QUARTERLY NEWSLETTER

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KARAGOSIAN FINANCIAL SERVICES, INC.

News Flash:

*We have re-designed our company website at **www.toinvest.com.** Our new site will allow us to improve communication with you.*

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MARKET AND ECONOMIC OUTLOOK

The stock market in the U.S. began the year on a high note, as this past January's performance was the best since 1997. Having posted double digit percentage gains in the fourth quarter of 2010, the first quarter of 2011 continued to be prolific, as all three major indexes posted gains led by the Dow Jones Industrial Index (+ 6.4%), followed by the S & P 500 (+5.4%) and the Nasdaq Composite (+4.8%). Equity markets had been climbing steadily in the last quarter until the end of February. After a couple of weeks of profit taking, the market then received a big jolt after an enormous earthquake and tsunami hit Japan, the world's third largest economy, on March 11th. After a few days of selling, U. S. markets rebounded and the focus was on the improvement in the domestic economy. This focus on domestic issues may have contributed to small and medium capitalization stocks (which typically derive more of their revenues from U.S. customers), as measured by the S & P 400 and 600 Indexes respectively, performing better than large capitalization stocks (which typically have a more international basis for their sales). The S & P 400 increased 9.4% in the first quarter and the S & P 600 increased 7.7% in the last quarter. These "smaller" companies in general tend to have higher sales and earnings growth when the economy is improving than their large cap counterparts.

All major stock sectors finished last quarter with positive returns. With oil prices increasing over 16% in the first three months of the year, the energy sector proved to be the best performing industry group of the first quarter. A few of the factors that may be influencing the rise in oil prices are strong global demand for oil, very low interest rates making investors look elsewhere (commodities) for returns, and ongoing political unrest in Africa and the Middle East. Another sector which outperformed the broader market was industrials. Sectors that lagged the overall market included consumer discretionary stocks. Particularly of note is that retail stocks under-performed the S & P 500 for the first time in six years in the first calendar quarter. This is typically when retail stocks shine (80% of the time retail stocks outperform the S & P 500 during the first quarter), after reporting their earnings for their most important quarter, the period which includes holiday shopping. Utility stocks continued to lag as they did in the previous quarter.

Foreign markets in general trailed the performance of U.S. markets in the first quarter as shown by the developed market MSCI EAFE (Europe, Australia, the Far East) Index return of only 2.7%. Some of the most economically troubled countries, though, had good stock market performances in the first quarter. Greek and Spanish stock markets increased more than the U.S. stock market on both a local and U.S. dollar basis (+ 13.5% as per the Dow Jones Global Index). As might be expected, the Egyptian stock market performed horribly, declining over 23% in the first quarter, after having been closed for eight weeks.

BOND MARKET

Overall, the bond market did not perform as well as equity markets in the first quarter. U.S. Treasuries barely moved over the first three months of 2011, as the 10 Year Treasury increased slightly from yielding 3.30% at the end of 2010, to end the quarter at 3.47%. Very short term Treasury Bills actually had their yields decrease from their incredulous low levels at year end. The 3 month and 6 month Treasuries at the end of March yielded 0.09% and 0.17% respectively. This is a large reason why money market funds, which typically hold short term investments, pay such seriously low yields (some even have no yield!). The big debate is what is going to happen to interest rates once the Federal Reserve (Fed) ends their quantitative easing (QE2) program at the end of June. QE2 has caused the Fed to purchase almost $320 billion of Treasury debt in the first quarter, close to the amount of debt that was issued. The Fed is now the largest holder of Treasuries, surpassing the

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Karagosian Financial Services, Inc.

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MARKET AND ECONOMIC OUTLOOK *(CONTINUED)*

substantial holdings of China and Japan.

The junk bond (high yield) part of the bond market performed the best out of all bond sectors last quarter posting a total return of about 4%. Investment grade bonds improved slightly returning 0.8% in the first quarter. The continuing low interest rate environment led companies to issue $771 billion of bonds in the first quarter. However, a large part of this issuance was to refinance old higher yielding debt or to extend maturities so the net supply of bonds did not change much.

Municipal bonds in the aggregate posted a slightly positive total return in the last quarter of 0.5%. The ratio of return on tax free municipals to their equivalent maturity Treasuries continues to be at extremely high levels. At the very short and long end of the yield curve, tax free municipals have even higher yields than Treasuries, although both types of bonds have yields at extremely low historical levels. For this reason and concerns about credit worthiness of municipalities, municipal bond funds have had 20 consecutive weeks of net outflows, over $29.5 billion in net redemptions. This has contributed to the weakness in the municipal bond market.

MARKET OUTLOOK

We remain bullish on the domestic equity markets. Despite a number of unsettling events, including the Japanese earthquakes, the political unrest in Egypt and Libya and oil trading above $100 a barrel, the stock market seems particularly resilient. We think this was based on continued improvements in the overall economy. Year-over-year, industrial production advanced 5.6% and capacity utilization of 76% showed marginal improvement. In the past quarter, the recovery seems to have slowed a bit with industrial production and capacity utilization about flat during the quarter. The ISM manufacturing index has also illustrated better results with eight straight months of consecutive increases. However, we noticed that March experienced a sequential decline in the index to 61.2 (50 and above signify expansion), from 61.4. The housing market remains a concern as a "shadow" inventory of troubled mortgages that have not officially been foreclosed on, is still at 1.8 million units, or about nine months worth of sales at current rates. This will likely act as an anchor on housing prices and the economy. What we find particularly encouraging is that U.S. corporations are flush with cash at $1.9 trillion and the companies in the S&P 500 alone have about $940 billion, a third of which has been accumulated since 2008. We see this as a benefit in two ways. First, the large amount of cash allows companies to reinvest in their companies or make acquisitions. Acquisitions tend to spur positive results in the equity markets. Second, many companies who halted or even reduced dividends payouts are resuming or increasing payments making their stocks more attractive to investors. In the first quarter, private equity (buyout funds) and venture capital firms also experienced strong funding, year over year. Strong funding in venture capital funds signify to us that there will be greater investment in emerging businesses which should help reduce the high unemployment rate, currently at 8.8%.

Since our last quarterly newsletter in January, the P/E ratio of the S&P 500 index has risen slightly to 17.6, from 15.7, likely from the strong performance of stocks in January and February. Although up slightly from our last quarterly letter, we think this P/E ratio is fairly reasonable given current interest rates and the stage we think the economy is in.

We continue to view the bond market as a less attractive asset class. Rates are likely to go up over the short and long term, in our view. The QE2 (quantitative easing), is set to conclude in June which will likely lead to a jump in short-term rates. The municipal bond market, which stabilized in the first quarter of 2011 will likely improve slightly for the rest of the year as municipalities find solutions to their strained budgets. Barring another steep decline in the economy, which we do not predict, high yield bonds should offer more attractive yields to investors and provide some appreciation potential as credit quality by issuers continue to improve.

In summary, we remain optimistic about the rest of 2011 for the stock market, but forecast moderate to flat results in the second quarter. We are maintaining our GDP growth estimate at 3.0% to 3.5% with the second half of 2011 re-accelerating. Our theory is that as many of the negative effects from the Japanese earthquakes and the political upheaval in Northern Africa subside, and government stimulus plans (end of QE2 in June) become more transparent, then investors will gain confidence in the markets.