

DECEMBER 2009 QUARTERLY RESEARCH CONFERENCE CALL

Jeff MacLean
Chief Executive Officer

Eric J. Petroff, CFA, CAIA
Director of Research

SEATTLE
999 Third Avenue
Suite 4200
Seattle, Washington 98104
206.622.3700 telephone
206.622.0548 facsimile

LOS ANGELES
2321 Rosecrans Avenue
Suite 2250
El Segundo, California 90245
310.297.1777 telephone
310.297.0878 facsimile

WURTS  **ASSOCIATES**
INSTITUTIONAL INVESTMENT CONSULTANTS

»» Dial-in & Playback Information

Topic: December 2009 Quarterly Research Report
Date: January 19, 2010, 10:00 - 11:00 am (PST)
Hosted by: Jeffrey MacLean, CEO and
Eric Petroff, CFA, CAIA, Director of Research
Format: Call with Q&A. Presentation materials will be
available at www.wurts.com.
Dial In: 1-866-838-2057 (*please dial in 5-10 minutes early*)
Playback: 1-888-284-7564 (Reference #2423391)

»» Brief Overview of Call

1. A Big Picture View of the Economy

- *Top line conditions since 2007 GDP Peak*

2. A Deeper Dive Into Economic Fundamentals

- *Societal Leverage*
- *Unemployment*
- *Residential Housing*
- *United States on a Global Basis*

3. Monetary & Fiscal Stimulus

- *Including an Update on American Reinvestment & Recovery Act (ARRA)*

4. Some New Thoughts on Inflationary Concerns

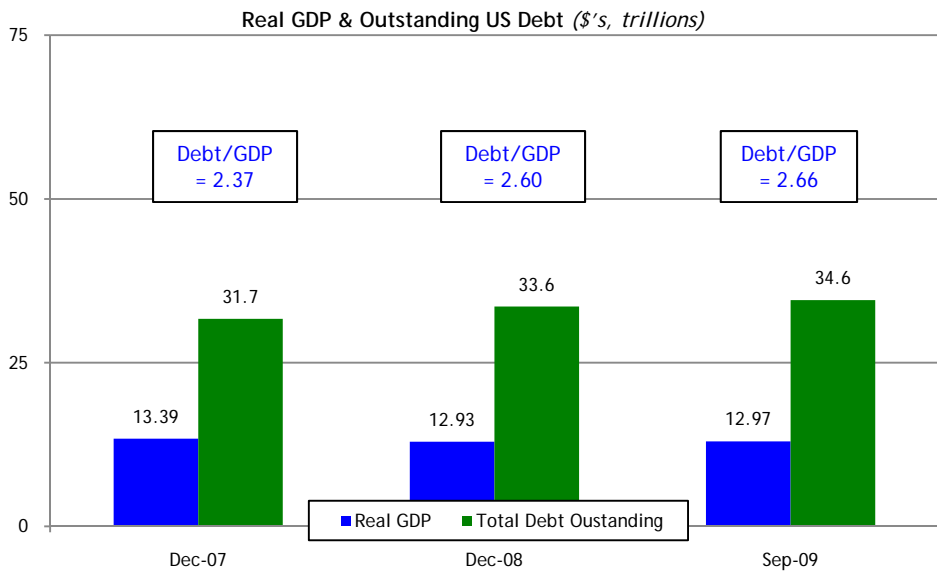
- *Unemployment and Inflation*

5. Review of Global Capital Markets Valuations

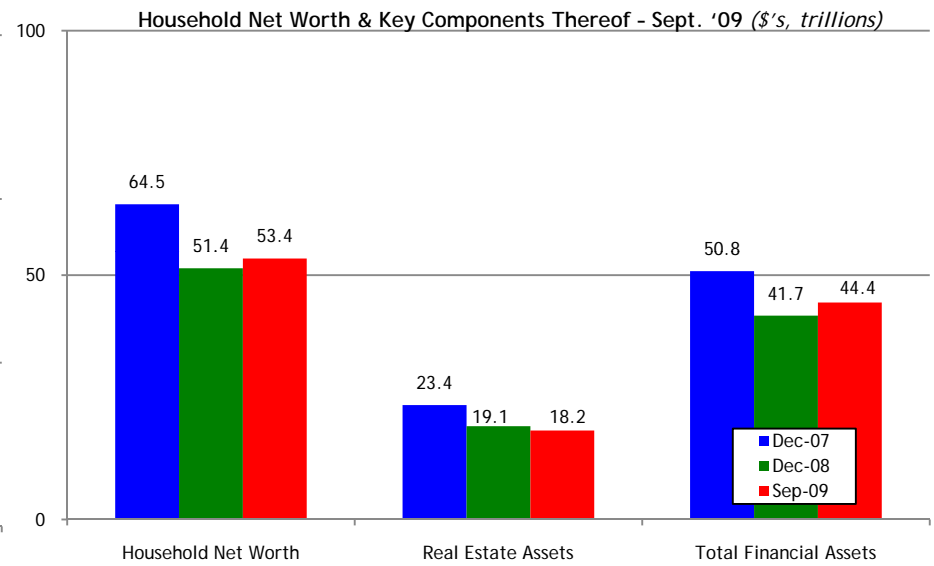
- *Equities*
- *Fixed Income*
- *Currency*

6. Concluding Thoughts

» Top Line Economic Indicators



Source: Federal Reserve, BEA



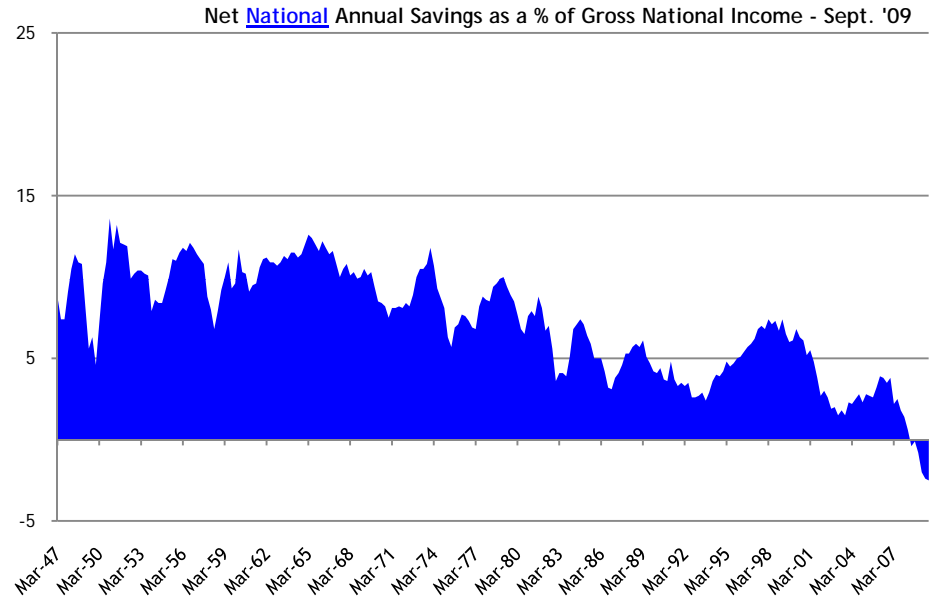
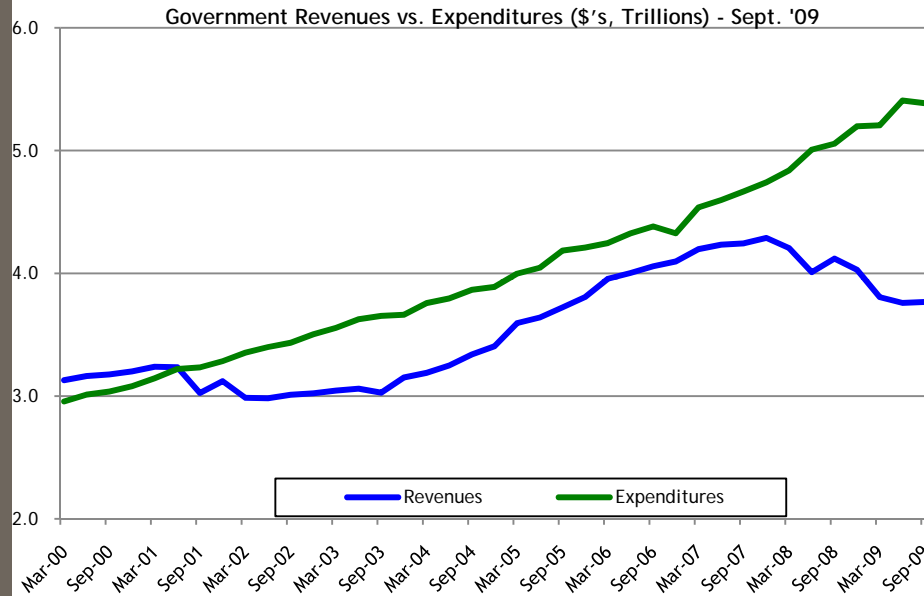
Source: Federal Reserve

