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October 21, 2010

Kanaly Trust Quarterly Investment Outlook & Strategy Conference Call

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James H. Shelton, CFA
Chief Investment Officer

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2010 Market Performance

Index Performance as of September 30, 2010

EQUITIES	3 Months	YTD	12 Months
S&P 500	11.3	3.9	10.2
DJIA	11.1	5.6	14.1
Nasdaq	12.6	5.2	12.7
Russell 2000	11.3	9.1	13.4
MSCI EAFE	16.5	1.5	3.7
MSCI Emerging Mkts	18.2	11.0	20.5
FIXED INCOME			
BarCap US 1-3yr Govt	0.6	2.5	2.6
BarCap Int Govt/Credit	2.8	7.4	7.8
BarCap High Yield	6.7	11.5	18.4
BarCap 5yr Muni	2.5	5.1	5.6
ALTERNATIVES			
HFRI Global Hedge Fund	3.1	1.9	4.1
DJ Wilshire REIT	13.2	19.2	30.1
DJ UBS Commodity	11.6	0.9	10.0
Gold	5.3	19.3	29.8
Crude Oil	5.7	0.8	13.2

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Key Investment Issues

- "Risk-on/Risk-off" trade continues to dominate
- Global search for yield in a low interest rate environment
- Economic growth is anemic; unemployment to remain high
- Federal Reserve is desperate to create inflation ("QE2")
- Investors expect positive results from QE2
- Upcoming election likely to remove political uncertainties
- Watch out for growing protectionist sentiment

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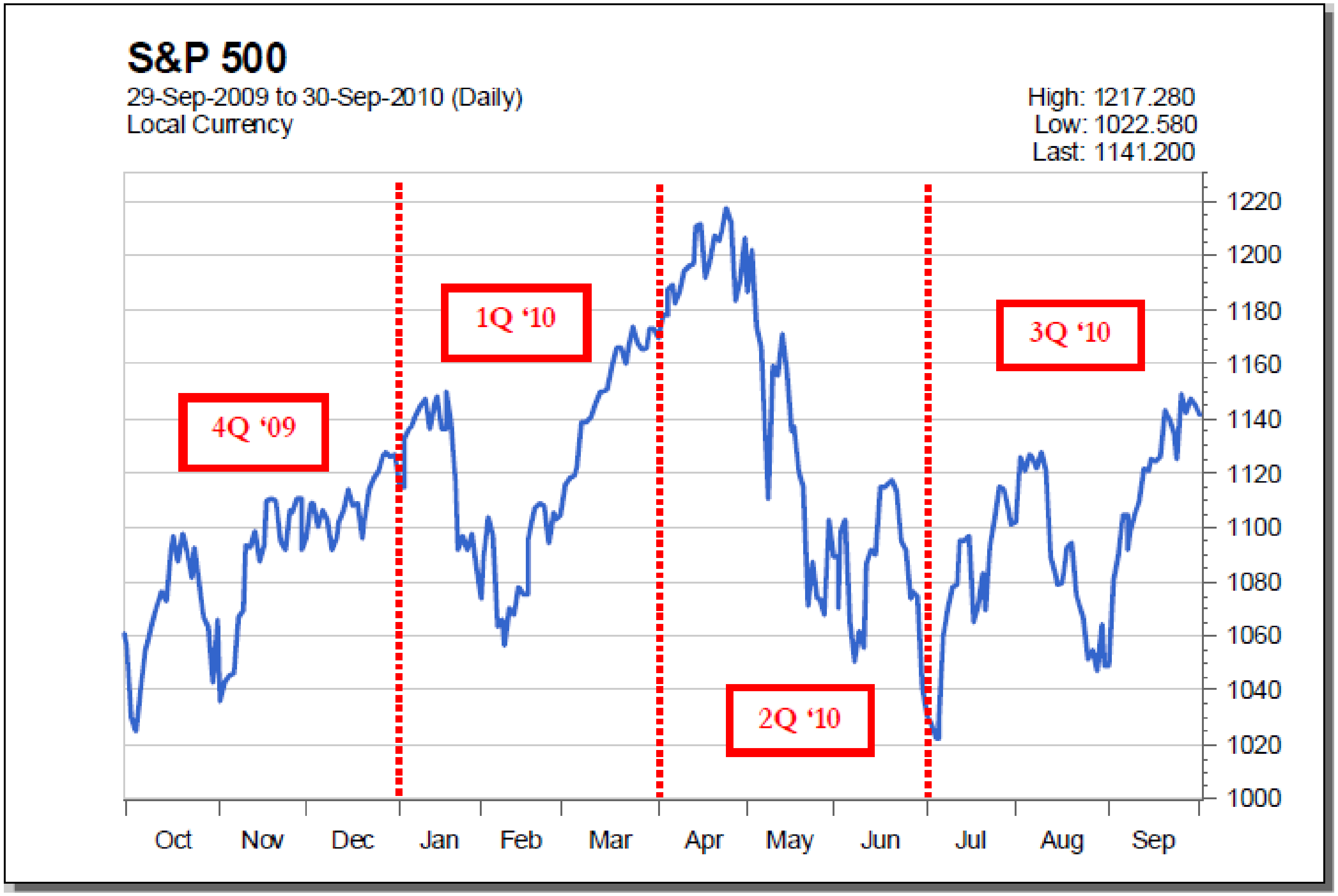
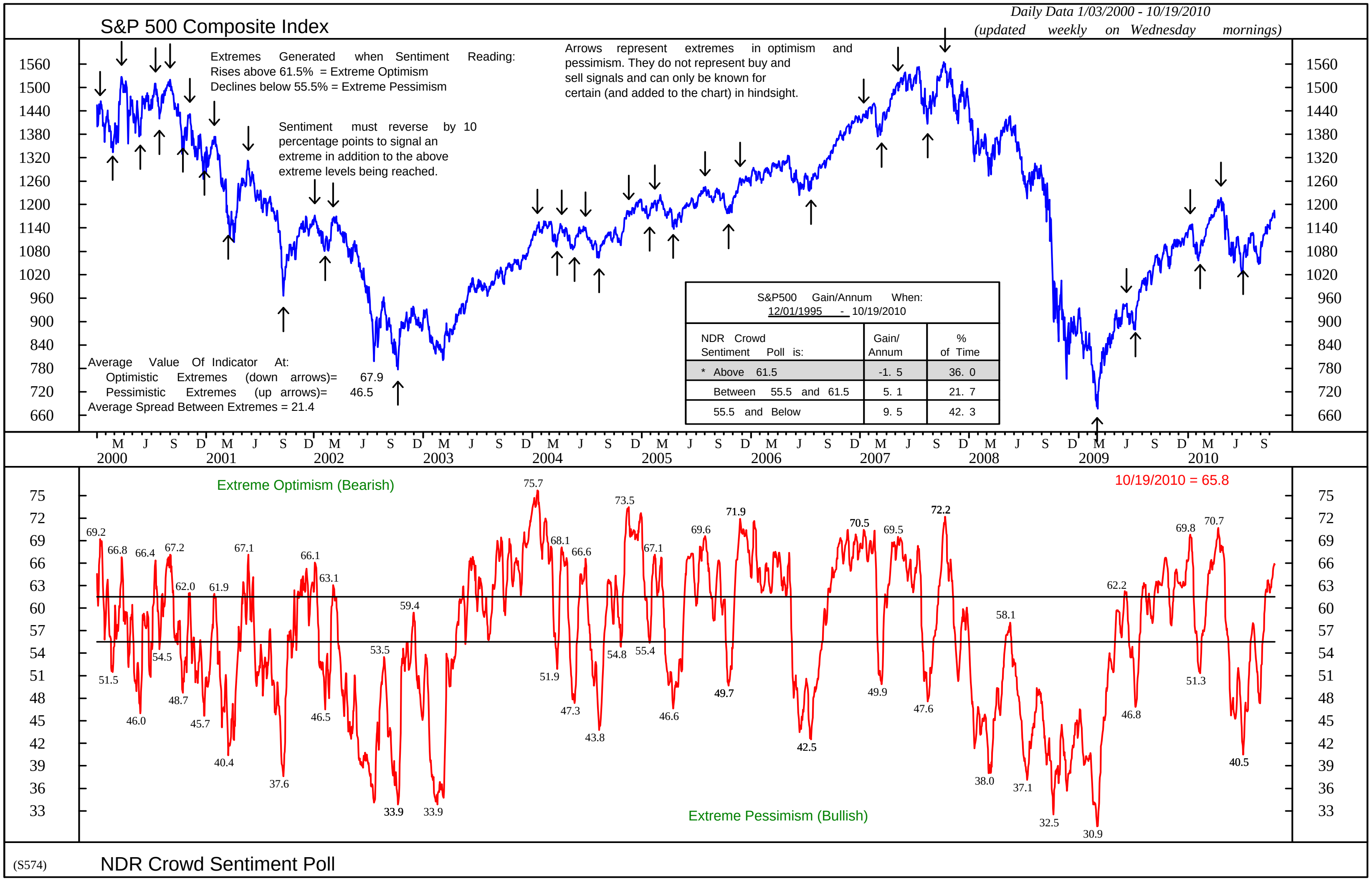
S&P 500 Has Been Volatile and Trendless in 2010



