



**The Estate Planning Council of Hampden County
2010 Economic Update**

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Chief Investment Officer

January 2010



Agenda

1. **Is a Recovery Underway? The Macro View**
2. **What worked in 2009?**
3. **“The Lost Decade” for Equities**
4. **2010 and Beyond**

Macro Economic Picture

- **The Global Economy is Emerging from one of the more severe economic downturns on record**
- **As severe as the “Great Recession” is/has been, the recovery is beginning to take on the profile of most if not all modern era economic recoveries**
 - **Equity Market has bottomed and recovered 50% of losses**
 - **Pace of job loss has slowed**
 - **Leading Economic Indicators are pointing up**
 - **ISM/PMI (Purchasing Managers Index) signaling expansion (strong correlation with GDP growth and S&P returns)**
 - **Yield Curve has steepened**

Macro Economic Picture

Equities Led the Way

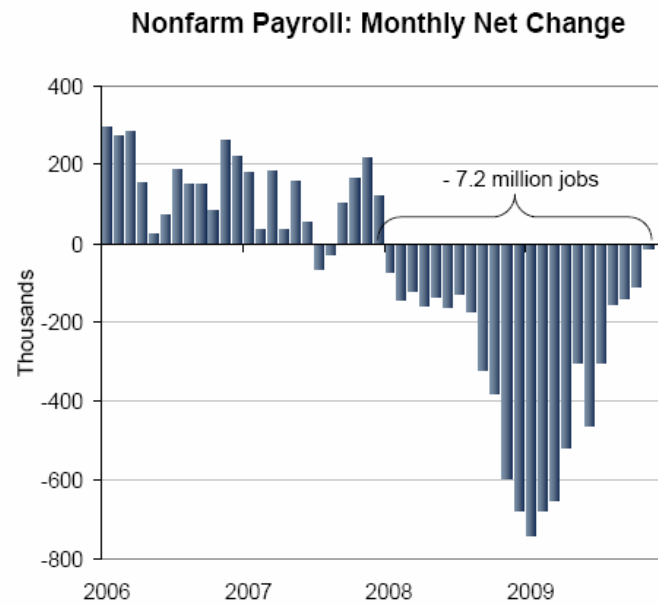


Macro Economic Picture

The Pace of Job Loss has Slowed – But still, \$7.2MM Jobs are Gone

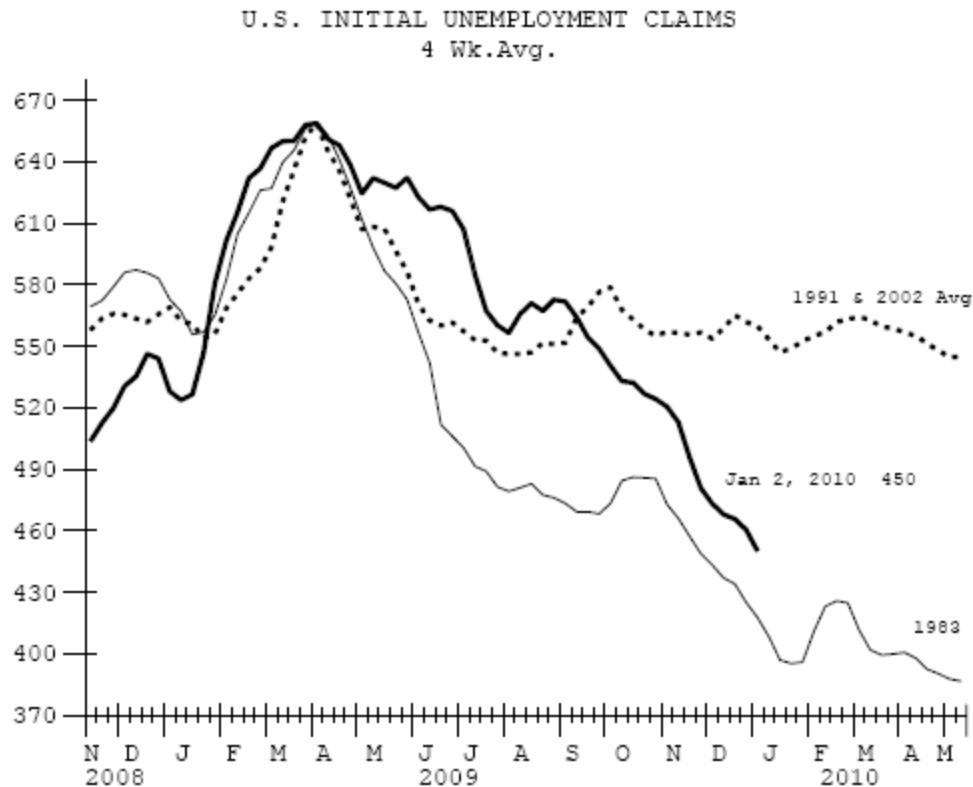


Source: BLS via Bloomberg, monthly series, data through November 2009



Source: BLS via Bloomberg, monthly series, data through November 2009

Macro Economic Picture



Macro Economic Picture

Index of Leading Indicators Increasingly Positive (10)



POSITIVES

- Interest Rate Spread
- Money Supply
- Stock Market Performance
- Average weekly initial claims
- Average weekly manufacturing hours
- Building Permits

NEGATIVES

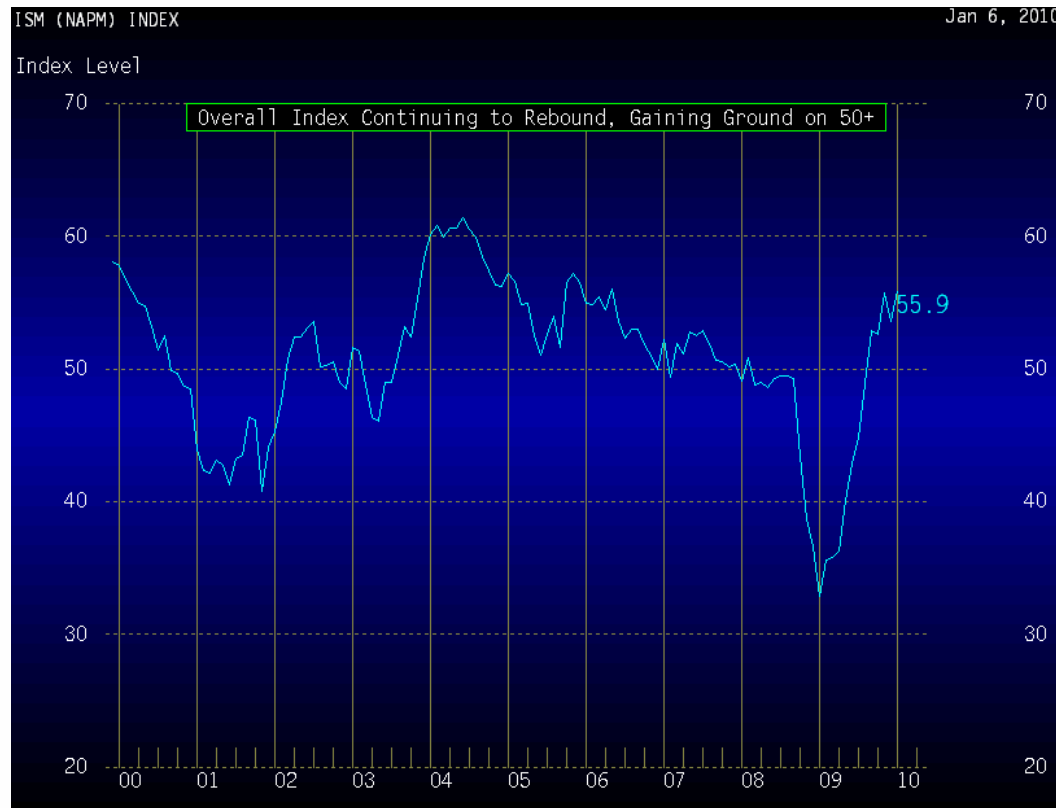
- Vendor Performance
- Consumer Expectations
- Manufacturer's New Orders for non Defense Cap Goods

