

The Quest for Yield

Market Update from Jim Ulland

The stock market's abrupt decline in May and June was a rude awakening for investors who had started moving cash back into stocks. Unfortunately, the S&P 500 Index was down more than 11 percent in the second quarter. While the market has clawed back some of that loss in July, economic uncertainty and stock market volatility have reinforced our view that stocks are unreliable in the short run. Therefore, we have turned to a strategy of trust preferred securities combined with select high dividend stocks to provide the highest probability for a respectable total return.

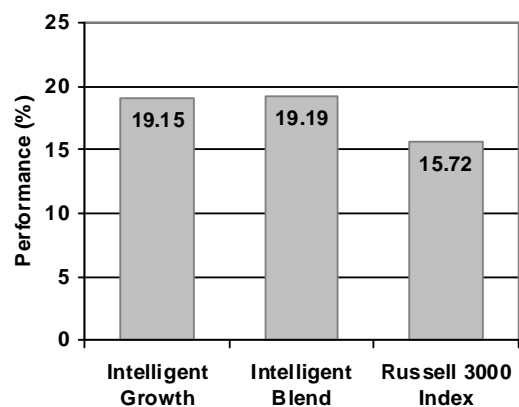
Why? The sputtering economic recovery faces tax and regulatory headwinds beginning in January. Worldwide, government austerity measures will dampen economic growth further. Pimco, the world's most respected bond fund manager, has termed this slow growth period "the new normal" with annualized GDP growth of 2 to 3 percent rather than 4 to 5 percent growth expected for an economy coming out of a recession. During periods of slow growth, companies struggle to show revenue and profit increases – as we already have seen in the second quarter for some companies. The end result is suffering stock prices.

Trust Preferred Securities

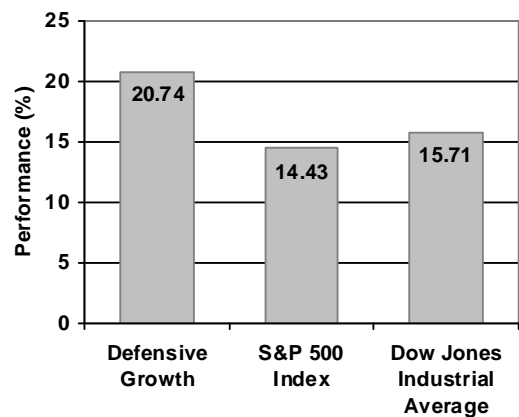
Our recommended portfolio strategy focuses on the high yield paid by large bank trust preferred securities. (Please note, we do not buy small bank trust preferred.) Surprisingly, dividends on these securities are between 7 and

UIA 12-Month Performance

6/30/09 through 6/30/10



In the last 12 months, Intelligent Growth and Intelligent Blend portfolios both returned over 19%, after fees, while the Russell 3000 Index gained 15.7%.



Over the last 12 months, our Defensive Growth strategy gained over 20%, after fees, vs. 14% for the S&P 500 Index and 16% for the Dow Jones Industrials. Defensive Growth portfolios hold varying amounts of equity and fixed income to match the client's income needs and risk tolerance. Trust preferreds are the largest holding.

8 percent. We feel that trust preferreds can make up the core of a compelling five-year investment strategy.

In 1996, the Federal Reserve allowed banks to issue trust preferreds as a way to raise regulatory capital in a tax efficient manner. These securities largely replaced traditional bank preferred stocks.

However, the recently passed Financial Reform Bill changed the rules on trust preferreds. Over the next five and a half years, trust preferreds will be phased out as a component of regulatory capital. As a result, we expect most banks to repurchase the trust preferreds, since they will not want to pay such high dividends on securities that will no longer count toward regulatory capital.

Trust preferreds only can be repurchased by the banks at the par value of \$25 per share. **Most of the trust preferred shares we buy are trading below par and pay an annual dividend of 7 - 8 percent. Therefore, we are able to lock-in a compelling annual dividend plus meaningful appreciation over the next five years.** Our search for yield has uncovered no investment that has anything near this total return at a relatively low level of risk.

Portfolio Sectors

Oil & Natural Gas: Energy prices trended down in the second quarter. Concerns about the viability of the economic recovery and austerity measures taken in Europe caused downward pressure on crude oil prices. We continue to hold our energy stocks to position for an economic recovery and as an inflation hedge. That said, inflation should not present a problem for at least the next two years.

Financials: The Financial Reform Bill is creating big problems for banks, because of

More Information...

If you are unfamiliar with Trust Preferred Securities, please visit our website www.ullandinvestment.com to learn more. Or contact us at 612-312-1400.

the loss of fee income. Fees will decline on credit cards and NSF (non-sufficient funds) charges. At the same time, bank costs will go up with more expensive FDIC insurance and higher capital requirements. This legislation won't help large banks restore dividends on their common stocks, which is why we are advising clients to sell bank common stock and convert it to bank trust preferreds.

Technology: Corporate spending for technology infrastructure is improving. Intel's (NYSE: INTC) second quarter results certainly proved that as the company reported its best quarter in 42 years. Many corporations have a significant amount of cash on hand, which could bode well for technology stocks.

Index Funds: Foreign stock markets, in the second quarter, did not escape the sell-off experienced in the US. While we believe select Asia-Pacific countries will continue to exhibit strong economic growth, their stock markets, in the short-term, are reacting to events in the US and Europe.

Contact Us Today

We are happy to respond to questions. Investors can transfer stocks to us for management or start with cash. Our minimum account size is \$250,000.

If you would like to meet with us, please call Keith Wolter at 612.312.1407 or email him at keith.wolter@ullandinvestment.com. Visit our website - www.ullandinvestment.com.

Performance figures are subject to revision.
On July 1, 1997, Ulland Investment Advisors started offering the Intelligent Growth style to the public. On July 1, 1998, Ulland Investment Advisors started offering the Intelligent Blend style. Performance is calculated following GIPS standards. Only annual performance will be verified. Annual performance may vary when the verification process is complete. Performance is shown on a time-weighted basis as calculated on Axis portfolio software. Performance is presented net of fees. Calculations are based on the reinvestment of dividends and gains unless these amounts were paid out to the client. Performance does include situations in which clients requested that certain securities be allowed to exceed 10% of the portfolio's value. It should not be assumed that recommendations made in the future will be profitable or will equal the performance shown above. Lurie, Besikof, Lapidus & Co., LLP of Minneapolis has examined past performance figures. Their report is available upon request. If you would like a copy of our SEC Form ADV II, please contact the firm at the address below.