



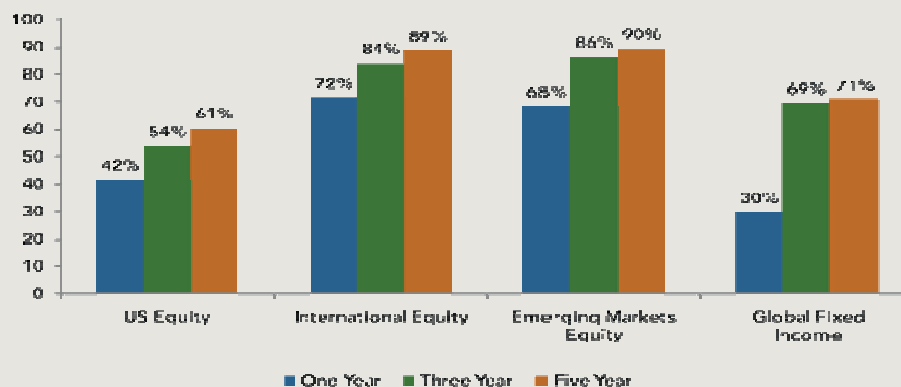
Managers vs. Markets

Proponents of active management believe that skilled managers can outperform the financial markets through security selection, market timing, and other efforts based on prediction. While the promise of above-market returns is alluring, investors must face the reality that as a group, US-based active managers do not consistently deliver on this promise, according to research provided by Standard & Poor's.

S&P Indices publishes a semi-annual scorecard that compares the performance of actively managed mutual funds to S&P benchmarks. Known as the SPIVA scorecard¹, the report analyzes the returns of US-based equity and fixed income managers investing in the US, international, and emerging markets. The managers' returns come from the CRSP Survivor-Bias-Free US Mutual Fund Database, and the managers are grouped according to their Lipper style categories. (continued on Page 2)

Active Managers vs. S&P Indexes

Percent of Funds Outperformed by the Respective Category Benchmark
One-, Three-, and Five-Year Periods through December 31, 2009



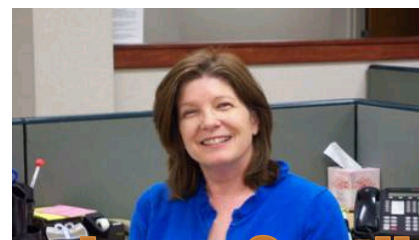
Source: Standard & Poor's, "SPIVA: A Scorecard of Active vs. Passive Investment Management," December 2009. Data as of December 31, 2009. Percent of funds outperformed by the respective category benchmark for the one-, three-, and five-year periods through December 31, 2009.



Packerland Brokerage Services Inc.
Registered Representative—Brad Nordin

BY THE NUMBERS

- Investment Savvy**—64% of Americans over the age of 55 that were surveyed **did not know** that bond process rises when interest rates fall.
- Fewer Plans**— The number of active participants in **defined benefit pension** plans in the private sector has declined by 26% since 1990 while the private sector workforce has grown by +22%.
- The Biggest Worry**—More American workers (17%) identify the **rising cost of health care insurance** as the economic risk that concerns them the most as they approach their retirement years. Other perils ranked high on the list included inflation fear, the cost of long-term care, the ability to maintain a desired standard of living and failing to leave an inheritance to heirs.
- More to the Insured's**—the **health care reform legislation** signed into law by President Obama on 3/30/10 included a provision requiring health insurance companies to maintain a "**medical loss ratio**" of at least 85%, i.e., 85% of the premiums collected by a health insurance company **must be paid out** for medical claims submitted by insured individuals.
- People**— 154.7 million Americans are in **civilian labor force** (both those employed and those unemployed but looking for work), equal to 50.0% of our population of 309.2 million citizens.
- Athens or Atlanta**— The size of the economy of *Greece* (approximately **\$350 billion**) is equal to that of the US state of Georgia.
- Higher Education**— 70.1 % of the 2.9 million **high school graduates** from 2009 were **enrolled in college** in the fall of 2009, the highest percentage recorded for this statistic going back to its 1959 inception.
- Bad Day**— **Joe Torre**, the current manager of the Los Angeles Dodgers baseball team **grounded into 4 double plays** in a single game on 7/21/75 while playing for the New York Mets.



Employee Spotlight

Christine Morrow has 27 years of banking experience and has been with First Bank for 14 years, 6 of which have been with the investment department in the position of operations and employee benefits. She likes working in the investment area and helping customers.

She resides in Gladstone with her husband, and has 3 adult children and a dog. In her spare time she enjoys camping, kayaking, gardening and visiting family in Lower Michigan.

Just a reminder that 401(k) plan limits for 2010 remain unchanged from 2009. The elective deferral limit stays at \$16,500.00 and the catch-up limit at \$5,500.00 if you are 50 or older and your plan allows. The annual contribution limit also remains at \$49,000.00. Call us for your investment needs.

Have a safe and enjoyable summer!





(Continued from page 1)

The graph on page 1 features fund categories from the most recent SPIVA scorecard—all US equity funds, international funds, emerging market funds, and global fixed income funds—and shows the percentage of active managers that were outperformed by the respective S&P Indices in one-, three-, and five-year periods. These are only four of thirty-five equity and fixed income fund categories. But a deeper analysis confirms that the active manager universe usually fails to beat the market benchmarks over longer time horizons. Underperformance of active strategies is particularly strong in the international and emerging markets, where trading costs and other market frictions tend to be higher.

Over the last five years, about 60% of actively managed large cap US equity funds have failed to beat the S&P 500; 77% of mid cap funds have failed to beat the S&P 400; and two-thirds of the small cap manager universe have failed to outperform the S&P Small Cap 600 Index. Furthermore, across the thirteen fixed income fund categories, all but one experienced at least a 70% rate of underperformance over five years.

In 2009, active funds experienced more success over a one-year period, and proponents typically highlight those results in the SPIVA scorecard. However, one-year results are not consistently strong from year to year, and investors should not draw conclusions from short-term results. Over three- and five-year periods, most fund categories have not outperformed their respective benchmarks.

This poor track record appears in other research, as well. This study compared the same actively managed funds in the CRSP database to the Russell benchmarks and showed similar results over the three- and five-year periods. Over the past five years, about 65% of all US equity managers failed to outperform their respective Russell Indexes, and 84% of fixed income managers failed to beat their respective Barclays Capital Indices.

Of course, the results of these studies will fluctuate over time, and a majority of funds in a given category might outperform over the short term. But the message is clear: As a group, actively managed funds often struggle to add value relative to an appropriate benchmark—and the longer the time horizon, the greater the challenge for active managers to maintain a winning track record.

1. SPIVA stands for Standard & Poor's Indices versus Active Funds. The report covers US equity, international equity, and fixed income categories. The actively managed funds are grouped according to Lipper style categories.

Portfolio Online Update

The latest update to Portfolio Online allows you to reset your password immediately online. If you have forgotten your password, simply click "Forgot your password" located directly below the password box. You will then be directed to a page that will prompt you to answer two of the four security questions you set when you signed onto the account the first time. You will then enter your new password twice (your old one will also work), and then continue on to the home page.

You can still call the Investment Management Group if you prefer us to reset it or if you have any questions.

If you do not have access and would like to sign up, please give Julie a call and she will mail you the required signature form.



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