



July 14, 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 June 30, 2010

EQUITIES	<u>2nd Qtr</u>	<u>YTD</u>	<u>12 Months</u>
S&P 500	(11.4)	(6.7)	14.4
DJIA	(9.4)	(5.0)	18.9
Nasdaq	(11.8)	(6.6)	16.0
Russell 2000	(9.9)	(2.0)	21.5
MSCI EAFE	(13.8)	(12.9)	6.4
MSCI Emerging Mkts	(8.3)	(6.0)	23.5
FIXED INCOME			
BarCap US 1-3yr Govt	1.2	1.9	2.8
BarCap Int Govt/Credit	3.0	4.6	8.3
BarCap High Yield	(0.1)	4.5	26.8
BarCap 5yr Muni	1.7	2.5	6.9
ALTERNATIVES			
HFRI Global Hedge Fund	(2.8)	(1.2)	6.1
DJ Wilshire REIT	(4.1)	5.3	55.7
DJ UBS Commodity	(4.8)	(9.6)	2.8
Gold	11.6	13.2	34.1
Crude Oil	(9.7)	(4.7)	8.2

Kanaly Trust Investment Model Performance – 2010

(Equity/Fixed Income/Alternatives/Cash)

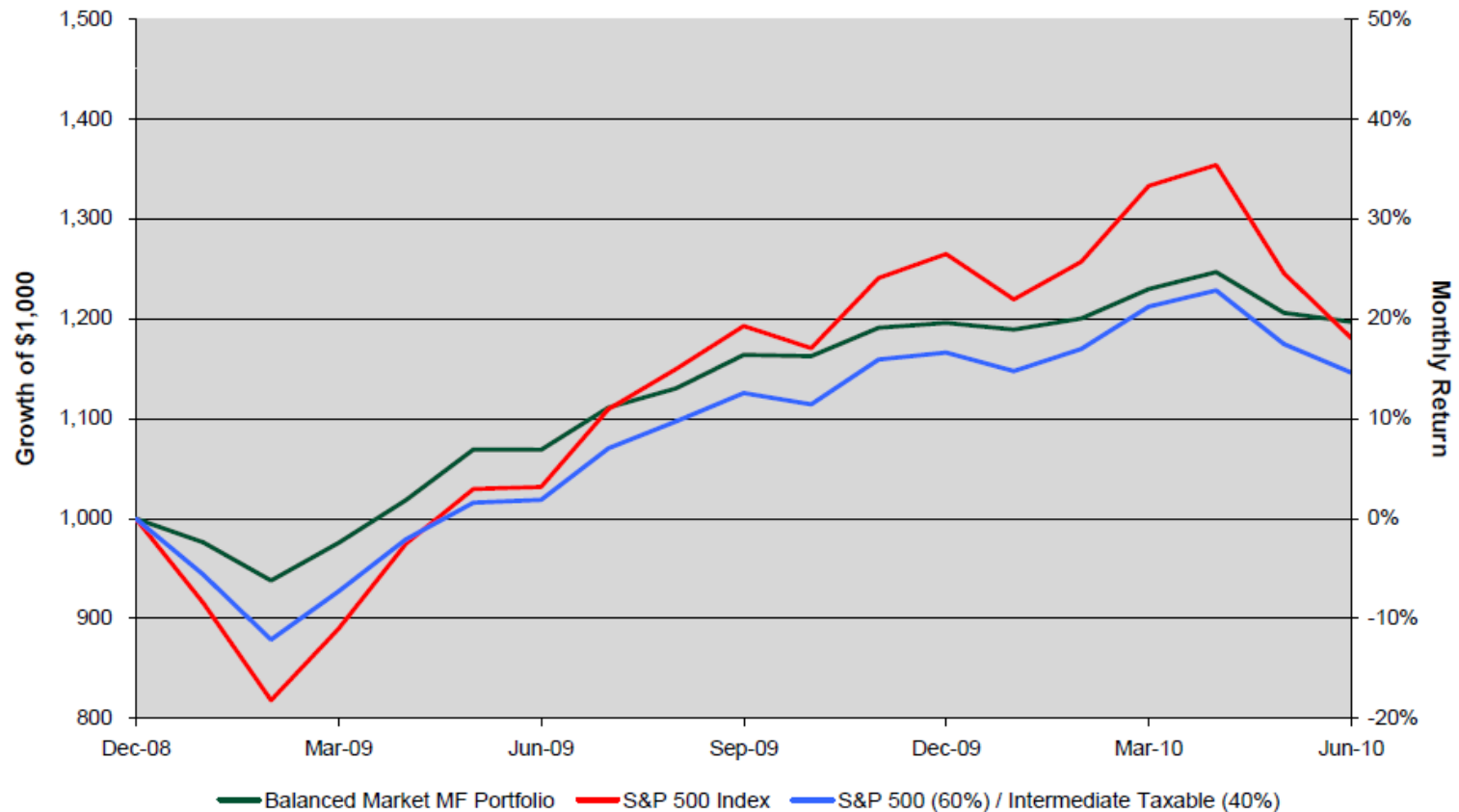
	<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-10</u>	<u>Apr-10</u>	<u>May-10</u>	<u>Jun-10</u>	<u>Year to Date</u>
Balanced Models							
Growth (35/25/33/7)	-0.6%	0.9%	2.8%	1.4%	-3.6%	-1.0%	-0.3%
Growth - Taxfree FI (35/25/33/7)	-0.9%	1.3%	2.6%	1.3%	-3.6%	-1.3%	-0.7%
Balanced (30/30/33/7)	-0.6%	0.9%	2.5%	1.4%	-3.3%	-0.8%	0.1%
Balanced - Taxfree FI (30/30/33/7)	-0.9%	1.3%	2.2%	1.2%	-3.1%	-1.1%	-0.4%
Conservative (15/50/24/11)	0.1%	0.7%	1.5%	1.3%	-2.0%	0.1%	1.7%
Conservative - Taxfree FI (15/50/25/11)	-0.6%	1.2%	1.1%	1.0%	-1.7%	-0.6%	0.4%
Equity Only	-3.2%	2.2%	6.4%	1.2%	-8.3%	-3.7%	-6.0%
Fixed Income - Taxable	1.6%	0.0%	0.7%	1.4%	-0.5%	1.4%	4.5%
Fixed Income - Tax Free	0.2%	0.5%	-0.5%	0.5%	0.3%	-0.2%	0.7%
ALTs - No MLPs	-0.7%	2.0%	1.0%	1.0%	-1.8%	-0.3%	1.2%
ALTs - With MLPs	-0.5%	1.2%	1.4%	1.9%	-2.2%	0.5%	2.3%
S&P 500 (60%) / Intermediate Taxable (40%)	-1.6%	1.9%	3.6%	1.3%	-4.4%	-2.4%	-1.7%
S&P 500 (60%) / Intermediate Muni (40%)	-1.9%	2.2%	3.4%	1.2%	-4.5%	-3.0%	-2.9%
S&P 500 Index	-3.6%	3.1%	6.0%	1.6%	-8.0%	-5.2%	-6.7%
iShares Barclays Aggregate Bond	1.4%	0.2%	0.0%	1.0%	1.1%	1.8%	5.5%
BarCap 1-10 Yr Muni Index	0.6%	0.8%	-0.6%	0.7%	0.7%	0.3%	2.5%

