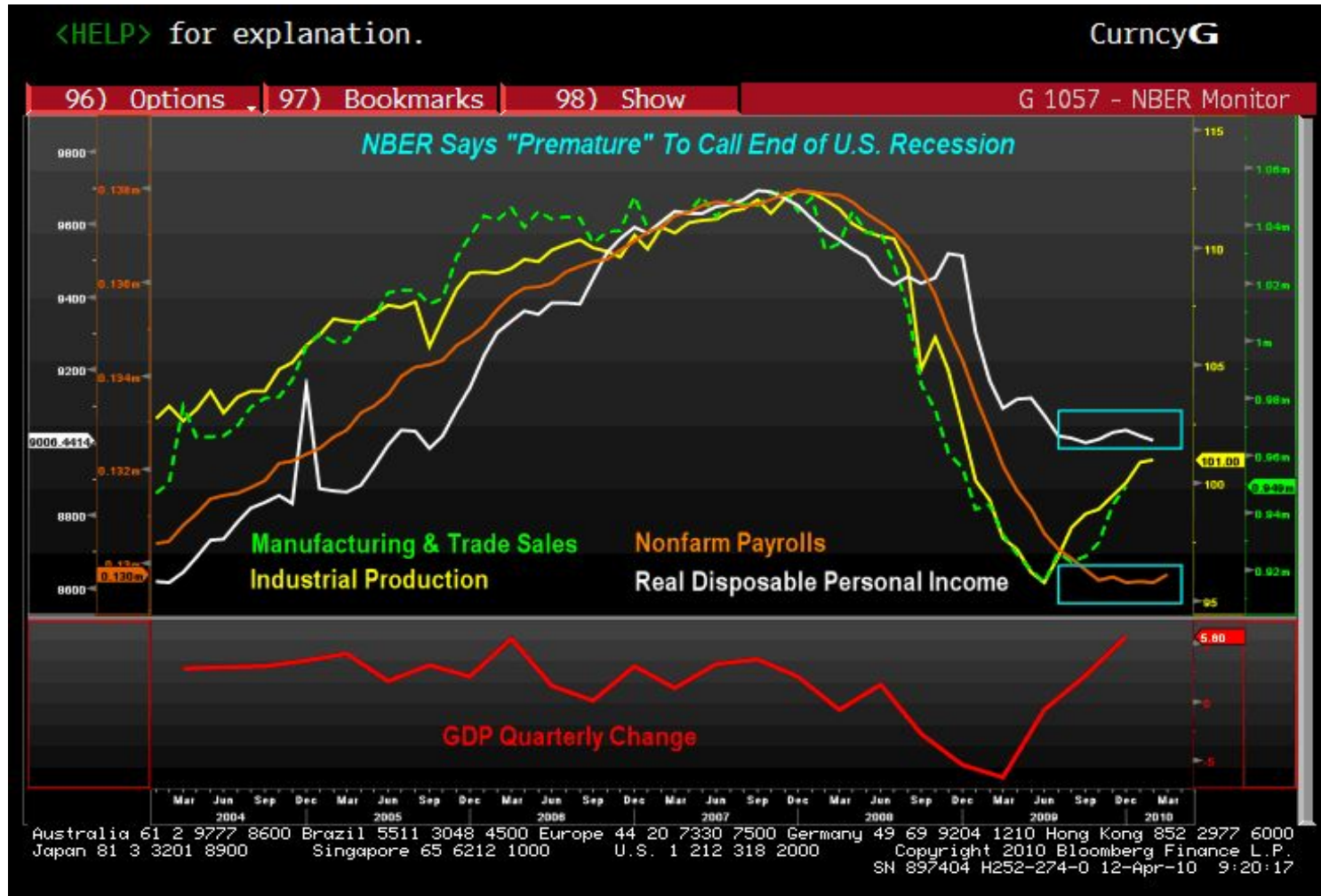
©Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without p
See NDR Disclaimer at ndr.com/copyright for data vendor disclaimers water.com/ven

