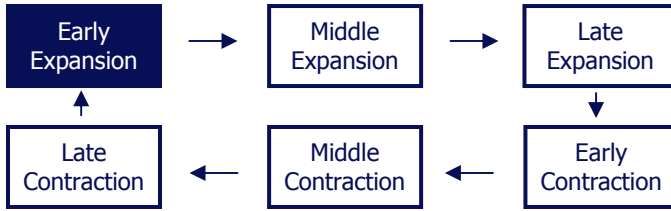


## CURRENT ECONOMIC CYCLE



## ECONOMIC NEWS

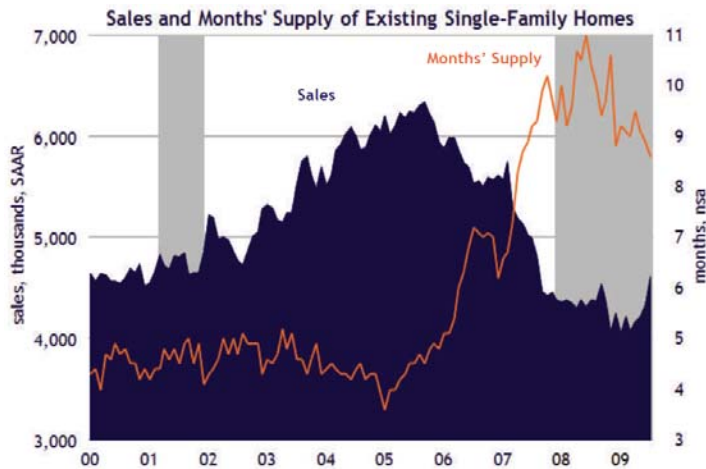
- The economy is moving into the early expansion stage with projections for modest growth in the 3rd quarter.
- The consumer remains the wild card in the ability of the economy to sustain the recovery as spending remains weak.
- In the short-term, government spending should provide a stimulus...but at a significant cost due to rising deficits.

## CURRENT ASSET CLASS ALLOCATIONS

Cash & Equivalents	<i>Underweight</i>
Fixed Income	<i>Overweight</i>
Equities	<i>Moving to Target</i>

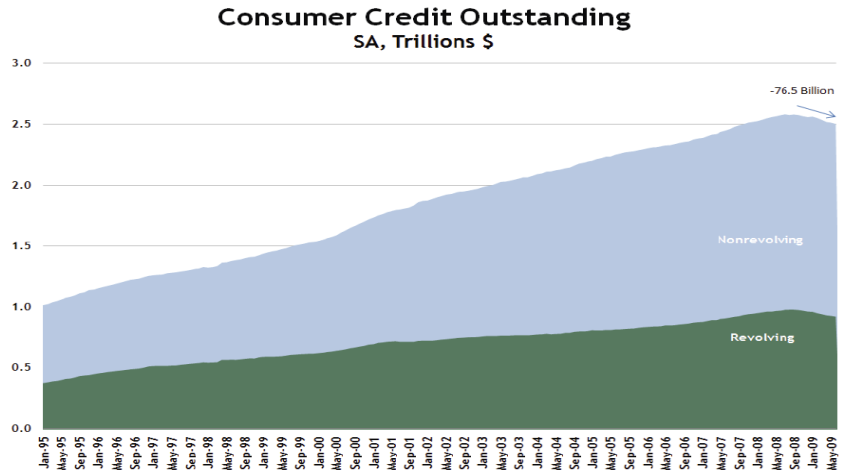
## MARKET TRENDS

- Some market sectors are beginning to report more favorable outlooks with increasing sales revenue.
- However, higher corporate earnings will come primarily from cost reductions which could limit longer-term profit growth.
- Global leading economic indicators continue to show more strength than the U.S., favoring investments abroad.



Source: National Association of Realtors

July home sales rose 5% compared to a year earlier, the fourth consecutive monthly increase. The supply of homes continues to decline which has resulted in a modest increase in home prices, indicating that the real estate market may be bottoming.



Source: Federal Reserve Board

Total consumer credit outstanding shrank to \$2.5 trillion in June. Since September 2008 it has contracted \$76.5 billion (or 2.97%)... as the consumer continues to save and pay off debt leading to continued weak consumer spending. Available credit continues to decline as well.

## CURRENT THOUGHTS

The difference in investor sentiment from a year ago is like night and day, with optimism being reflected in the upward price movement of the stock indexes. Many are concerned that this optimism is getting ahead of the economic realities and the possibility of a correction is growing. However, as the economy is beginning to show signs of turning, the downside risk for the markets is more moderate when compared to the more recent volatility. Corporate earnings should continue to improve through the 4th quarter and into early 2010. The question that remains is the sustainability of earnings growth without the return of the U.S. consumer. In addition, the longer-term outlook for the U.S. economy is burdened by the cost of the mounting government deficits and a weakening dollar that comes from financing the debt. Consequently, foreign markets, led by the emerging economies, offer better opportunities as their growth is more sustainable, even if at a reduced rate.

*The purpose of update is to share some of our current views and research. Although we make every effort to be accurate in our content, data is derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity.*