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 – 2nd Quarter 2010

- Our investments in alternative strategies, fixed income, and defensive equity managers helped to limit damage from a correction in the equity markets (MSCI World Index lost 11.2% in the quarter)
- Gold was the top performer, gaining nearly 12%
- Our position in the U.S. Dollar (UUP) rose over 5% due to sovereign debt concerns in Europe
- Energy MLPs showed continued strength and have been the portfolio's best performing asset class in 2010
- High quality fixed income enjoyed strong returns due to muted inflation expectations and a flight to quality

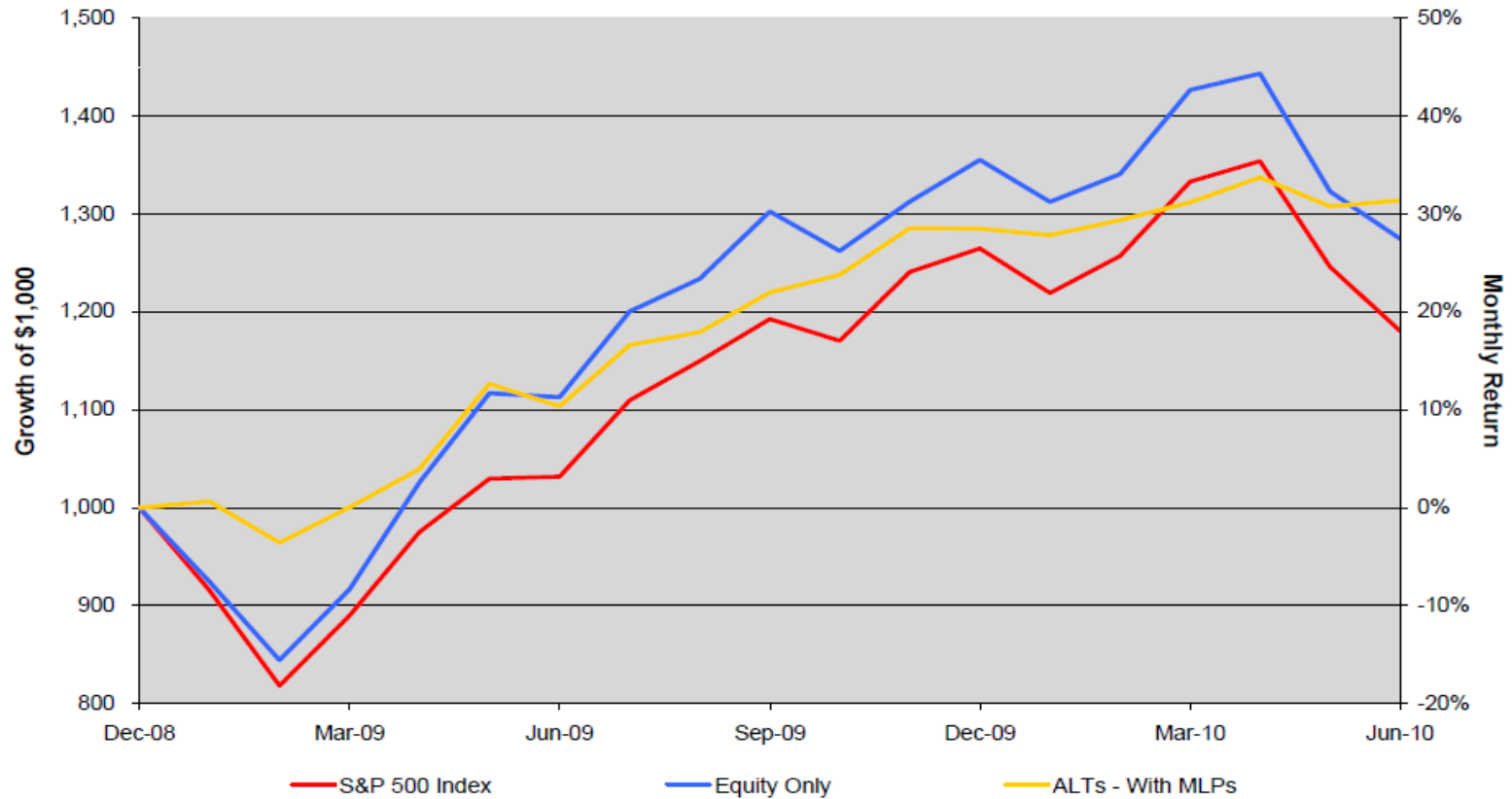
Kanaly Trust Investment Model Performance – 2010



	Cumulative Performance (12/31/08 - 6/30/10)	Annualized
Balanced Market MF Portfolio	19.7%	13.1%
S&P 500 Index	18.1%	12.0%
S&P 500 (60%) / Intermediate Taxable (40%)	14.6%	9.7%

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.

Kanaly Trust Investment Model Performance – 2010



	Cumulative Performance (12/31/08 - 6/30/10)	Annualized
S&P 500 Index	18.1%	12.0%
Equity Only	27.4%	18.3%
ALTs - With MLPs	31.4%	20.9%

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.

Key Economic Issues in 2010

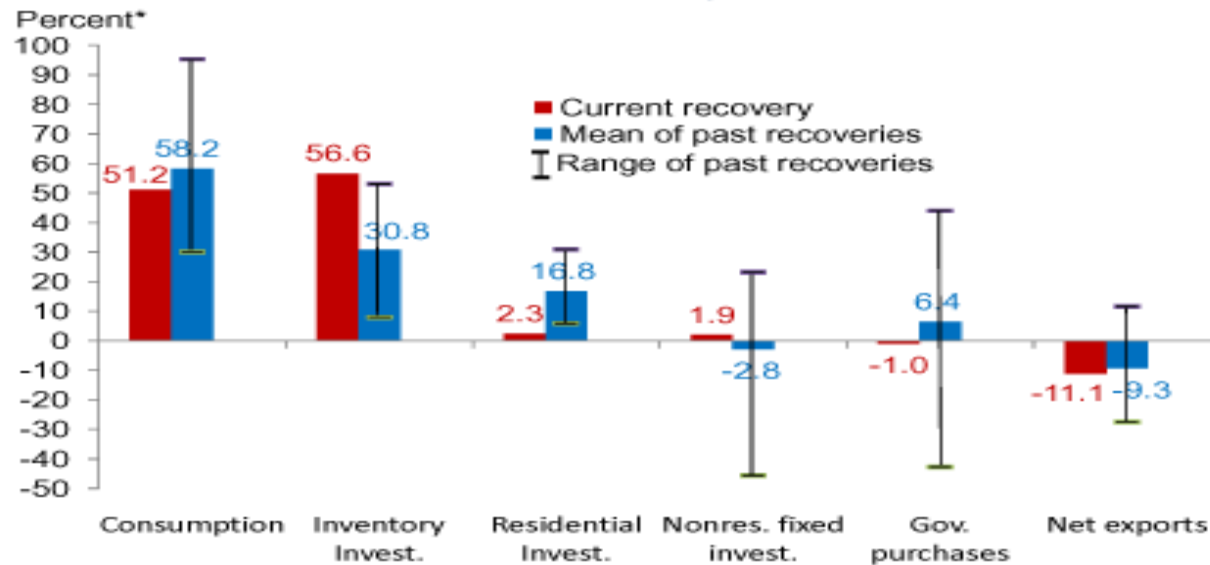
Markets are anticipating continued improvement in the economy, which likely hinges on a recovery in business spending and employment. Some of the key economic issues to watch include:

