PALISADE
Asset Management, llc

Second Quarter 2011

Quarterly Perspectives

2011 Benchmark Index Returns

Index	YTD as of May 31, 2011
S&P 500*	7.95
DJIA*	9.64
NASDAQ	6.88
Russell 2000*	8.71
MSCI EAFE	4.50
Barclays Intmd. Govt/Corp	2.64
Barclays 3 Yr Muni	1.87

*With Dividends Included

James C. King
jking@palisadeam.com

Peter D. Rocca
procca@palisadeam.com

Dennis M. Ott
dott@palisadeam.com

Steven E. Landberg
slandberg@palisadeam.com

E. Thomas Welch
twelch@palisadeam.com

Paul J. Kronlokken
pkronlokken@palisadeam.com

Jennifer L. Fischer
jfischer@palisadeam.com

333 South 7th Street
Suite 440
Minneapolis, MN 55402
Phone: 612-455-2900
Fax: 612-455-2909

Market Valuations Differ

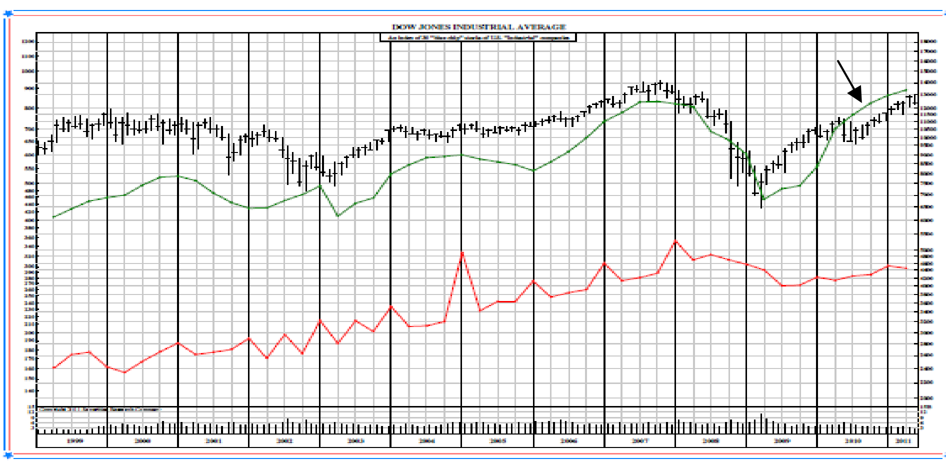
By James C. King

Are common stocks a good place to invest? Many people perceive the current 'stock market' to be too risky. Also, many people believe that if they are over a certain age, they should have a large portion of their investments in fixed income. Both of these perceptions may or may not be true depending on the outlook for the economy and the various markets.

The stock market is made up of a wide variety of companies with varying degrees of risk and quality. So, when the pundits discuss the 'stock market', they are talking about the entire stock market, not any specific segment of the stock market. We believe the large capitalized, high quality US equity market segment that pay dividends, well covered by earnings and are increased on a regular basis, represents the safest stock market segment to invest in the current economic environment. Companies with these characteristics are ranked A+ or A by Standard and Poor's (different than the bond *ratings*). Currently there are 143 companies in the US with this ranking, representing a select portion of the 4,200 publicly traded stocks.

Another investment consideration is valuation (P/E) on a historical basis. We examine stock prices relative to earnings over a 12 year period to determine if a company is expensive or inexpensive relative to the current economic period. Today earnings are performing very well on a large segment of the market. The overall large cap, high quality US equity market is in the lower quartile of its historic valuation range.

Although we expect occasional corrections, the overall US equity markets are in an expansive phase. When dividend yields are compared against fixed income with historically low interest yields, we view high quality stocks as a superior place to invest. For taxable accounts, the 15% maximum dividend and capital gains rate makes quality, dividend paying companies very competitive with both taxable and tax exempt bonds. Remember, quality isn't expensive, it's priceless!



DJIA 12 year historical chart was created for Palisade Asset Management, llc by Securities Research Company (SRC Stock Charts), 05/2011.

The chart shown above represents the Dow Jones Industrial Average. Without going into a lot of detail, the black slashed line represents *Price*, the green line represents *Earnings* and the red line represents *Dividends*. The chart spans 12 years and is semi-logarithmic creating a ratio scale grid (I know, I've gone too far). In any event, when the price scale is on the earnings line, the market is at 15x earnings. As you can see, the DJIA has only been as inexpensive as it is now during the earnings decline of 2008 and 2009 yet the earnings have risen 27.1% during the last year. The large cap, high quality stocks sector of the market has not been this inexpensive since the 1990-91 recession.

Reduce Expenses. Revenue Growth?