Cost Cutting Led to Strong Earnings Recovery



Source: FactSet

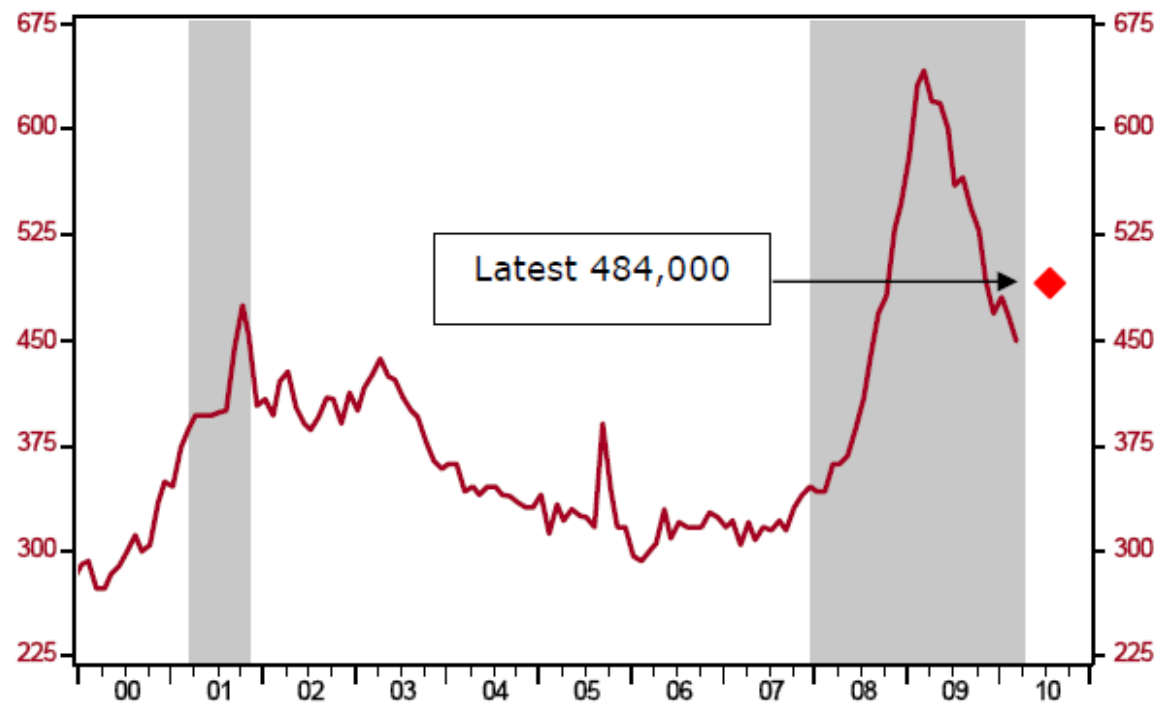
Inventory Rebuilding-Led Recovery



Employment Has Shown Little Improvement

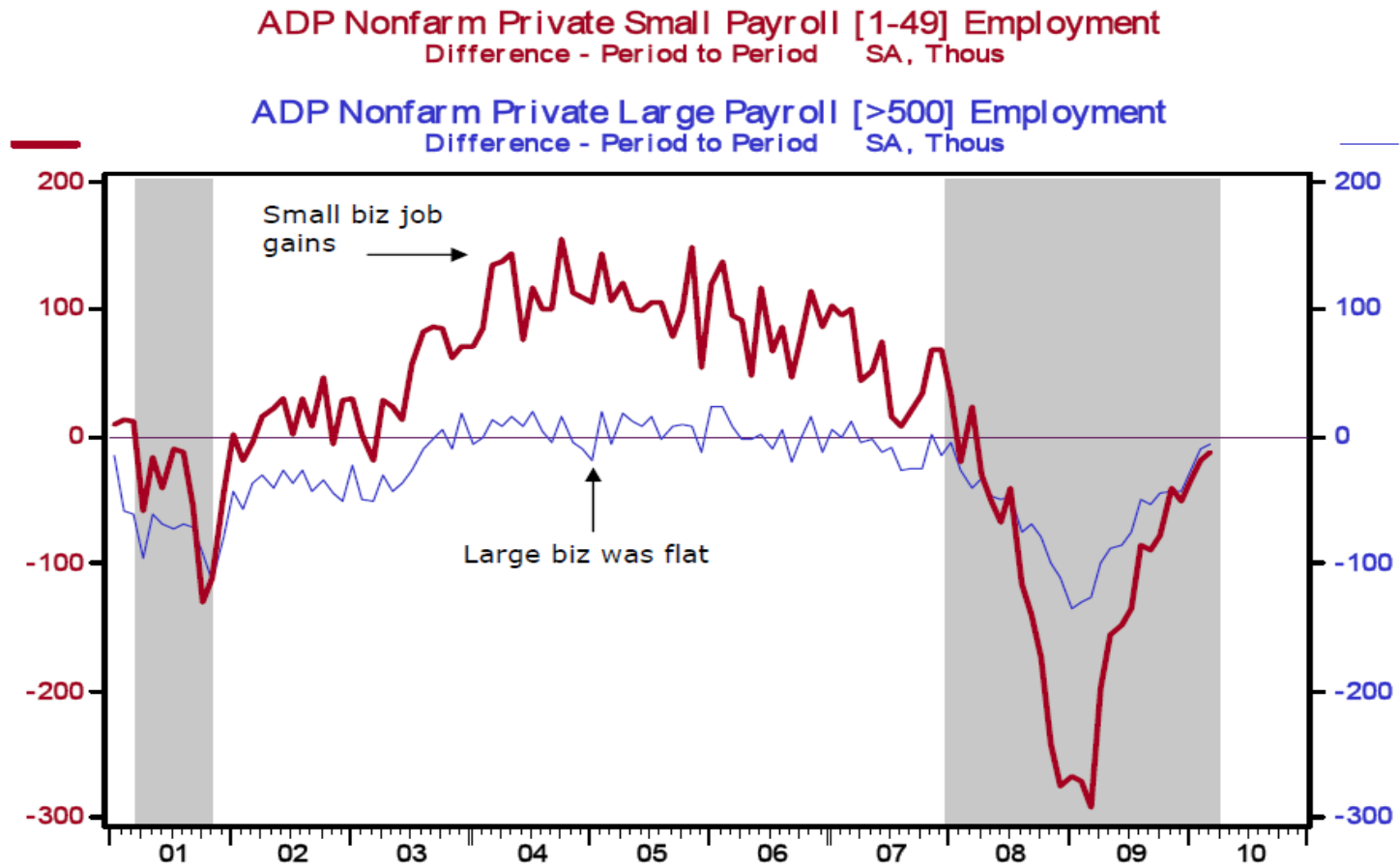
Initial Claims for Unemployment Insurance, State Programs, Wkly Avg

