YHB Investment Advisors, Inc.

MARKET OUTLOOK

JULY 2011

Common stocks were mixed and bond prices generally rose in the recently completed quarter as there were more signs that economic growth continues to be lackluster at best. Most recent economic indicators were weaker than expected resulting in a lowering of economic forecasts for the second quarter with expectations that growth will be only slightly better than the 1.8% gain of the first quarter. Much of the near term economic weakness can be attributed to the oil price "shock" which should be temporary, as should the supply chain disruptions caused by the earthquake and tsunami in Japan.

Longer term concerns continue to be serious and prevalent. The most serious, of course, is the drawn out drama over the Greek debt crisis and the difficulty of finding a permanent solution to that country's finances. The current strategy of short term loans by the International Monetary Fund (IMF), the European Central Bank (ECB), and the stronger European countries, coupled with strong austerity measures adopted by Greece, has postponed an immediate default but a permanent solution seems very unlikely any time soon. An ultimate default by the Greek government would unleash serious but unquantifiable economic and market consequences that could easily spread throughout Europe and to parts of the rest of the world.

Troublesome uncertainties surround U.S. monetary policy as quantitative easing (QE2) ends and the Fed significantly reduces its purchases of U.S. Treasury and other bonds. QE2 was successful in its objective to lower U.S. interest rates and to contribute to a decline in the U.S. dollar, both of which help stimulate U.S. economic and corporate earnings growth. Many fear that as the Fed leaves the market, the diminished demand will lead to a general rise in the level of interest rates which will tend to hold back growth.

Other issues which might impede growth include the federal debt ceiling debate; future federal spending growth and the size of the federal deficit; future federal tax policy and rates; increasing centralized regulation, especially from the EPA; the confusion over the rules and regulations facing the finance sector owing to the new Dodd-Frank Law; continued weakness in U.S. home prices which are off 33% from their peak; and slowing foreign growth and rising inflation, especially in China.

Offsetting these concerns is the fact that the economy continues to rebound from the deep recession and corporate profits are very strong as revenues are increasing and profit margins have widened. This has resulted in very strong corporate balance sheets and high cash levels. With dividend payouts low, dividends should start to rise faster than profits and stock buybacks should continue to support stock prices which remain at historically attractive evaluations.

In this very uncertain environment, we expect investors to continue to become more risk averse and to move toward higher quality assets. In the management of your assets, we will continue our policy of balance and good diversification with an emphasis on quality and safety.

Mark W. Everette, CFA, CEO and Senior Portfolio Manager ♦ Paul R. Martel, President
Neil Kelleher, CFA, Senior Investment Officer ♦ Jared P. Soper, Senior Portfolio Manager
Dennis P. Hannigan, CFA, Senior Portfolio Manager ♦ Michael R. Pelosi, CFA, Senior Portfolio Manager
Judith P. Havard, CFA, Senior Portfolio Manager ♦ Jessica Kott, CFP®, Senior Portfolio Manager
Linda A. Fallon, CFA, Senior Portfolio Manager ♦ Gary B. Youell, Chairman

YHB Investment Advisors, Inc.
29 South Main Street, Suite 306 ♦ West Hartford, CT 06107
860.561.7050 ♦ 800.526.8094 ♦ 860.561.7055 Fax ♦ www.yhbia.com