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DEAR FRIENDS,

- Equities end the month with modest and mixed gains, with some sectors surprising
- US jobless claims plunge to lowest in four years; however, drop may be temporary
- We are in the midst of an "Olympic Rally" in equities and athletic medals

Historically low mortgage rates, the lowest jobless claims in four years, having the presidential election in our sights and muted concerns over geo-political crises all drove a later month rally in equities. We ended the month with a mixed bag of returns however, trending stronger for August's starting line.

Christopher J. Mason
President | Chief Investment Officer

7760 France Avenue South, 11th Floor
Bloomington, MN 55435
Tel 952-715-4926
Fax 952-715-4927
Chris.Mason@fontiswm.com
www.fontiswm.com

Index [1]	July'12	2012 YTD
S&P 500	1.25%	9.62%
Dow	.99%	6.44%
NASDAQ	.14%	10.61%
S&P 400 Mid Cap	-.11%	6.94%
Russell 2000	-1.5%	4.80%
MSCI EAFE (Intl)	.08%	-1.07%

Commodity price [2]	6/30/12	1/1/12	1/1/11	1/1/10	1/1/09
Crude oil	$99.15	$98.98	$73.71	$79.74	$95.98
Gold	$1620.20	$1566.30	$1066.42	$1097.48	$833.52

* Past performance is no guarantee of future results.

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US Jobless claims for unemployment benefits dropped to a seasonally adjusted average of 350,000. Applications for unemployment benefits measure the pace of layoffs. When we see a consistent drop below 375,000, this suggests hiring is strong enough to reduce the unemployment rate, which is currently stuck at 8.2%. We do not believe this is an indication the unemployment level will drop in the near future. The reduction in claims is not due to hiring and other factors.

New car and truck sales surged in June, extending the auto industry rebound. Automakers began their 4th of July promotions early, lifting sales at the end of the month. The surge in sales caused some automakers to skip their traditional summer plant shutdowns to keep up with the surging sales. This had a clear impact on the reduction in jobless claims.

At the same time, hiring has slowed sharply compared with the first three months of 2012. Employers added only 80,000 jobs in June, which was the third straight month of weak hiring. The US has averaged adding only 75,000 new jobs per month in the April-June quarter. That's roughly a third of the 226,000 jobs added in the first quarter of 2012. More jobs are needed to lower painfully high unemployment and increase pay for those willing to work. Consumer spending is crucial since it represents roughly 70 percent of our growth in GDP. The economy isn't growing quickly enough to encourage more hiring.

The Federal Reserve downgraded its outlook for the economy in 2012. The Fed now predicts GDP growth of 1.9 percent to 2.4 percent. That's half a percentage point lower than the range for estimates in April. The gross number is a half of one percent, however, that represents approximately 20% drop in the actual increase. We don't believe this represents a major red flag, rather additional evidence our economy is growing at a slower pace than earlier this year.

The pundits are starting their 90 day surge in predicting the outcome of the 2012 presidential election. Not surprisingly, we are expecting that to increase. The candidates' every word is screened and publicized at a moment's notice. We are entering crunch time, with many experts expecting it down to the wire. The markets' only hope is we have a clear winner in early November, avoiding extended court hearings as in past elections. Regardless of who wins, our future economic picture clarifies, and that is good for our markets. It can't come soon enough!

The Olympics in London has taken attention away from normal daily life and other important geo-political concerns in North Korea, Syria and Iran. The issues have not gone away, however, and we believe we have felt an "Olympics Effect" on the markets. We are expecting heightened volatility as November approaches.

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The final factors to keep in mind in upcoming months are commodity prices. The US drought we are experiencing will cause a rippling on food and other commodity prices. It is predicted we will see a temporary reduction in meat prices, followed by an increase. Oil quietly crept up by $10 per barrel in the past 30 days, primarily due to the typical driving season ending in September.

So what does all this mean? Our economy continues to grow at a slower pace than we entered 2012 with. We are running on 5 or 6 cylinders as opposed to eight. But the car is running, not stalled, not in Park, and certainly not shut off. We have often spoken about the expected long, slow ascent from the recent recession. This is clear evidence we continue to be on that journey.