NEUTRAL

- Manufacturers New Orders for Consumer Goods

Macro Economic Picture

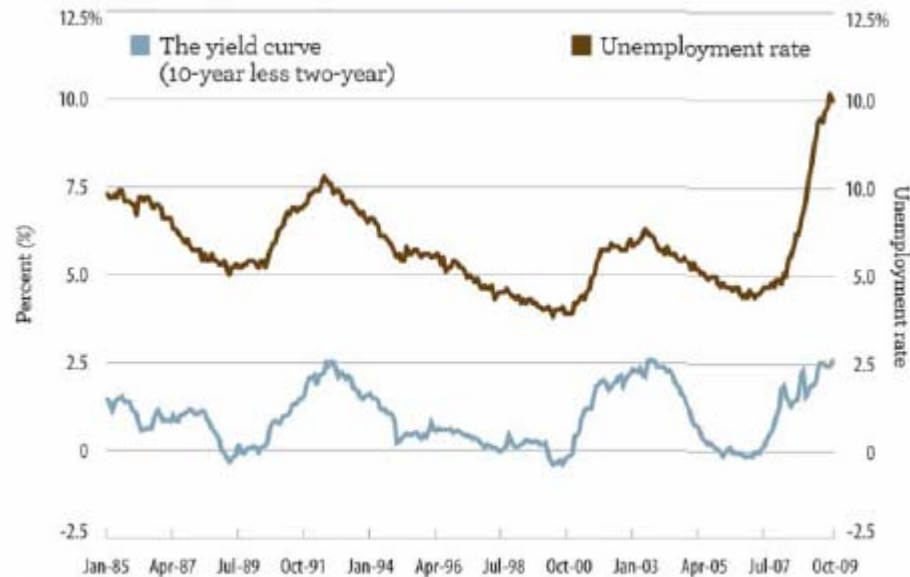
*Purchasing Manager's Index is at the Highest Level Since April 2006 –
Correlates with 4.6% GDP Growth*



Macro Economic Picture

*The Inverted Yield Curve Projected Job Loss/Unemployment in '07/'08;
Its Steepening should Correlate with and Improving Employment*

Yield curve steepness is near historical highs; however unemployment rates are much higher than seen in recent recessions. We think there is room for the curve to steepen further from current levels.



Source: Haver Analytics

Past performance is not an indication of future results. The steepness of the yield curve is measured by the spread between the 10-year Treasury note and two-year Treasury note yield.

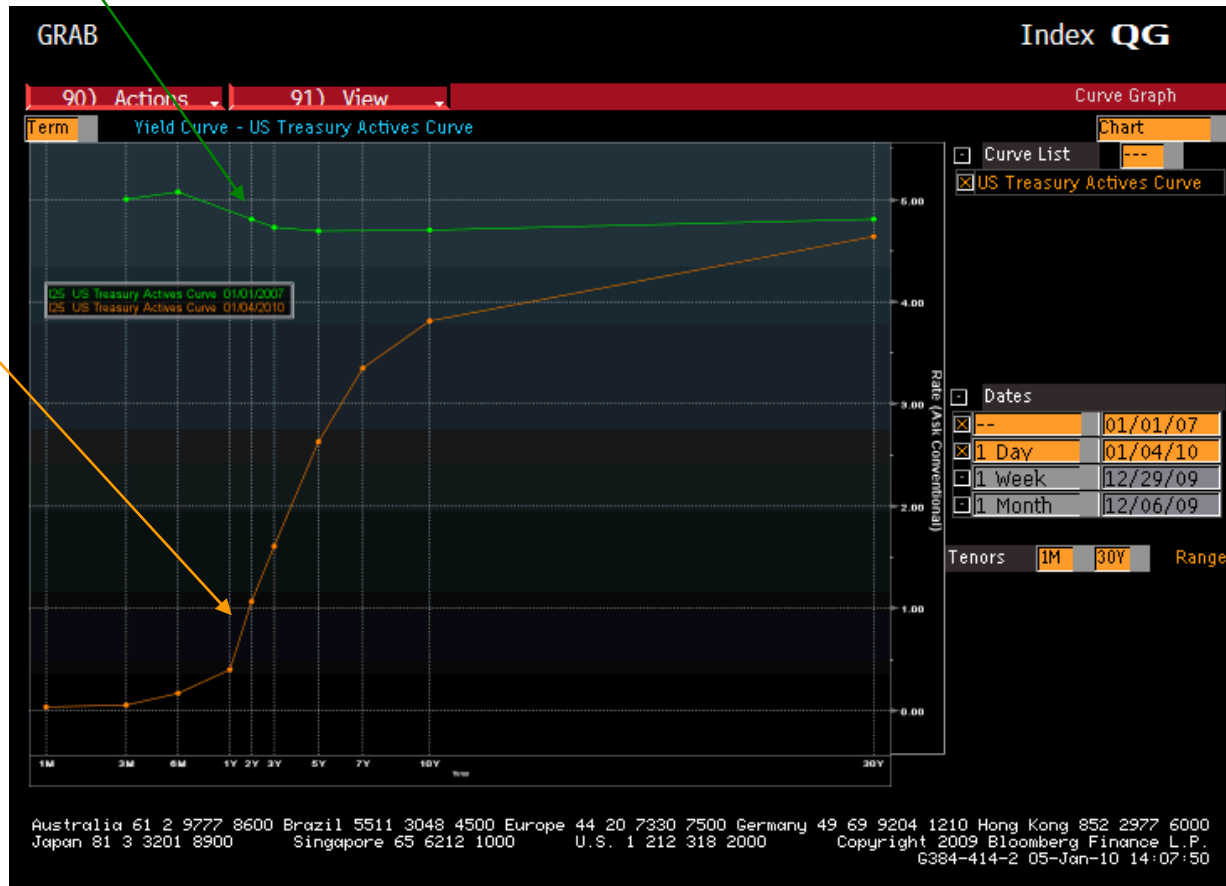


Macro Economic Picture

The Yield Curve Tells the Story

Jan. 1, 2007 Yield Curve
(Inverted)