Source: Strategas Research

Investor Sentiment Becoming More Optimistic



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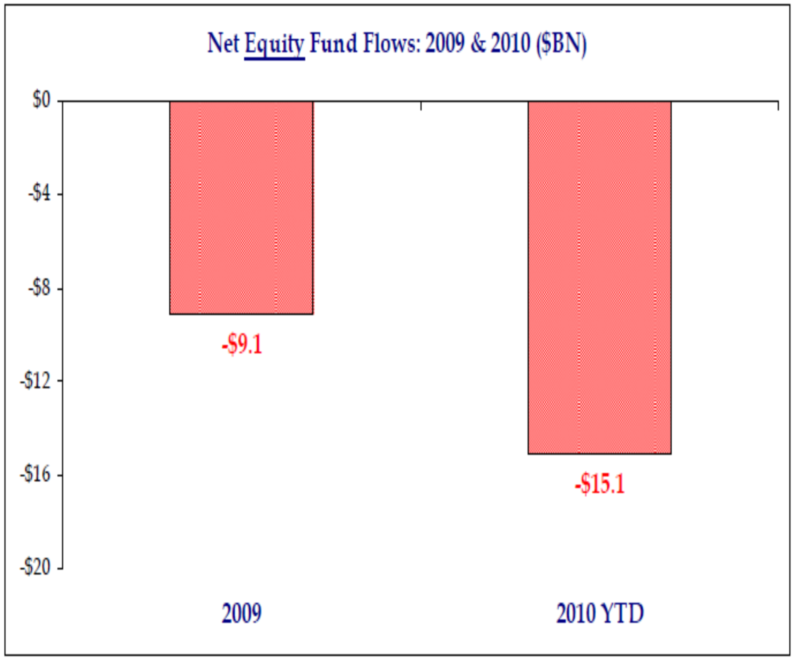
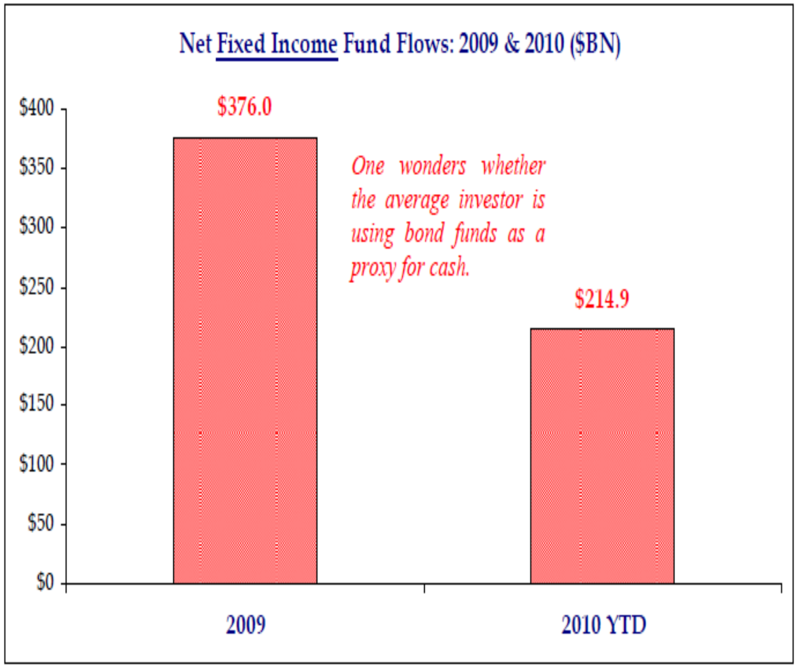
Individual Investors Strongly Favoring Bonds





Source: Strategas Research

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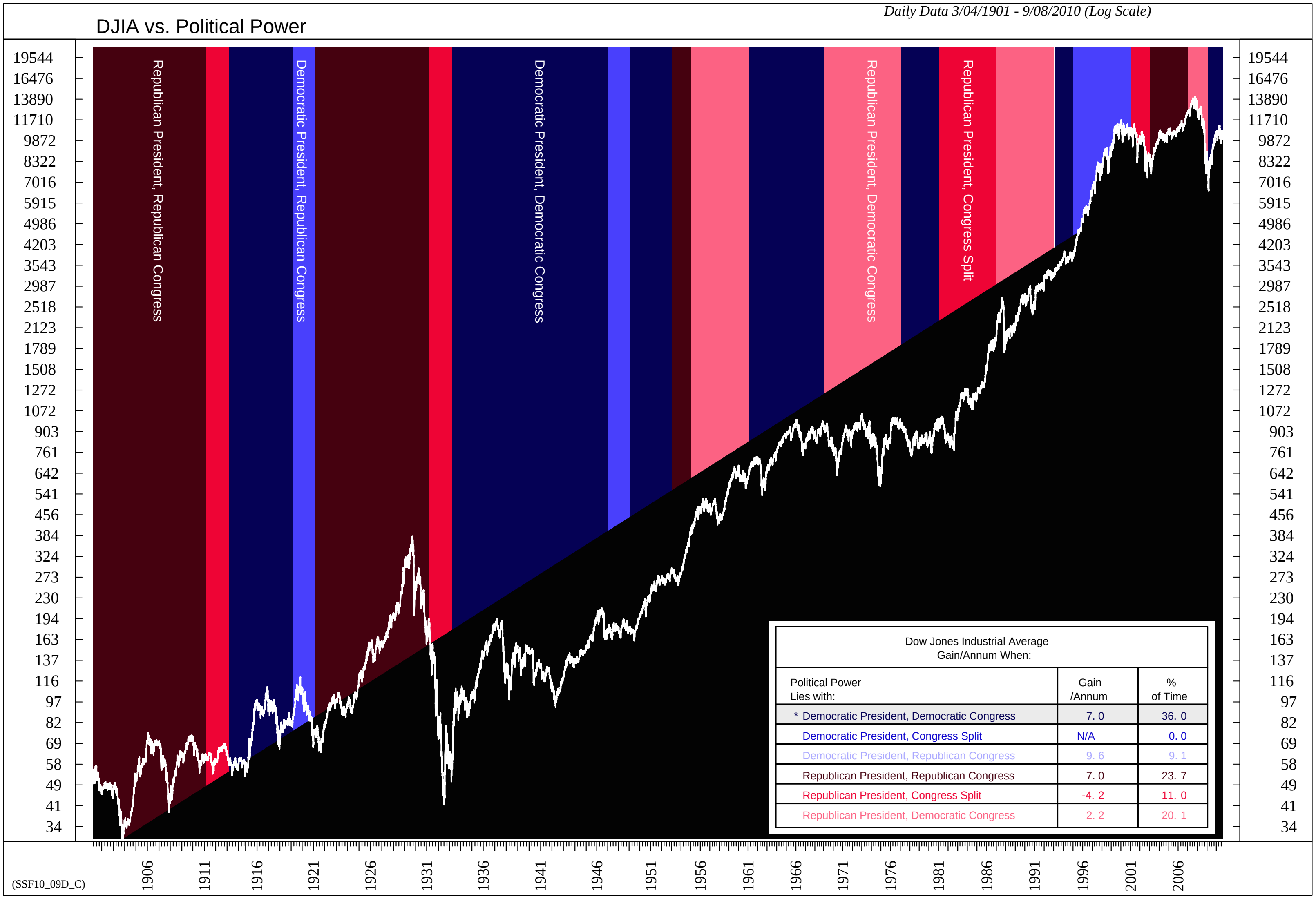
Democrat President / Republican Congress Best For Stocks