It's hard to believe such a small decline in real GDP could cause so much economic damage.

The downside of leverage can be harsh.

Household net worth declined 17% since 2007.

» Still Running on Debt



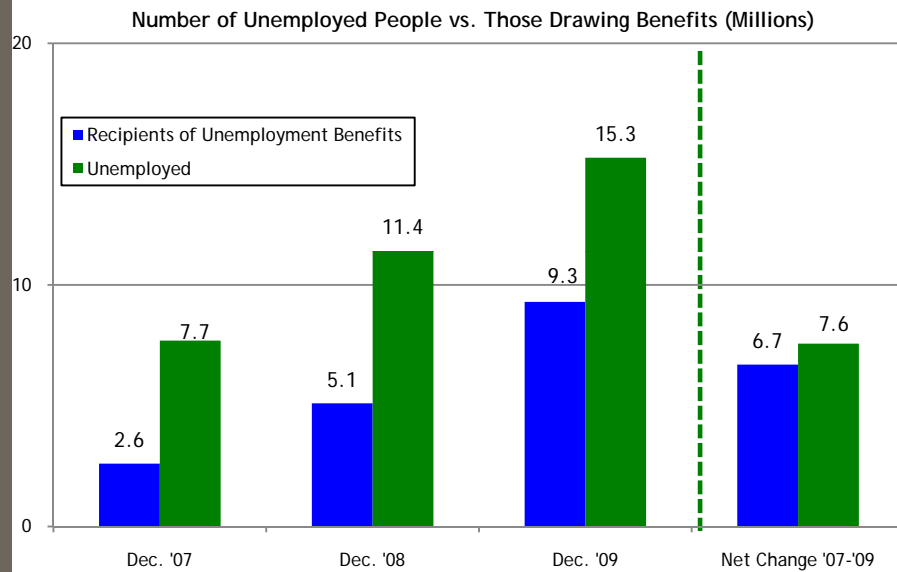
Source: BEA, Wurts & Associates

Source: BEA, Wurts & Associates

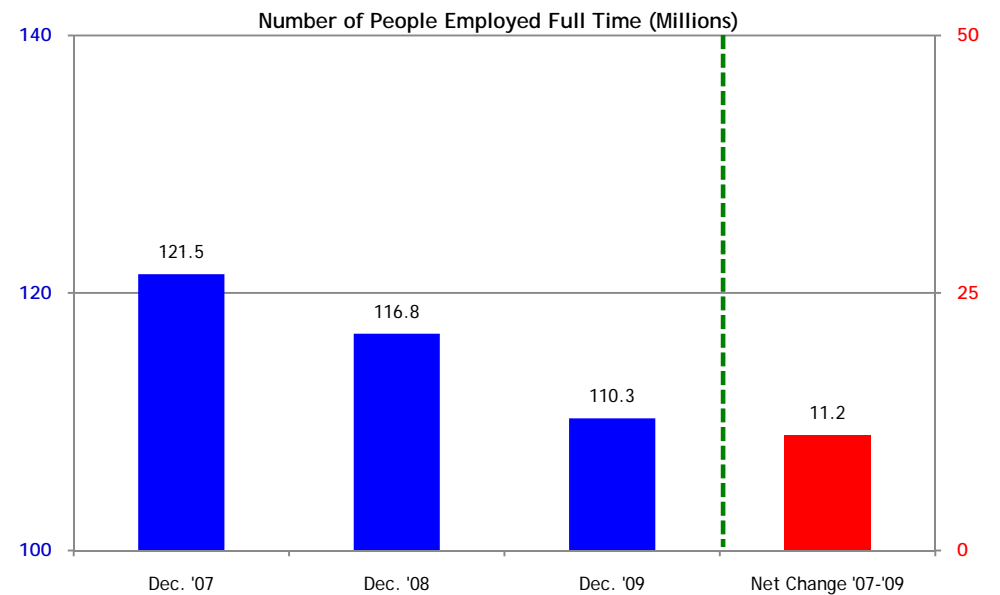
Keep in mind the *personal* savings rate has risen and stands at 4.4%, but this does not capture what's really happening.

This increase is coincidentally the same as reductions in personal taxes.