SA, Thous



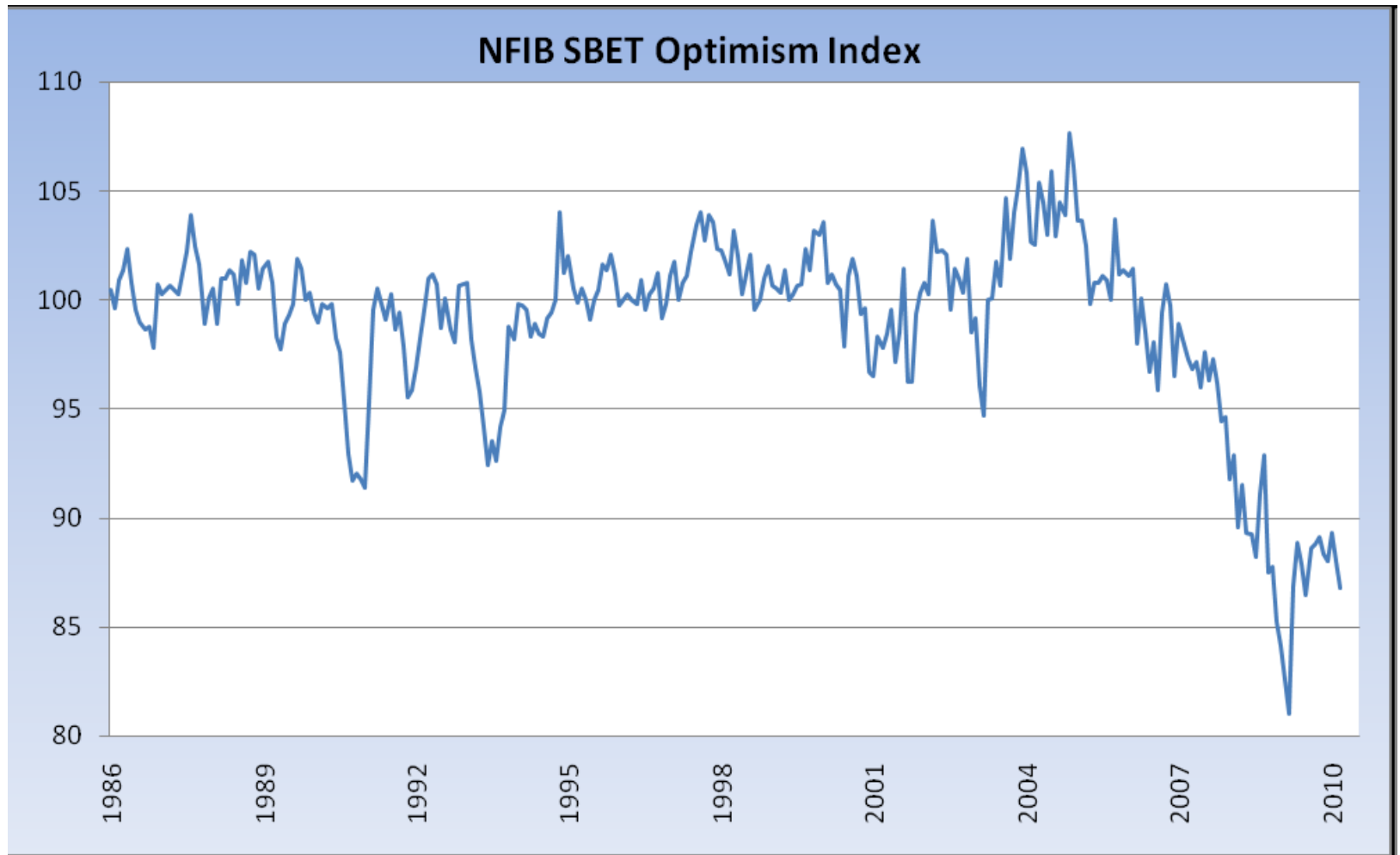
Source: Strategas Research

Small Businesses Typically Drive Job Creation



Source: Strategas Research

Small Businesses Remain Pessimistic



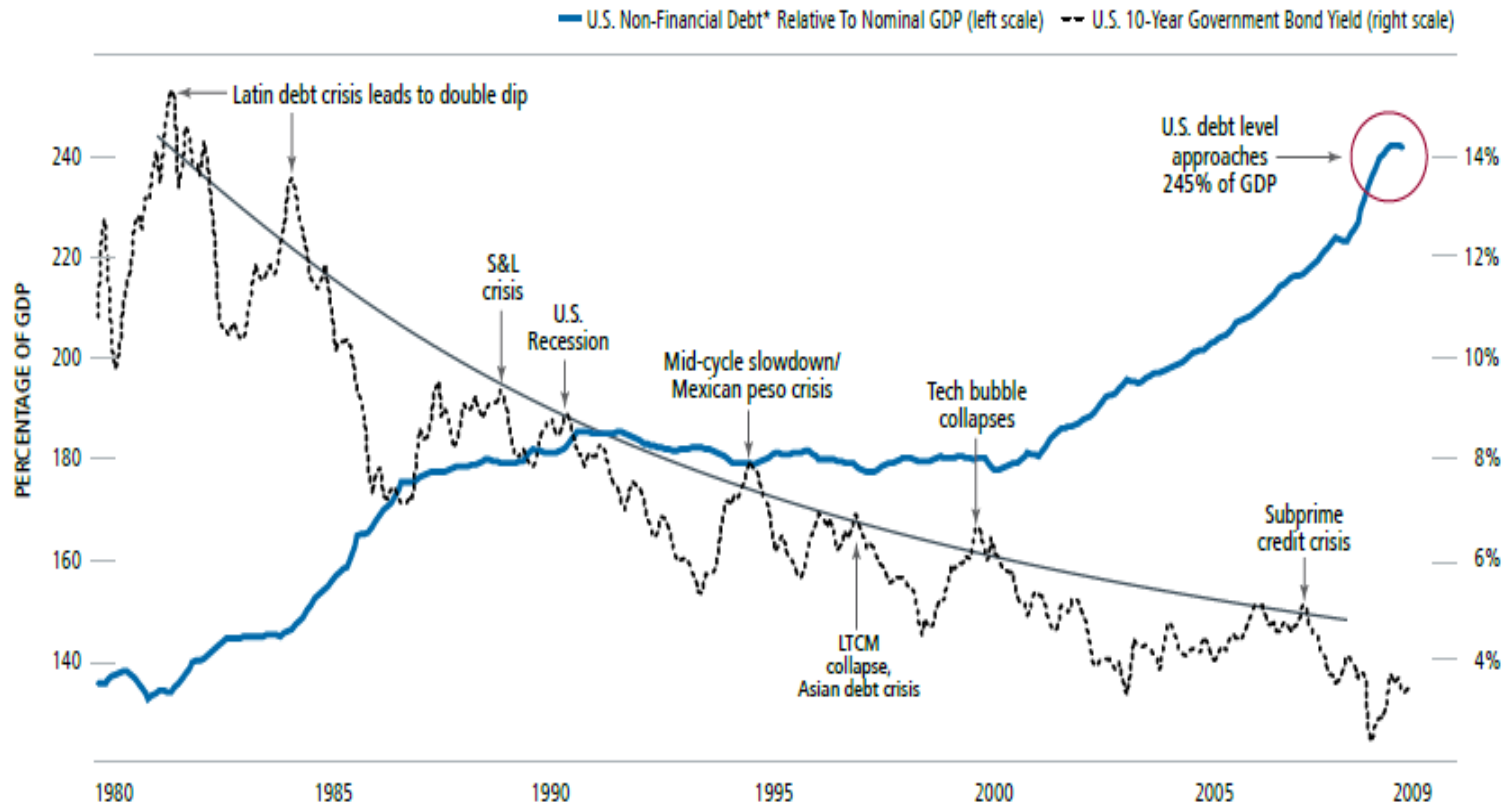
Source: National Federation of Independent Business