- Withdrawal of fiscal and monetary stimulus programs
- Efforts by China to slow economic growth
- Potential for mortgage resets, commercial real estate troubles, and sovereign debt to create fresh credit concerns
- Continued deleveraging of consumer balance sheets
- Tax increases coming at both federal and local levels
- Potential for higher interest rates to entice investors to buy Treasuries

Inventory Rebuilding

- The “V”-shaped recovery was driven by inventory rebuilding
- What will drive sustainable growth from here?

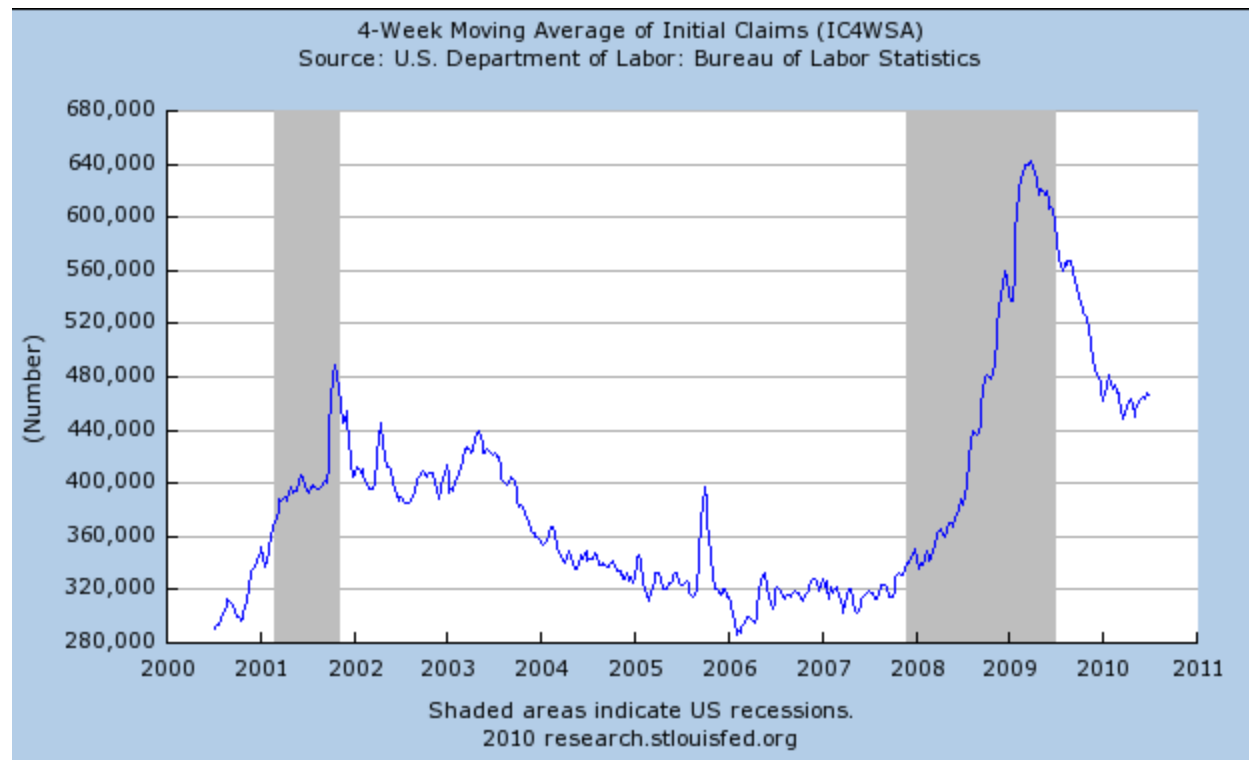
Chart 2
Inventory Investment Accounts for a Record
Share of Growth During This Recovery
 (Percent of Growth Accounted for by Each GDP Component, First 3 Quarters of Expansion)



*Seasonally adjusted, annualized rate.
 SOURCE: Bureau of Economic Analysis.

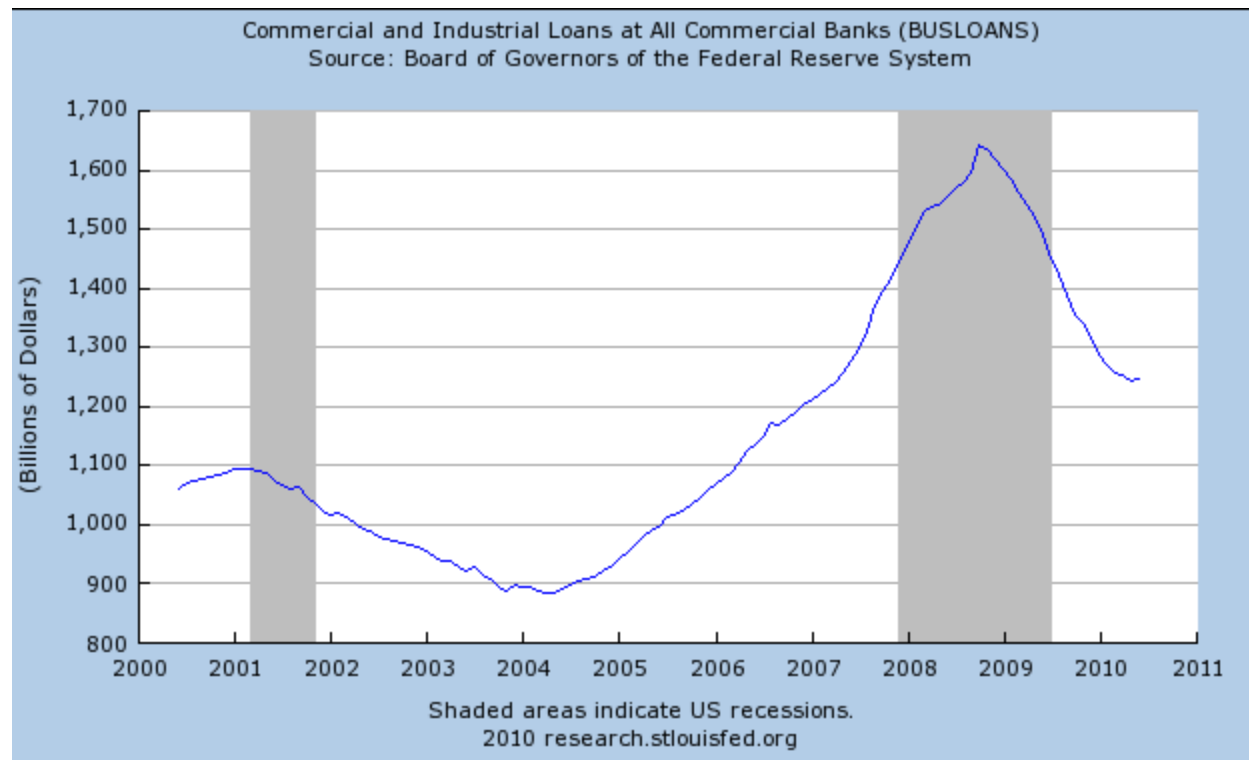
Unemployment Claims Stall at a High Level

