INTEGRAL FINANCIAL SOLUTIONS, LLC

Second Quarter Market Recap

After enjoying a positive first quarter, investors experienced a rude awakening during the second quarter - a reminder that there is still a lot of uncertainty in the aftermath of the 2008 downturn.

Concern arose about a domino effect in other European economies after yields rose dramatically on Greek debt. This means Greece now has to pay a much higher rate to borrow because of investor concern that they may not be able to meet all their debt obligations in the future. Closer to home, the BP's Deepwater Horizon well oil spill created the US's worst environmental disaster to date.

2Q10 US GDP (gross domestic product) growth was an annualized 2.7% (having been revised downward twice). The IMF (International Monetary Fund) predicts US growth of 3.3% in 2010 and 2.6% - 2.9% in 2011 vs. higher world growth of 4.6% in 2010 and 4.3% in 2011. Second quarter unemployment and housing data were mediocre. Equity index returns were all negative (please see table below), reinforcing our strong view that all diversified portfolios should contain both stock and bond funds.

Index	**2nd Quarter**	**Year to Date**
S&P 500	-11.43%	-6.65%
MSCI EAFE net dividend (developed markets) - USD	-13.97%	-13.23%
MSCI Emerging Markets net dividend - USD	-8.37%	-6.17%
Barclays US Aggregate Bond Index	3.49%	5.33%

Source: Dimensional Fund Advisors (DFA)

At the beginning of 2010, many in the financial community worried about a decline in the equity markets as a break from the sharp run-up that started March 9, 2009 and continued relatively unabated for the rest of 2009. Pundits predicted an equity market correction of 10% - 15%, an occurrence that can and usually does happen within the course of any year. Despite drops in all equity markets in the second quarter, the Standard & Poor's 500 (S&P 500) index level is still up 52% (as of June 30, 2010) from the low of 666 that we experienced on March 9, 2009.

Market Outlook

Our market outlook is for muted growth going forward, a slow decline in unemployment, and continued volatility. We do not anticipate a double-dip recession as manufacturing data continues to be positive and inventories are low. Furthermore, as believers in efficient markets, we think the markets have already priced in most of the nasty surprises like questionable off-balance sheet subprime mortgage investments in 2008 and 2009.

On a more positive note, manufacturing reports numbers were good in the second quarter, inflation continues to be low and corporate balance sheets are in good shape. The S&P 500 P/E ratio (price to earnings ratio) as measured by Robert Shiller's cyclically adjusted price/earnings ratio (CAPE) was 19.99 as of June 2010, slightly higher than the 40 year (7/70 – 6/10) CAPE average of 19.07. Many well respected money managers worried at the beginning of the quarter that equity valuations were getting ahead of themselves. With the recent market drop, we believe valuations are more reasonable given where we are in the economic recovery.

On the legislative front Congress, which was close to passing a reconciled version of financial reform at the end of the quarter, has passed a final version for President Obama to sign. The massive bill is meant to prevent another Wall Street meltdown, i.e. preventing a "too big to fail" scenario. But with much authority delegated to regulators, the creation of an entirely new consumer protection bureau, and the authorization of sixty-eight different studies, passing the bill promises to be just the end of the beginning for the realignment of financial services regulation.

One key provision we are watching closely is language that would require all professionals who provide financial advice to adhere to a fiduciary standard. We as registered investment advisors already hold ourselves to a fiduciary standard, meaning we always put our clients' interests first. Broker/dealers are held to a less stringent suitability standard. The compromised bill includes a provision to direct the SEC to conduct a six-month study on the feasibility of establishing a uniform standard. We have our fingers crossed that this study will result in a meaningful and uniform standard.

Thank you for your confidence in us. While we can't make promises about performance, we can and will promise to provide excellent service, remind you to maintain a long term investment outlook, and use prudent judgment in constructing well diversified portfolios. We encourage you to contact us with any questions or comments.

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Sources:
Morningstar, DFA, www.econ.yale.edu/~shiller/, PIMCO, Bureau of Economic Analysis, The Economist, Financial Times, Financial Planning Association (FPA), Capitol Update.