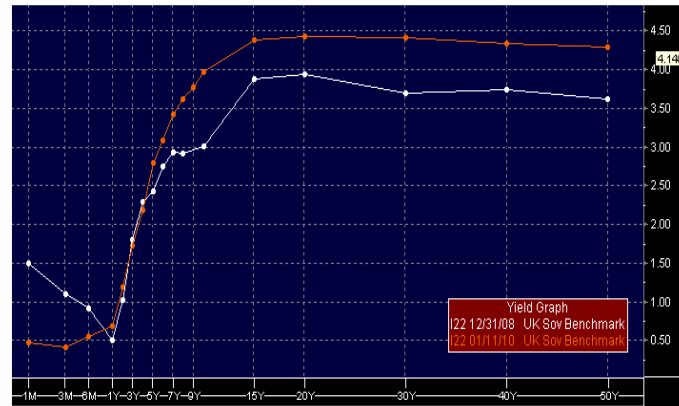
Jan. 4, 2010 Yield Curve
Steepening



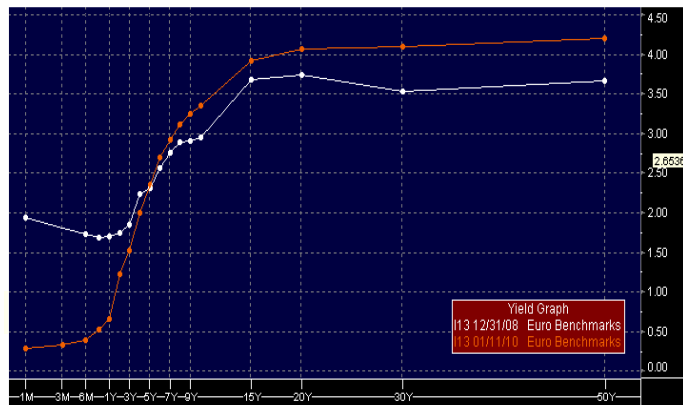
Macro Economic Picture

The Yield Curve Tells the Story (Internationally as well)

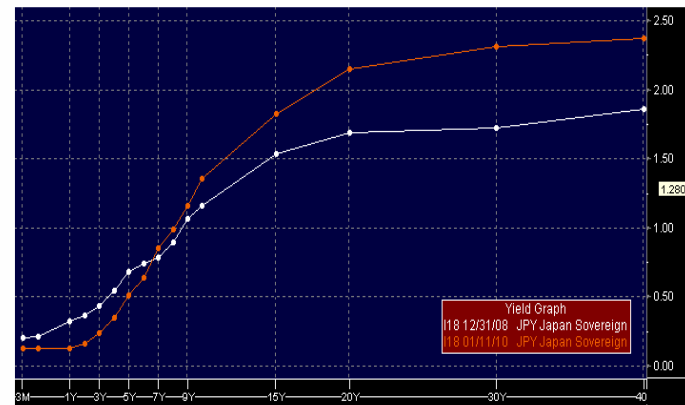
UK GOVERNMENT YIELD CURVE



EURO BENCHMARK YIELD CURVE



JAPAN GOVERNMENT YIELD CURVE



Macro Economic Picture

What Could be Different – A More Explosive Recovery than Expected?

- **Globalization/China Wildcard**
- **Unprecedented Global Synchronized Rate Cuts's Impact Not Felt**
- **More robust improvement in employment than expected (i.e.the recovery isn't "jobless")**
- **Consumption, a key component of GDP, is more robust than expected (a strong possibility given leading indicators of job growth and consumer spending – pent up demand/savings rate?)**

Macro Economic Picture

Unprecedented Monetary Stimulus –lag effect

ISI International Strategy & Investment

A Synchronized International Recovery



Unprecedented Pace Of Monetary Easing Around The World

Rate Cuts In 2009: Still A Lot Of Easing In The Pipeline!

Country	Key targeted rate	Current rate	BP change since Jan.	% change since Jan.	% change since Jan.	Country	Key targeted rate	Current rate	BP change since Jan.	% change since Jan.	% change since Jan.
Chile	Overnight Rate	0.50%	-775	-94%	█	Brazil	SELIC Rate	8.75%	-500	-36%	█
Sweden	Repo Rate	0.25%	-175	-88%	█	Iceland	Repurchase Rate	12.00%	-600	-33%	█
Canada	Overnight Rate	0.25%	-125	-83%	█	Kazakhstan	Refinancing Rate	7.00%	-350	-33%	█
Peru	Reference Rate	1.25%	-525	-81%	█	Latvia	Refinance Rate	4.00%	-200	-33%	█
U.K.	Base Rate	0.50%	-150	-75%	█	South Korea	Call Rate	2.00%	-100	-33%	█
Israel	Bank Rate	0.75%	-175	-70%	█	Serbia	Two-Week Repo Rat	12.00%	-575	-32%	█
Moldova	Refinance Rate	5.00%	-900	-64%	█	Poland	Repo Rate	3.50%	-150	-30%	█
Denmark	Lending Rate	1.35%	-240	-64%	█	Indonesia	Reference Rate	6.50%	-275	-30%	█
Euro	Refinance Rate	1.00%	-150	-60%	█	Australia	Cash Target Rate	3.00%	-125	-29%	█
Norway	Deposit Rate	1.25%	-175	-58%	█	Egypt	Deposit Rate	8.25%	-325	-28%	█
Thailand	Repo Rate	1.25%	-150	-55%	█	Philippines	Overnight Rate	4.00%	-150	-27%	█
Colombia	Overnight Rate	4.50%	-500	-53%	█	Sri Lanka	Repurchase Rate	8.00%	-250	-24%	█
Turkey	Interbank Rate	7.25%	-775	-52%	█	Hungary	Base Rate	8.00%	-200	-20%	█
New Zealand	Cash Rate	2.50%	-250	-50%	█	Saudi Arabia	Repo Rate	2.00%	-50	-20%	█
Switzerland	Target Rate*	0.25%	-25	-50%	█	Russia	Refinancing Rate	10.50%	-250	-19%	█
India	Reverse Repo Rate	3.25%	-275	-46%	█	Vietnam	Base Rate	7.00%	-150	-18%	█
Mexico	Overnight Rate	4.50%	-375	-45%	█	Romania	Key Policy Rate	8.50%	-175	-17%	█
Czech Repub.	Repo Rate	1.25%	-100	-44%	█	Jordan	Repo Rate	5.00%	-100	-17%	█
Slovakia	Repo Rate	2.50%	-175	-41%	█	Mauritius	Overnight Rate	5.75%	-100	-15%	█
South Africa	Repo Rate	7.00%	-450	-39%	█	Ukraine	Discount Rate	10.25%	-175	-15%	█
Malaysia	Overnight Rate	2.00%	-125	-38%	█	Pakistan	Discount Rate	13.00%	-200	-13%	█
Taiwan	Rediscount Rate	1.25%	-75	-38%	█						

Source: ISI Portfolio Strategy

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Macro Economic Picture

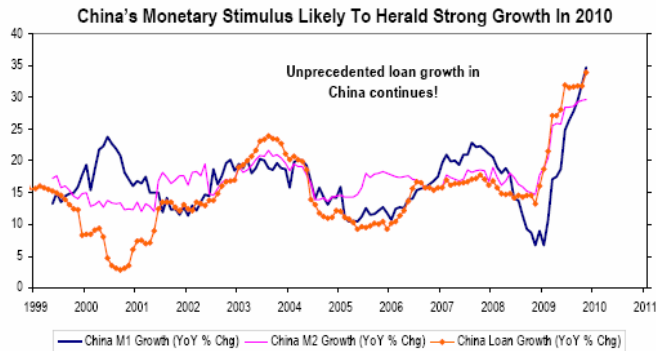
China Could Add "Rocket Fuel" to a Strong Global Recovery

