

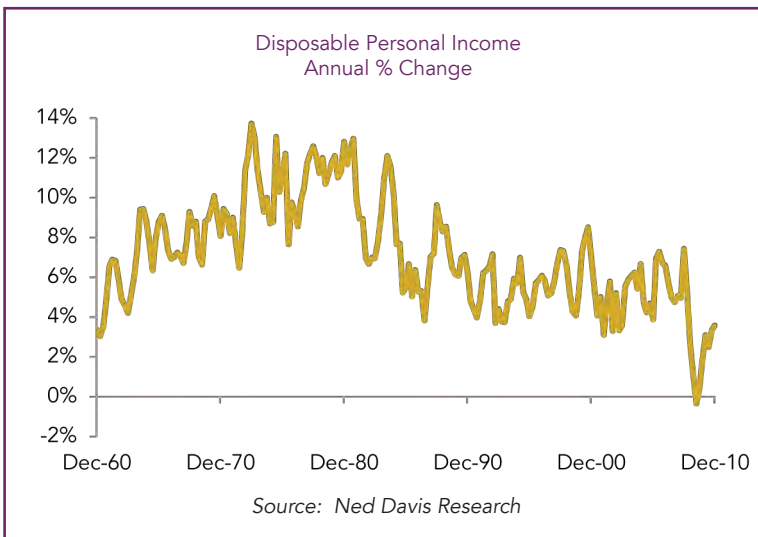
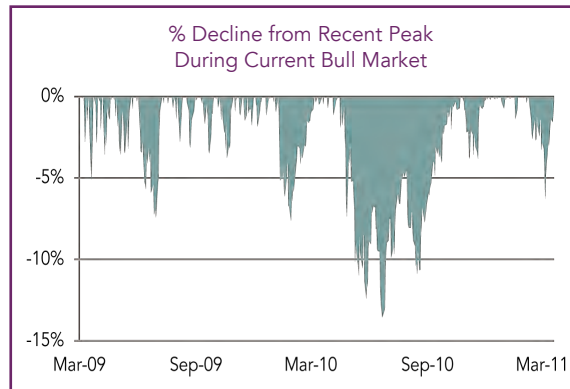
# Quarterly Insight

Johnson Private Client Group | Johnson Trust Company | Johnson Institutional Management

First Quarter 2011

## Market Update

Investors shrugged off turmoil in the Middle East and the devastation of a tsunami and nuclear disaster in Japan to push stock prices higher in the first quarter. The market rose by more than 5% in the quarter and has gained nearly 30% since last August. In March, the bull market celebrated its second birthday and has now provided investors a total return of nearly 100% from the lows in 2009, recovering three-fourths of the value it lost since October 2007. That makes this the 12th strongest out of 35 previous bull cycles and the 15th longest in duration.



lower quality stocks continue to lead this advance. This increases the probability of mean reversion, which bodes well for higher quality stocks going forward.

Economic growth continues to show signs of improvement. Fueled by strength in exports, manufacturing remains on solid footing. In addition, consumer spending has recovered from its steep decline two years ago. Government stimulus has been a significant contributor to consumption during this recovery, offsetting some deleveraging that has taken place. However, whether or not spending can sustain itself is highly dependent on job growth. Income growth

The resilience of this market is certainly impressive. Despite the turmoil, there has only been one correction greater than 10% during the past two years. One of the more surprising aspects of the market rise is the risk appetite of investors. Typically, larger and higher quality companies with more consistent growth patterns emerge as market leaders during the second year of a bull market. Yet smaller and

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### TOTAL RETURN

Quarter Ending March 31, 2011

S&P 500	5.9%
Dow Jones Industrial Average	7.1%
NASDAQ	5.1%
Russell 2000	7.9%
MSCI EAFE (International)	3.5%
Barclays Aggregate Bond Index	0.4%

