



HANLON

INVESTMENT MANAGEMENT, INC.

Quarterly Report – June 30, 2009

Late last quarter (January - March 2009) we went back into a 50% high yield corporate bond fund position in all accounts where available. During the most recent completed quarter (April - June 2009) we increased that position to 100% or so. At this writing we remain invested in high yield corporate bond funds, where available, and continue to believe they are the best risk-reward opportunity in the current market. The current yield (rate of interest payment) is almost 1% per month - that is not a typo - yes, 1% per month. Some funds pay monthly, some pay quarterly and in some cases (primarily variable annuities) the interest payment is imbedded in the actual daily security price.

Stocks ended the quarter with gains and capped their best three month period in decades. Clearly “growth” oriented indices delivered the best returns so far this year, with the MSCI Emerging Markets iShares and NASDAQ Composite Index indices delivering the highest returns. But these returns have come with extreme volatility. Specifically, the MSCI Emerging Markets iShares index fell 26.42% before bottoming in March and beginning its most recent rise. The NASDAQ Composite Index was equally volatile. It fell 23.32% before it bottomed in early March. The other major indices all experienced tremendous downside volatility earlier this year before bottoming and beginning their ascent in early March. But not the Hanlon allocations, we avoided that extreme downside with our defensive investment positioning.

Table 1 – 2009 Performance of the Major Equity and Bond Indices and HIM Allocations

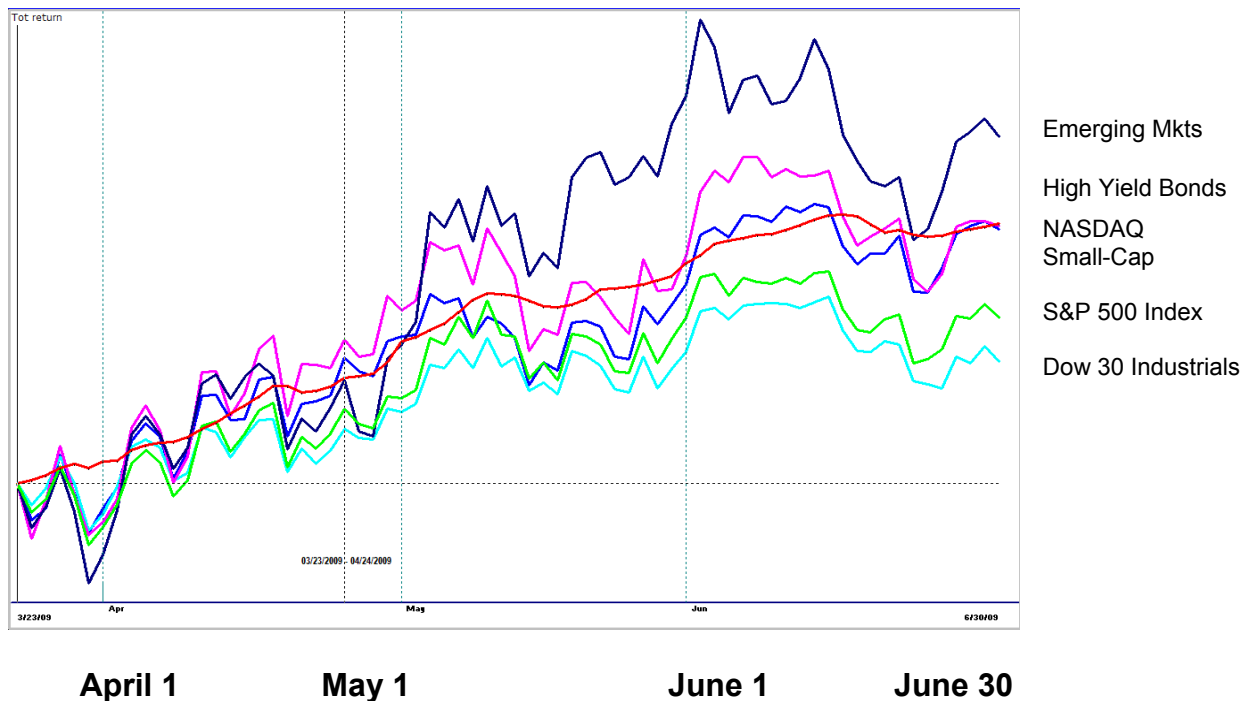
Index	YTD as of 06/30/09
HIM Allocations Approximately*	Ranges from -1% to positive 10%+
Dow Jones Industrials Average	-2.01%
S&P 500 Index	3.20%
NASDAQ Composite Index	16.36%
Russell 2000 Index	1.77%
MSCI EAFE iShares	4.26%
MSCI Emerging Markets iShares	30.12%
Shearson Long Term Bond Index	-12.13%
US T-Bills	0.19%