» A Long Way To Go In Labor Markets



Source: Bureau of Labor Statistics: Department of Labor

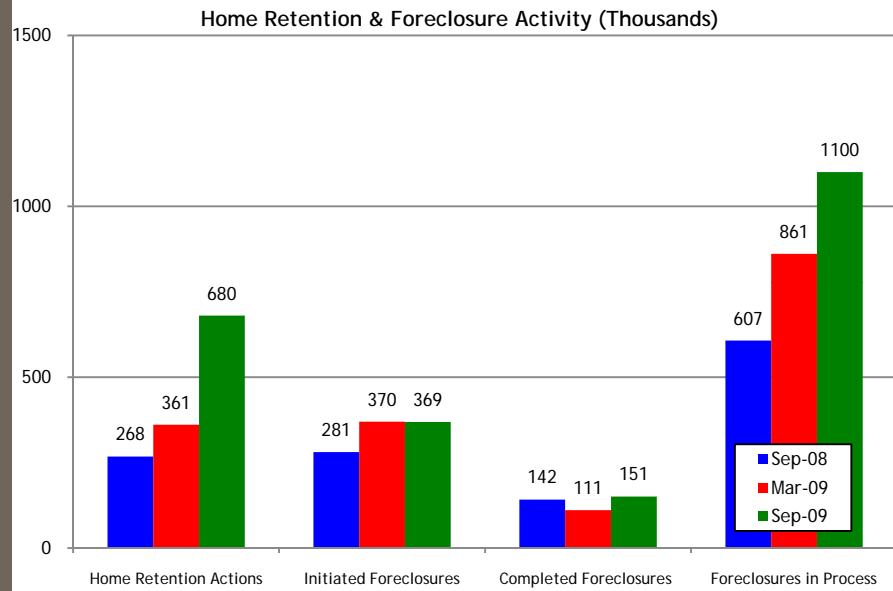


Source: Bureau of Labor Statistics

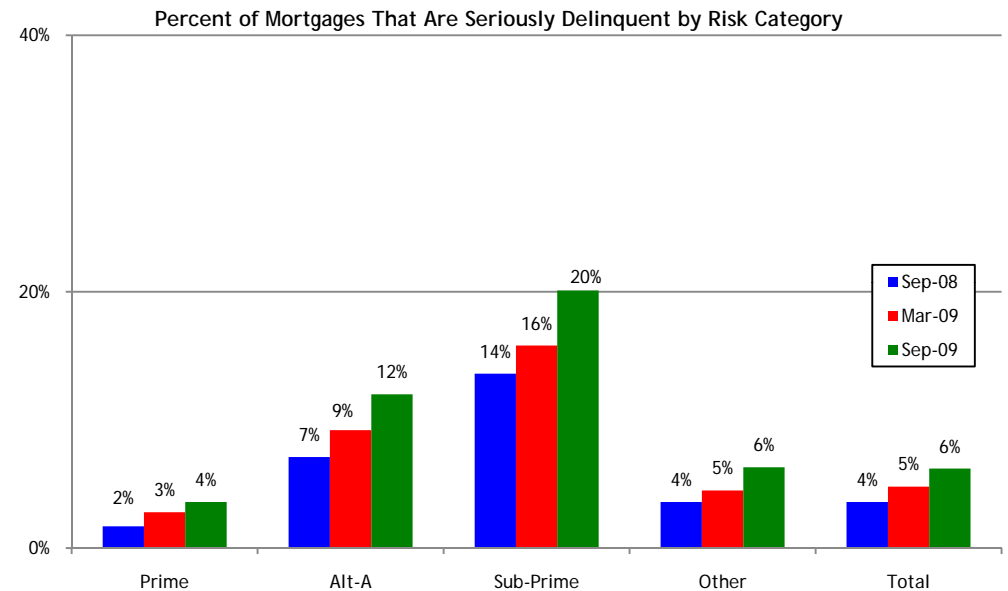
Part-time work doesn't pay the bills as well as full-time; 11 million full-time jobs have been lost.

Adding back the 4.5 million people that left the labor force since 2007, the unemployment rate would be 12.6%

» Things Have Only Gotten Worse in the Housing Market



Source: Office of the Comptroller of Currency



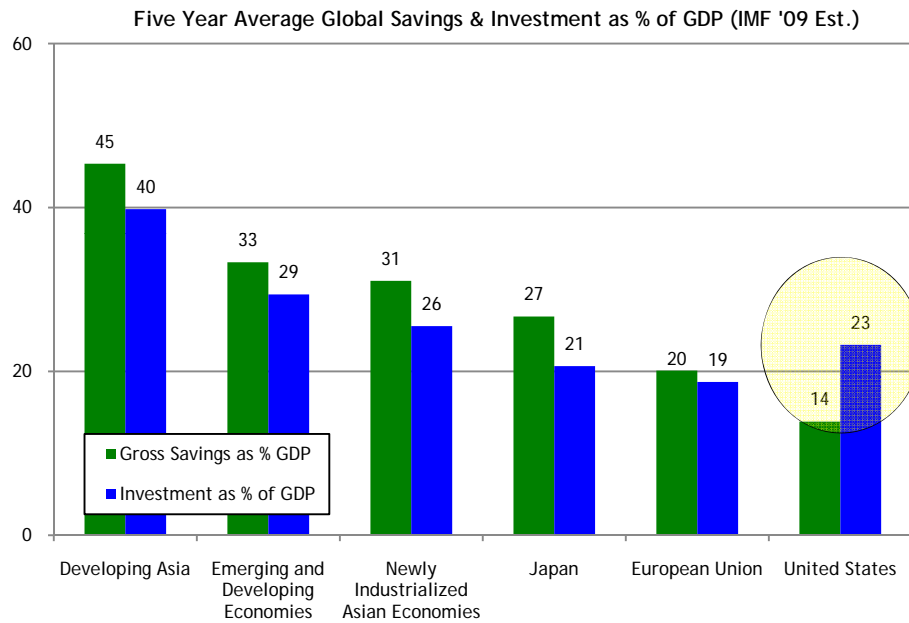
Source: Office of the Comptroller of Currency

Half to two-thirds of all "modified" loans are already in re-default, and delinquencies are rising.

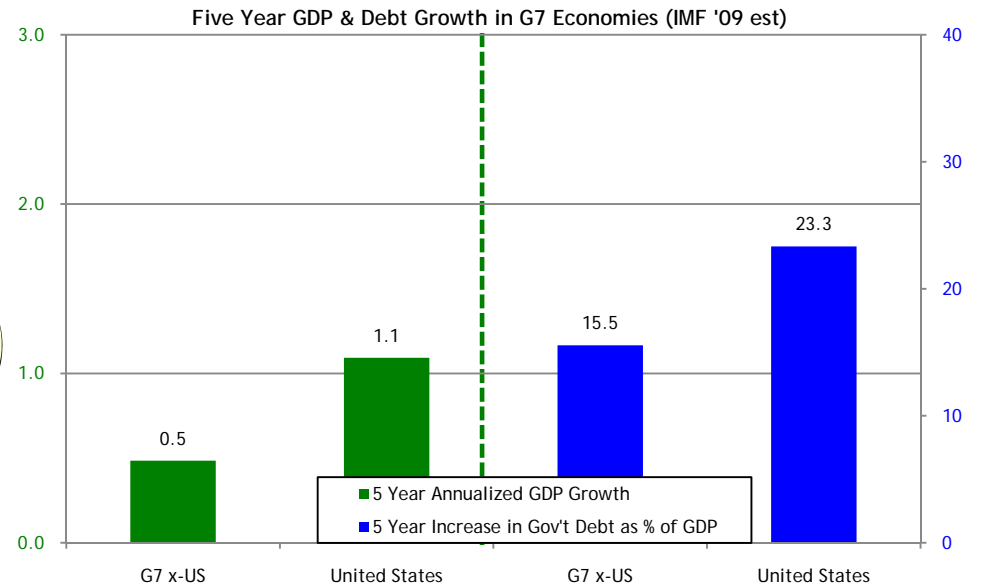
Are homeowners desperate or simply being rational?

We'll never know until home prices return to previous levels...hint, hint...inflate the values.

» How Does the United States Stack Up Globally?