Other Emerging Economies' Growth is Highly Correlated with China's

ISI International Strategy & Investment

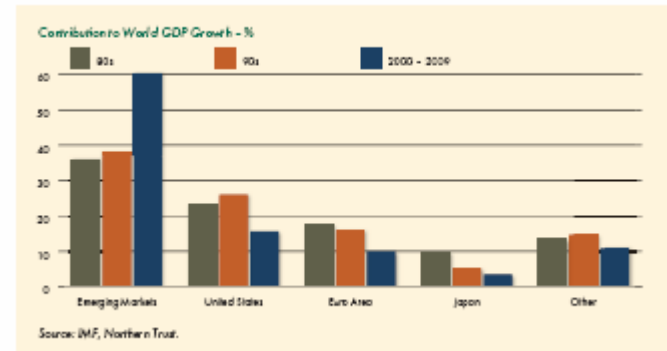


China's Growth Story Is About To Fire On All Cylinders!



Companies within the S&P 500 now derive 50% of sales from overseas; Just 8 years ago it was 30%

CHART 9: CHANGING COMPOSITION OF GLOBAL GROWTH



Macro Economic Picture

Leading indicators Suggest Improvements in Employment are Coming

Leading Indicators Heralding A Strong Cyclical Employment Recovery



Weekly Claims: An Important Leading Indicator Of The Job Market



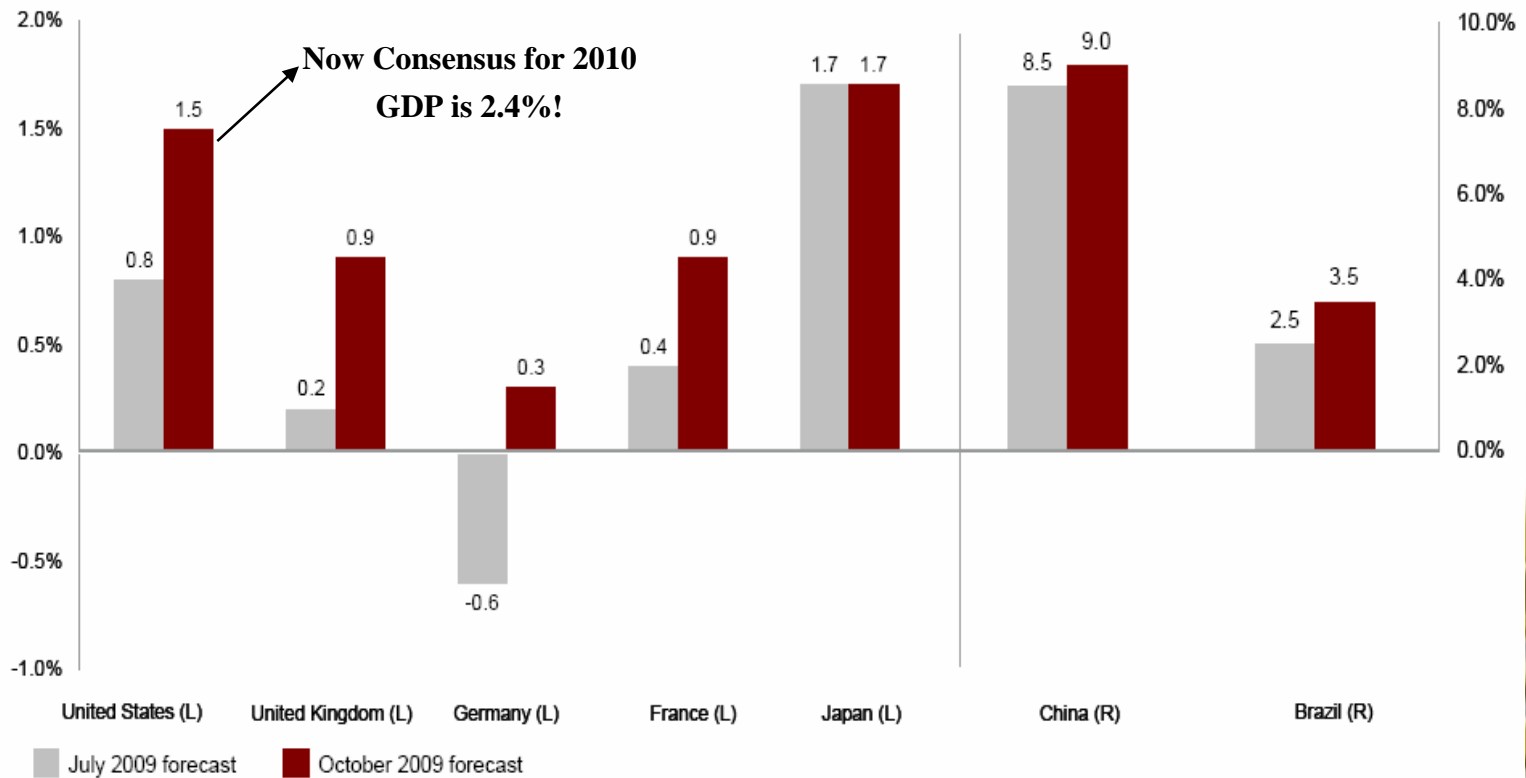
*Additional Leading Indicators Of Employment Suggesting A Recovery:
CEO Confidence Survey, ISI Temp Employment Survey, ISI Layoff Announcements Equities, etc.*