# Market Update (continued from page 1)

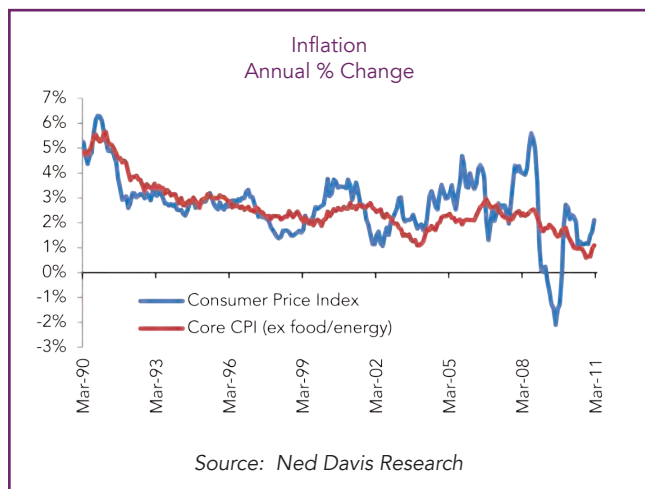
has been anemic for several years and the prospects for wage gains remain poor in most industries. Although disposable personal income is growing again, it is rising at the slowest pace in about 50 years. With the likelihood that fiscal stimulus will soon end and that tax rates will ultimately climb, it is critical for the economy to create jobs in order to elevate spending.

Regarding jobs, we continue to expect that it may take many years before the economy approaches full employment. According to the Bank Credit Analyst, monthly gains in jobs of approximately 310,000 are required over the next four years to achieve full employment. This has never occurred over any extended time period.

Most of the unemployment problem we face is a shortfall in aggregate demand, but there are also structural problems stemming from skill mismatches and the need to retrain the workforce. This will take time. While the unemployment rate has declined modestly to 9%, the average duration of unemployment remains near record levels at more than 21 months. Still, we expect some job gains will come this year and help support the economic expansion.

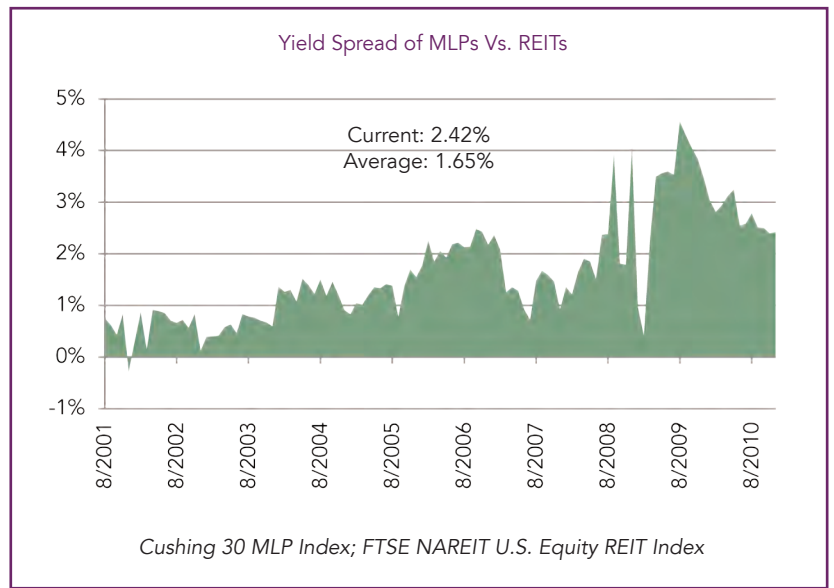
The improving economy coupled with vast amounts of public sector debt and aggressive monetary policy is causing more concern about inflation. Rising commodity prices and the ongoing worry about the declining dollar have led some to predict that inflation will quickly spike. The consumer price index has indeed moved higher in recent months, though it is still modest and the core rate (excluding food and energy costs) remains quite low. High inflation would hurt an already fragile environment for spending, result in higher interest rates and potentially lower stock prices.