Bull Market in Treasuries Nearing an End



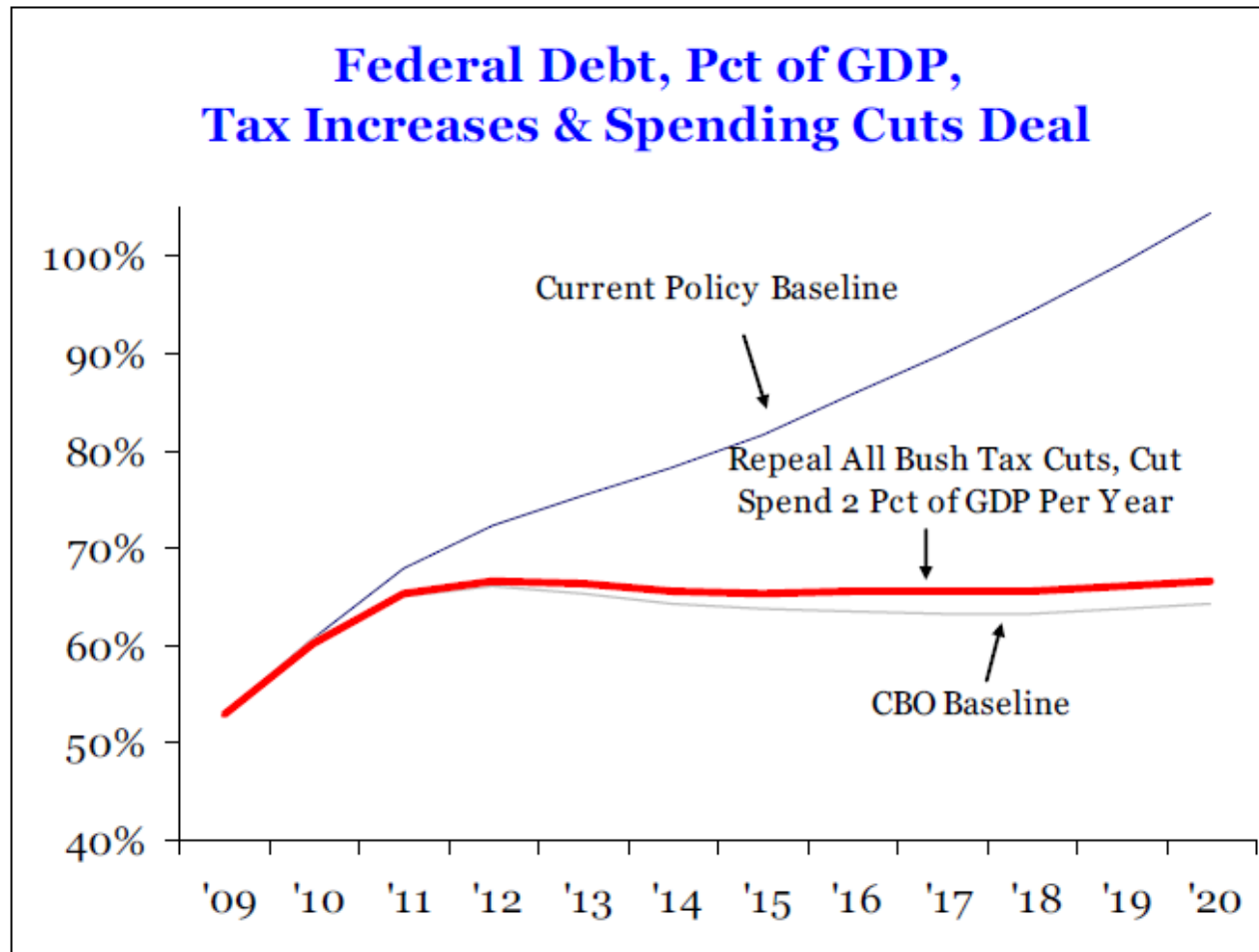
©Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
 See NDR Disclaimer at www.ndr.com/copyright.html . For data vendor disclaimers refer to www.ndr.com/vendorinfo/

High Debt Levels Should Restrain Growth



Sources: Non-Financial Debt from Federal Reserve Board, Flow of Funds Report, GDP data from the Bureau of Economic Analysis, government bond yields from FactSet.