- Employment is not always a lagging indicator
- Unemployment claims need to drop below 400,000 per week



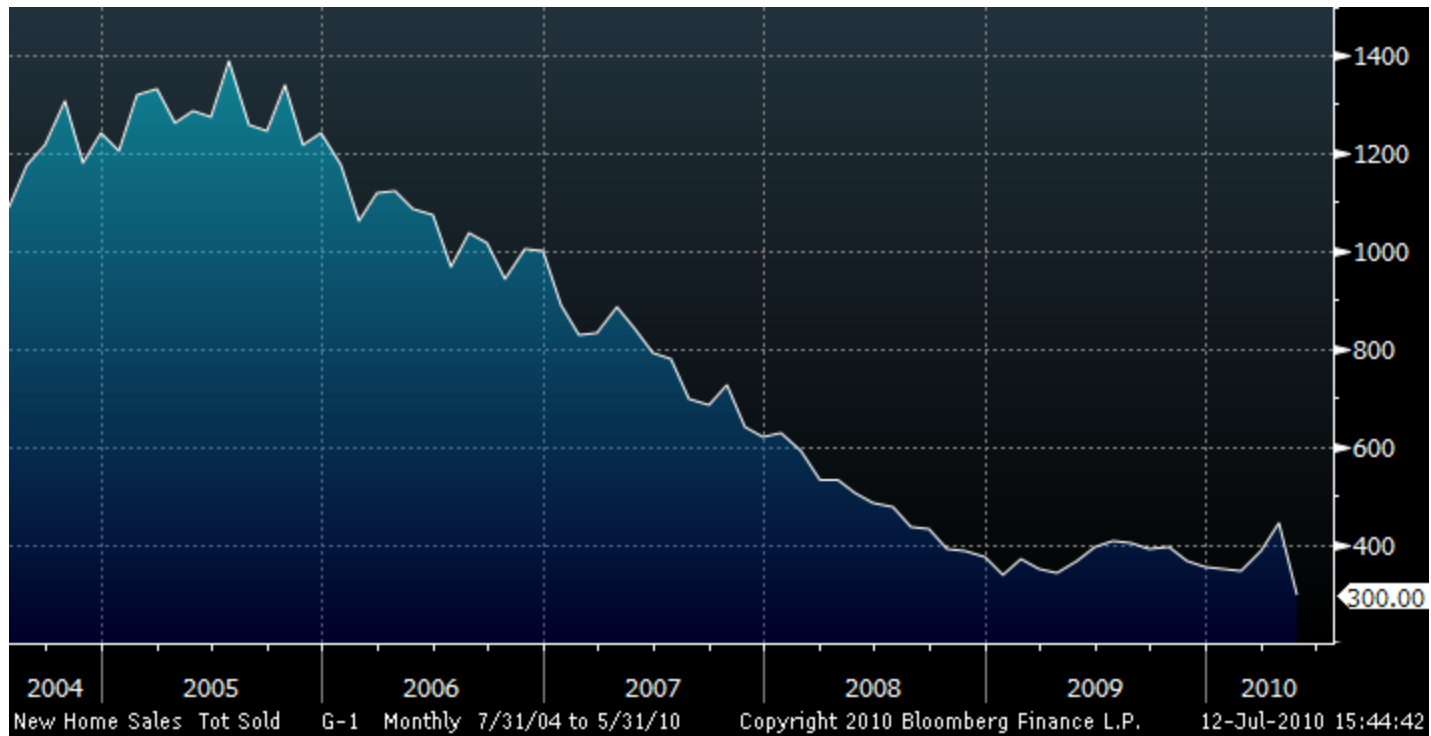
Lack of Credit Prevents Robust Recovery

- Credit is the lifeblood of economic growth
- The largest banks have reduced lending by over 25%

