



Economic & Investment Outlook *4th Qtr 2009*

Economy

After nearly two years, it appears as though the Great Recession will end during the fourth quarter of 2009. In order for the recession to be declared officially over, the National Bureau of Economic Research will look for noticeable improvement not only in GDP but in real personal income, real manufacturing and wholesale activity, retail sales, industrial production, and payroll employment. Several of these areas remain under pressure.

We expect 2009 negative GDP growth of 2.5% followed by below trend GDP growth of 1-2% in 2010.

The unemployment rate continues to increase (currently 9.7%) and will peak around 10.4% in 2010. Over seven million jobs have been lost since the recession began in December '07. The U-6 rate (unemployed and underemployed) reached 16.8% in August '09. This rate will trend higher.

Inflation remains dormant and of no concern in the immediate future. High unemployment and underutilization of resources have created a non-inflationary environment. We expect core CPI of 1.5-2% over the next twelve months. Our longer-term concern is monetary debasement inflation.

The U.S. dollar continues to weaken helping stocks and commodities advance in price. We expect the Fed will orchestrate an orderly decline in the value of the U.S. dollar. Emerging market currencies will continue to strengthen against the dollar.

We anticipate home prices nationally to drop an additional 5% on top of the 33% already experienced from the June 2006 peak. A housing recovery is not expected until the 1st half of 2010, at the earliest.

Fixed Income & Interest Rates

Long term interest rates will drift higher as the supply of treasuries continues to increase dramatically as the U.S. deficit widens due to the stimulus package, the multitude of financial rescue programs, and declining tax revenues. Bond returns over the next twelve months will be constrained by rising intermediate to long-term interest rates. Yields on Treasuries remain at historical lows.

Investment grade and high yield corporate bonds maintain their attractiveness at these levels as credit spreads have narrowed from historical highs.

Federal Reserve's Zero Interest Rate Policy (ZIRP) expected to be in place well into 2010. The Federal Reserve can not raise interest rates until the unemployment level peaks. Fed's balance sheet exceeds \$2 trillion.

Equities

Equity markets should continue to benefit from the pent-up demand that builds during a recession and the extraordinary fiscal and monetary policy responses designed to stimulate the economy.

Job creation, stabilization and improvement in home prices, and rising corporate profitability (led by growth in revenues) are necessary to support current equity valuations.

Equity valuations are at reasonable levels but not cheap with the S & P 500 trading at 18 times 2009 estimated operating earnings of \$60.

Emerging Markets, particularly Asia, remain relatively attractive due to favorable valuations, higher growth potential, and expectations for a depreciating U.S. dollar. This group benefits from the global stimulus package currently underway.

Strategic & Tactical Equity Allocation October 2009

(Greater than 50% equity exposure)

Equity Class	Long Term Strategic Allocation	Current Tactical Allocation	Over/Under Weight
Large Cap Growth	30%	27%	-3%
Large Cap Value	35%	23%	-12%
Mid Cap Growth	5%	2.50%	-2.50%
Mid Cap Value	5%	2.50%	-2.50%
Small Cap Blend	10%	5%	-5%
International Large Cap	10%	10%	0%
Emerging Markets Equity	5%	13%	8%
Metals & Mining	0%	5%	5%
Gold	0%	3%	3%
Energy - Oil	0%	4%	4%
Energy - Clean Energy	0%	5%	5%
	<hr/> <hr/> 100%	<hr/> <hr/> 100%	<hr/> <hr/> 0%

Strategic & Tactical Fixed Income Allocation October 2009

(Greater than 50% equity exposure)

Fixed Income Class	Long Term Strategic Allocation	Current Tactical Allocation	Over/Under Weight
Short Term (0-3 Years)	20%	43%	23%
Intermediate Term (3-10 Years)	60%	37%	-23%
Long Term (>10 Years)	0%	0%	0%
High Yield Corporate	10%	5%	-5%
International	10%	15%	5%
	<hr/> <hr/> 100%	<hr/> <hr/> 100%	<hr/> <hr/> 0%