Tough Political Choices Lie Ahead



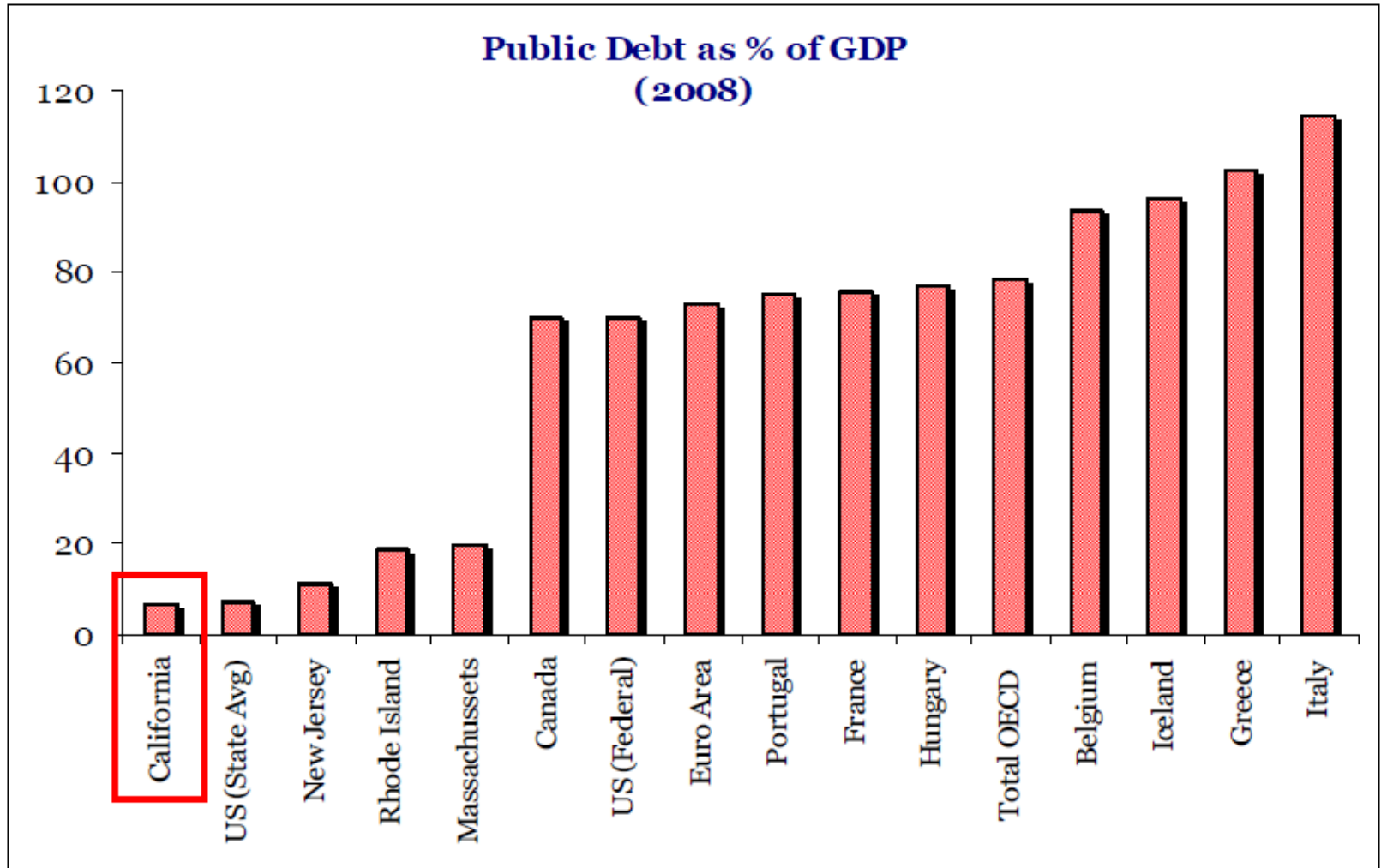
Source: Strategas Research

Market Vulnerable to Tax Increases



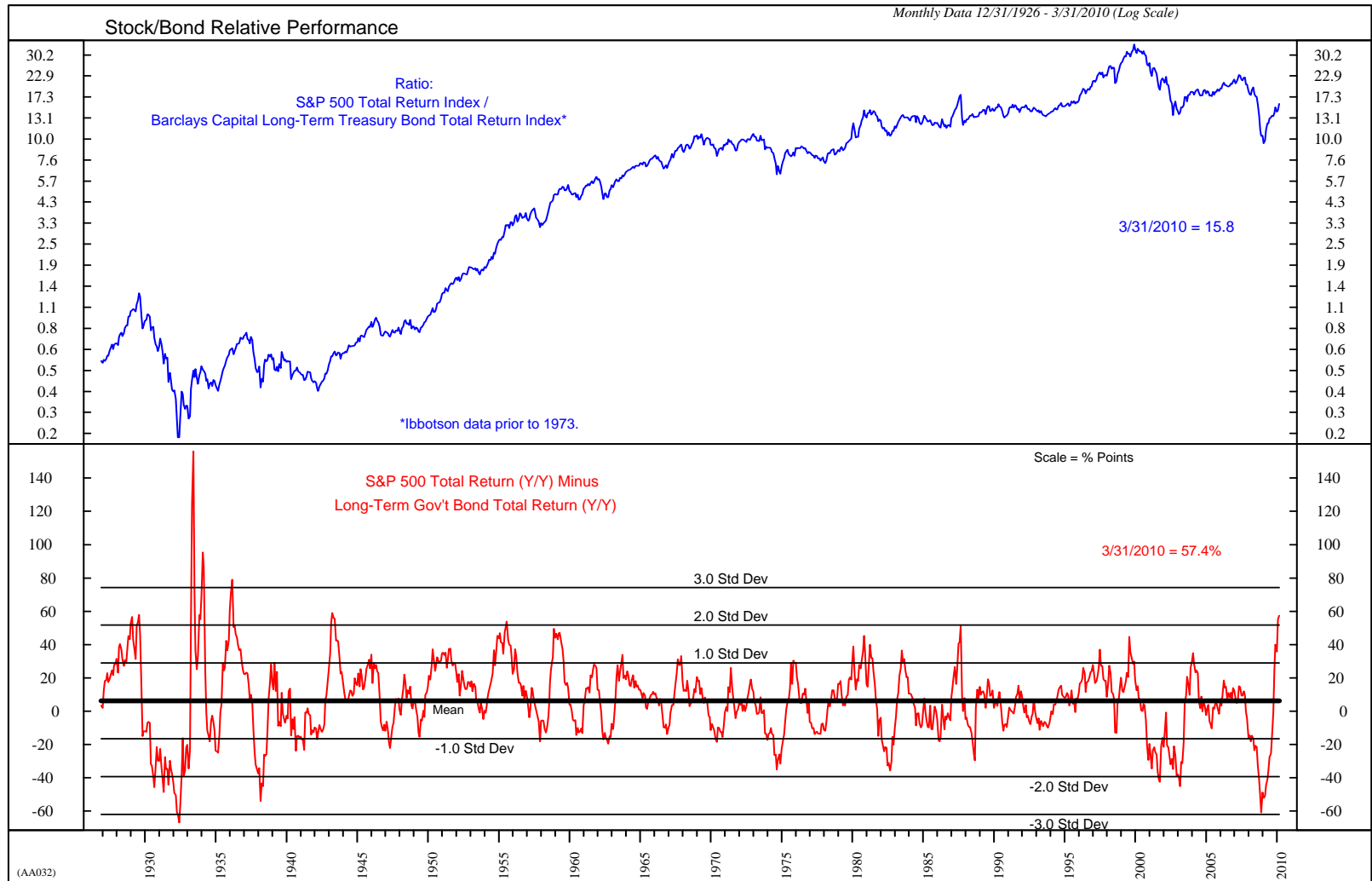
Source: Strategas Research

State Finances Much Stronger Than Sovereigns



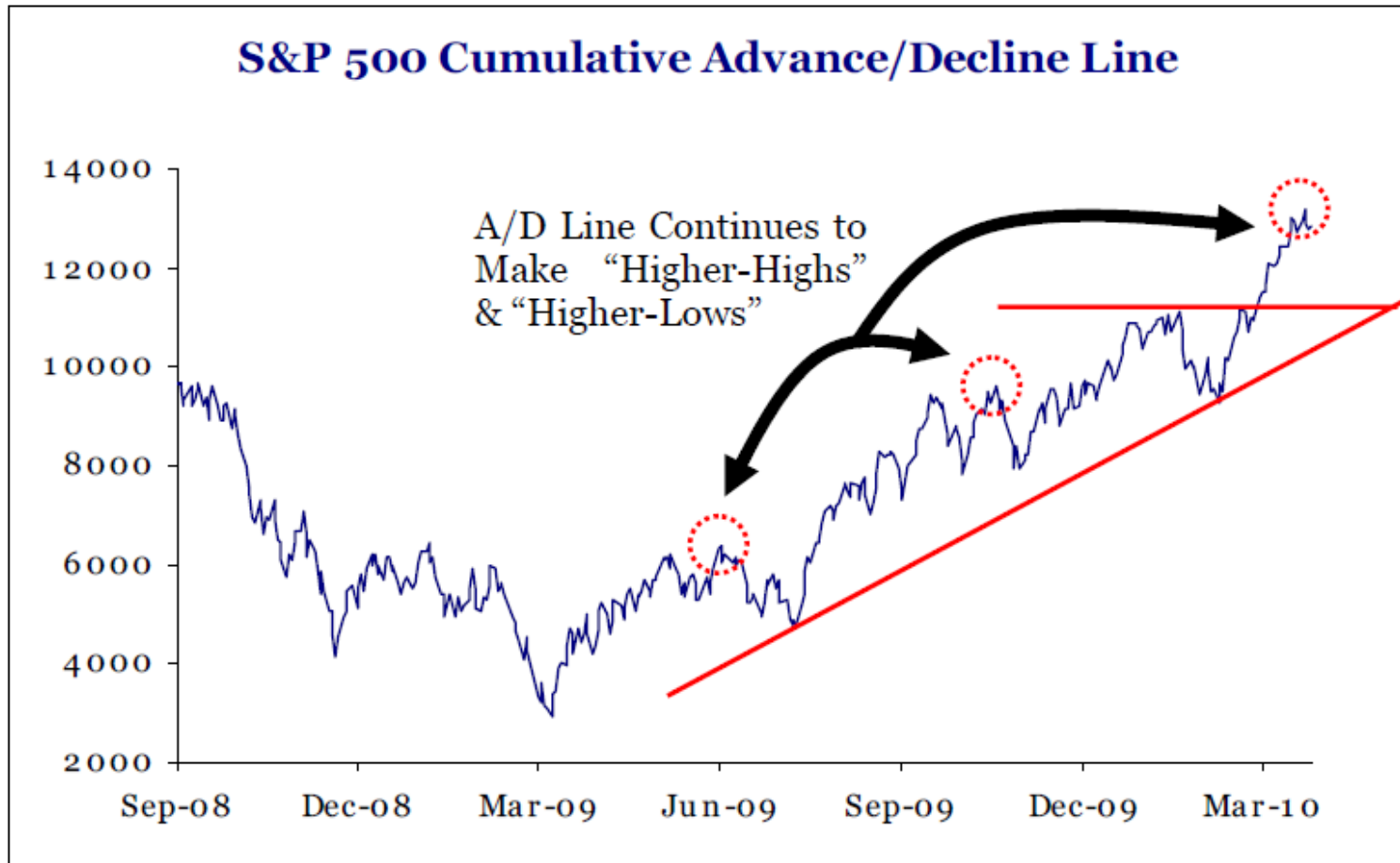