Source: ISI Portfolio Strategy

Macro Economic Picture

GDP Projections are Improved Dramatically in the Back Half of 2009

International Monetary Fund (IMF's) real GDP growth estimates for 2010



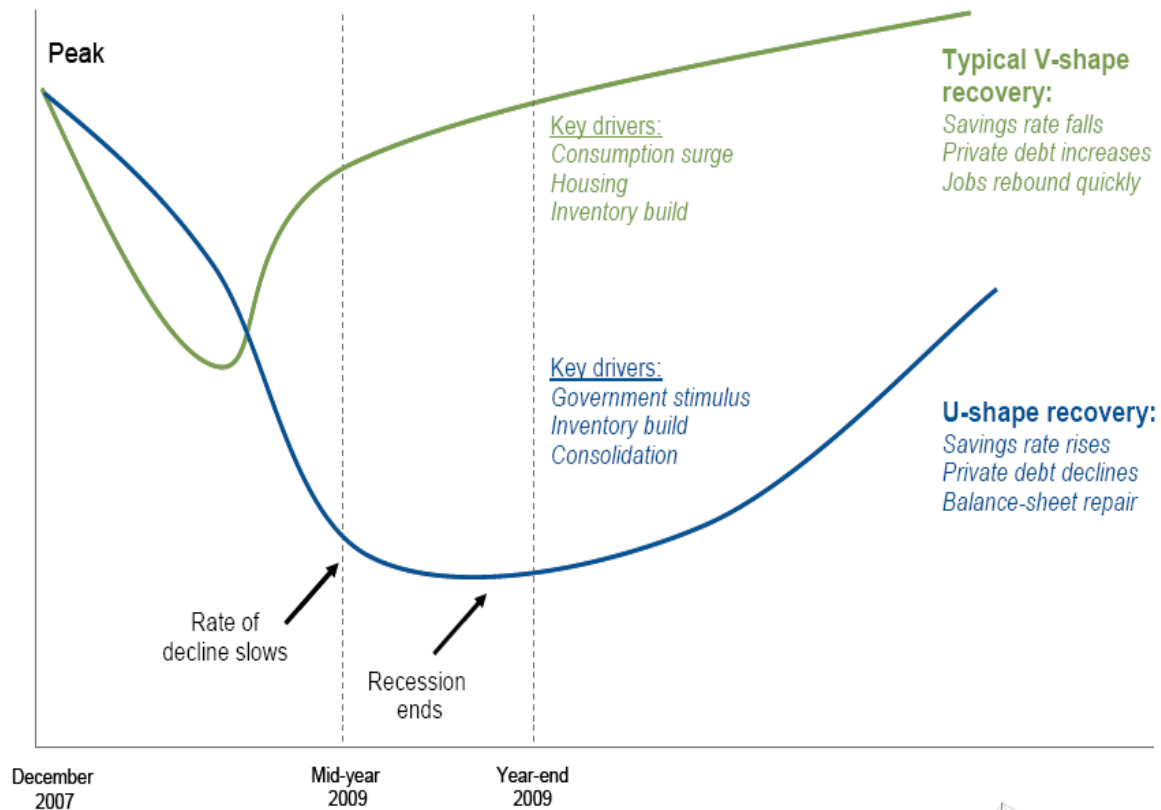
Macro Economic Picture

What Might Cause a “Double Dip” or Worse than Expected Recovery

- We DO have a **jobless** recovery (contrary to previous analysis)
- Consumers continue to **SAVE** and don't renew consumption patterns
- Commercial Real Estate Issues Lead to another Banking Crisis
- Withdrawal of Widespread Government Stimulus Shocks the Economy

Macro Economic Picture

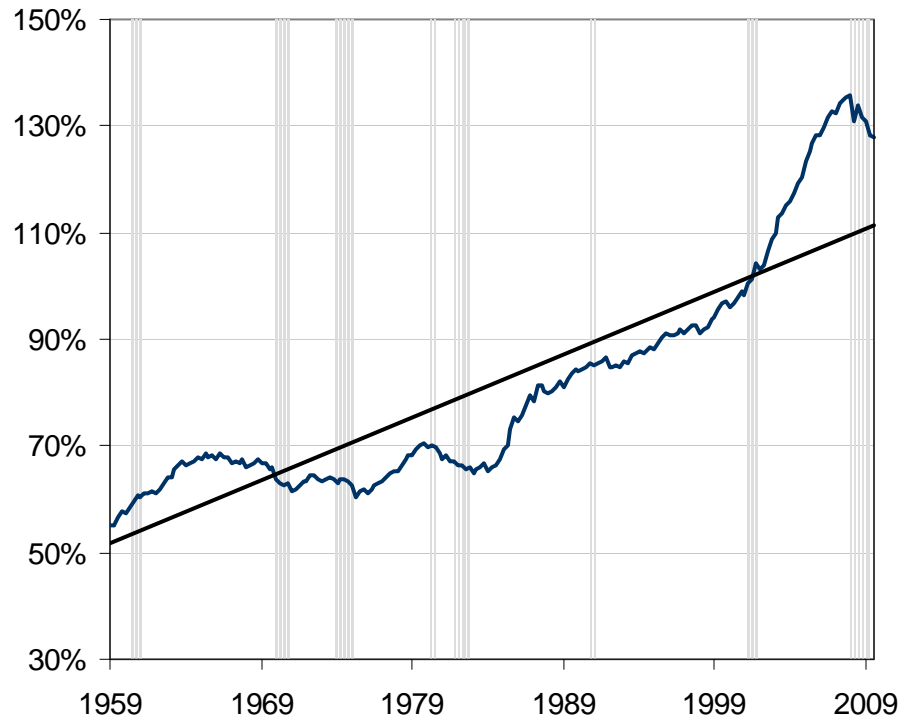
*The Profile of the Recovery May Look Different than
the more recent 1991 and 2002 Recessions*



Macro Economic Picture

Will Consumption be Blunted?

U.S. Household Debt
Liabilities as a % of Disposable Income

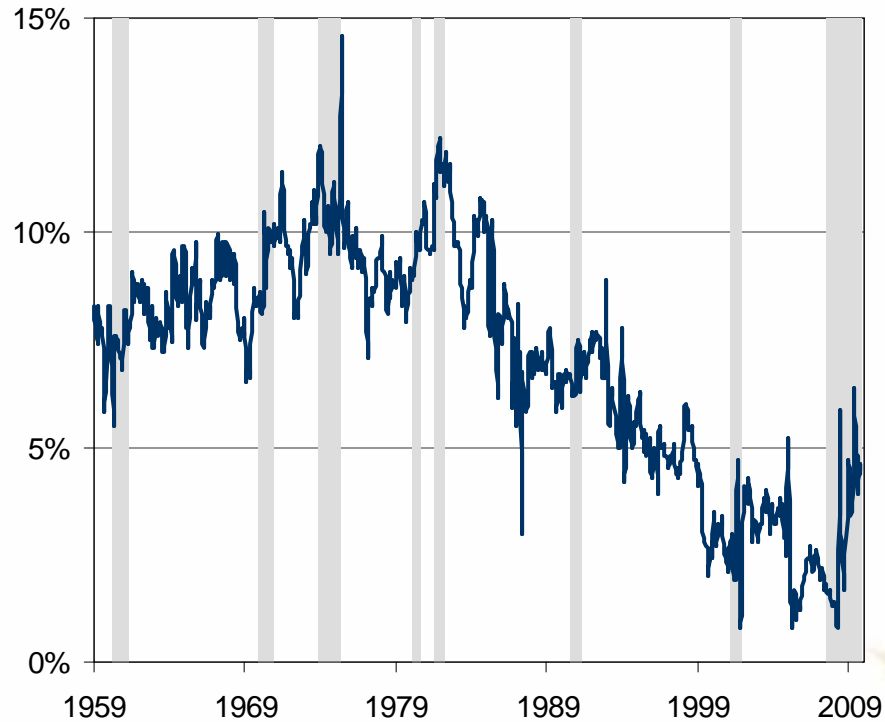


Macro Economic Picture

Will Consumption be Blunted?

U.S. Savings Rate

Savings as a % of Disposable Income



Macro Economic Picture

Will Consumption be Blunted?

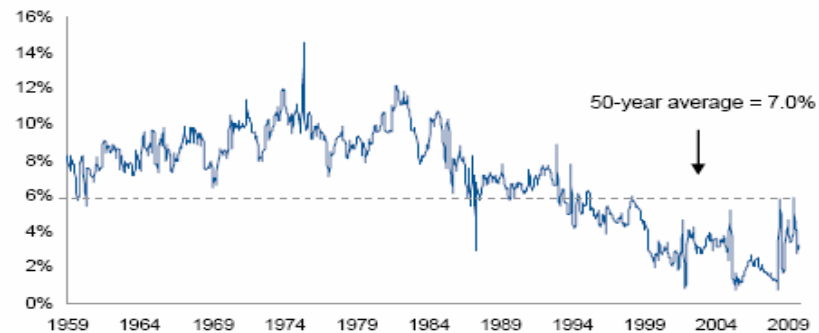
1. Consumer credit outstanding ^A



^A Federal Reserve.