By Steven E. Landberg, CFA

Since the recent recession, companies have taken steps to improve their balance sheet and to restore earnings. Initially, companies took swift action by reigning in operating expenses. As these cost cutting measures took hold, earnings improved and stock prices moved higher. Many attributed the increase in stock prices solely to the elimination of expenses. Furthermore, they quickly pointed out that you can only derive so much in increased earnings through expense reduction, questioning companies' abilities to grow revenue.

With this in mind, we decided to focus in on revenue growth. We looked at the revenue reported by the thirty companies of the Dow Jones Industrial Average Index (DJIA). Specifically, asking how many of the Dow 30 companies have reported an increase, or decrease, in revenues since the recession ended?

In our review of the Dow 30, we looked specifically at two different time periods. First, we compared revenue reported for the twelve months ending December 31, 2010 versus the twelve months ending December 31, 2009. We then looked at revenue reporting in the most recent quarter by comparing each company's revenue for the quarter ending March 31, 2011 versus the three month reporting period ending March 31, 2010. The results of our study are summarized as follows:

Dow 30 - Revenue Growth	Quarter Ending (03/31/11 vs. 03/31/10)	12 Mos. Ending (12/31/10 vs. 12/31/09)
Companies Reporting Revenue Growth	24	24
Companies Reporting Revenue Decrease	6 *	6 **

* American Express, Boeing, Bank of America, Home Depot, J.P. Morgan, Pfizer ** Boeing, Bank of America, General Electric, Johnson & Johnson, J.P. Morgan, Verizon

The twenty-four Dow companies reflecting a year over year (YoY) increase for the twelve months ending December 31, 2010, reported a *weighted average* increase in revenue of 10.43% (*average* revenue increase of 15.14%). For the first quarter of 2011, the twenty-four Dow companies reporting revenue growth, compared to first quarter 2010, saw a *weighted average* increase in reported revenues of 12.28% (*average* of 13.58%).

Of the six companies reporting decreased revenues over the twelve months (YoY), three companies saw revenues reduced by 1.15% or less. For first quarter 2011, three of the six companies reporting reduced revenue saw revenue decreasing by only 2.0% or less as measured against first quarter 2010 reported revenue.

For the periods studied, eighty percent (80%) of the DJIA companies have experienced revenue growth. What about future quarters? According to the Institute for Supply Management (ISM) spring economic forecast, these companies should continue to increase their revenues. The survey of the nation's purchasing and supply executives (manufacturing and non-manufacturing) found that 68% of respondents forecast revenue to be 13.2% higher through the end of 2011. Overall, respondents surveyed exhibited a growing confidence in revenue growth and in the economic recovery as well.

Companies initially responded to the recession by reducing expenses. Naysayers to the ongoing economic expansion are seeing earnings growth derived from cost reductions. Also, a review of reported revenues shows, as the recovery has taken hold, companies have experienced growth in revenues. The combination of expense control and growth in revenue have allowed companies to recently post solid quarterly earnings – evidenced by the latest quarter when all but four of the Dow 30 companies met or exceeded earnings estimates.

Leverage and Inflating Commodities

By Dennis M. Ott, CFA

Commodity markets are experiencing extreme price fluctuations. Over the past year, prices have moved upwards almost uninterrupted. We have heard our politicians and business people commenting on the rapid price movement of commodities, yet nothing is being done to prevent the price inflation. There are mechanisms/solutions available which could greatly tame much of this commodity price volatility. Unfortunately, our leaders have been unwilling to address these solutions.

Rapid price movements in any type of market are of great concern. We believe this commodity inflation is being caused by two main factors - high leverage and the growth of commodity based hedge funds; the speculative vehicles that employ this leverage.

The facts that support this leverage are simple to understand. Today a trader/speculator can control 1,000 barrels of oil worth about $100,000 for a margin deposit of $6,750. In other words, the leverage factor is 15 to 1. For gold, the speculator can control 100 troy oz. worth a little over $153,000 for a margin of $6,731; 23 to 1. For silver, a speculator can control $204,000 worth for a margin of $16,200; nearly 13 to 1. Interesting to note is that this margin amount was recently increased up from $6,750; causing the price of silver to decline 12% in just two days.

Adding to this leverage is the fact that hedge funds (generally unregulated) have seen a large inflow of $10 billion during the first quarter of 2011. It is estimated that, in total, all hedge funds now control over $1.8 trillion. While we do not know the exact dollar amount of commodities controlled by hedge funds, we believe the percentage of leverage to be quite significant. Commodity demand is the underlying cause of this growth, but it is the leverage plus the expanding amount of funds available to professional speculators (hedge funds) that is causing much of the recent commodity price inflation and volatility.