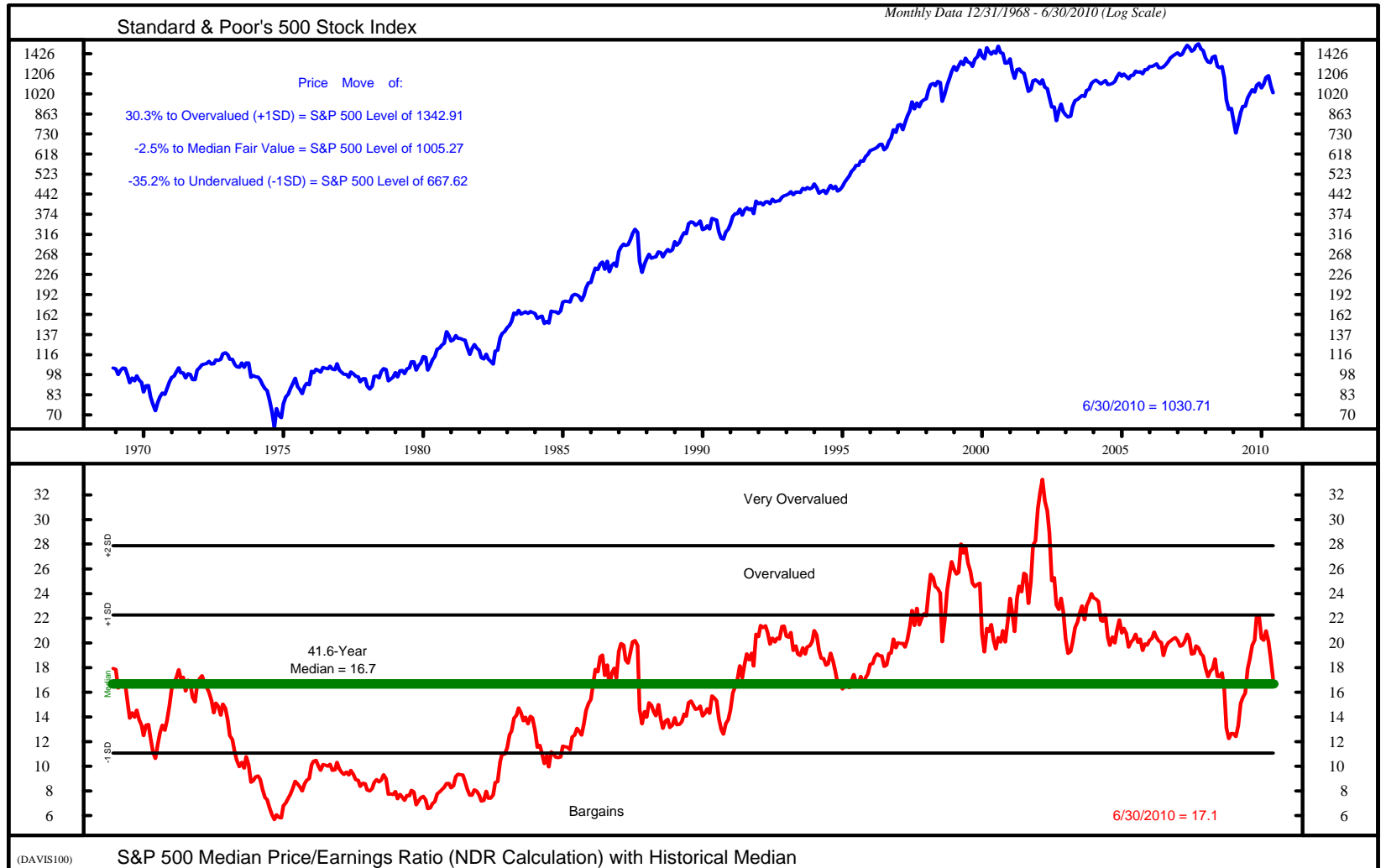


Double Dip in New Home Sales

- Aftermath of homebuyer tax credit leads to extremely low sales
- Potential for fresh credit concerns in the second half of 2010