Source: Strategas Research

From Oversold to Overbought in One Year



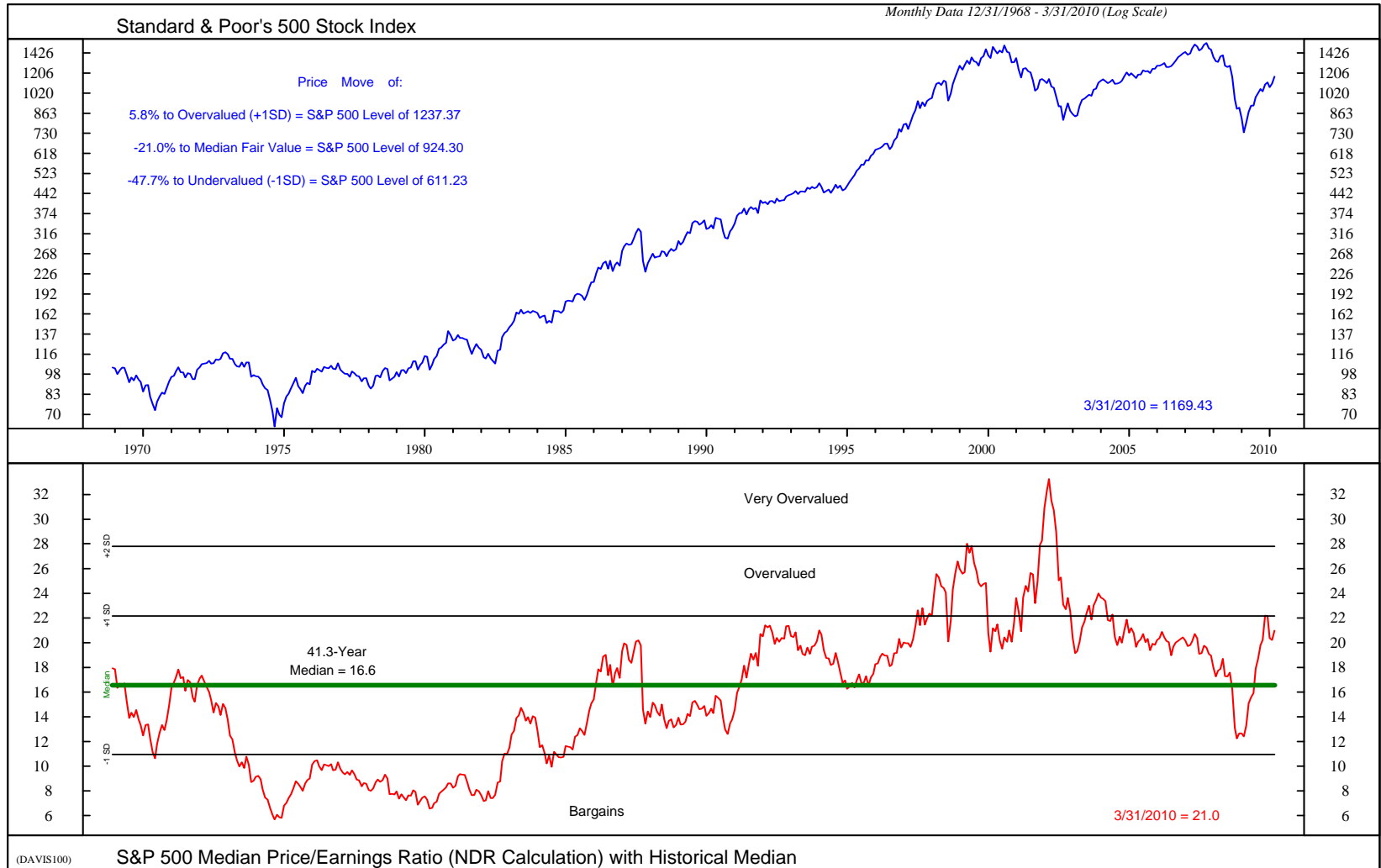
© Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
 See NDR Disclaimer at www.ndr.com/copyright.html . For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Market Internals Remain Healthy



