



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

07/12/2011

Quarter in Review

The Markets

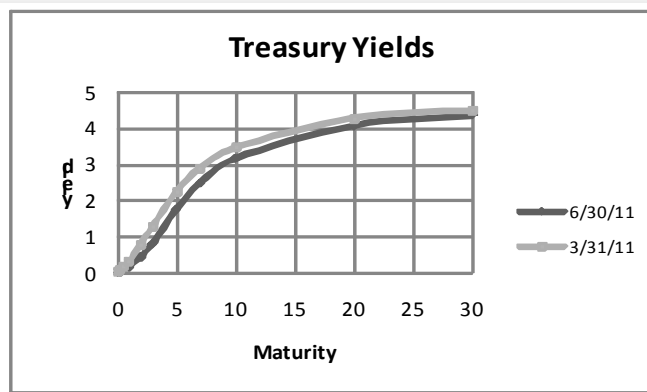
The second quarter of 2011 proved to be a tough one for the U.S. securities market. Manufacturers were starting to see supply disruptions from the aftermath of the Japanese disaster. Greece saw more riots in the streets as the prime minister reshuffled cabinet members and voted on a new slate of austerity measures. Here at home the president and congress wrestled over budget cuts and the expansion of the debt ceiling and inflation doesn't seem to be abating, while growth and jobs remain lackluster.

All stock gains in the month of April reversed by the end of the quarter. **U.S. and emerging market stocks were down anywhere from 0.50% to 1.47%**. Only non-U.S. developed market stocks were up, but that was because their losses in the latter half of the quarter weren't as great as the other sectors. **Bonds performed much better** than in the first quarter, with **each sector positive from 0.85% for High Yield up to 3.65% for Global Bonds**. Interest rates reversed its first quarter rise and are now lower than December of 2010. In the alternatives category despite a second quarter of inflationary pressures Commodities performed poorly, down 6.5%, whereas Real Estate posted a respectable 3.59% gain.

Interest Rates

With the second round of quantitative easing (QE2) over, the Fed is faced with few weapons to hold interest rates down especially if inflation continues to heat up. But as can be seen from below they may not

Years	6/30/11	3/31/11	Difference
0.08	0.01	0.05	-0.04
0.24	0.03	0.09	-0.06
0.5	0.1	0.17	-0.07
1	0.19	0.3	-0.11
2	0.45	0.8	-0.35
3	0.81	1.29	-0.48
5	1.76	2.24	-0.48
7	2.5	2.9	-0.4
10	3.18	3.47	-0.29
20	4.09	4.29	-0.2
30	4.38	4.51	-0.13





TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Interest Rates (continued)

have to. **Interest rates fell an average of 33 bps** from the 2 to 30 year part of the curve. Even though interest rates are still low, the Fed is struggling with its mandate to foster maximum employment and keep prices stable. **Mortgage rates dropped substantially over the quarter**, with 30 year Fixed rates down to 4.51% from 4.86%, 15 year FRM near 3.69% from 4.09%, and 5/1 Adjustable rates at 2.97% compared to 3.26%. For the first time in over a year single family new home sales posted a positive increase in year-over-year sales, but the elephant in the room is existing homes, and it has still been posting negative year-over-year numbers even as mortgage rates are near bottom.

Leading Economic Indicators

The economy continued its expansion in the second quarter of 2011. However the Conference Board's leading indicators positive trend ended in April. The larger area of concern was the six month diffusion index which only showed 4 of the 10 series trending upward. This did reverse in the month of May but April's numbers were a serious shot across the bow. The May indicator was back at 114.7, the highest it's been since the annual benchmark revision in March of 2008. OECD business cycle clock still shows both industrial production and leading indicators in the expansion quadrant as of May 2011.

Jobs

At the time of this write up **nonfarm payroll** posted a disappointing increase of **18,000 for June**, and only **260,000 jobs gained** in the **second quarter of 2011**. This compares to 497,000 jobs gained in the first quarter. Even with a small margin for error, the establishment survey is statistically significant at 100,000 jobs. Therefore for the months of May and June the jobs numbers could have been flat or negative. This must be frustrating to the Fed and Bernanke who have been holding down interest rates to spur growth and reduce the unemployment rate. **Temporary or part time job services** are still **positive** but the year-over-year increase has steadily declined from 12% to just over 7%. Temporary jobs declines are one of the tell-tale signs that the economy is cooling and could be moving into a contraction. The **4-week moving average** of unemployment claims has increased back above the **400,000** level for the entire quarter, another **negative** on the employment front. Lastly the Institute of Supply Management (ISM) showed **positive gains** in employment in the manufacturing and non-manufacturing sectors of the economy for the quarter. Overall the data is painting a mixed message in jobs, one that is making markets and economist nervous about growth projections.



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Production

Industrial production has continued to post quarter after quarter positive increases since September of 2009. Depending on the June 2011 number (released July 15th) this trend could end. The previous two months numbers have been close to zero, and production looks to be slowing. Orders for durable goods for the quarter and year-over-year ending May have both been positive, but steadily declining. As reported by the establishment survey, hiring by manufacturers was essentially flat and so were their employee weekly hours.