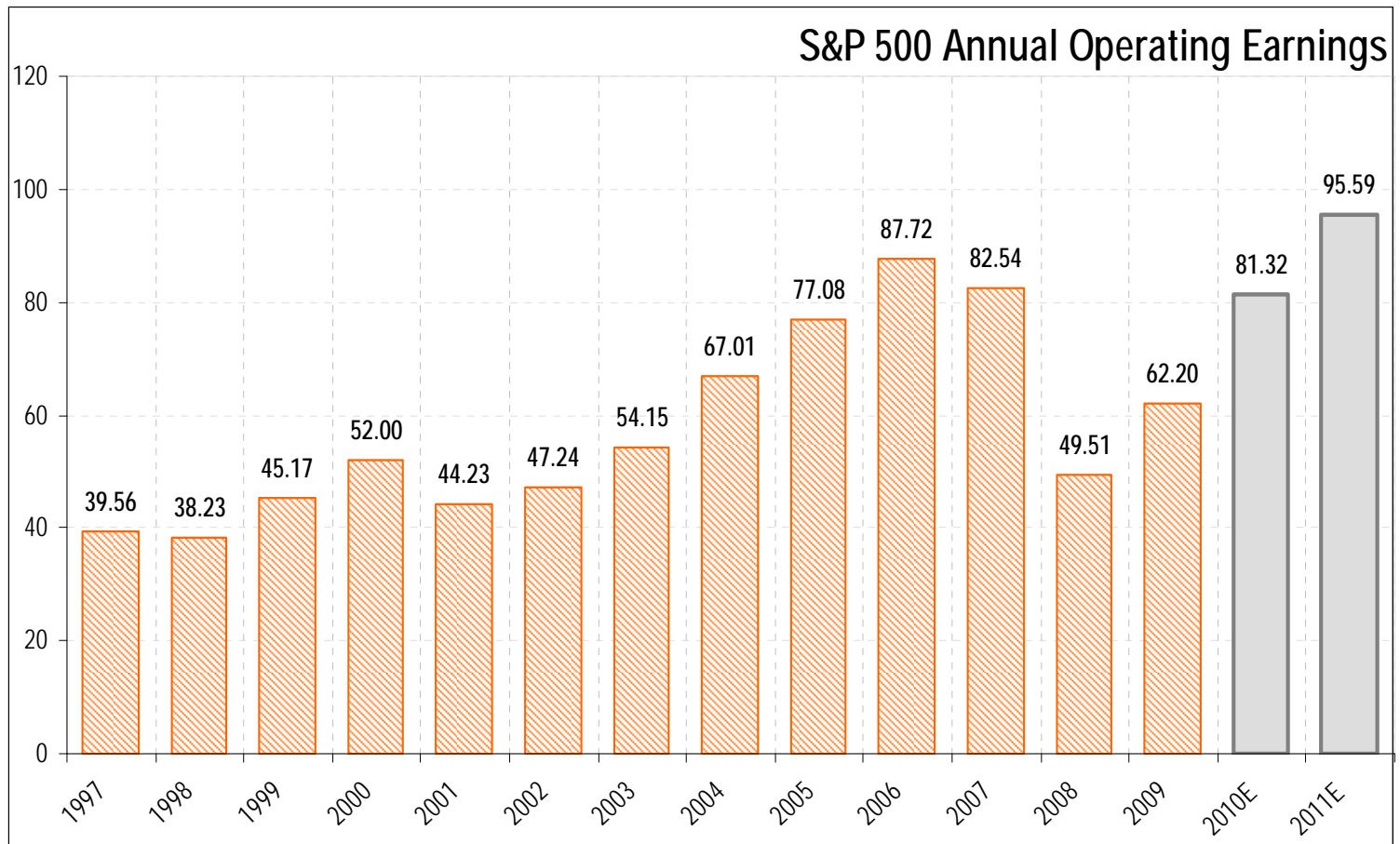


Stock Valuations Are Hardly Cheap

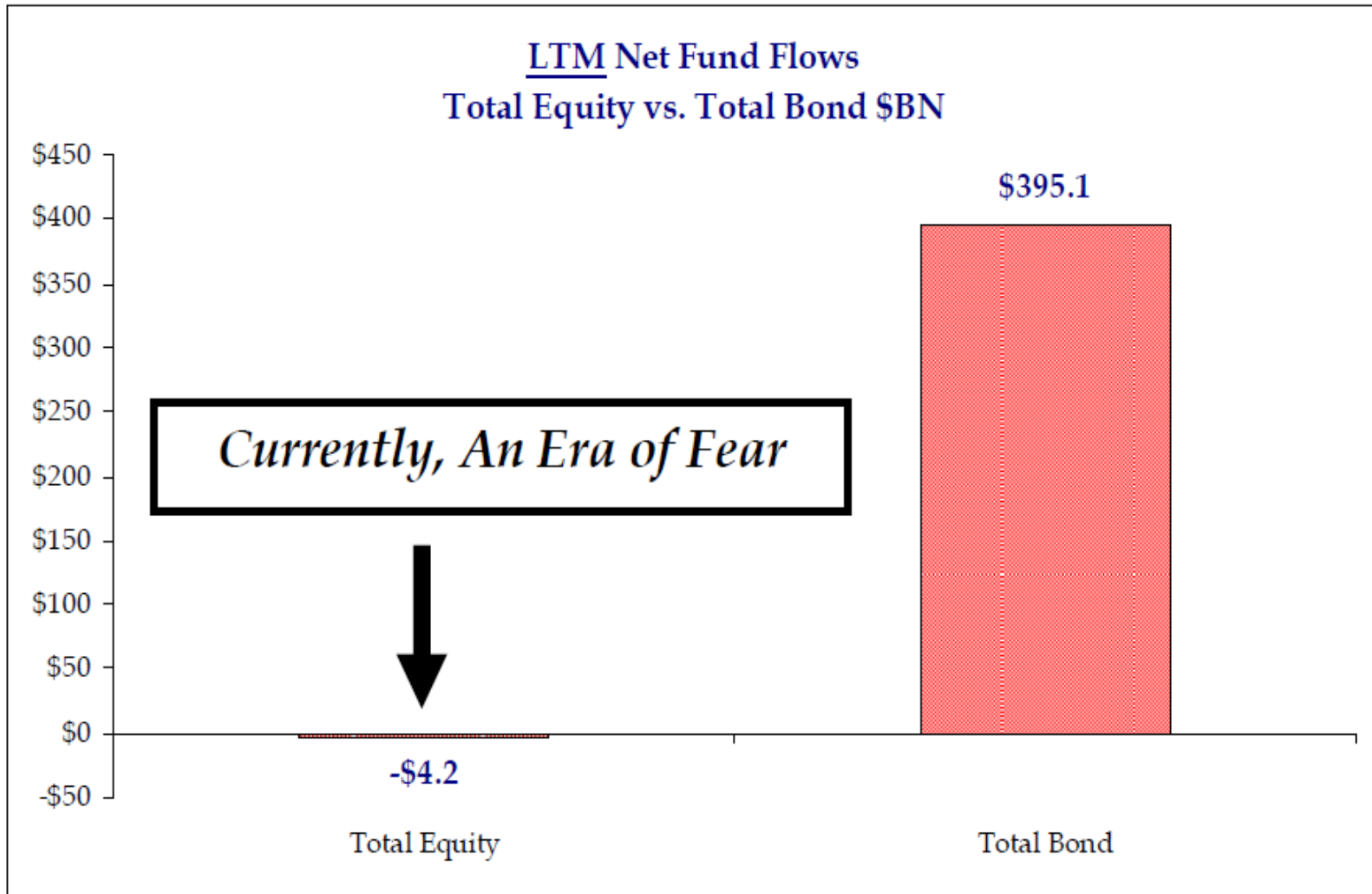


©Copyright 2010 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved.
 See NDR Disclaimer at www.ndr.com/copyright.html . For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Earnings Estimates Likely to Come Down

