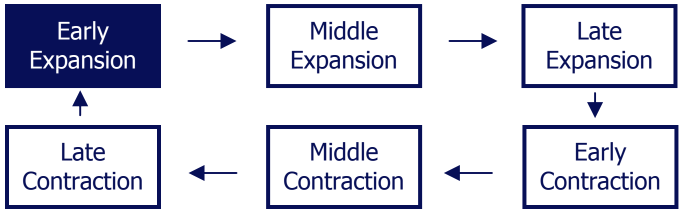
SFMG Wealth Advisors

ECONOMIC AND MARKET UPDATE

OCTOBER 2009

CURRENT ECONOMIC CYCLE



ECONOMIC NEWS

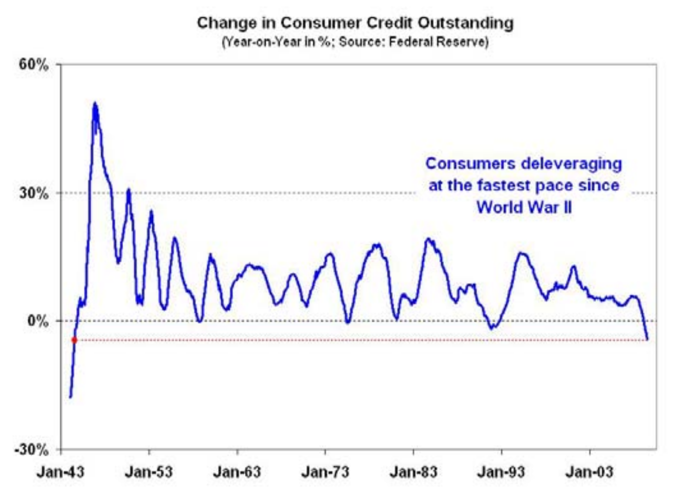
- The economy is projected to grow at an annualized rate of 2 to 2.5% in the 3rd quarter.
- The contraction in consumer credit exceeded expectations and has now declined for seven consecutive months.
- Until we start to see more convincing signs of stability in employment, home value appreciation, and bank credit expansion, significant economic recovery remains elusive.

CURRENT ASSET CLASS ALLOCATIONS

Cash & Equivalents	*Underweight*
Fixed Income	*Overweight*
Equities	*Moving to Target*

MARKET TRENDS

- Market action has been impressive since March and we remain relatively optimistic, but we believe the results of earnings season are critical to the tenor of the next move.
- As the dollar continues its decline, gold has reached an all-time high as investors seek an alternative currency.
- Momentum alone could carry commodity prices for a while, but at some point they need to be supported by real growth.



Consumers are paying off debt at the fastest rate since World War II as a result of an uncertain employment outlook. Additionally, lenders are reducing available credit as delinquencies continue to rise.

Although earnings are improving from prior quarters, they are projected to be down approximately 19% for the 3rd quarter. However, most analysts project 4th quarter earnings to dramatically increase given favorable year-over-year comparisons.

CURRENT THOUGHTS

The early stages of market recoveries are based on positive changes in money and credit and the expectation of improving profits. However, markets cannot run on expectations forever and need confirmation that conditions are actually improving. We are seeing signs of economic improvement, but it remains tentative since it is driven mainly by government spending. The continued reduction of debt by the private sector and the repair of the banking system will take time. The result of the government's attempt to stimulate the economic recovery is a rapidly increasing debt burden. As a result, the US Dollar will remain one of the key focal points for assessing risk. A lower value is not what dollar holders are looking for unless compensated by an appropriate interest rate, not the near zero rate existing today. A declining dollar without a corresponding increase in inflation is bullish for both stock and commodity prices. Until inflation returns, conditions for these markets should remain positive, but tenuous.

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