Source: IMF, Wurts & Associates

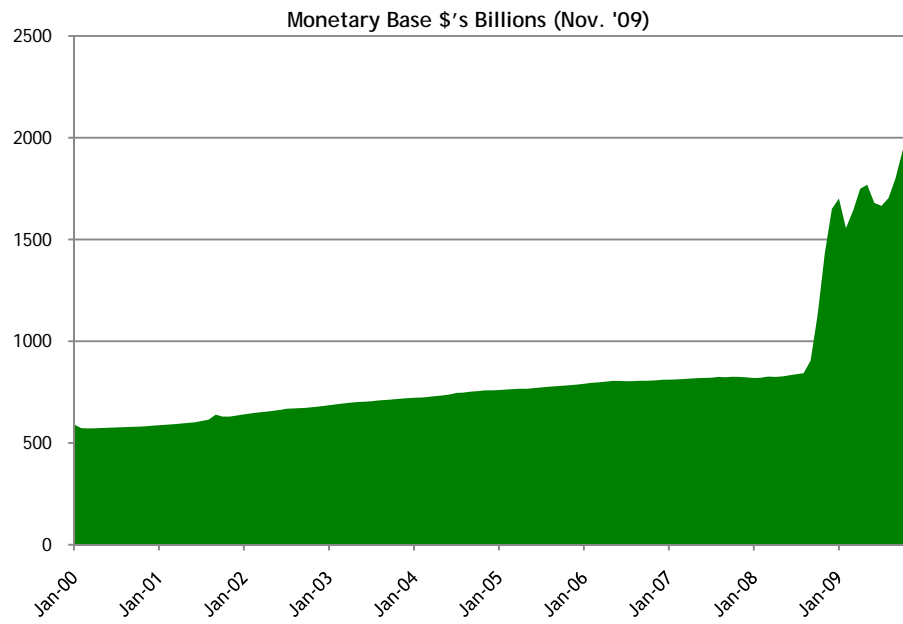


Source: IMF, Wurts & Associates

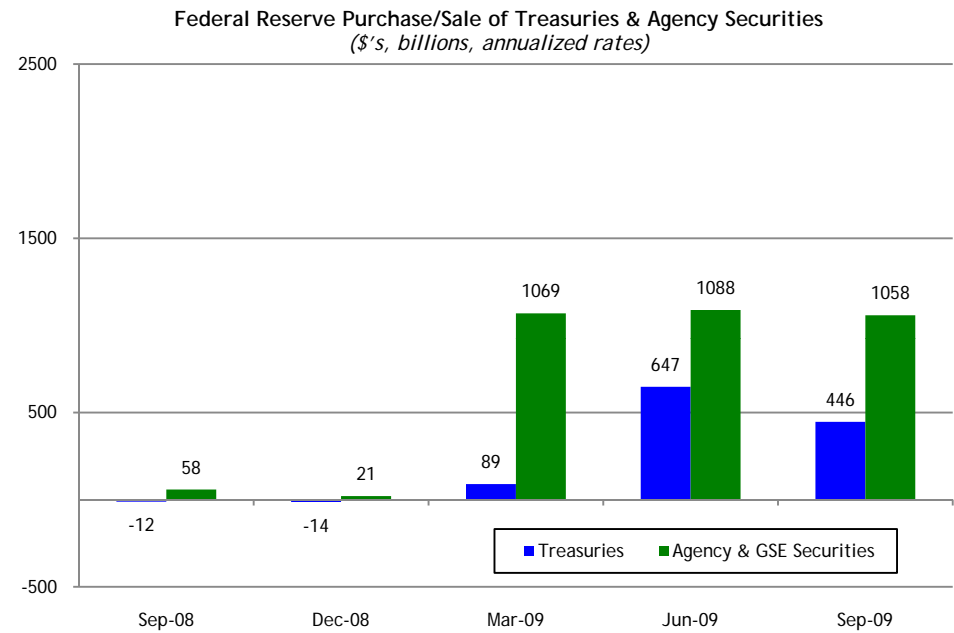
US GDP has grown faster, but has been fueled by debt.

As a nation, the US doesn't even save enough money to meet its own investment needs.

» Government Monetary & Fiscal Stimulus



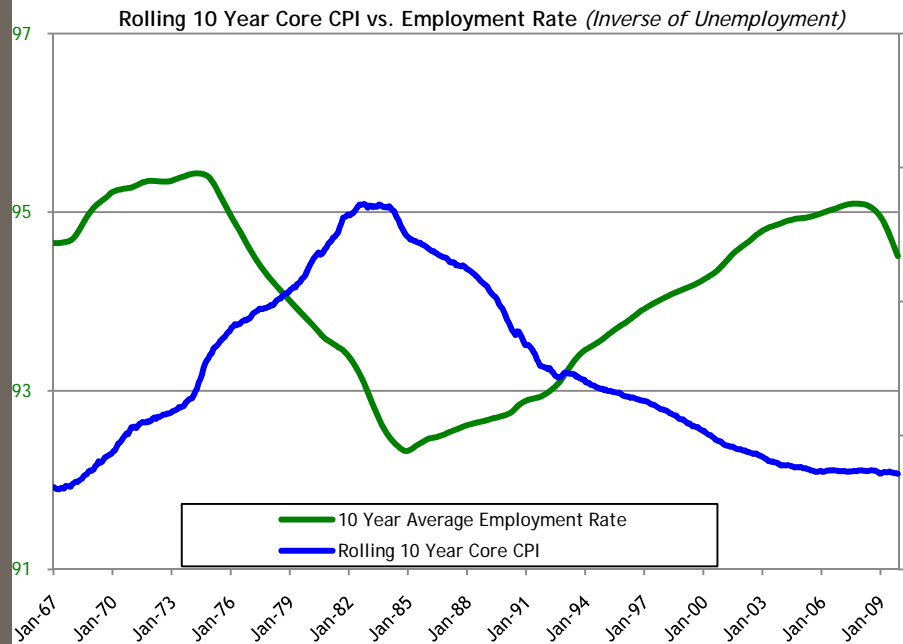
Source: Federal Reserve



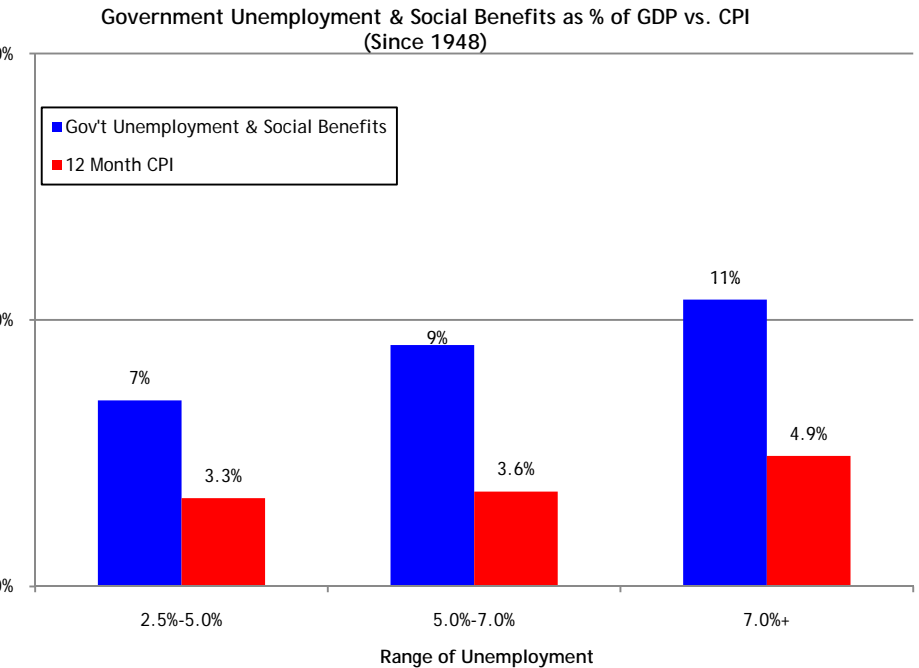
Source: Federal Reserve

Also keep in mind the Federal government is currently running annualized deficits of 10%+ of GDP.