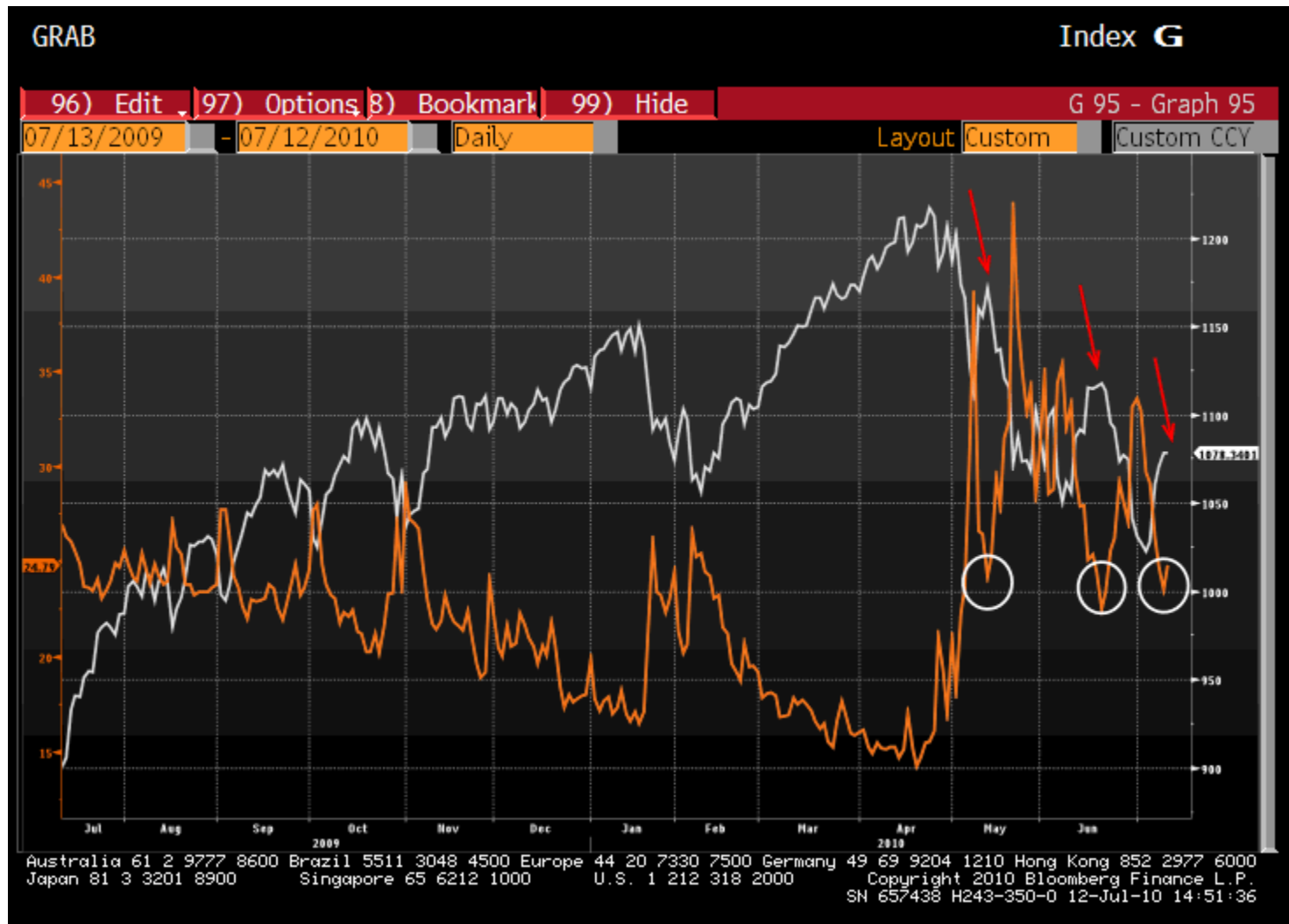


Individual Investors Have Little Confidence in Stocks

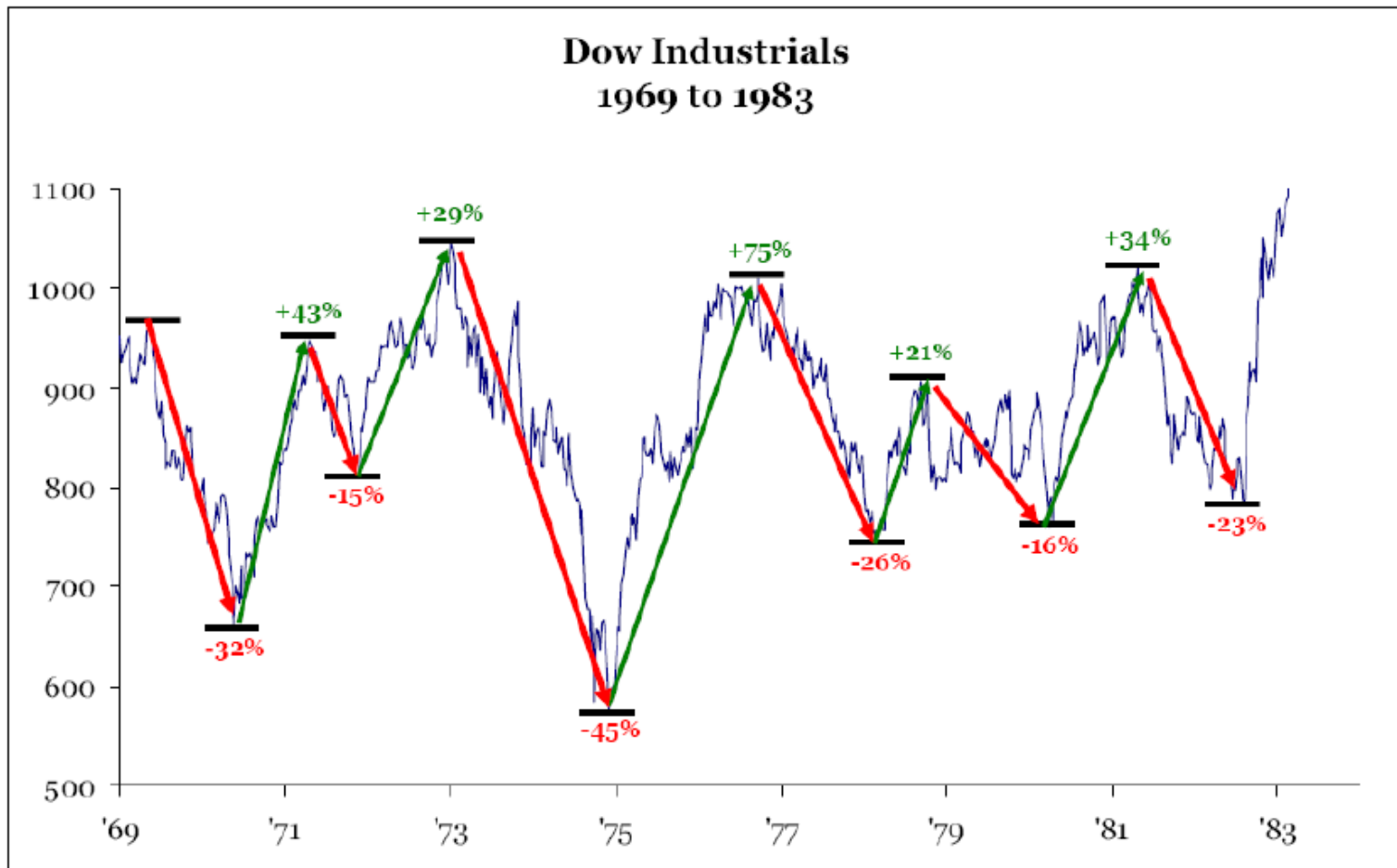


Source: National Federation of Independent Business

S&P 500 vs. Volatility Index



Back to the 1970's?



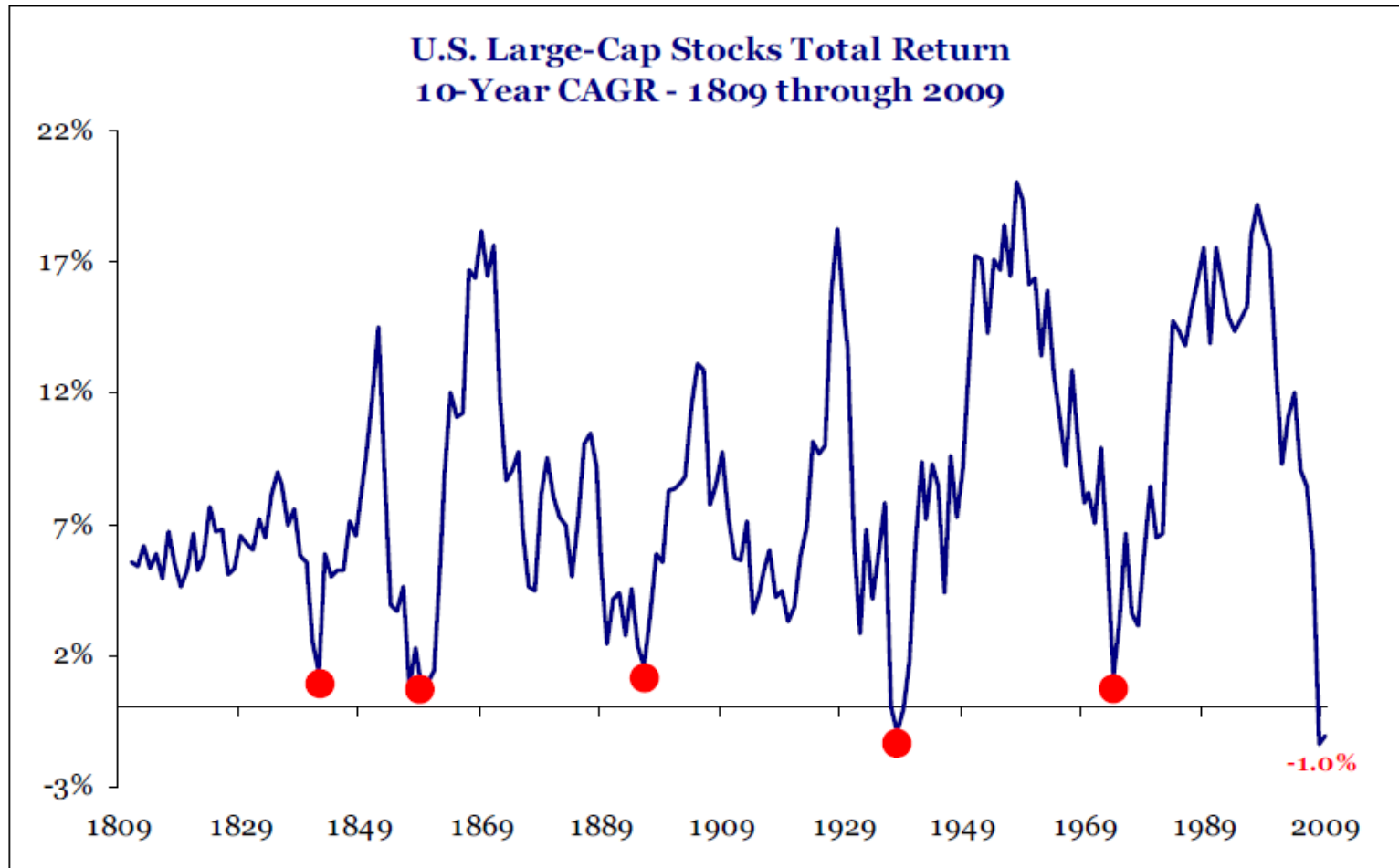
Source: Strategas Research

Investment Strategy

Portfolios should be geared more towards capital preservation to manage significant downside risks:

