



May 25, 2010

Dear Client,

With turmoil in Europe causing discord and volatility in U.S. markets, CCM wants to assure clients that portfolios are secure. First and foremost, CCM has made no direct investments in Greece, Portugal, Spain, Ireland or Italy (the most distressed European nations).

For fixed income portfolios, a couple of weeks ago CCM's trading models indicated that credit was vulnerable to widening spreads. As a result, CCM sold high yield positions and reduced corporate bond holdings, putting the proceeds into government bonds. This has resulted in price appreciation in the government bonds and ensures that portfolios have adequate liquidity. Additionally, CCM currently has no exposure to Europe within fixed income portfolios.

For equity portfolios, allocations to Europe are less than 15% of portfolios (with European exposure predominately in the U.K., France, Switzerland and Germany). Additionally, within the developed international allocation, Greece represents only 0.3% of the developed international ETF which CCM uses. And though markets all over the world are being affected, CCM uses ETFs which are broadly diversified and retain liquidity in volatile markets. Additionally, balanced portfolios will have equity losses offset by fixed income gains. CCM continues to rebalance its asset allocation strategies because risk assets continue to serve their long-term purpose for portfolios with long investment horizons. Additionally, history indicates that sovereign crises start suddenly and end suddenly (see Southeast Asian crisis of 1997 and Russian debt crisis of 1998).

Overall, the crisis has caused capital to flow into the United States as international investors have sought the security which the size and breadth of the U.S. economy offers. This has caused the U.S. dollar to strengthen dramatically. Thus far, this capital has gone almost entirely into government bonds, however, if the U.S. economy can keep growing, this capital will likely spread into other sectors and asset classes. Ultimately, CCM believes this Euro-zone crisis will result in lower inflation in the U.S. and cause the Federal Reserve to keep rates exceedingly low for the foreseeable future.

Visit [www.cavcap.com/news.html](http://www.cavcap.com/news.html) for future updates on the Euro-zone crisis.

If you have any questions, please feel free to contact me at 410.769.6124 or [taylorgraff@cavcap.com](mailto:taylorgraff@cavcap.com). I will be happy to answer any questions or concerns you may have.

Sincerely,

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