As mentioned in the previous quarterly report, the ISM uses diffusion indexes on a scale of 1-100 to present the results from their survey from over 300 purchasing and supply executives. Values greater than 50 indicate an increase in the area in question like new orders, prices, or inventory. The **difference** between the new orders and inventory index is often used as a proxy for GDP (orders growing faster than inventory levels). Since 1948 the average difference has been **8.8**, the first quarter range was from **15.4 to 19.2**. The second quarter was a much different story trending down and negative from **8.1 to -2.5**. Like the above jobs data this soft patch is reason for concern.

Housing

The housing market has continued to contribute to the weakness of the consumer, as prices have remained depressed and falling, but there were a few small bright spots in the data this quarter. One of them was the first **positive year-over-year gain** in single family **new home sales** in May 2011 since January of 2010. **Existing home sales**, as reported by National Association of Realtors, fell albeit at a slower percentage **by 3.8% (down 9.6% in the 1st quarter)** on a seasonally adjusted basis to an annual rate of 4.81mm houses sold per year in May compared to April.

On the building side, permits for new homes reversed its negative 11 month year-over-year trend, **up 4.64%** in May 2011. The 50-year average for permits is around **1.4mm** per year, the average since the National Bureau of Economic Research (NBER) said the economic contraction ended, June 2009, has only been around **600,000 permits** per year. Year-over-year changes in all stages of home building, from permits, to house starts, to under construction and completed have started to reverse their negative trends. It seems that the housing market continues to struggle though as one ISM survey respondent from the Furniture and Related Products sector stated "Business is still up and down, with no real upside potential for us until the housing market rebounds."



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Housing (continued)

Housing continues to remain a major drag on our economy and should continue to contribute to the frictional unemployment portion of the unemployment rate, as underwater homeowners can't move to find jobs in other areas of the country. An interesting aside, Zillow, the internet site that consumers use to see current and historical prices of their and others' homes, added more data and changed their algorithm this past quarter. The changes drastically altered the prices of homes in many MSAs (Metropolitan Statistical Area). Since actual and perceived consumer wealth is in large part based on the consumer's home value, this could have an impact on the spending over the next several quarters.

The Consumer

Consumer confidence was mixed last quarter. The US government decided to release 30 million barrels of oil from the strategic petroleum reserve to try to increase supply before the summer driving season and reduce gas prices. But with consumption at a little over 19 million barrels a day, this shouldn't have dented price. What occurred was a 4% drop on the day in the price of oil and another concern for the market and the consumer. Gas and food prices still remain a large portion of the increase in inflation but core PCE has also ticked up as well. The confidence numbers for the Conference Board and the University of Michigan posted mixed numbers for the quarter. The June University of Michigan report said that falling gas prices stabilized the consumer outlook but their concentration shifted to falling incomes despite the data below.

Personal Income, Disposable Income and Personal Consumption Expenditures have been on a **steady rise for over a year now**. Even year-over-year **real personal income less transfers** (which removes income for which no current services are performed, like social security, Medicare, and unemployment) **was greater** in both April and May 2011. **Savings rates** have started to fall again, now **sub 5%** of income. **Total consumer credit** in the second quarter **posted increases**, year-over-year, for the first time in over two years. **Revolving credit** (credit cards and other consumer loans) posted their second month over month **increase** for the past 33 months ending May 2011. **Non-revolving credit**, auto loans for example, have been **expanding** year-over-year for the eight months ending May 2011. Durable goods orders excluding defense, transportation and aircraft, and also consumer goods and materials orders were up for both April and May.

Overall the consumer continues to scratch and crawl out of the hole they dug themselves into, but unemployment and housing price levels remain a significant drag on consumption.



TILDEN

Capital
Management

An Investment Advising and Financial Planning Firm

Firm Inception 08/03/10

Inflation

The first quarter signs that the subdued 2010 inflation numbers could be reversing were significant in the second quarter. Industrial production will again probably not expand at a rate faster than the second quarter's inflation numbers as measured by CPI. Year-over-year as of May 2011 showed annual **CPI at 3.44%, significantly above the FED target of 1.5-2%**. The Fed however looks to the PCE and Core PCE numbers to gauge inflation. As of May the **YOY PCE index of inflation was up 2.50%**, with **Core PCE up only 1.21%**. Producers of goods are still feeling inflation, with **PPI up 7.04% YOY**, while the **ISM Price index stands at 85** (50 year average around 63). As stated in last quarter's review, manufacturers won't be able to tighten margins much longer and a quotes in the ISM's report on business confirms that. "Sales continue to be stronger than expected across both retail and industrial channels. Material costs are definitely rising and will force increases to end-use customers."(Paper Products) "High commodity prices continue to be worrisome." (Food, Beverage & Tobacco Products)

In Closing

We are now 24 months into an economic expansion, with the average expansion being 42 months for the past 33 cycles. Employment has taken a downward trend and has rattled the markets, housing remains a drag on GDP, production appears to be slowing but consumption levels look to be increasing (helping the retail sector). Inflation looks like it is bubbling up, and there are some Fed governors that may not be dissenting at FOMC meetings but are certainly getting more vocal about holding rates near zero. Some of the measures the NBER looks at in judging when an expansion could end have turned negative (employment). My view is the likelihood for the expansion to continue is still high. There are some nascent signs of slowing but I am keeping my current allocation to my sectors. If multiple areas of the economy begin to trend negative over the next several months I will definitely change my allocation, but this hasn't occurred yet.