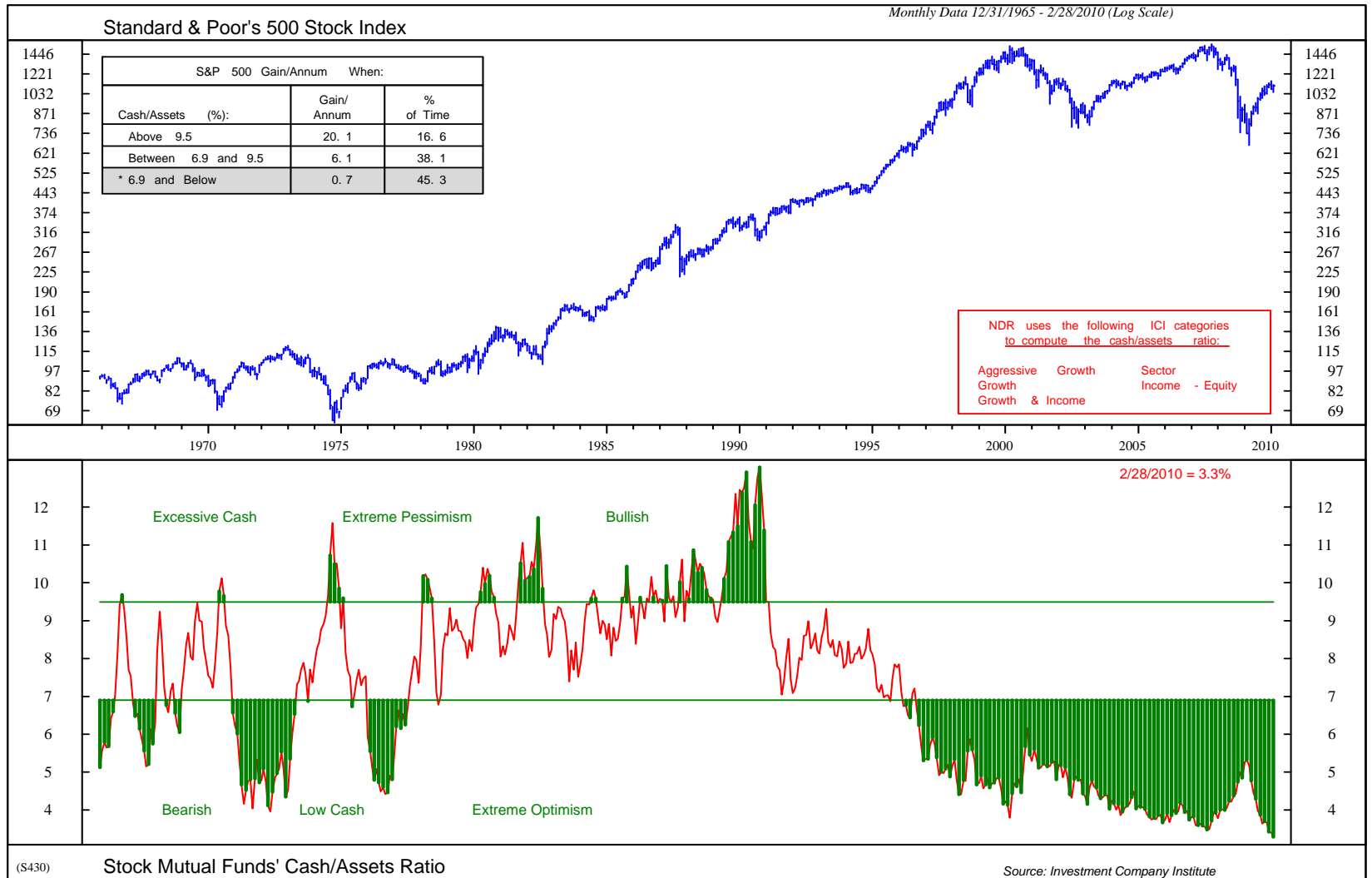
Source: Strategas Research

Stock Valuations Are Stretched



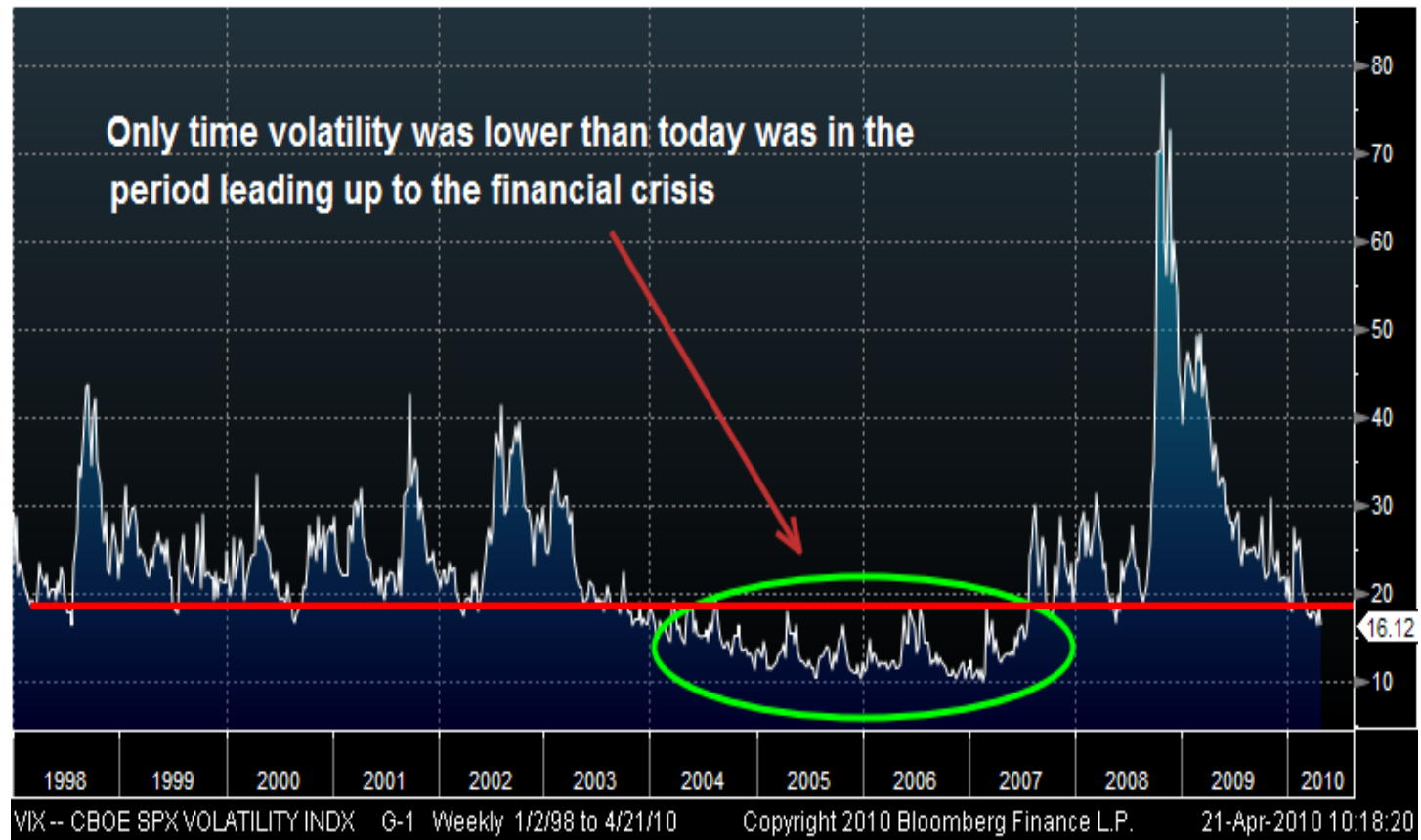
©Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
 See NDR Disclaimer at www.ndr.com/copyright.html . For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Mutual Fund Cash at Record Low



©Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
 See NDR Disclaimer at www.ndr.com/copyright.html . For data vendor disclaimers refer to www.ndr.com/vendorinfo/

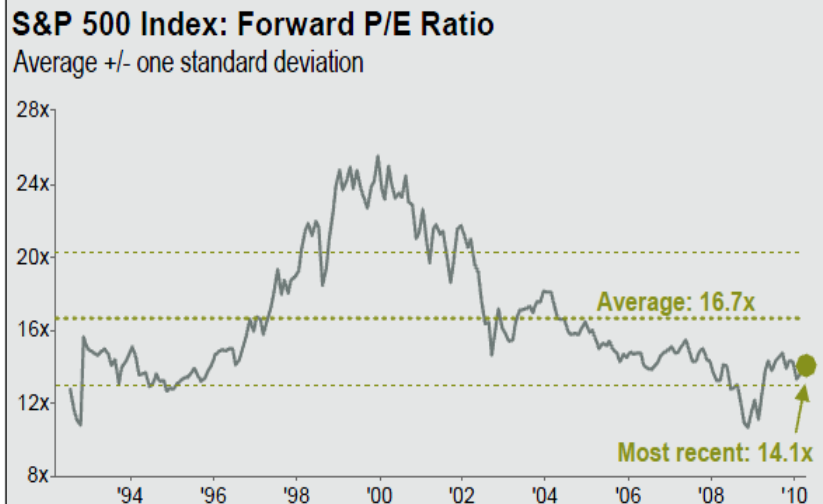
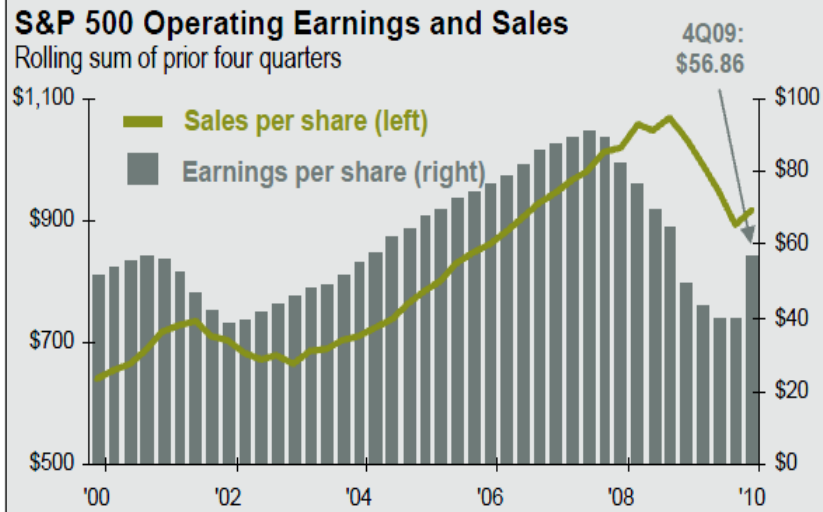
Volatility Set to Increase?



S&P 500 Approaching Major Resistance



Earnings Expectations are Elevated



S&P 500 Index Levels

Index levels implied by operating earnings and P/E ratio combinations

	\$50	\$60	\$70	\$80	\$90	\$100
13x	650	780	910	1040	1170	1300
14x	700	840	980	1120	1260	1400
15x	750	900	1050	1200	1350	1500
16x	800	960	1120	1280	1440	1600
17x	850	1020	1190	1360	1530	1700
18x	900	1080	1260	1440	1620	1800
19x	950	1140	1330	1520	1710	1900
20x	1000	1200	1400	1600	1800	2000
21x	1050	1260	1470	1680	1890	2100

Source: Wall Street Journal

Questions & Answers

To ask a question via the webinar screen

Click on the arrows at the top right of your screen to show your control panel and type your questions.

To ask a question via the telephone

Press *9 on your telephone keypad to raise your hand and listen for instructions from the attendant.

Kanaly^{TRUST}[™]

Kanaly^{TRUST}SM

April 22, 2010

Kanaly Trust Quarterly Investment Outlook & Strategy Conference Call