Source : Investors FastTrack

The question that an investor may be asking is “*should I be invested in those volatile, riskier equity asset classes now or not?*” We have always believed that investing can best be analyzed by viewing charts. To that end, please find on the next page a chart of the major equity indices and

an index we create composed of over 200 equally weighted high yield corporate bond funds. Notice anything in particular about the chart?

Chart 1 – Various Major Equity Indices Compared to High Yield Corporate Bonds



One thing you may notice is that all the equity asset lines are rather jagged, jumpy and volatile. Not so for the smooth red line in the middle. That is the high yield corporate bond index, where most of our client's portfolios are currently invested. That line has exceeded all the other lines in total return since March 23, with the exception of the Emerging Markets line. And more importantly, it has done so without the associated volatility that the other lines have experienced. For example, just in June alone, the Emerging Markets line declined over 9% at one point. Another thing you should notice is that all of the lines at quarter end, June 30, were below their prior high point, with the exception of the red line, which is very close to its high point. That is good for high yield corporate bond funds.

If your investor profile is such that your Hanlon account is invested only in the Managed Income Allocation, you can stop reading here if you like, because the remainder of this newsletter will focus mainly on equity investments, as well as a little discussion about inflation. Much of what follows, however, may still be of interest to our Managed Income Allocation investors. Please know that we place equal importance on both the bond and equity allocations. Always have, always will.

Equity Market at a Critical Point

On the next page there are two charts. The first contains a long-term view, showing 10 years of the S&P 500 Index. Clearly this shows that the "buy and hold" discipline, which is not the investment discipline that Hanlon practices, has had a challenging 10 year period.

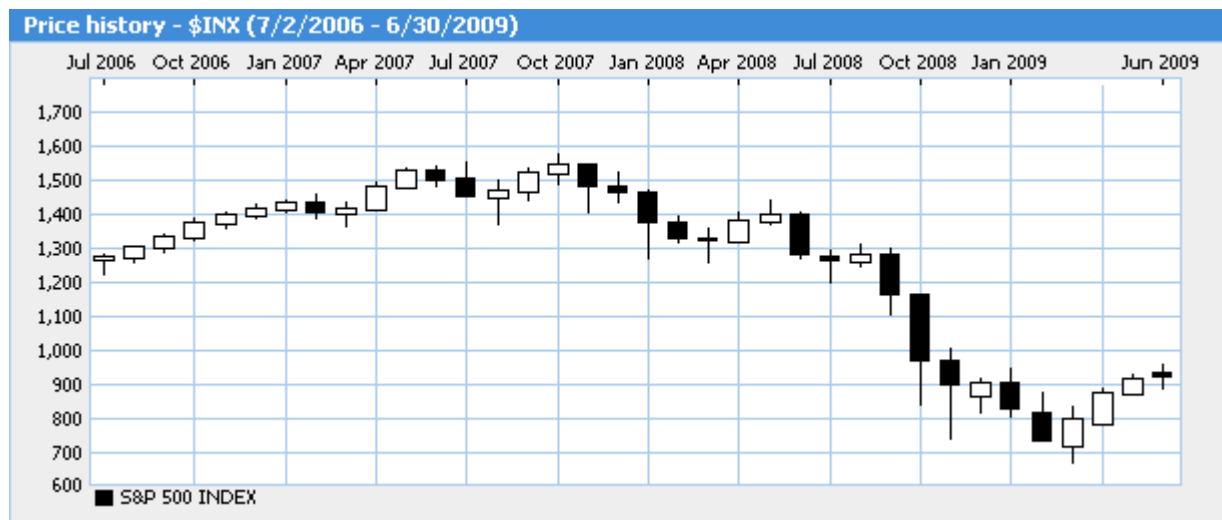
Chart 2 – S&P 500 Index Monthly Closes 10 years



Source: www.MoneyCentral.MSN.com

This next chart is a 3 year look. We bring your attention to the dark black bars (they represent down months) that occurred in the fall of 2008. That shows the formidable amount of selling that occurred during that period. This now represents a hurdle area that has, so far, had the effect of keeping stocks below the bottom of these levels for some time. That level is around where we are now, S&P 500 Index of about 925. It will be interesting to see if stocks can build on their recovery from here against this potential formidable road block in the charts.