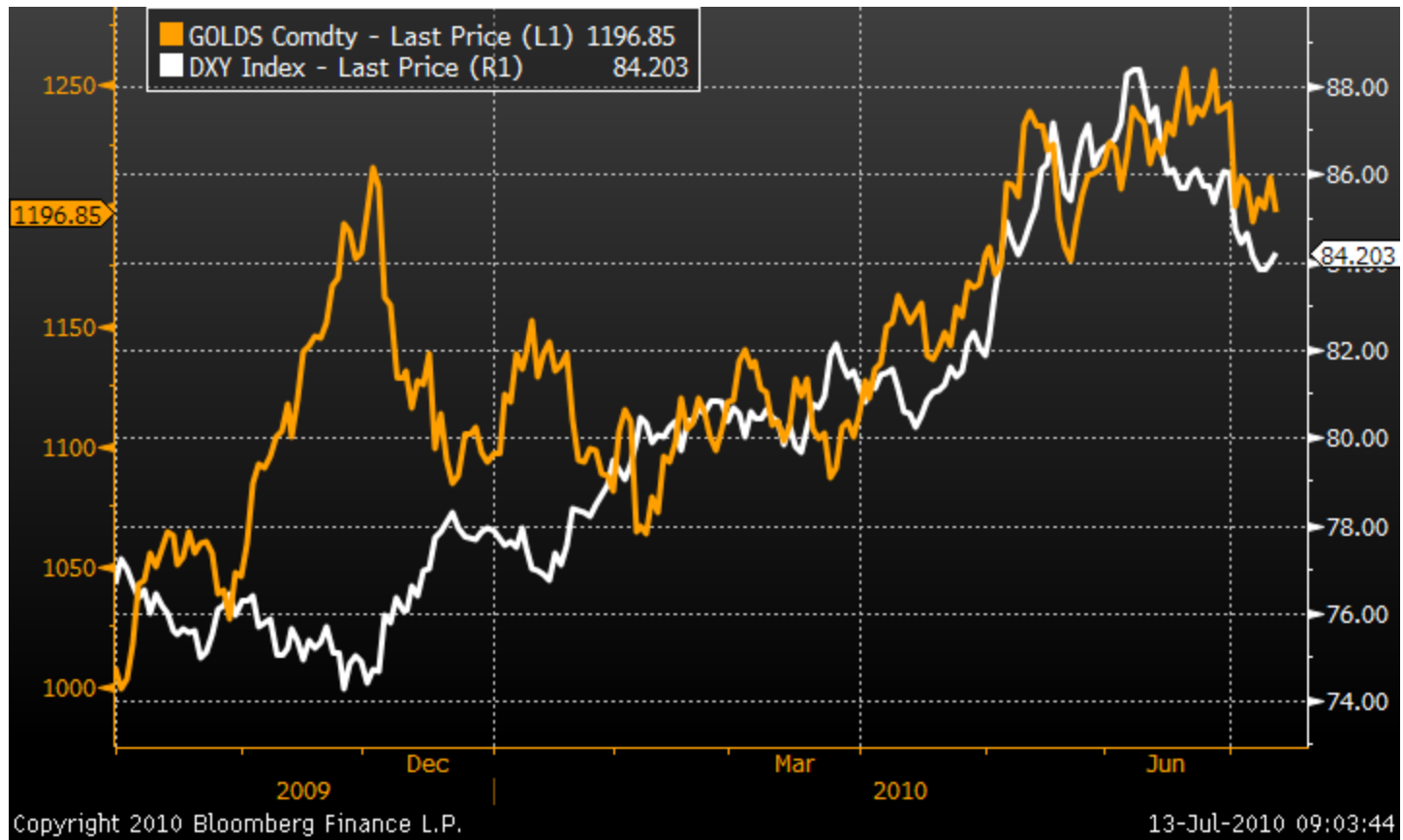
- Pursue ultra-diversification, utilizing traditional asset classes as well as alternative investment strategies (stocks & bonds are not the only choices)
- Actively manage the asset mix, and look for opportunities to hedge
- Equity exposure should focus on high quality global businesses trading at attractive valuations (bias to large caps, emerging markets)
- Be highly selective with fixed income: avoid high yield debt, and invest in only the most creditworthy municipal issuers
- Add to inflation protection when it is cheap

Large Cap Stocks Are Poised to Outperform



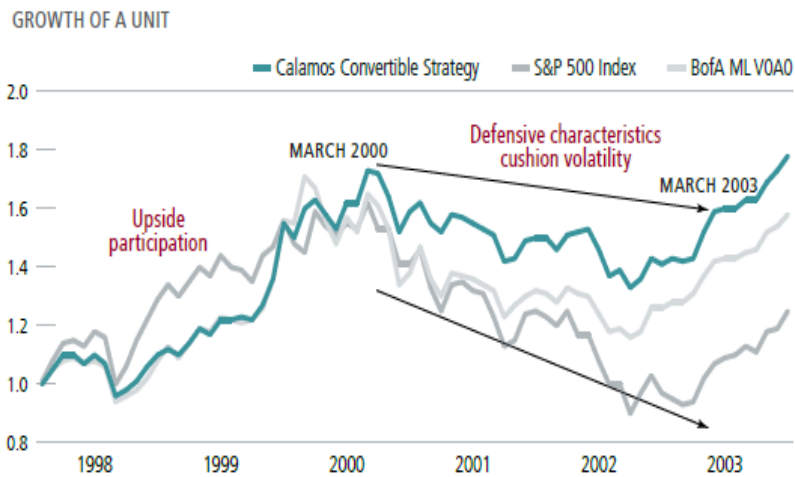
Source: Strategas Research

Gold vs. U.S. Dollar

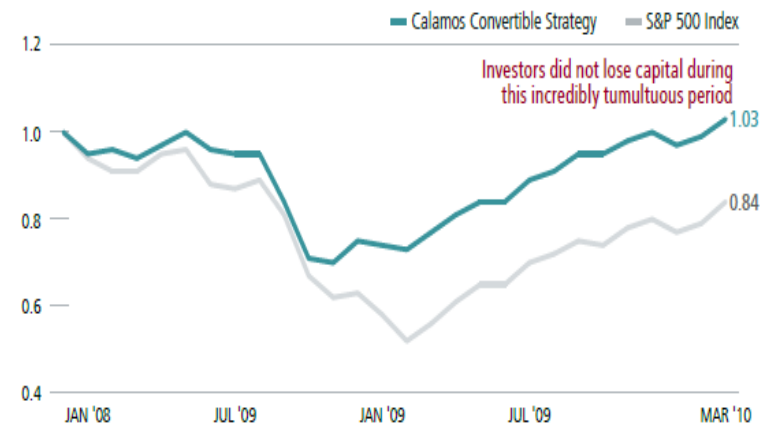


Calamos Convertible Strategy

- Convertible securities have both equity and fixed income characteristics
 - Potential downside protection via coupon payments and bond value
 - Potential upside equity participation
- Attractive risk/reward: convertibles have historically delivered greater participation in their underlying stocks' upside than their downside



Source: Mellon Analytical Solutions LLC and Calamos Advisors LLC. Strategy returns are gross of management fees.



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

July 14, 2010

Kanaly Trust Quarterly Investment Outlook & Strategy Conference Call