» One Less Anti-Inflation Argument



Source: Bureau of Labor Statistic, Wurts & Associates

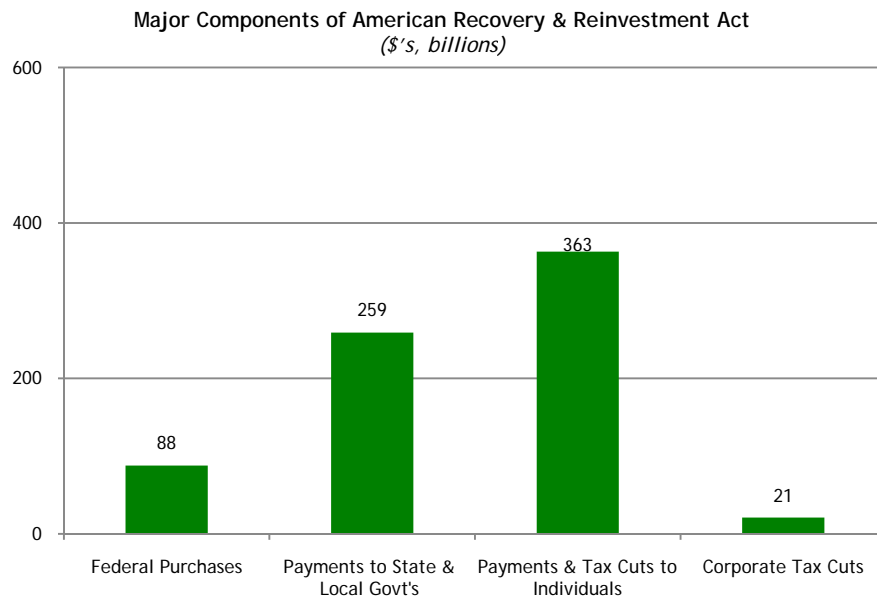


Source: BEA, BLS, Wurts & Associates

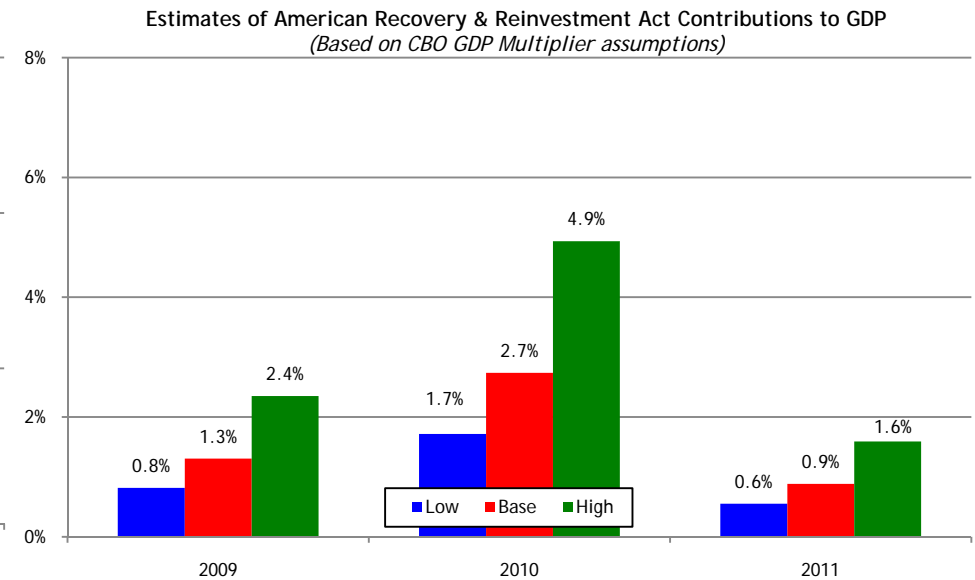
Remember that lower supply of goods and services in the face of sustained demand equals higher prices.

Oh, and don't forget personal consumption expenditures are higher now than 4th quarter 2007.

» Anatomy of "ARRA" Stimulus Plan of '09



Source: CBO, Wurts & Associates



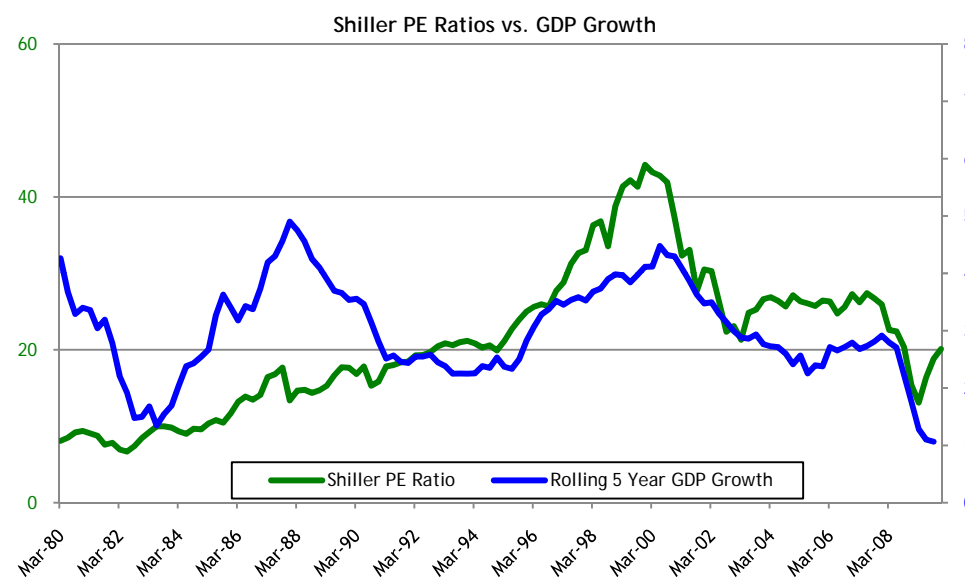
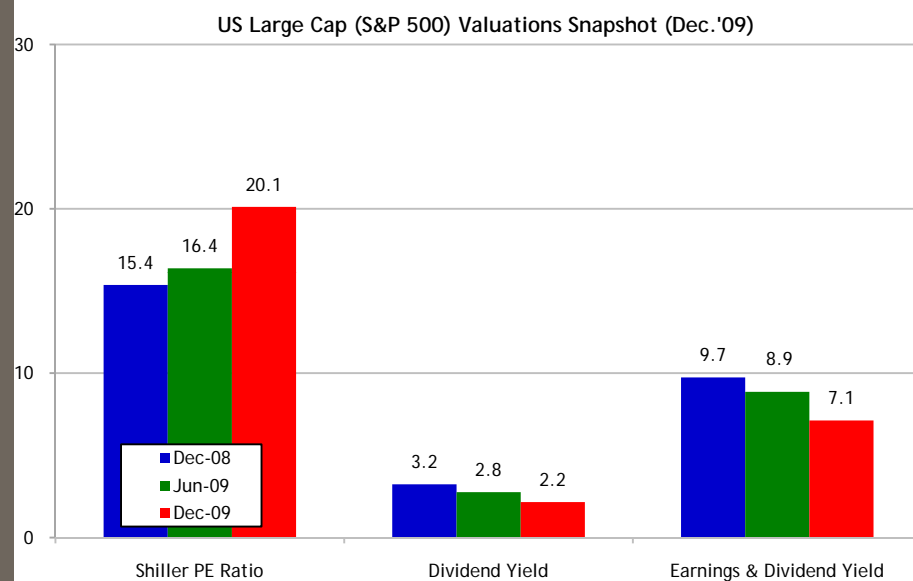
Source: CBO, Wurts & Associates

Through 3rd quarter 2009, total government consumption only contributed 0.5% to GDP growth.