Dow Jones Industrial Average
Gain/Annum When:

Political Power Lies with:	Gain /Annum	% of Time
* Democratic President, Democratic Congress	7. 0	36. 0
Democratic President, Congress Split	N/A	0. 0
Democratic President, Republican Congress	9. 6	9. 1
Republican President, Republican Congress	7. 0	23. 7
Republican President, Congress Split	-4. 2	11. 0
Republican President, Democratic Congress	2. 2	20. 1

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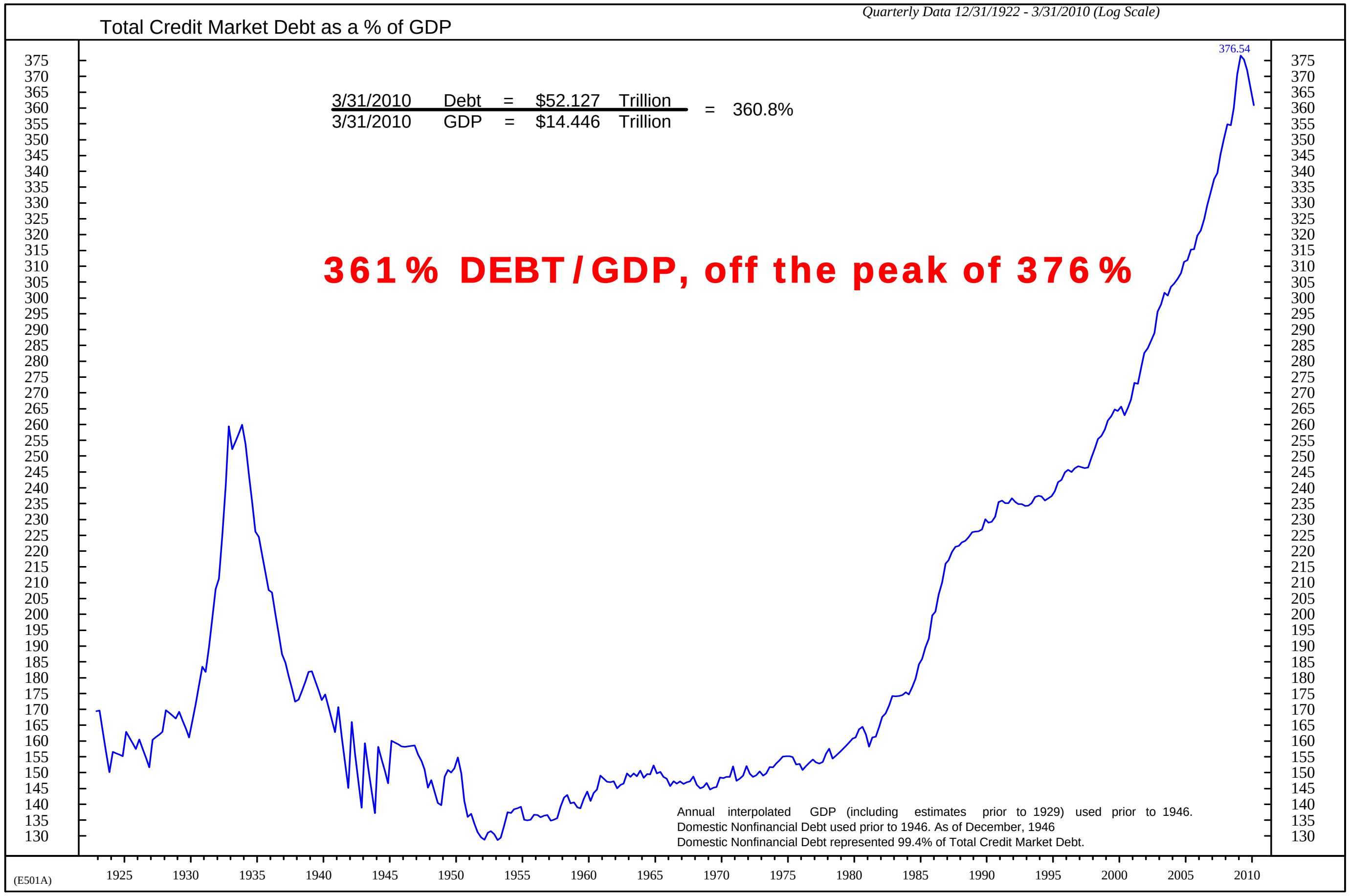
QE2 Is Coming

- Destruction of debt is holding back final demand
- Historically, governments have attempted to inflate away excessive debt