^B Bureau of Economic Analysis.

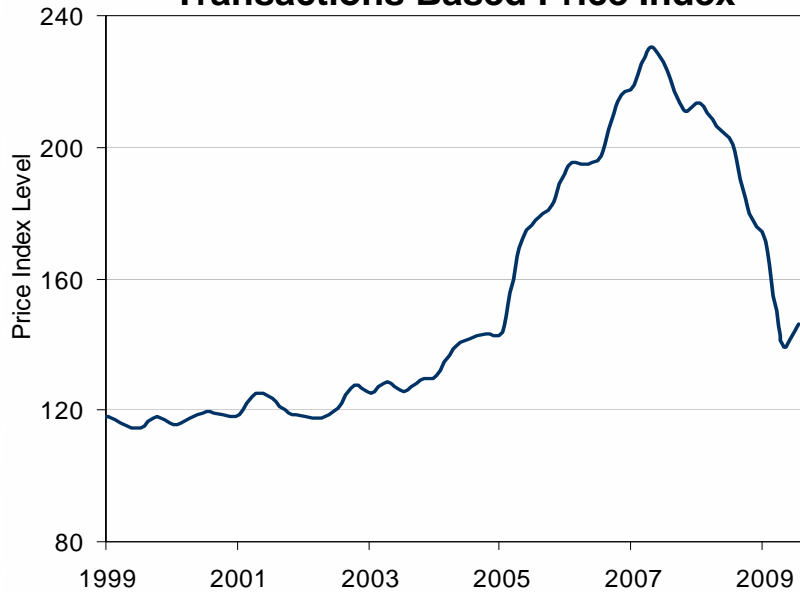
2. Personal savings rate ^B



Macro Economic Picture

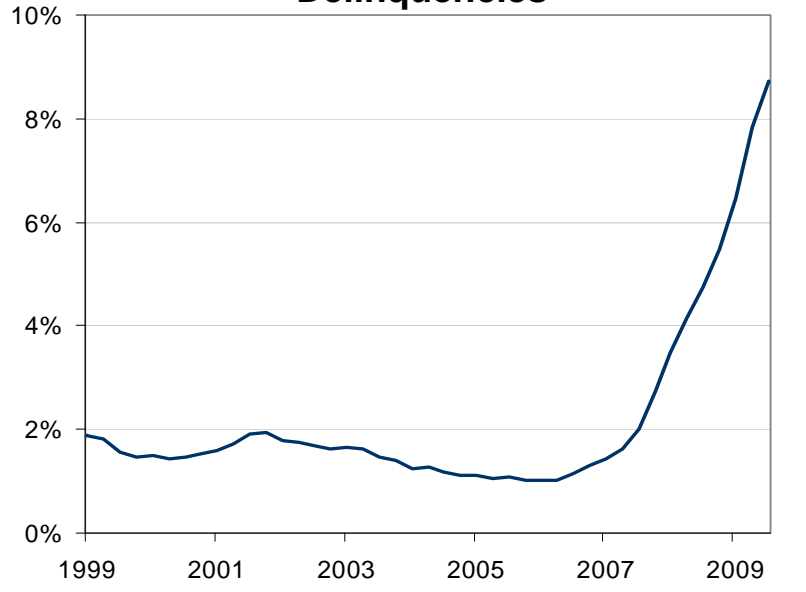
Many Expect Commercial Real Estate to Pose Major Headwinds

MIT Commercial Real Estate Transactions Based Price Index



Source: MIT's Center for Real Estate, quarterly series, data through 3Q09

Commercial Real Estate Loan Delinquencies



Source: Federal Reserve via Bloomberg, quarterly series, data through 3Q09

Macro Economic Picture

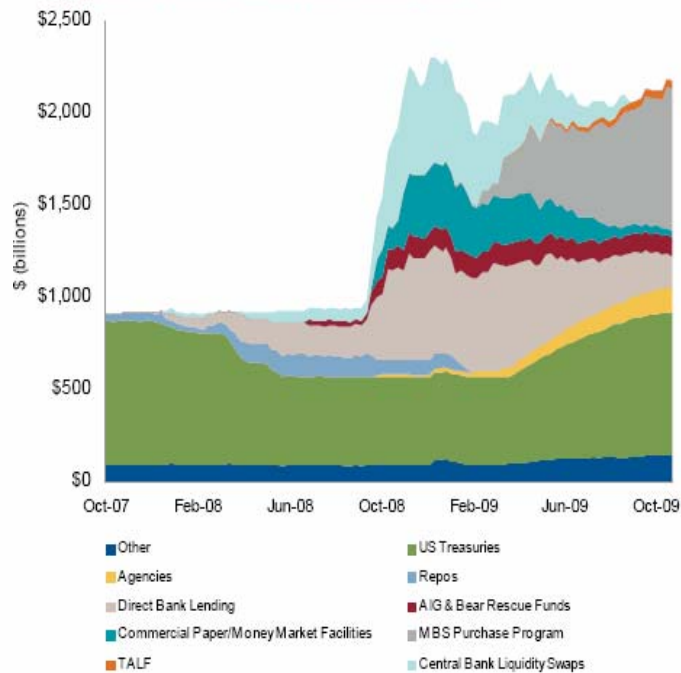
Can the Economy Gain Traction without the Government “SMACK”

Program	Objective	Amount (\$ billions)	Status
Commercial Paper Funding Facility (CPFF)	Provide liquidity backstop to U.S. Commercial Paper	\$1,800	\$132 billion held; program extended through February 2010
Money Market Investor Funding Facility (MMIFF)	Provide confidence to money markets by extending a promise of funding to finance the purchase of eligible securities from money market funds	\$540	Expired on September 18, 2009
Public-Private Investment Program (PPIP)	Facilitate removal of legacy real estate loans and assets to facilitate banks' ability to raise capital and willingness to lend	\$1,000	Private capital is being raised and matched by the Treasury; the program currently has only \$12.3 billion in purchasing power
Troubled Asset Relief Program (TARP)	Purchase assets and equity from financial institutions primarily to strengthen the financial sector	\$700	Estimated \$644 billion has been planned for particular TARP programs
Term Asset Backed Securities Lending Facility (TALF)	Facilitate issuance of asset-backed securities and securitized loans	\$1,000	\$28.5 billion requested since inception; the program has been extended through March 31, 2010
Term Auction Facility (TAF)	Relieve pressure from short-term funding market	\$900	\$336 billion held; Fed trimmed the size of TAF auctions from \$150 to \$75 billion
Mortgage-Backed Securities (MBS) and Government Sponsored Enterprises (GSE) Programs	Reduce the cost and increase the availability of credit for the purchase of houses, which in turn should support mortgage and housing markets	\$1,540	\$824 billion spent
		\$7,480	Estimated at \$1,609.03*