Most people have been saving tax cuts.

Federal purchases are only 10%+ of the ARRA plan spread over three years.

» Equities - A Disconnect Between Valuations & GDP?



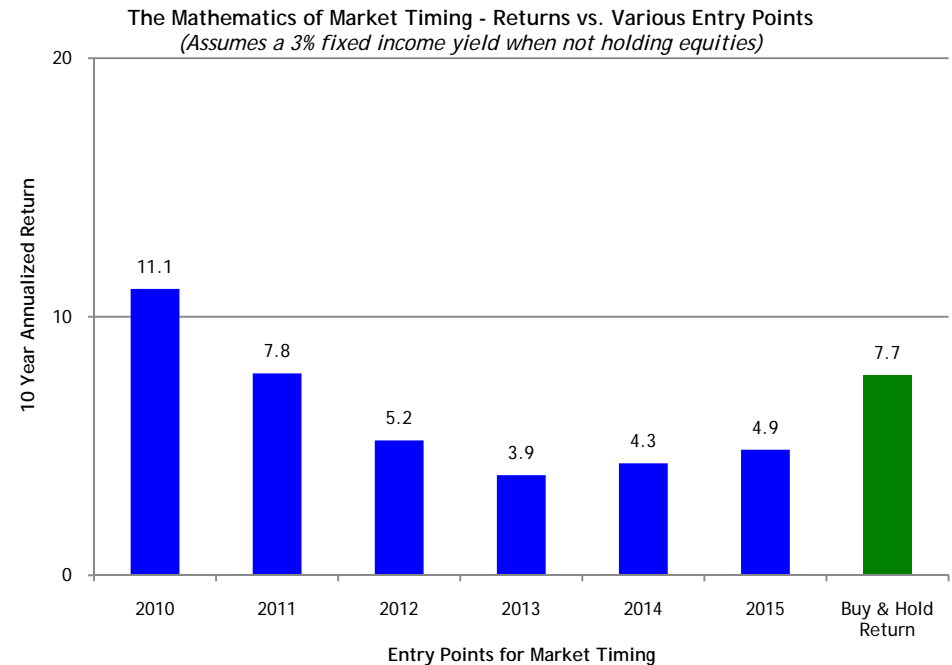
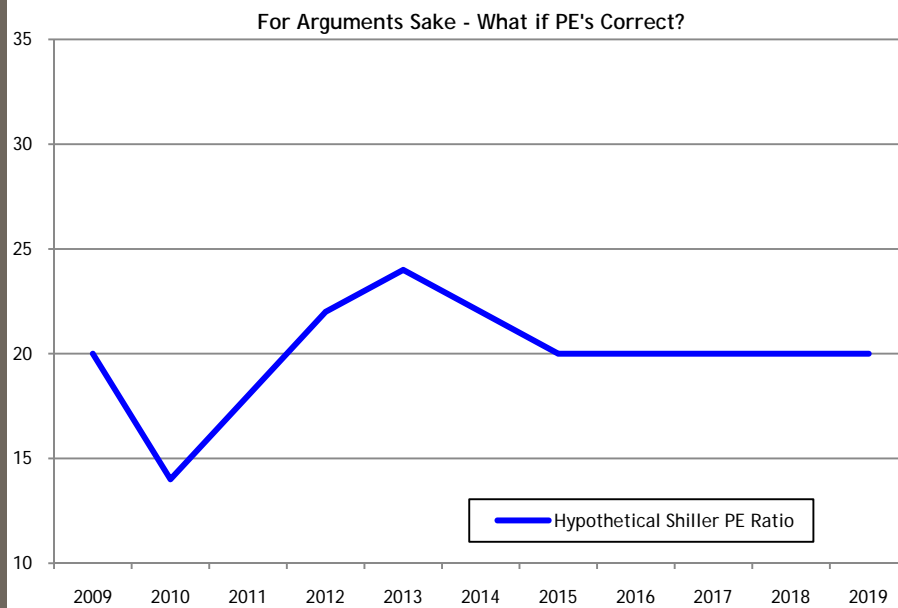
Source: Yale/Shiller, Wurts & Associates

Valuations have rebounded far more strongly than GDP. Is there risk of near term downside?

Of course there is, but with cash at 0% how long might such a correction last?

And is it worth the risk of trying to catch it? *(next page)*

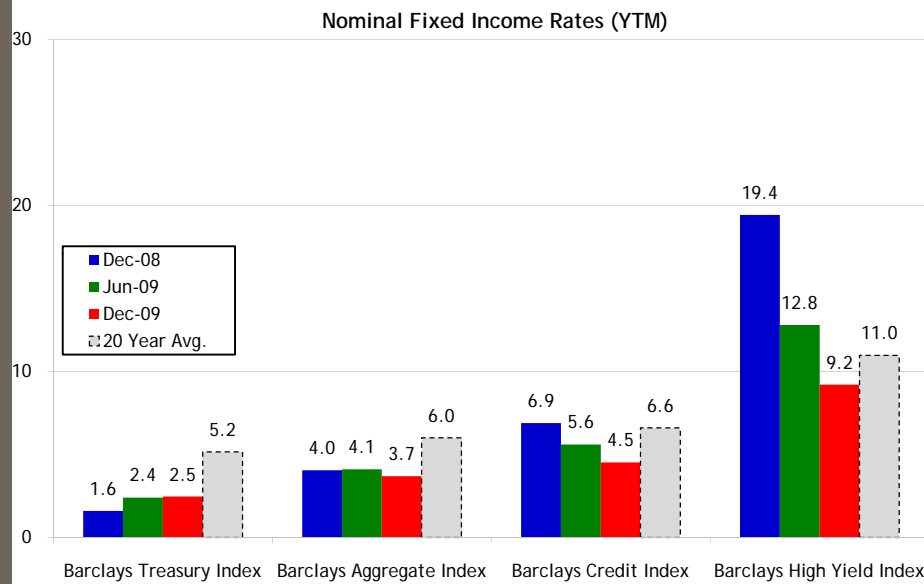
» Is Upside Enough to Justify Timing Equity Markets?