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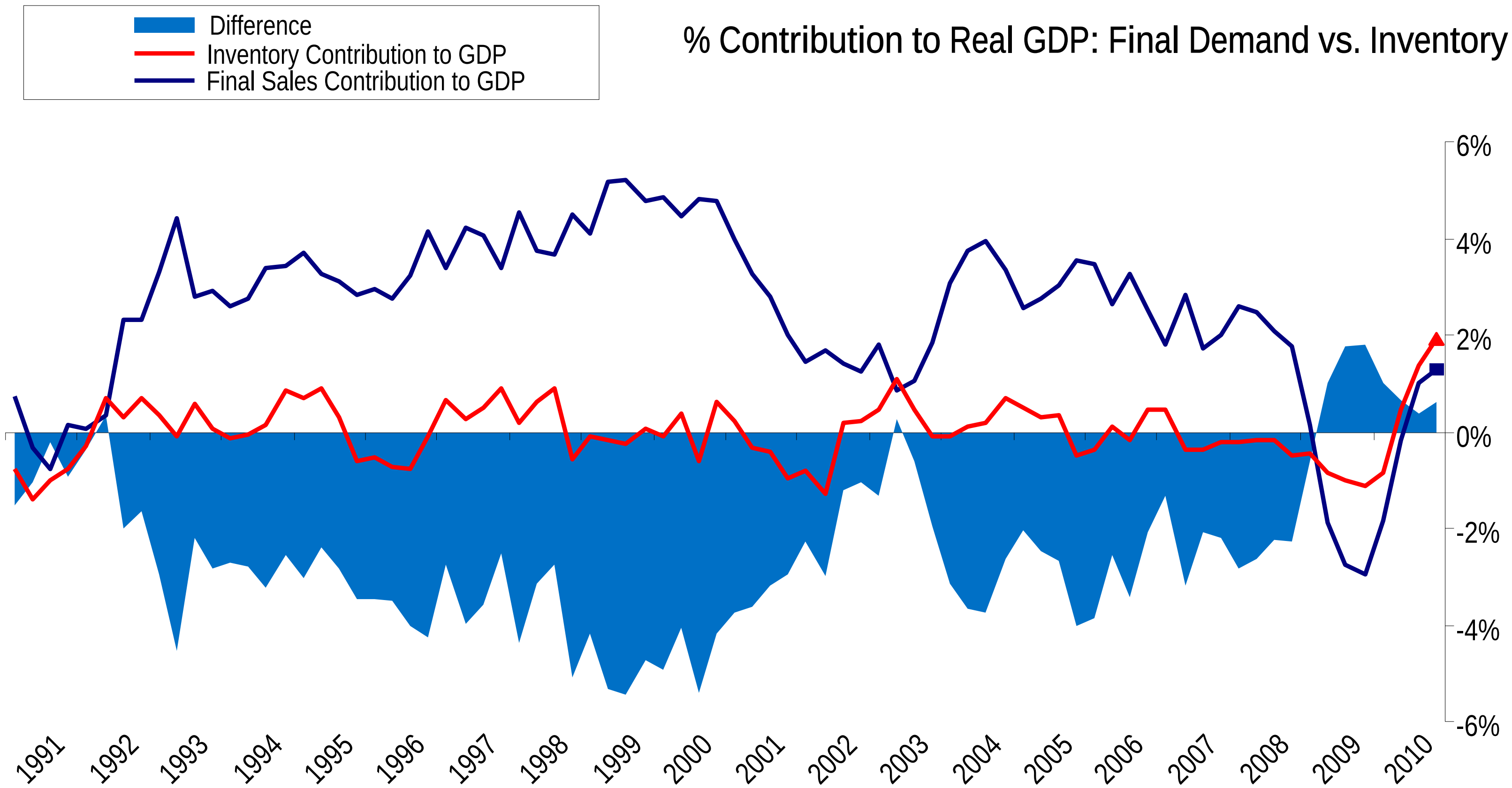
QE2 Is Coming

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



Source: FactSet Research Systems, Inc., Invesco. Time period based on availability of data.

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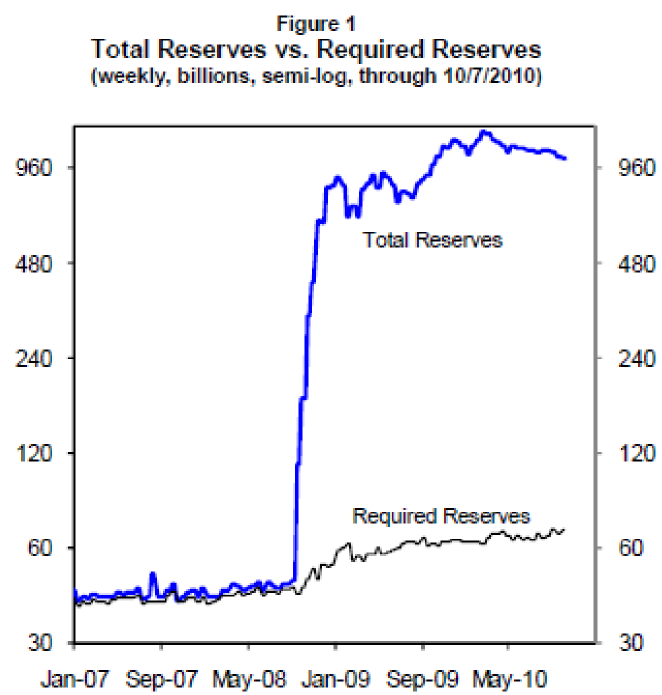
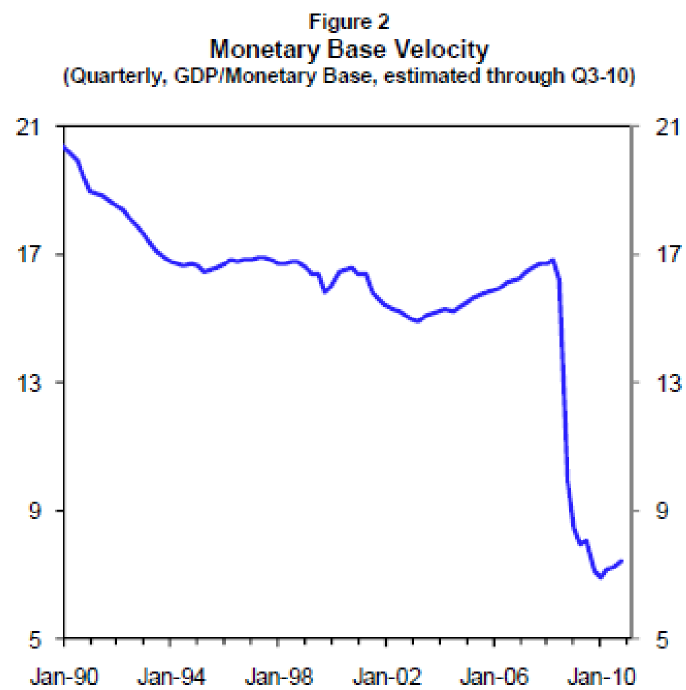
Consequences of QE2

