SECURITY NATIONAL BANK

WEALTH MANAGEMENT

Economic Review and Outlook
1st Quarter, 2011

EQUITY MARKET COMMENTARY

The equity markets continued their climb in the first quarter of 2011, marking seven consecutive months of positive total return for the S&P 500 Index. The last time the Index gained for eight straight months was from June 2006 to January 2007 with the beginning of the Credit Crisis rearing its head roughly nine months later. As of 3/31/2011, the Index's closing value of 1326 is still 18% below its all-time closing high of 1565 achieved on 10/9/2007.

For the first quarter of 2011, Value stocks outperformed Growth stocks by nearly 180 basis points, although Growth stocks hold a similar-margin lead for the trailing twelve month period. Internationally, Emerging Markets were strong during March and returned 2% for the first quarter. With sustained low interest rates, more risk-driven categories like Emerging Markets (+18.5%) and Small Cap (+25.8%) have been strong performers over the previous 12 months.

Table: Selected Equity Market Index Performance
(Source: Northern Trust)

March 2011 *EQUITY INDEXES:*	ONE MONTH	ONE QUARTER	Y-T-D	TWELVE MONTHS	THREE YEARS	FIVE YEARS	TEN YEARS
S&P 500 INDEX	0.04	5.92	5.92	15.65	2.35	2.62	3.29
DJ U.S. Total Stock Market Index^	0.44	6.37	6.37	17.73	3.64	3.16	4.53
S&P 500 GROWTH INDEX	0.30	5.07	5.07	16.56	4.74	4.09	3.45
S&P 500 VALUE INDEX	-0.22	6.80	6.80	14.79	-0.19	1.05	3.01
Dow Jones Industrial Avg	0.91	7.07	7.07	16.51	3.12	4.87	4.73
INTERNATIONAL EQUITY INDEXES:							
MSCI EAFE ND	-2.24	3.36	3.36	10.42	-3.01	1.30	5.39
MSCI EMERGING MARKETS ND	5.88	2.05	2.05	18.46	4.32	10.70	16.79

From an economic sector standpoint, the S&P 500 Index's positive quarterly return is due primarily to the Energy sector. Energy was the quarter's top performer at 10.9% as inflationary worries have carried commodity prices higher; for the first quarter, crude oil prices were up nearly 17%. Industrials were also in positive territory for the first quarter with a 2.8% return, while Consumer Staples and Utilities underperformed for the first quarter. The return figures since market bottom (3/9/2009) in the table below show how aggressively the market has rallied; safer, defensive sectors (Consumer Staples and Utilities) have been dramatic underperformers while credit-driven sectors (Financials, Consumer Discretionary) have been strong outperformers.

Table: S&P 500 Sector Performance
(Source: Northern Trust)

3/31/2011	Market Top Since 10/9/07	Market Bottom Since 3/09/09	Actual One Month	YTD 2011	1Q 2011
S&P 500 Sectors					
Consumer Discretionary	18.0	48.9	-0.6	-1.2	-1.2
Consumer Staples	26.3	-39.3	1.6	-3.4	-3.4
Energy	16.6	-6.6	1.5	10.9	10.9
Financials	-41.9	66.3	-2.6	-2.9	-2.9
Health Care	6.5	-46.5	1.9	-0.3	-0.3
Industrials	2.0	52.6	1.7	2.8	2.8
Information Technology	10.4	9.0	-2.7	-2.4	-2.4
Materials	8.6	34.0	1.8	-1.4	-1.4
Telecommunication Services	-2.5	-34.6	5.2	-1.1	-1.1
Utilities	-2.3	-48.4	0.2	-3.1	-3.1
TOT RET S&P 500 (ABSOLUTE)	**-8.5**	**104.5**	**0.0**	**5.9**	**5.9**

FIXED INCOME MARKET COMMENTARY

Fixed income categories appreciated modestly during the first quarter, as a continued strong equity market has caused money outflows from fixed income categories. On the positive side, municipal bonds have rebounded from a short-term scare beginning in December 2010 and confidence has somewhat returned to the sector. The municipal bond category was up 0.61% during the quarter, second only to Credit Bond with a 0.89% return during the quarter.