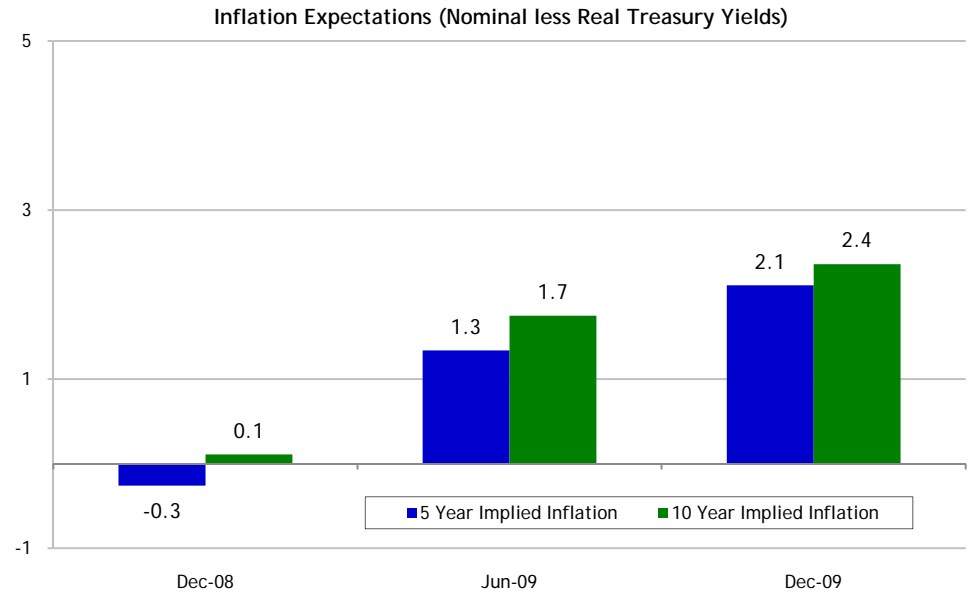
Market timing doesn't have a lot of upside during times of fair valuation.

PE's are at about average values compared to the last 30 years.

» A Dynamic Year for Fixed Income Markets



Source: Barclays



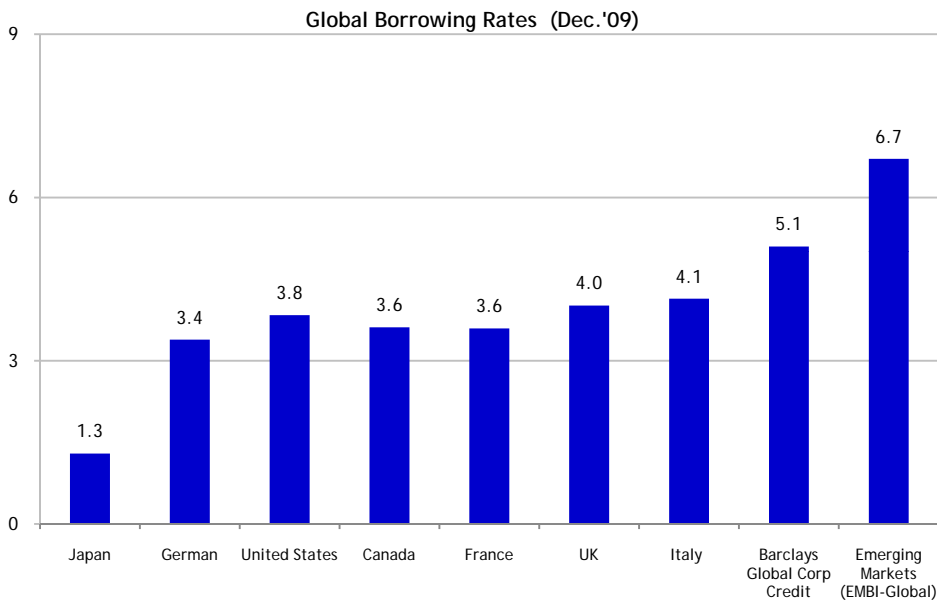
Source: Federal Reserve, Wurts & Associates

Though lower, compensation for bearing credit risk still looks good relative to historic averages.

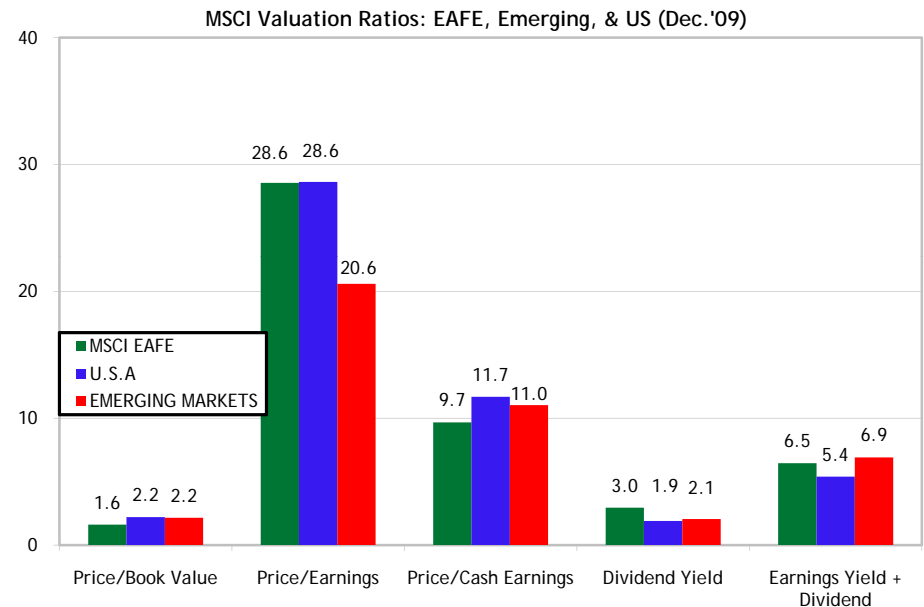
Inflationary expectations seem far more rational than one year ago, but still low.

Is a correction in order given no recovery in GDP? Well maybe, but again cash is at zero.

