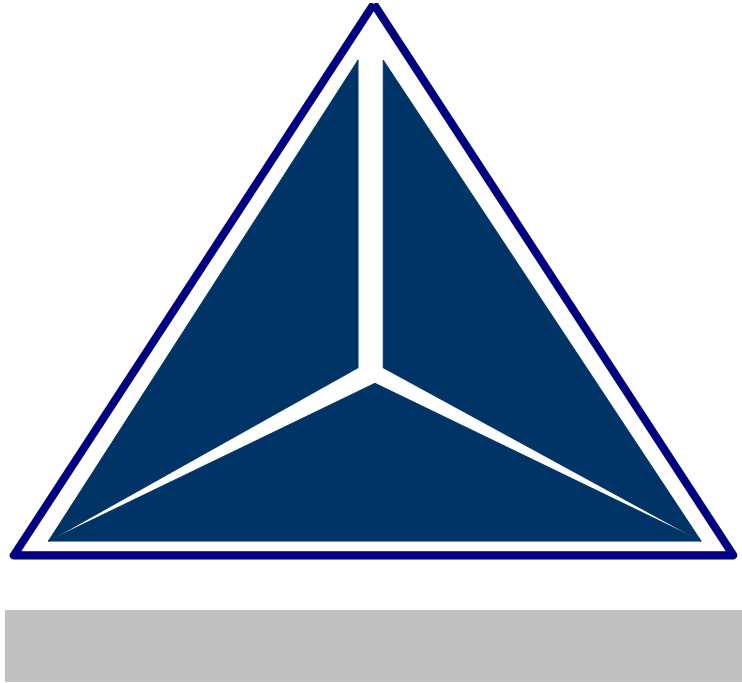


SUMMIT FINANCIAL RESOURCES, INC.



**Monthly Investment
Newsletter**

July 2009

The Capital Markets

The trend toward economic improvement, widely discounted by the capital markets during the second quarter, continued to bear fruit for investors during the month of July. The S&P 500 Index was up 7.56% for the month and the Dow Jones Industrial Average capped off its most powerful five month rally since 1938, surging 725 points in July. The MSCI EAFE Developed Markets Index was up 9.13% for the month.

The key fuel for the market was strong corporate earnings. Nearly three out of four companies in the S&P500, that have reported earnings, have exceeded analyst expectations. Economic releases during the month generally provided evidence of a bottoming process and a relative lack of high profile blowups provided relief to investors feeling a bit punch drunk.

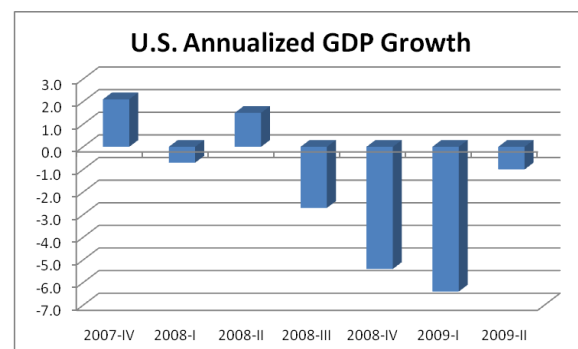
On the fixed income side, Treasury yields ended the month relatively flat, but credit spreads continued to contract. The Barclays U.S. Aggregate delivered a 1.27% return for the month.

For the year to date, domestic stocks (S&P 500) are up 10.97%, international stocks (MSCI DM) are up 17.81%, and the aggregate fixed income market (Barclay's Aggregate) is now in positive territory for the year, up 0.94%. Despite the equity market gains, the S&P 500 is still down 37% from the peak in October 2007.

The Economy

The U.S. economy declined *only* 1.0% in the second quarter of 2009. This was a marked improvement from the contraction of 6.4% in the first quarter of this year and the 5.4% reduction in the fourth quarter of 2008.

Additional metrics confirm the economy is weak but clawing its way out of recession.



Data Source: U.S. Bureau of Economic Analysis

Employment – From the start of the recession through the June 2009 labor report, 6.5 million people have lost their jobs and the number of unemployed individuals has increased by 7.2 million to a total of 14.7 million. Job losses continue, however the pace has slowed from earlier in the year. Non-farm payrolls declined by 467,000 in June versus a monthly average of over 690,000 lost jobs during the first quarter. Unemployment sits at 9.5% and is rising though weekly jobless claims are trending down.

While the employment situation shows elements of recovery, there are concerns worth monitoring. The broader U-6 unemployment measure stands at 16.5% and the average duration of unemployment is at record levels. Workweek hours have diminished and are at low levels. The July labor report, to be released on August 7, will be a critical economic data point to gauge the status of the economy.

Real Estate – According to the S&P/Case-Shiller index, home prices peaked in July 2006 and fell each subsequent month until the most recent report in May. The index rose 0.5% for the month, after dropping 32.6% over the past three years. Thirteen of the index's twenty geographic segments

demonstrated a month over month uptick in price.

Upward movement of home prices along with three straight months of increasing sales of new homes lead us to believe housing is bottoming. That being said, mortgage and related consumer challenges do continue. Delinquencies and foreclosures trended up in both the first and second quarters and a significant number of home sales are classified as distressed.

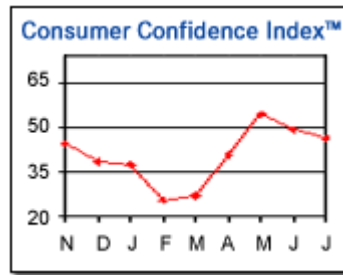
Perhaps more importantly, commercial real estate is becoming increasingly stressed. Commercial banks are charging off commercial mortgages at the fastest pace in 20 years and delinquencies in the second quarter more than doubled to 4.3% from the previous year.

Manufacturing – Industrial production was down 13.6% in June from the prior year and capacity utilization stands at a mere 68.0%.

Manufacturing weakness was further corroborated by the ISM Manufacturing survey which came in at a level of 48.9%. A reading below 50 indicates contraction, however, the metric has risen for six consecutive months and the latest report shows an upswing in new orders and production.

The government's "cash for clunkers" program appears to be a success with initial funding running out within one week. Auto dealers are reporting tremendous consumer response and lawmakers are debating higher funding levels to keep the program alive.

Consumer – In July, The Conference Board's measure of consumer confidence declined for the second month in a row, but remains well off the lows seen earlier this year. Tepid consumer confidence is not surprising considering elevated household debt levels,



record consumer delinquencies, diminished home prices, weak labor markets, tight credit, and flat to down pay.

Considering this backdrop, a consumer-led recovery seems implausible.

Government – The Federal Reserve maintains an aggressive easing stance along with various initiatives to support capital market liquidity and credit availability. Chairman Bernanke has elaborated various strategies to exit these programs, but maintains they will be necessary for some time.

The legislative debate over healthcare reform is ongoing with lawmakers failing to meet President Obama's targeted August deadline. Likewise, modifications to financial institution oversight and consumer protection are delayed until at least September.

Inflation – The Federal Reserve has flooded the market with liquidity to avoid what has been described as Great Depression 2.0. Most have declared the effort a success. In the meantime, the Fed's balance sheet has more than doubled to just over \$2 trillion and year-over-year growth in M1 is 17.8% while M2 is up 7.7%. Current economic slack (weak labor market & low capacity utilization) helps to subdue inflationary pressures for now. However, the monetary and fiscal measures undertaken by the U.S. government will lead to inflationary pressures in the future if they are not adequately neutralized and done so at the appropriate time. We have doubts as to the Fed's ability to negotiate this adequately and anticipate inflation in coming years.

Disclaimers

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