Macro Economic Picture

Can the Economy Gain Traction without the Government “SMACK”

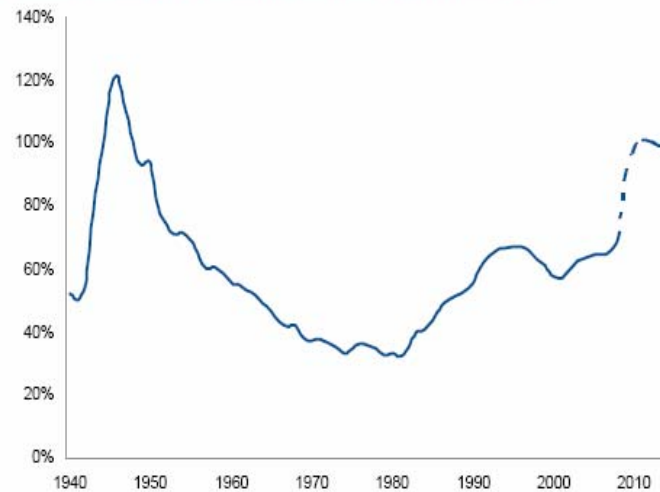
1. Federal reserve balance sheet expansion



Source: Federal Reserve through October 31, 2009.

* Other consists of gold stock, Treasury currency outstanding, with the remainder represented by other assets denominated in foreign currencies.

2. United States government debt as a percent of GDP



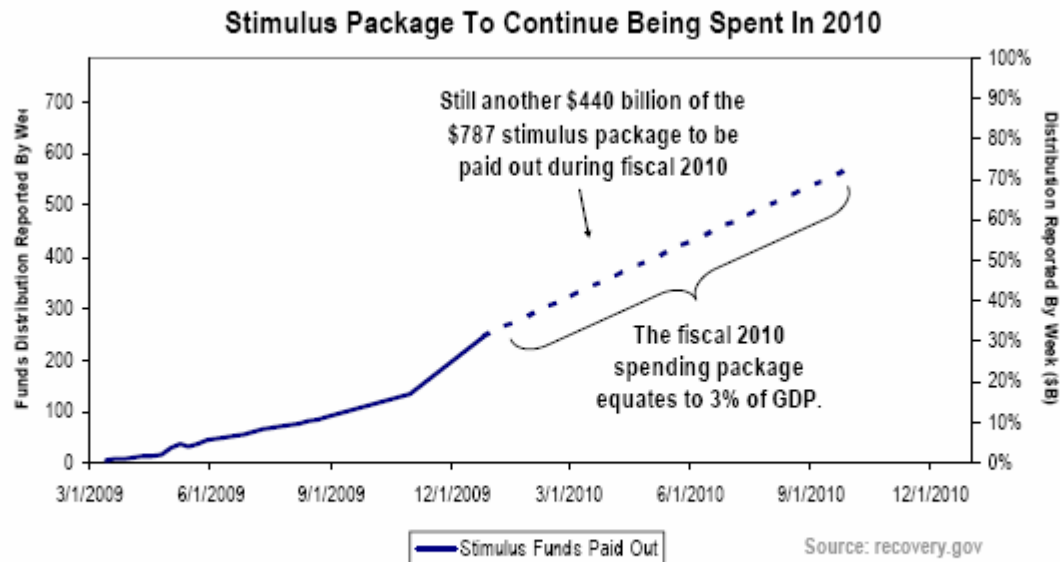
Projected (2009-2014): - - -

Source: U.S. Office of Management and Budget.

Macro Economic Picture

Can the Economy Gain Traction without the Government “SMACK”

(more coming)

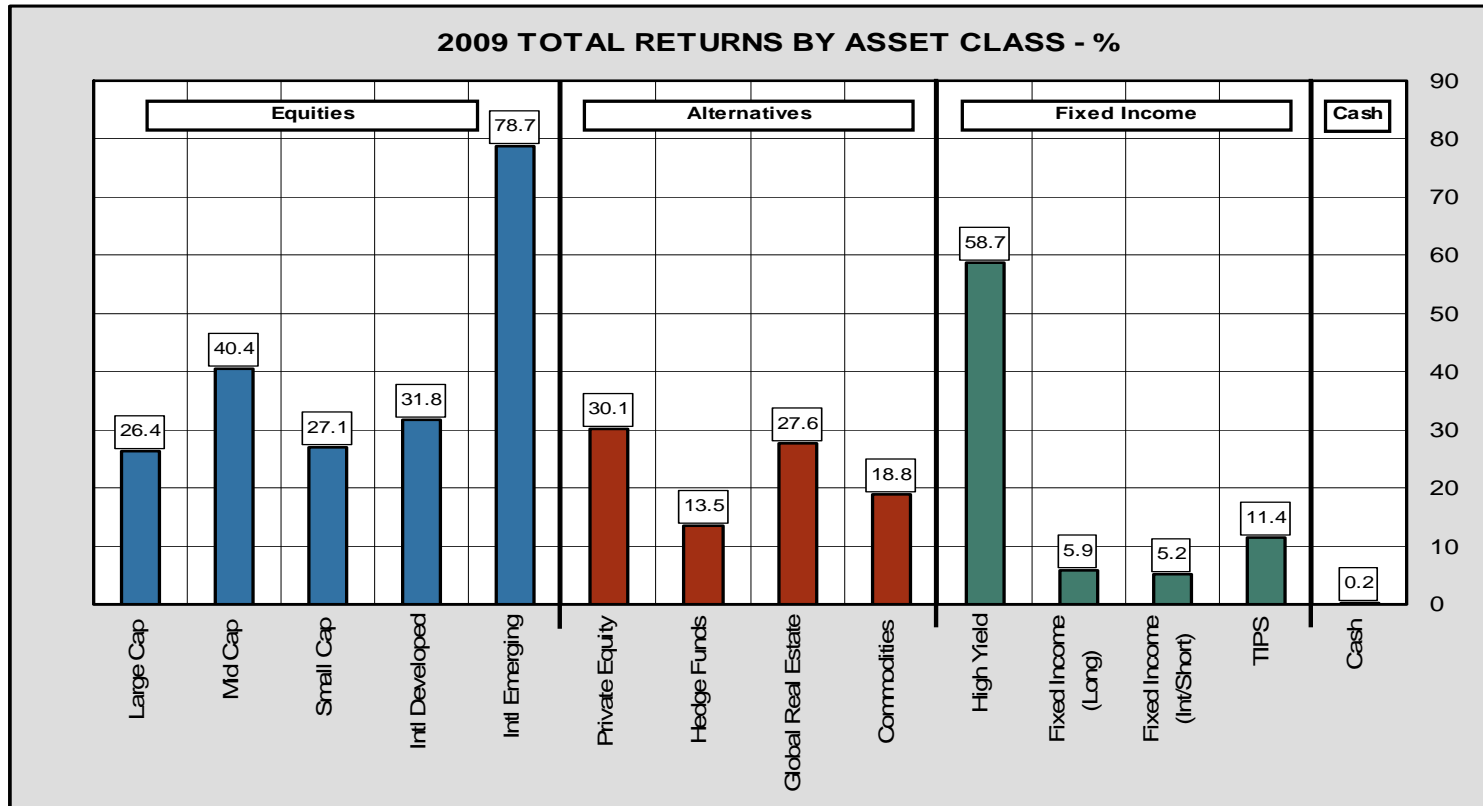


Source: ISI Portfolio Strategy, Recovery.gov.

