

What We Think

In years to come, we probably won't reflect fondly on the first half of 2010, but we will be thankful that the second half finally arrived. During the first half, the stock market was down 6.6% as measured by the S&P 500. Bond yields, as measured by the benchmark 10-year U.S. Treasury bond, fell from about 3.8% to roughly 3%, leaving those who invest for income in quite a predicament. There was a seemingly uncontrollable oil leak in the Gulf of Mexico fouling the water and endangering our coastlines and our economy. Overseas, the economies of Europe were freefalling with no end in sight.

With all of this as a backdrop, Paul Krugman wrote an Op-ed piece in the New York Times during the last week of June. He postulated that we were in the beginning stages of a third depression. The Long Depression following the Panic of 1873, and the Great Depression following the financial crisis of 1929, each required years for the world to recover to normal economic activity. Mr. Krugman's was a very pessimistic outlook, and much in keeping with the tone of the day.

However, we are much more optimistic on the outlook for the U.S., and world, economy. We do not believe that there is a quick fix for any of these problems, but do believe that our economy, and those around the world, are slowly recovering from depths they reached during the last several months.

Fortunately, we are joined in our optimism by Warren Buffett who has proved to be much more reliable an indicator than any number of economists. Like us, Mr. Buffet is on record this month as believing that we are on the right track, but that the recovery will take time; possibly even 2 or 3 years. Of course, only time will tell.

We certainly believe that the near-term will bring about unparalleled volatility in the economy and markets, and will manage your accounts accordingly. However, we are confident that decisions made with an eye toward the future will ultimately pay off, and are trying to balance the near-term uncertainty with a long-term vision.

During the first two weeks of the second quarter, the stock market rebounded sharply and recovered most of what had been lost during the previous six months. There is a new cap on the leaking oil well in the Gulf that, while not perfect, seems to have stemmed the unmitigated flow of crude oil. We believe that over the next several quarters there will be extremely good news reported, as well as continuing bad news. However, our outlook for the long-term trend is positive.

As we wrote last quarter, "We hope that these thoughts help you to remain grounded and optimistic, and not to become too wrapped up in each economic report as a sign of growing or withering."

We are pleased to welcome Kelly Hutchison to Paragon Capital Management. Kelly has prior experience working in a Registered Investment Advisor environment, and will be handling administrative and client contact duties. Please say hello to her when you get a chance.

Thank you for choosing Paragon as your investment management partner. As always, we are actively seeking new clients, so feel free to pass our names on to anyone who you feel might benefit from our services.

Regards,

Howard, Ward, Elizabeth, Ethel & Craig

A copy of our SEC Form ADV Part II is available to you at any time. This document describes who we are, what we do, and how we do it. If you would like to have a copy sent to you please contact Kelly at the phone number, or e-mail, listed below. Also, our Proxy voting policy is available to you at any time. If you would like to receive a copy of the policy, or inquire as to how your shares have been voted, please contact Kelly at the phone number, or e-mail, listed below.

As a Registered Investment Advisor, Paragon Capital Management receives and collects non-public personal information from various activities and statements.

Paragon does not disclose such information unless instructed to do so by the client.

We maintain physical, electronic and procedural safeguards that comply with federal regulations to guard your non-public personal information.

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