



World Freedom Select™

Investing in Economic Freedom

2nd Quarter -
2010

Markets

Fear of a return to a recession in Europe and the United States and slower growth in China have gripped markets around the world since the first quarter. Year-to-date returns through June 30 were negative. International markets declined 10.8% as measured by the MSCI All World Ex USA Index, while our World Freedom Select strategy after fees declined 8.9% and the U.S. market fell 7%.

One of the important advantages of our strategy is our ability to move investment emphasis to those regions and countries enjoying the most favorable investment prospects. Currently, nearly 50% of World Freedom Select assets are employed in the Asia-Pacific region.

Economy

We believe that too much is being read into the recent spate of negative economic indicators and that uneven recovery from recession is the norm. As the effects from economic stimulus subsidies from Asia, to Europe, and to the Americas, growth in many countries is slowing. While the debt crisis and recently enacted austerity moves of spending cuts and tax increases will impede European growth, strength in the United States and Asia-Pacific economies will carry the day. The weak Euro is stimulating exports—particularly in the manufacturing powerhouse of Germany. First half sales of Audi rose 19% over last year, BMW was up 13% and Mercedes-Benz reported record June sales, up 13%.

The world's second largest economy, Japan, is showing signs of life, led by world-class company exports to their Asian neighbors. New Prime Minister, Naoto Kan, is embracing more market friendly policies such as pledging to cut Japan's 40% corporate tax. (Leaving the U.S. with the highest corporate tax among developed nations.)

Country Spotlight: India



The Economic stress in Europe and the weak Euro raise concerns about countries heavily dependent on exports to Europe. Although growing nearly as fast as China this year, India is not an export driven country. It depends on local demand and is relatively insulated to fluctuations of international markets and currencies. Spurred by rising wages and low interest rates, auto sales are running 30% ahead of a year ago. Remember, India's middle class is larger than the entire population of the United States.

Country Spotlight: Taiwan



Aside from being the home of Lu Yen-hsun, the 82nd ranked tennis player who upset Andy Roddick at Wimbledon to be the first Asian since 1995 to reach the quarterfinals of a Grand Slam Tournament, Taiwan is now one of the world's great technology centers. A computer powerhouse, Taiwan produces more than 90% of portable computers. Acer surpassed Dell last year to become the world's second largest maker of personal computers. Taiwan's spectacular economic development over the past 50

years is surely due to an enlightened government which embraced economic freedom as evidenced by its ranking of 25 out of 157 countries represented in The Heritage Foundation's 2008 Index of Economic Freedom. Recent trade agreements with China bode well for continued prosperity for Taiwan.

Country Spotlight: Australia



Investors must never be complacent about political developments. When center-left Labor Party Kevin Rudd succeeded conservative Liberal Party John Howard in 2007 as Prime Minister, our antennae went up. Fortunately, Australia has prospered since as exports of raw materials to China, India and Korea boomed. A sound banking system also contributed to Australia's weathering the world recession relatively unscathed. With the economy expected to resume growth of 3% or more this year, Rudd's left leaning agenda of populist spending on health, education and climate change emerged... to be financed by a draconian super tax of 40% on mining companies. With multi-billion dollar projects planned for Australia by leading mining companies such as BHP Billiton and Rio Tinto in jeopardy, the public and even some unions saw this tax as a threat to "the goose that lays the golden eggs." This unpopularity caused Rudd's own party to replace him in favor of a new Labor Party Prime Minister, Julia Gillard. Although Gillard has offered to compromise at a lower rate of 30%, the jury is still out on the final outcome. Gillard argues that "Australians are entitled to a fairer share of our inheritance, the mineral wealth that lies in our grounds."

The Australian stock market has swooned since the tax proposal; so, hopefully, the final resolution will be more palatable. Ranking near the top of the Economic Freedom of The

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The **World Freedom Select™** investment strategy is the first of its kind. It offers the unique opportunity to promote countries that support economic freedom while simultaneously capturing the potential for superior investment returns. Institutions and individuals who are concerned advocates for freedom are invited to participate in **World Freedom Select™**.

World Index, we will be watching closely as our World Freedom Select investment strategy has long held an important position in the Australian exchange traded fund.

Conclusion:

On balance, the world's major economies are expected to show reasonable growth going forward. The International Monetary Fund recently raised the world's economic growth forecast for 2010 to 4.6% vs. April's 4.1% forecast. This, together with very reasonable stock valuation, means we can expect worthwhile stock performance by year end. Sentiment is decidedly negative now, but sentiment can change fast as it did from this year's first quarter to second. If Europe doesn't collapse, the U.S. doesn't double dip, Israel doesn't invade Iran, North Korea doesn't drop the bomb and the anti-economic freedom incumbents are thrown out of Washington in November, we could have a dynamite rally late this year. Meanwhile, our strategy of investing in economic freedom around the world continues to perform relatively well vs. the broader stock universe, and we expect to see positive returns by year end.

As Usual, your comments and questions are invited at (607) 257-0858 or jsanderson@jwburns.com

Let freedom reign!
Jim Sanderson

To be controlled in our economic pursuits means to be controlled in everything.

~ F. A. Hayek

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