



Baldwin Investment Management, LLC

RANDOM THOUGHTS

Thought #1



Traders have captured the stock and bond markets around the world. Volatility has risen and a “flash crash” where Accenture Plc (with a market capitalization of some \$25 billion) traded from approximately \$40/share to \$.01/share and then back to \$40/share in a day stunned market participants. Looking more like a “casino”, investors are getting unnerved with the randomness of market moves. Who wants to put hard earned retirement money at risk in such an environment? New Wall Street regulations, especially with regard to derivatives, should foster some trading transparency and hopefully dampen some of the volatility. The new rules are scheduled to be in place in early July.

Thought #2

Residential real estate is showing some signs of intermittent life. Toll Brothers, a large “high end” builder, has voiced increased optimism about their future sales. Thirty year mortgage rates are at their lowest in 30 years, which should support the market.



Source: Wall Street Journal 6/25/10

But the residential market is still bad. Housing starts are 80% down from their peak. So how much worse can it get? We think not much with new home sales only running at 25% of normal. While there is housing supply yet to be taken up by the market, there is also inexorable demand for housing as new families are formed each year.

Thought #3

Will the oil well Macondo be the industry’s Three Mile Island? We certainly hope not, nor do we believe that it will become so. Too many current jobs (in a high unemployment era) depend on the offshore oil business. Also not every offshore well drilled is or will be a blowout. In fact, very few have been in the history of the oil business. Further, look what Three Mile Island did to the nuclear business. After that accident, which proved to be quite minor except that it scared a lot of people, no new U.S. nuclear power plant has been built for over thirty years. In the meantime, as energy use has increased, the USA has become more dependent on OPEC oil – not good.

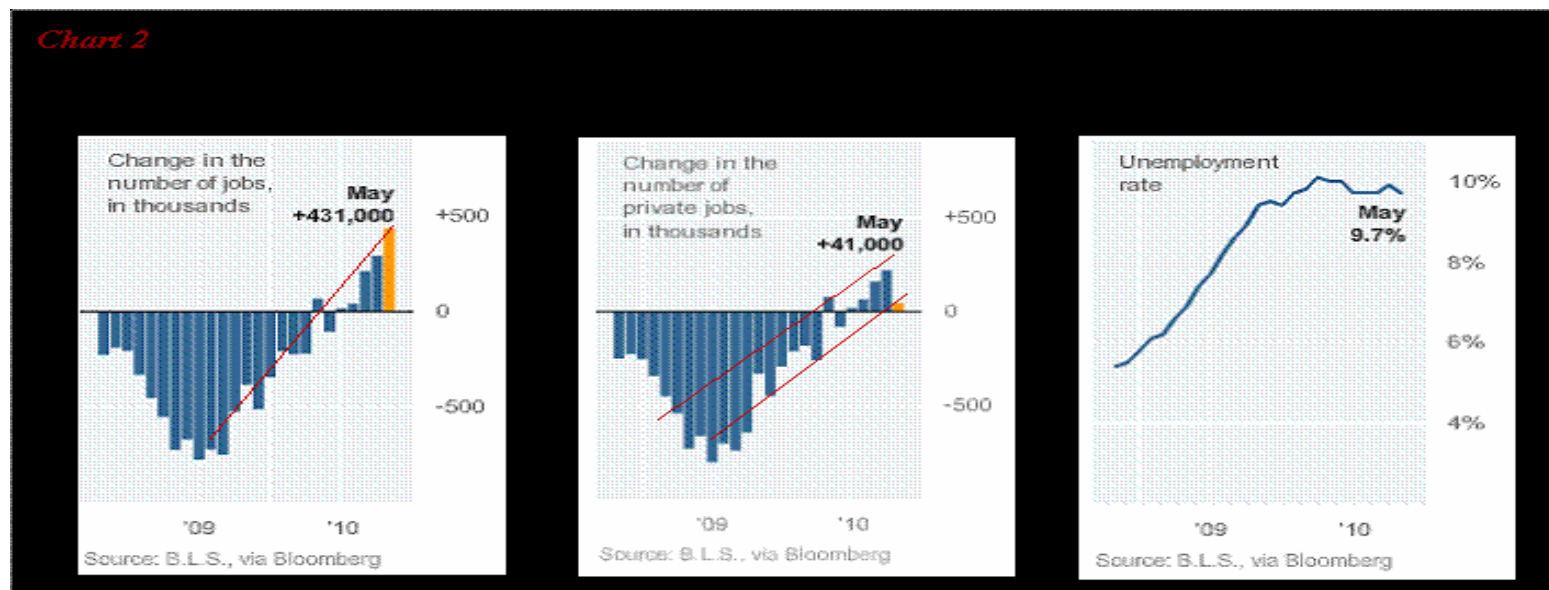
Thought #4

The Euro zone has some serious economic problems. It has an expensive social security net, which it has not been able nor will be able to afford. There is no new news here. The “silver lining” to this story is that the markets are forcing much needed change – change which has been talked about for years, but with none taken. For instance, the Greek government has just agreed to overhaul its pension system at the strong suggestion of the IMF by increasing the number of contribution years from 35 – 37 to 40 and raising the retirement