Graph 3 – S&P 500 Index Monthly Closes 3 years



Source: www.MoneyCentral.MSN.com

Inflation Threats – Overblown!

One of the most often discussed topics these days is inflation, but the economic reports continue to show that there is none! Many in the financial press, as well as those in the investment community, are running around with this “Inflation Armageddon Theory” due to the incredible amounts of government intervention that the world’s central banks have brought. But inflation is not only about monetary policy, it is also about supply and demand. Yes, the government printing


presses have issued huge amounts of dollars. These dollars are chasing goods and services and, yes, that “could” be inflationary. But there also needs to be demand for those goods and services coupled with a shortage of supply of those goods and services in order for the costs of those goods and services to inflate. That just is not happening yet.

I present a couple simple examples. Today’s worldwide manufacturing capacity for automobiles is currently 90 million. Do you know how many “new” automobiles the world will need this year? Only 60 million. What does that tell you? There is more supply than demand. Another example is factory utilization rates. Here in the United States, total factory utilization is now at a post World War II low, down near 67%. That is a lot of excess supply looking to be put back to work.

Moreover, the world’s consumers and financial industries are sopping up all that liquidity and paying down debt, repairing their balance sheets. The inflation “scare” is just that – only a scare, and not anything to be worried about today with respect to portfolio management.

Congratulations to you and your Financial Advisor for instituting a good diversification strategy, by including in your overall portfolio the Hanlon Investment Management intermediate term trend following strategies. Be sure to stay close to your Financial Advisor during these volatile times, reassessing your risk profile, time horizon and investment objectives. As the Chairman, CEO and Chief Investment Officer at Hanlon Investment Management your overall portfolio returns and risks are very important to me and our team at Hanlon.

Thank you,



Sean Hanlon, CFP®
Chairman, CEO and Chief Investment Officer

** Allocation returns in Table 1 are simply an estimated average of all accounts managed by HIM net of HIM's investment management fees. Your exact return is available in the enclosed performance report. Actual investment management fees vary by individual client account, but generally range between 1.20% and 2.20% of the value of the assets under management. The net compounded impact of the deduction of such fees over time will be affected by the amount of the fees, the time period, and the investment performance. The performance presented herein does not reflect the deduction of transactional costs such as brokerage commissions, custodial costs, and other expenses. Estimated performance results have inherent limitations. Unlike an actual performance record, estimated results do not represent actual trading and do not reflect market factors. In addition, estimated returns do not involve financial risk, and no estimated performance can completely account for the impact of financial risk in actual trading. There is no guarantee that the estimates presented herein will come to pass. Past performance is not a guarantee of future results. Investing in the stock market involves gains and losses and may not be suitable for all investors. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable. Dow 30 Industrials (DJIA) is an unmanaged index of common stock that tracks changes in stock prices of the 30 most significant and commonly traded U.S. industrial stocks on the New York Stock Exchange. NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. Standard & Poor's 500 (S&P 500) is an unmanaged index of 500 common stocks traded on the New York Stock Exchange that is widely used as an indicator of market trends. Small Cap - Russell 2000 is an unmanaged index comprised of 2000 smaller company stocks and is generally used as a measure of a small cap stock performance. Emerging Markets - MSCI Emerging Markets is an index created by Morgan Stanley Capital International (MSCI) this is designed to measure equity market performance in global emerging markets. The Emerging Markets Index is a float-adjusted market capitalization index. Comparison of the Hanlon Investment Management ("HIM") portfolios to other indices is for illustrative purposes only and the volatility of the indices used for comparison may be materially different from the volatility of the HIM portfolios due to varying degrees of diversification and/or other factors. 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