There are several reasons we believe inflation will not emerge as a near-term threat to investors. First is the significant amount of unused capacity in the economy. With manufacturing capacity and unemployment at high levels, there is a good deal of slack in the economy. This will need to be absorbed before sustainable price increases materialize. Second, the output gap in the economy is near record levels. This measure compares the actual growth rate in the economy to its potential. It is at the widest level in nearly 30 years, suggesting the economy could accommodate much faster growth before reaching an overheated stage. Third is the very weak gain in wages and disposable income. Although historically thought of as a monetary issue, the rate of inflation is more correlated to wage and income gains, which have not been greatly impacted by the Federal Reserve's actions. Finally, commodity price increases may prove to have more of a deflationary impact than inflationary. Any increase in food and energy prices takes money away from discretionary consumer spending and restricts overall growth. While we are well aware that inflation could rise, we believe any increase will be muted in the near term and not sustainable until these conditions change.



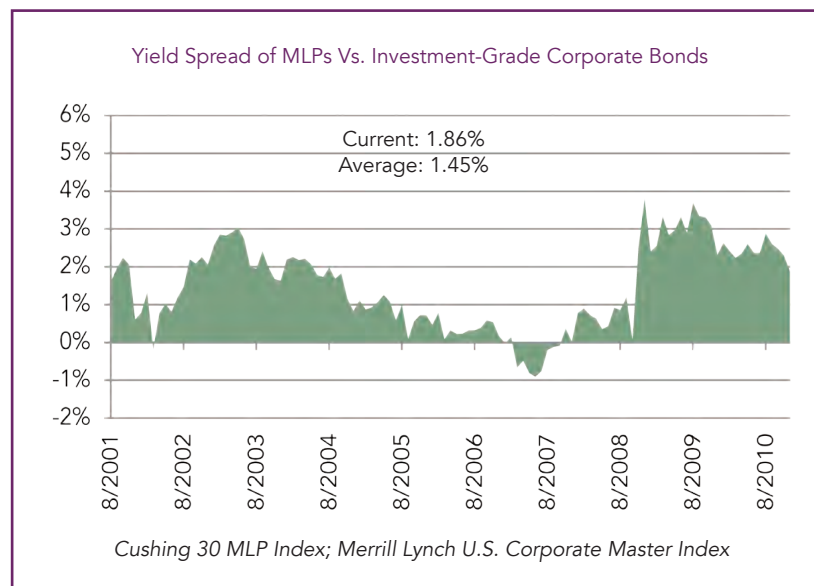
# MLPs and Their Role in a Diversified Portfolio

Johnson Investment Counsel continues to incorporate alternative investments and real assets within client portfolios to guard against inflation risk in today's low interest rate environment. Master Limited Partnerships (MLPs) are an attractive way to capitalize on the infrastructure growth needed to move crude oil and natural gas throughout the U.S. MLPs should not be confused with limited partnership investments that were sold as tax shelters in decades past, often with negative consequences to investors. MLPs are publicly-traded partnerships that trade on a stock exchange. Their qualified income is not taxed at the partnership level but instead is largely passed through and favorably taxed to the MLP investor.



The U.S. is currently in the midst of a huge energy infrastructure expansion program as several new oil fields and natural gas shale basin discoveries have emerged. Natural gas is quite plentiful in our country and produces less pollution than crude oil. There have been significant investments in companies with natural gas exposure, highlighted by Exxon Mobil's purchase of XTO Energy in 2010 for \$41 billion. At the time of the merger, XTO Energy had natural gas reserves totaling 45 trillion cubic feet, and this merger confirms a belief that natural gas will be a larger part of our domestic energy consumption in the decades ahead. The Interstate Natural Gas Association of America predicts that over the next two decades, up to \$210 billion must be spent on further developing our nation's natural gas infrastructure, and MLPs are expected to build the majority of this infrastructure.