- Creates substantial risk of uncontrolled inflation
- Artificially inflates asset prices
- Fosters competitive currency devaluation





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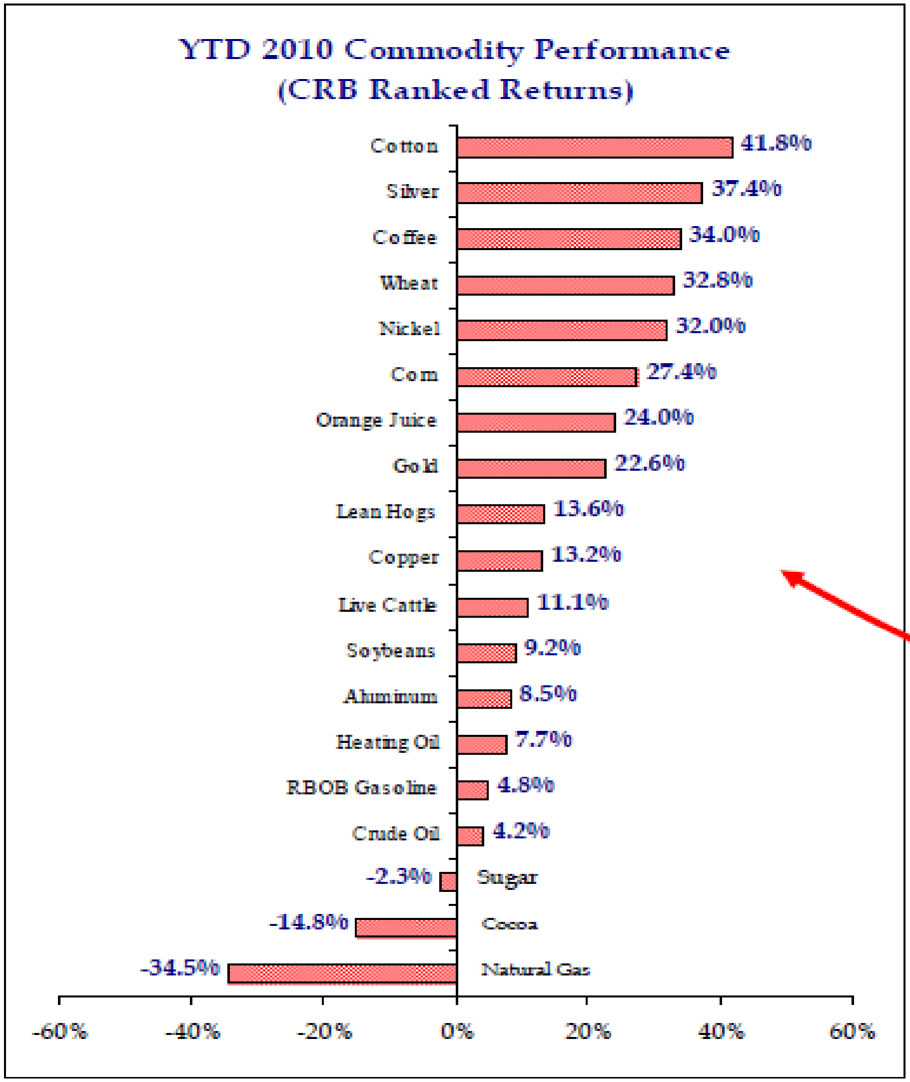
Commodity Price Inflation



Most commodities are up double-digits in 2010.

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Kanaly Trust Investment Model Performance – 2010

2010 QUARTERLY & YEAR TO DATE MODELS INVESTMENT PERFORMANCE **9/30/2010**

(Equity/Fixed Income/Alternatives/Cash)

	Q1 - 2010	Q2 - 2010	Q3 - 2010	Year to Date
Balanced Models				
Growth (35/25/33/7)	3.1%	-3.3%	6.8%	**6.5%**
Growth - Taxfree FI (35/25/33/7)	3.0%	-3.6%	6.6%	**5.9%**
Growth & Income MF Portfolio (30/30/33/7)	2.8%	-2.7%	6.3%	**6.4%**
Growth & Income MF Portfolio - Taxfree FI (30/30/33/7)	2.6%	-3.0%	6.0%	**5.5%**
Conservative (15/50/24/11)	2.3%	-0.6%	4.8%	**6.5%**
Conservative - Taxfree FI (15/50/24/11)	1.7%	-1.3%	4.0%	**4.5%**
Equity Only	5.3%	-10.7%	13.4%	**6.6%**
Fixed Income - Taxable	2.2%	2.2%	3.7%	**8.3%**
Fixed Income - Tax Free	0.2%	0.5%	2.0%	**2.7%**
ALTs - No MLPs	2.3%	-1.1%	3.6%	**4.9%**
ALTs - With MLPs	2.1%	0.2%	3.9%	**6.3%**
S&P 500 (60%) / Intermediate Taxable (40%)	4.0%	-5.6%	7.6%	**5.6%**
S&P 500 (60%) / Intermediate Muni (40%)	3.6%	-6.3%	7.7%	**4.6%**
S&P 500 Index	5.4%	-11.4%	11.3%	**3.9%**
Barclays Aggregate Bond Index	1.6%	3.6%	1.8%	**7.2%**
BarCap 1-10Yr Muni Index	0.8%	1.7%	2.2%	**4.7%**

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.