Government Bonds suffered during the quarter as concerns over the United States exceeding its "debt ceiling" have weighed on government bond prices. We chronicle our thoughts on the debt ceiling issue in a later section of this newsletter.

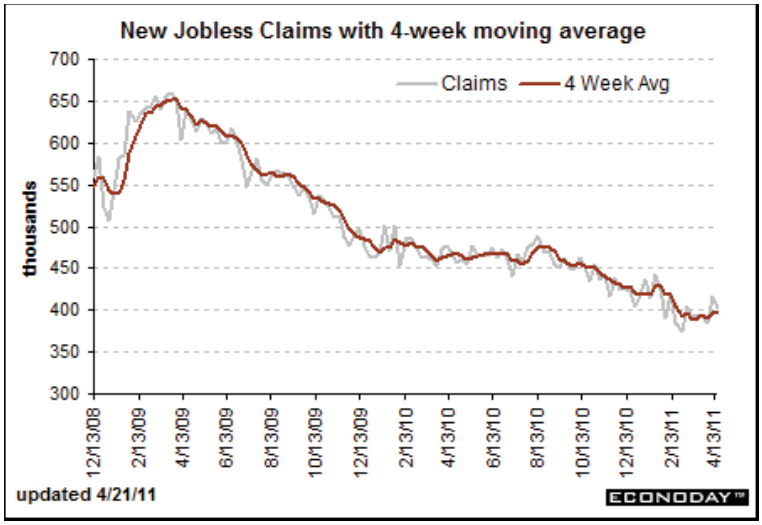
Table: Selected Fixed Income Market Performance
(Source: Northern Trust)

March 2011 *FIXED INCOME INDEXES:*	ONE MONTH	ONE QUARTER	Y-T-D	TWELVE MONTHS	THREE YEARS	FIVE YEARS	TEN YEARS
BC AGGREGATE INDEX	0.06	0.42	0.42	5.12	5.30	6.03	5.56
BC INTERM. GOV/CORP INDEX	-0.02	0.34	0.34	4.63	4.49	5.68	5.20
BC CREDIT BOND INDEX	-0.04	0.89	0.89	7.01	7.02	6.42	6.19
BC GOVERNMENT BOND INDEX	-0.03	-0.08	-0.08	4.28	3.66	5.63	5.15
BC MUNI BOND 5 YR	0.31	0.61	0.61	3.24	5.06	5.13	4.58
T-BILL INDEX	0.03	0.05	0.05	0.16	0.51	2.23	2.24

KEY ECONOMIC METRICS

Employment

The most recent Employment Situation report for February once again reported stronger growth in non-farm payrolls at 216k while private payrolls increased 230k. Both numbers were in-line with consensus expectations. Goods-producing and service-producing sectors added to the positive change, while manufacturing added jobs at a slower pace. Private service-providing jobs increased 199k, including a 28k rise in temporary help (which can be a leading indicator of improved expectations). Overall jobless claims have trended down substantially, and the reported unemployment rate stands at 8.8%. Average workweek and average hourly earnings month-over-month continue to remain relatively unchanged, and this remains a concern given ever-increasing food and energy prices.



We continue to track jobless claims on a weekly basis, and recent claims figures are as follows:
March 31st: 388k
April 7th: 382k
April 14th: 412k
April 21st: 403k
4-week moving average: 399k

It is important to note that in order to keep up with estimated population growth, a net 150k new jobs per month need to be created. Monthly net new jobs are statistically small given the estimated number of employed individuals in the United States, and as such it would take 300-400k new jobs per month to substantially move the unemployment needle.

Housing

The Existing Home Sales report for March was strong with a reported 3.7% month-over-month increase. Year-over-year, existing home sales are down more than 6%. Estimated current supply declined to 8.4 months, however pricing data continues to be weak with a median price at $159,600.

March's report reflects tight credit conditions as a record 35% all-cash sales rate. Distressed sales also represented nearly 40% of all sales, pointing to signs that the housing market is still on shaky ground.