MLPs have a stable, "toll road" business model that is not directly tied to oil or natural gas prices but to increased transmission volume of oil and natural gas. The Federal Energy Regulatory Commission allows MLPs to earn a return that has historically averaged 11% to 13% on their investment in order to cover their costs, and the remainder is passed on to investors. Typical contracts allow for prices to rise at a rate slightly in excess of inflation, as measured by the U.S. Producer Price Index (PPI).



MLPs can provide for higher levels of ongoing cash flow than stocks, bonds and real estate investment trusts (REITs), while also having the potential for increasing income. Most MLPs have historically increased their payouts to investors by 4% to 8% per year. They have historically exhibited low correlations with stocks and bonds, making them a good diversifier, particularly for those drawing from their portfolios. We are utilizing open-end and closed-end funds, private funds and exchange-traded notes to gain exposure to MLPs in client portfolios.

MLPs currently appear fairly valued, with yields in the 5% range, comfortably higher than other income-oriented investments such as

REITs, corporate bonds and utility stocks. As with any investment, MLPs are subject to unique risks. Sharply rising interest rates would likely hurt flows into MLPs, and since most MLPs access the capital markets to fund future growth, a credit crisis would be negative. However, with fixed income returns likely to be half of what they have been over the past decade in the coming years, and the need to expand our domestic energy infrastructure, MLPs can fill a valuable role in a diversified portfolio.

## Bret Parrish Named Managing Director



Bret H. Parrish, CFA

We are pleased to announce that Bret Parrish, CFA, has been promoted to Managing Director of the Private Client Group at Johnson Investment Counsel. The Private Client Group provides investment and wealth planning services to individuals and families. This area of our firm has over \$3.5 billion in assets under management, which represents approximately two-thirds of the total assets managed by the firm. The Private Client Group consists of three segmented divisions: Financial Advisory Services, Wealth Advisory Services, and Johnson Trust Family Office Services. Through these divisions, we help our clients reach their goals with customized investment solutions and holistic planning.

Since joining the firm in 2001 as a Portfolio Manager, Bret has taken on additional responsibilities and helped drive new initiatives to better serve clients. This includes his role as Director of Johnson Trust Family Office Services, which he will continue to lead. In 2009, Bret joined our Management Team and has been very involved in the oversight and strategy of the firm. "I have always believed that leadership development is critical to the longer-term success of the firm," says company president Tim Johnson. "Bret has proven leadership ability and a real passion for providing the highest level of service to our clients, making him a great fit for this position."

Bret lives in Hamilton, Ohio with his wife, Krista, and children, Paige and Andrew. He serves on the investment committee of the Hamilton Community Foundation and is on the board of the Boys and Girls Club. In addition, he is currently serving as a division leader for the United Way Campaign.

## Charles Rinehart Wins National Award

Charles Rinehart was part of the University of Cincinnati Entrepreneurship Team that earned first place in the National Small Business Institute (SBI) Case of the Year Competition. Charles and his teammates evaluated a new product line for a Cincinnati-based manufacturing company and recommended an implementation plan to open new distribution channels and end markets to the firm. The team first won the 2010 Cecil Boatright Case of the Year Competition this past October, which earned them a spot in the National SBI Case of the Year Competition. After graduating from UC last year, Charles joined Johnson Investment Counsel as a Portfolio Manager Assistant in our Private Client Group.

Johnson Investment Counsel values your trust, loyalty and "word of mouth" endorsements. We welcome your introductions to the people in your life you care about such as family, friends, neighbors, professionals and business associates.

## About Us

Johnson Investment Counsel, Inc. is Greater Cincinnati's largest independent wealth management firm, managing over \$5 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs and more. Johnson Investment Counsel has built strong, long-term relationships with individuals and families, charitable organizations, foundations and corporations through three divisions: Johnson Private Client Group, Johnson Institutional Management and Johnson Trust Company, the only independent trust company in Greater Cincinnati.

### DIVISIONS

- Johnson Private Client Group
- Johnson Trust Company
- Johnson Institutional Management

### SERVICES

- Stock Portfolios
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