age for women to 65 from 60, as it is for men. Sure there will be strikes in the streets – but change is happening and social security expenses will fall in the future.

Thought #5

Employment in the U.S. is improving. We have gone from losing approximately 600,000 jobs a month to creating approximately 100,000 jobs a month. Last month's employment figures were a disappointment – but no trend extends in a straight line. If one looks at the employment numbers over a multi-month stretch, the improvement is unmistakable. More people are at work today than a few months ago.



Thought #6

The Chinese have removed their currency, the renminbi, from a hard peg to the dollar and reverted back to their old mechanism of a peg to a basket of currencies. When this was in place a couple of years ago, the renminbi, over time, appreciated in value some 20% vs. the dollar and also gained in value against a host of other currencies. This is important news, for it will help dampen some inflation in China and make more affordable U.S. exports to the Chinese bolstering our trade with China. Will it solve our current account deficit with China? No – but it will help the situation.

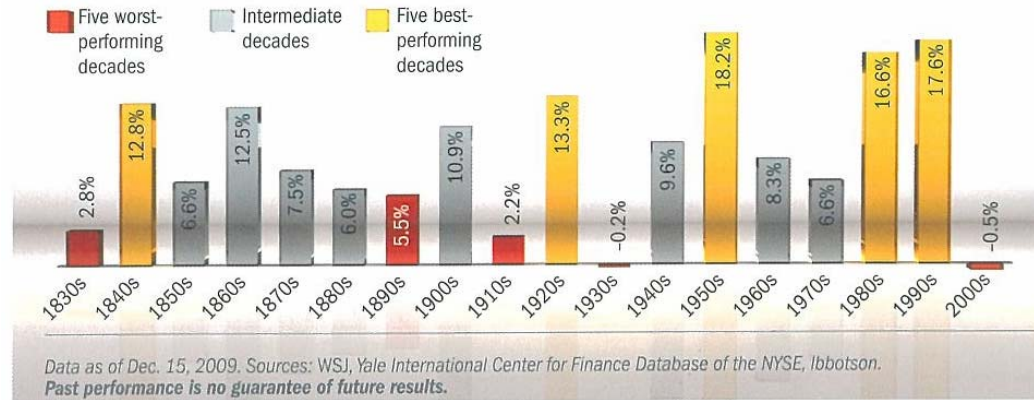
Thought #7

Let's return to the cartoon in Thought #1 and counterbalance that image with the following:

Boom and Bust

As measured by annualized market returns, the last decade was one of the five worst-performing in 180 years.

ANNUALIZED MARKET RETURN (by decade 1830-2009)



It may not feel like it now, but equities in the long run have proven to be a worthwhile investment for investors. Especially after 10 year periods of lackluster performance (of which there have been few thankfully) U.S. stock performance has been strong. We don't see any reason this phenomena should not repeat itself going forward – a simple reversion to the mean.