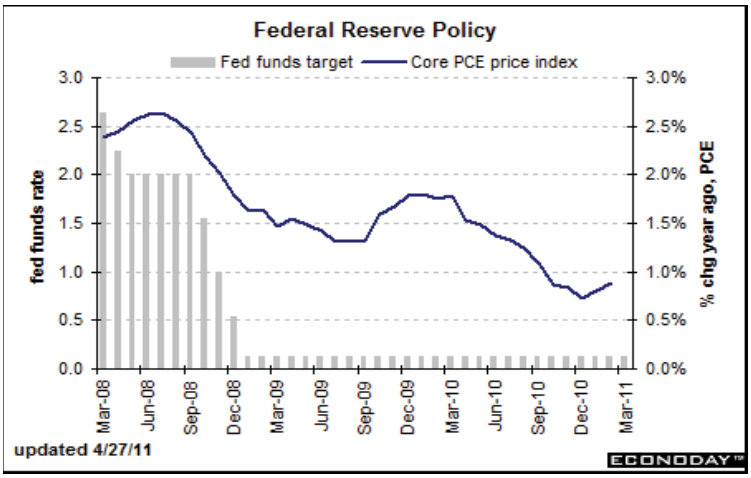
Interest Rates and the Federal Reserve

March's reported Consumer Price Index (CPI) increased 0.5% month-over-month led once again by energy which jumped 3.5%. Gasoline was up 5.6% and food price inflation came in with a 0.8% increase. Excluding food and energy, "core inflation" showed a 0.1% increase. On the production side, the Producer Price Index (PPI) increased 0.7% month-over-month also led by increases in gasoline and energy with 5.7% and 2.6% spikes respectively. PPI excluding food and energy increased a more-muted 0.3%.

On the interest rate front, the Federal Open Market Committee (FOMC) met on April 26th and released its latest official statement on April 27th. The Fed retained its "extended period" interest rate language, which did not come as a surprise. In regards to the Fed's current "quantitative easing" program, Chair-

man Ben Bernanke stated:

"To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to continue expanding its holdings of securities as announced in November. In particular, the Committee is maintaining its existing policy of reinvesting principal payments from its securities holdings and will complete purchases of $600 billion of longer-term Treasury securities by the end of the current quarter."



However, what was not explicitly discussed is whether the Fed would institute another round of Treasury purchases once the current program is completed in June.