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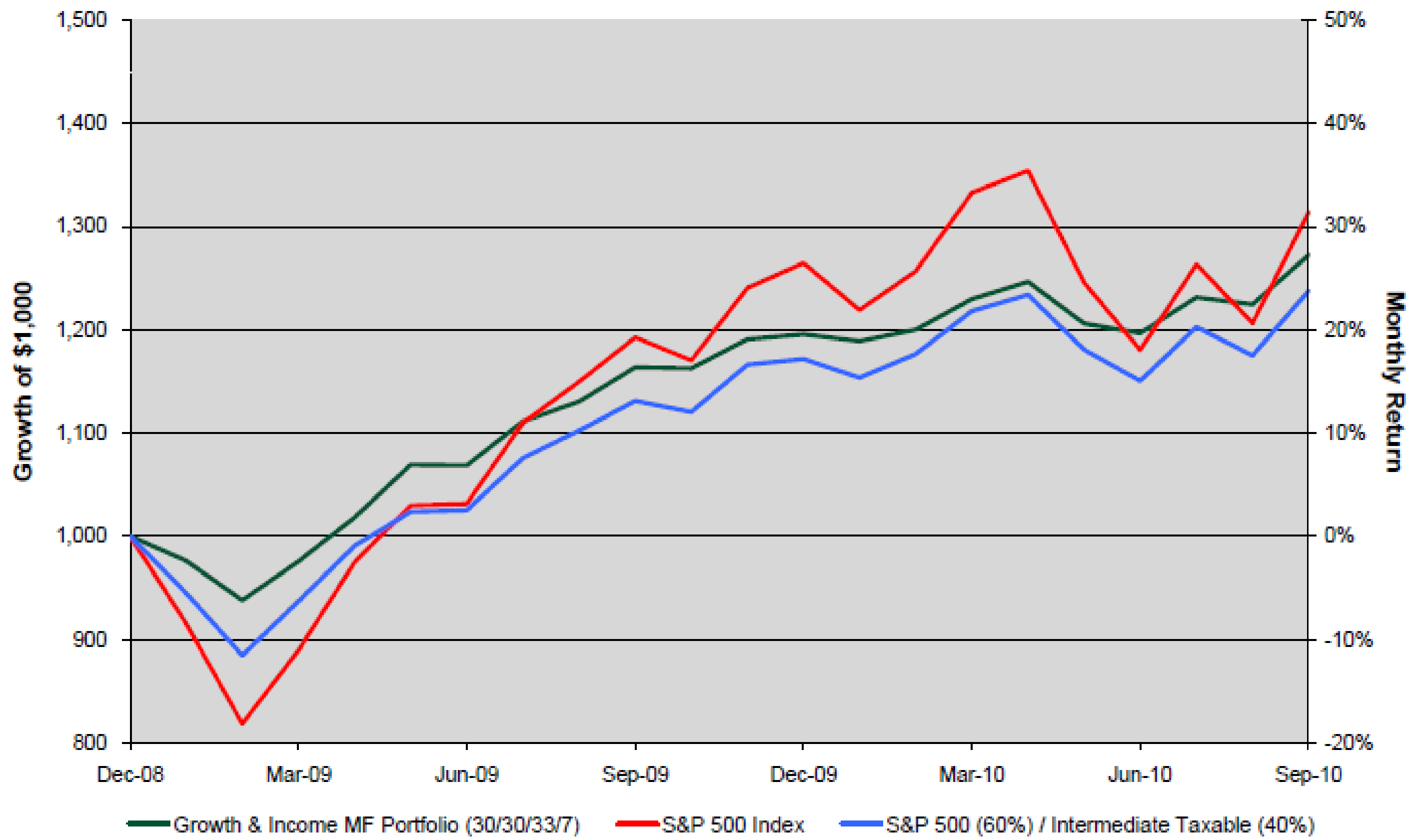
Kanaly Trust Investment Model Performance – 2010



Cumulative Performance (12/31/08 - 9/30/10)		Annualized
Growth & Income MF Portfolio (30/30/33/7)	27.2%	14.8%
S&P 500 Index	31.4%	16.9%
S&P 500 (60%) / Intermediate Taxable (40%)	23.8%	13.0%