Thought #8

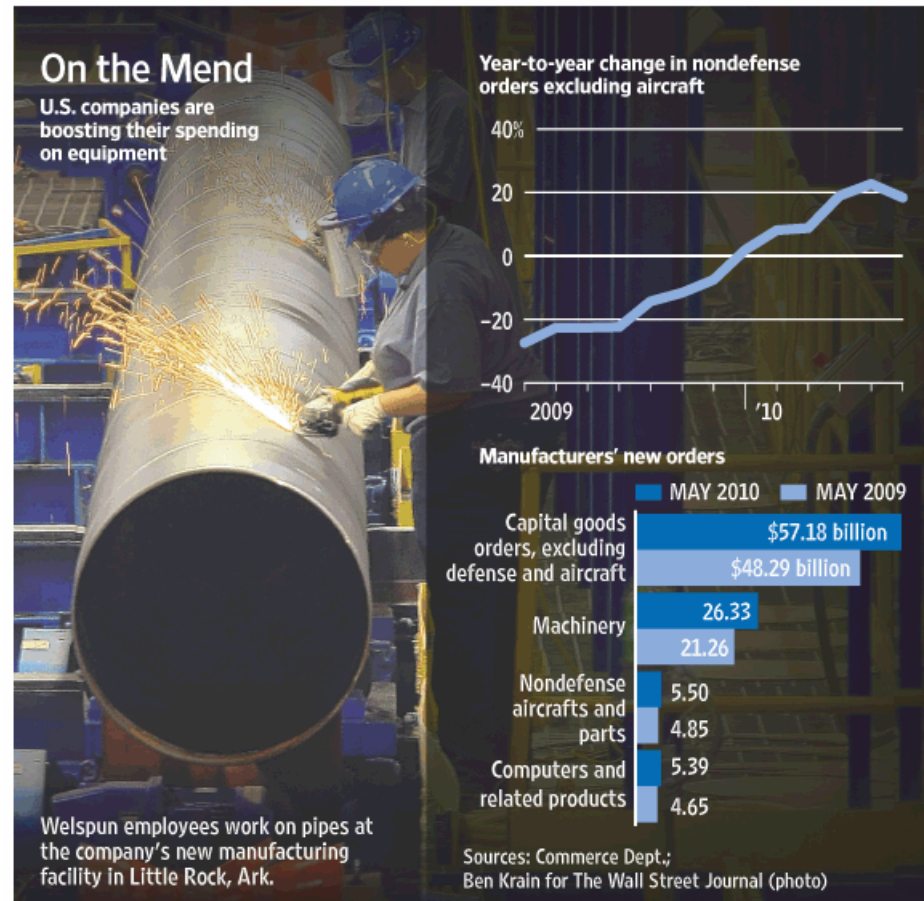
Financial reform (i.e. Wall Street reform) has passed Congress and will be ready for President Obama's signature in early July. There are some good points in the legislation like pushing derivative trading to exchanges to allow for more transaction transparency. This should lower costs and expose to the light of day who is doing what to whom. But there will also be unintended consequences of this legislation – because whatever Congress does has unintended consequences, most of which are not good.

Thought #9

The second quarter is about to end and corporate reporting season will soon be under way. So far there have been very few pre-announcements warning of earnings shortfalls. We believe company earnings should be good in Q2 – just as they positively surprised the Street in Q1.

Thought #10

Corporate capital spending is up sharply. Companies have had to spend to keep up with customer orders or risk losing market share to competitors. So business has been good and looks to continue to be so.



CONCLUSION

Having “lost ground” through the first six months of 2010, U.S. stocks still represent good value. In many foreign stock exchanges, the value proposition is even more compelling, as equities in many foreign lands fell “harder” in the first half of the year as traders took “risk” off the table and bought U.S. Treasuries – perhaps the most overvalued market in the world.

PREDICTIONS FOR 2010

COMMENTS

- | | |
|---|---|
| 1) The world will grow with China leading the way | Yes – China starting to “rein in” growth |
| 2) Global inflation will still not be a problem | Yes – still quiescent most everywhere with some whisper of deflation in Japan |
| 3) The dollar will have bouts of strength – but will still melt during the year | Certainly having one now especially vs. the Euro due to fear of “contagion” |
| 4) The Euro will lose strength versus the dollar | Yes - because of the fear of “contagion” |
| 5) The Chinese renminbi will appreciate in value | Yes – the Chinese have untied the renminbi from the U.S. dollar peg |
| 6) Commodity prices will go up across the board | Mixed bag – some industrial commodities (iron ore) yes; some agricultural (corn) no |
| 7) U.S. Treasury prices will decline | Not yet as the fed continues to promise low interest rates |
| 8) There will be more merger & acquisition activity | Yes – in numerous industries corporate chiefs are loosening purse strings |
| 9) U.S. equity prices will advance | No –worries regarding “contagion” |
| 10) Foreign markets (especially emerging markets) will rise | No – flight to “quality” of U.S. Treasuries |

A FINAL THOUGHT



"We'll find the money for that. My guy is on it right now."

The opinions expressed in this Commentary are those of Baldwin Investment Management, LLC. These views are subject to change at any time based on market and other conditions, and no forecasts can be guaranteed.

The reported numbers enclosed are derived from sources believed to be reliable. However, we cannot guarantee their accuracy. Past performance does not guarantee future results.

We recommend that you compare this statement with the statement that you receive from your custodian.

A list of our Proxy voting procedures is available upon request.

A current copy of our ADV Part II & Privacy Policy is available upon request or at www.baldwinim.com/disclosure.htm

06/30/2010