SNB WEALTH MANAGEMENT COMMENTARY

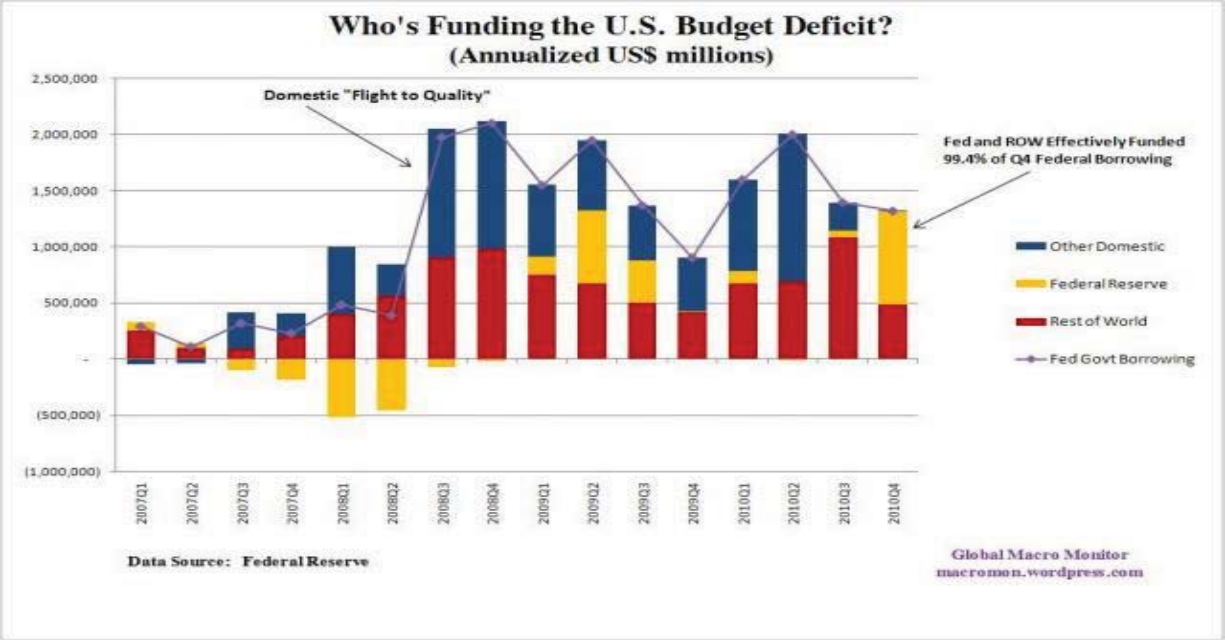
The End of QE2

The Federal Reserve's $600 billion Treasury purchase program is slated to end on June 30, 2011. Termed "quantitative easing part 2 (QE2)," the program was intended to fill the gaps in a struggling economy by providing liquidity via artificially low interest rates. Over the last seven months, the program has helped boost prices in the equity and commodity markets, but the question remains whether the U.S. economy is strong enough to provide for a successful handoff from public to private credit creation now that the Fed has not announced another round of Treasury purchases.

Further, it was reported that famed PIMCO bond fund manager Bill Gross completely eliminated all exposure to U.S. Treasuries and chronicled his position by showing the dramatic rise in U.S. Treasuries ownership by the Fed versus Foreign ownership. Gross' simple premise: "Who will buy Treasuries when the Fed doesn't?" Gross cautioned that bond yields and stock prices are "resting on an artificial foundation of QE2 credit" and termed the program's June 30th end date as "D-Day."

Historically speaking, from April 2010 to August 2010 the Fed cut back on its quantitative easing and shrunk its balance sheet by roughly 12%. During that interval, the S&P 500 fell by 13% and the yield on the 10-yr Treasury note fell from 3.8% to 2.7% (i.e. prices rose). During that time, the more defensive economic sectors performed well: consumer staples, health care, utilities, and telecom. Conversely, more consumer-driven categories were hurt: financials, technology, and consumer discretionary.

Although the Federal Open Market Committee did not signal another round of quantitative easing, the Committee did state that it will "regularly review the size and composition of its securities holdings in light of incoming information and is prepared to adjust those holdings as needed to best foster maximum employment and price stability." In other words, at this time there will not be another structured round of Treasury purchases, but the Fed will maintain its flexibility in open-market transactions as it monitors unemployment and inflation. Generally speaking, without another round of Fed purchases, we would look for a gradual rise in interest rates and downward pressure on the equity markets.



Debt Ceiling Explained

Beginning in 1917, Congress allowed the Treasury discretion to issue new debt but set a cap on how much total debt the Treasury could owe at any time. Currently, the "debt ceiling" stands at $14.294 trillion, and Treasury Secretary Tim Geithner has warned that the U.S. would exceed the debt ceiling at current rates of spending by May 16, 2011.

In mid-April, rating agency Standard & Poor's reaffirmed the U.S. Government's "AAA" rating but changed its outlook to "negative" over concerns of large budget deficits and rising government indebtedness. Without action from Congress, the Treasury would not be able to issue new debt and thus would not be able to meet its existing obligations, triggering an effective "default" by the U.S. Government.

In lieu of raising the debt ceiling, Congress would have to put forth a very stringent balanced-budget amendment addressing significant spending cuts. A recent compromise deal in Congress reportedly cut $38 billion from this fiscal year's spending, but the Congressional Budget Office estimated that the actual savings was more like $352 million. Currently under debate are extreme budget cuts proposed by Representative Paul Ryan (R – WI) to more modest cuts (and higher taxes) proposed by the Obama administration.

We believe that it is likely the debt ceiling will be raised, but we debate whether this is the hard medicine that the U.S. Government needs to swallow in order to ensure a more sound long-term financial standing.

FINAL WORD

Stronger corporate earnings reports have in-turn caused analysts to raise expectations for earnings estimates. In our view, this may have served to artificially lower forward price-to-earnings ratios thus causing the equity markets to appear very inexpensive. As previously mentioned, the Federal Reserve's buying of Treasuries on the open market has kept interest rates low, and the program is scheduled to end in June 2011. With the Federal Reserve's announcement of no additional round of structured purchases, we would anticipate this could create downward pressure on the equity markets. As such, we remain cautious in the near-term.

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