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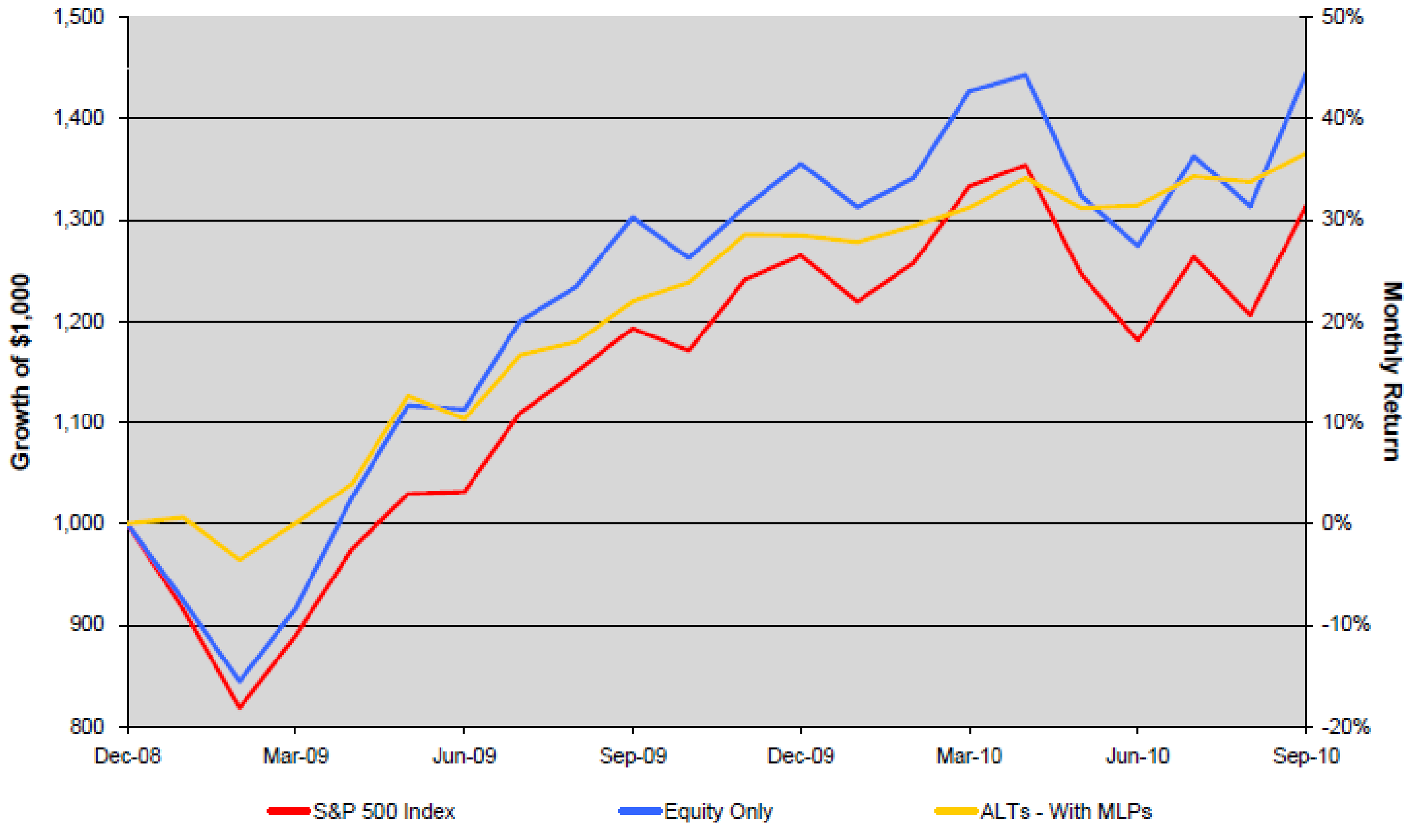
Kanaly Trust Investment Model Performance – 2010



Cumulative Performance (12/31/08 - 9/30/10)		Annualized
S&P 500 Index	31.4%	16.88%
Equity Only	44.5%	23.40%
ALTs - With MLPs	36.6%	19.50%

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Kanaly Trust – Alternatives Performance – 2010

2010 QUARTERLY & YEAR TO DATE ALTERNATIVE FUNDS INVESTMENT PERFORMANCE — **9/30/2010**

ALTERNATIVE ASSET FUNDS - DIVERSIFIED	Ticker	Q1 - 2010	Q2 - 2010	Q3 - 2010	Year to Date
PIMCO All Asset Fund	PAAIX	2.7%	2.3%	6.9%	**12.4%**
PIMCO Global Multi Asset	PGMDX	1.9%	-4.8%	10.5%	**7.3%**
Absolute Opportunities	AOFOX	2.2%	1.5%	2.5%	**6.3%**
Calamos Convertible	CCVIX	2.6%	-4.2%	6.5%	**4.7%**
Absolute Strategies	ASFIX	2.0%	-1.4%	2.5%	**3.1%**
ALTERNATIVE ASSET FUNDS - DIRECTIONAL	**Ticker**				
SPDR Gold Shares	GLD	1.5%	11.7%	5.1%	**19.2%**
PIMCO Commodity Real Ret Strat Instl	PCRIX	-3.2%	-3.1%	14.6%	**7.5%**
Gateway Fund	GTEYX	1.5%	-5.2%	5.9%	**1.9%**
PowerShares DB US Dollar Index Bullish	UUP	3.1%	5.3%	-8.9%	**-1.0%**
Diamond Hill Long-Short	DHLSX	-1.0%	-8.4%	5.3%	**-4.6%**
ALTERNATIVE - MLPs	**Ticker**				
Enterprise Products Partners LP	EPD	12.1%	3.9%	13.9%	**32.6%**
Plains All American Pipeline LP	PAA	9.5%	4.8%	8.8%	**25.0%**
Kinder Morgan Energy Partners LP	KMP	9.1%	1.0%	7.0%	**17.9%**
KANALY ALTERNATIVE ALLOCATION PERFORMANCE					
ALTs - With MLPs		**2.1%**	**0.2%**	**3.9%**	**6.3%**
ALTs - No MLPs		**2.3%**	**-1.1%**	**3.6%**	**4.9%**
INDEX					
S&P 500 Index		**5.4%**	**-11.4%**	**11.3%**	**3.9%**

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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: invest in only the most creditworthy municipal issuers
- Add to inflation protection when it is cheap

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Questions & Answers

Questions

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

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