» Global Markets at a Glance



Source: JPMorgan, Western Asset Management

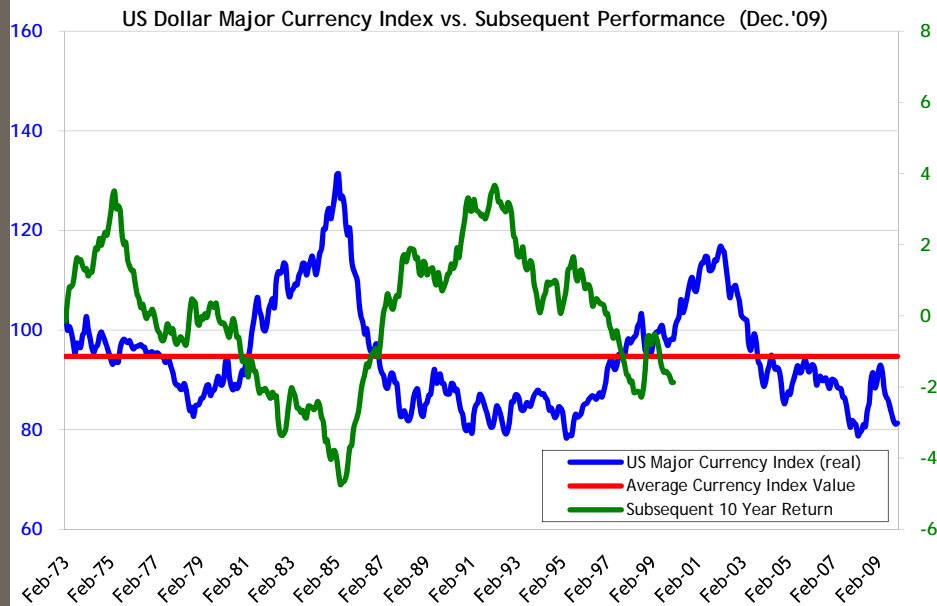


Source: MSCI; Wurts & Associates

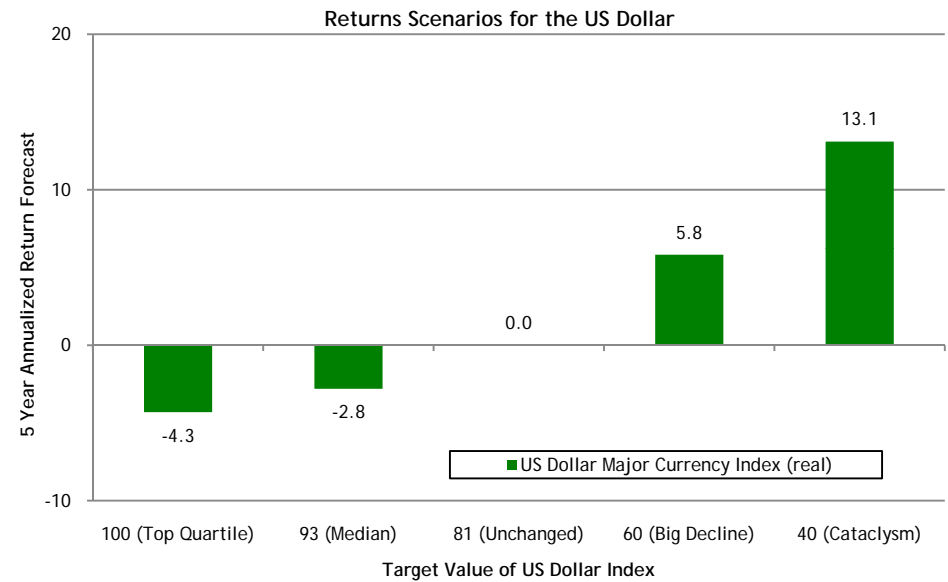
Foreign equities continue to hold a valuation advantage, but there is no free lunch in global fixed income markets.

Diversifying against US economic risk doesn't seem such a bad idea at these valuations.

» Worth Betting Against the US Dollar?



Source: Freelunch.com; Wurts & Associates



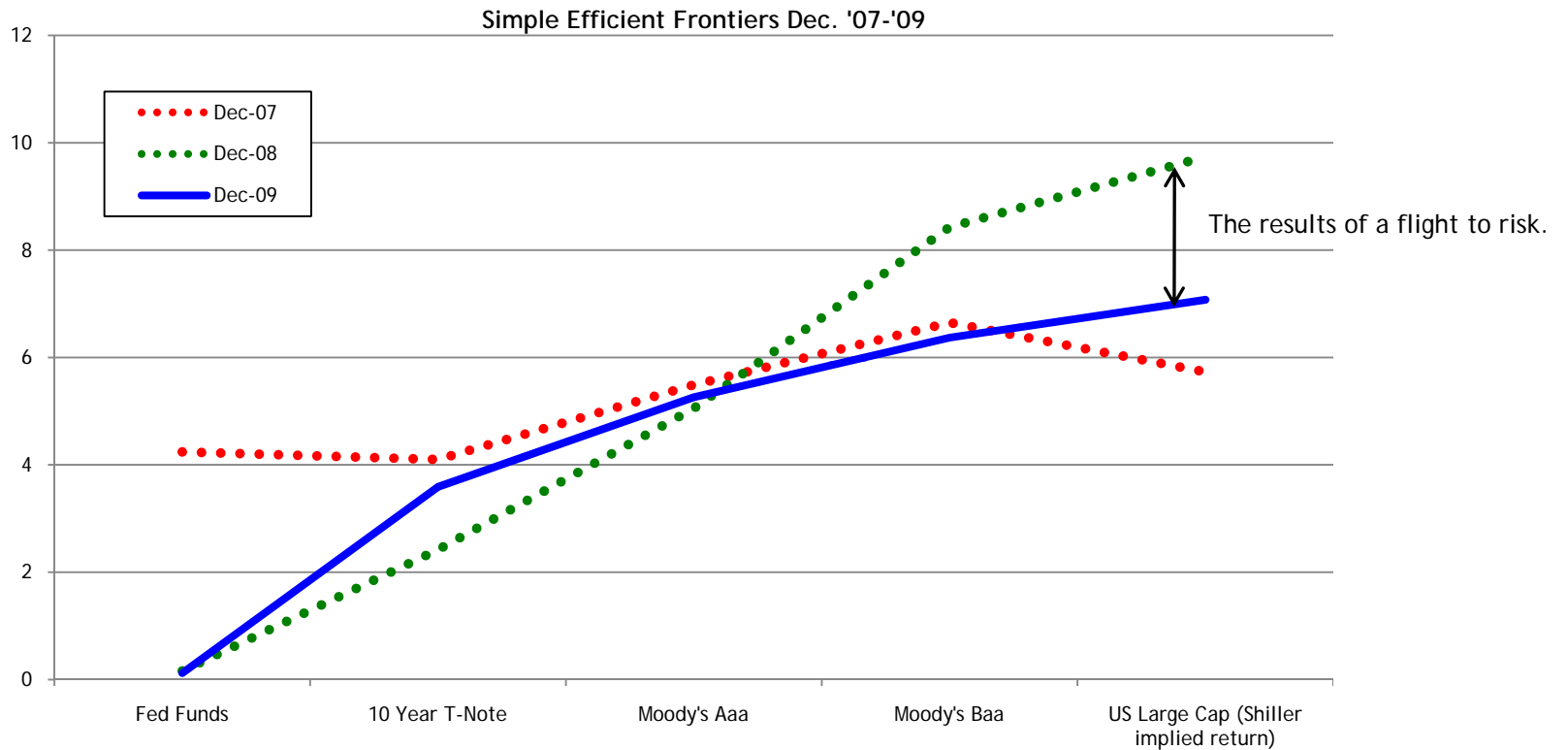
Source: Freelunch.com; Wurts & Associates

Unless you're planning on a systematic devaluation in the US dollar, such a play seems poorly poised.

Could the world find a new "reserve" currency? Sure, but which one?

And how long will that take and what might happen in the meantime from current valuations?

» Here We Go Again...But a Little Different This Time



In just one year we have gone from a high to relatively low return environment.

But this time risk premiums relative to cash are robust.

What part of the efficient frontier will lead future compression?

»» Concluding Thoughts

Macroeconomics

- The US economy remains fundamentally unimproved since the recession began. GDP recoveries are natural and stimulus of all kinds are in place.
- The specifics of any recovery will need to be scrutinized for implications on prospective economic and market risks.
- Mounting societal debt and pending inflationary pressures remain a serious concern. Global diversification of economic exposures seems more prudent now than ever.

Capital Markets

- Though a recovery in equity markets is welcome, valuations are concerning given economic conditions. Nonetheless, tilting away from equities seems a high risk/low reward pursuit at this point in time.
- A similar situation can be found in credit markets. However, credit remains attractive relative to Treasuries and credit spreads offer some protection against rising inflation.
- A strategic bet against the US dollar, though seemingly popular nowadays, appears unwise given valuations.
- *Most importantly, the “fat pitches” are gone...at least for now.*

Looking Forward

- We are becoming wary of another “low return environment.” Risk premiums are reasonable, but investors may find it difficult to meet their goal returns.
- The efficient frontier *will* evolve somehow from this point going forward and *will* have implications for asset allocation and portfolio design.
- We will be addressing this burgeoning issue soon through additional research.