The Equity Markets: Where we Stand

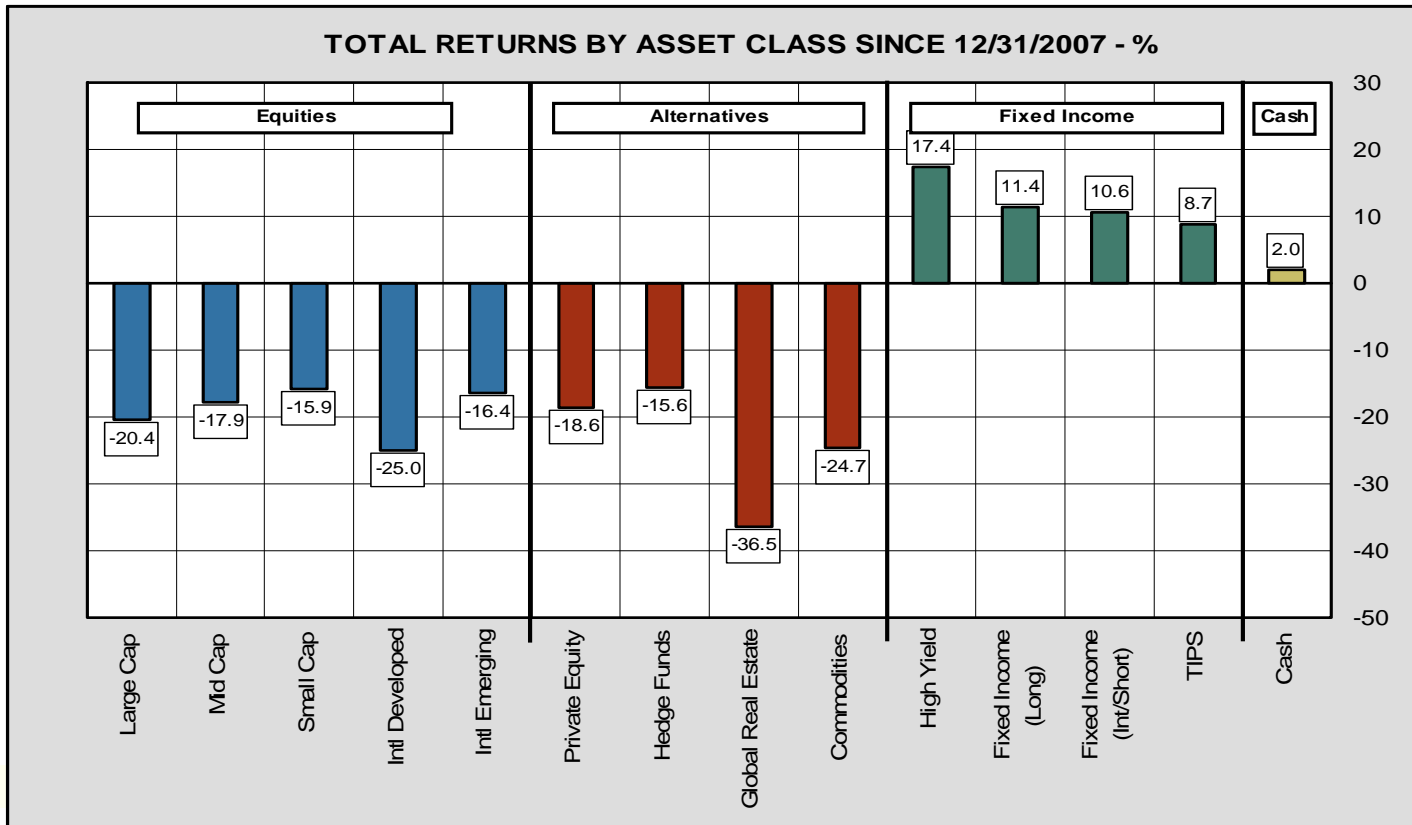
What Worked in 2009?

Sector and Asset Class Performance; a Return to Risk



Performance Since the Peak?

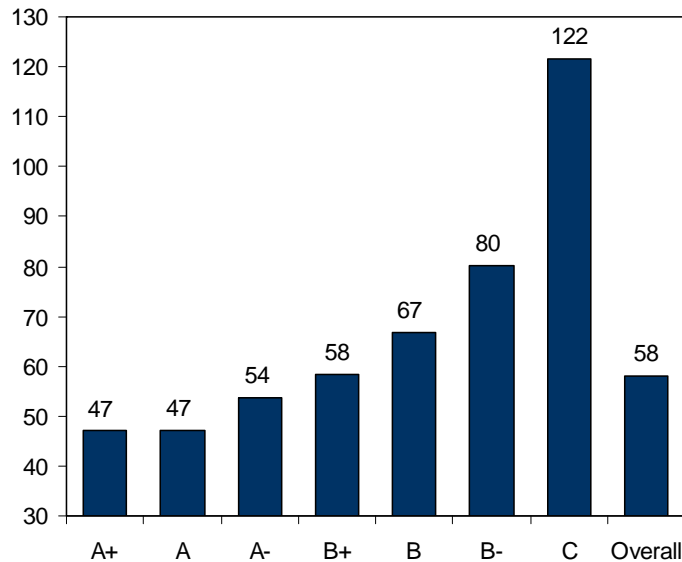
Since the Peak "Risk" Has Underperformed



What Worked in 2009?

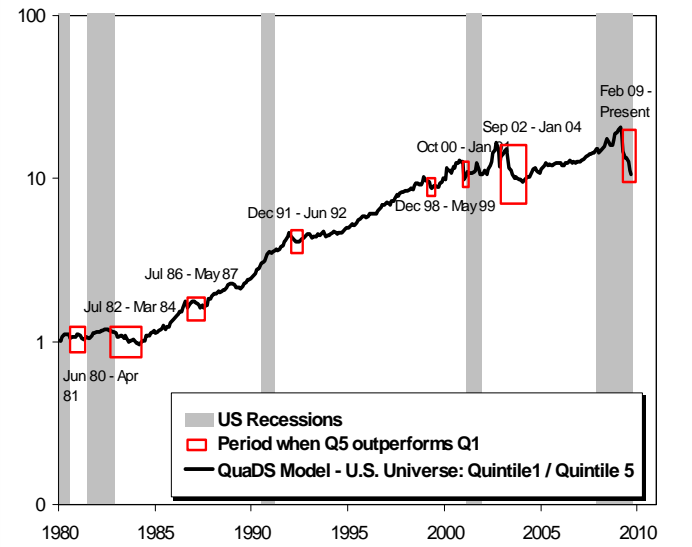
Lower Quality, Beaten Down Equities Led the Way

Median % Change by S&P Quality Rank
March 9, 2009 – September 25, 2009



Source: RBC Capital Markets, Standard & Poor's

QuaDS Model – U.S. Universe: Quintile 1/Quintile 5



Source: RBC Capital Markets, monthly series, data through September 2009

What Worked in 2009?

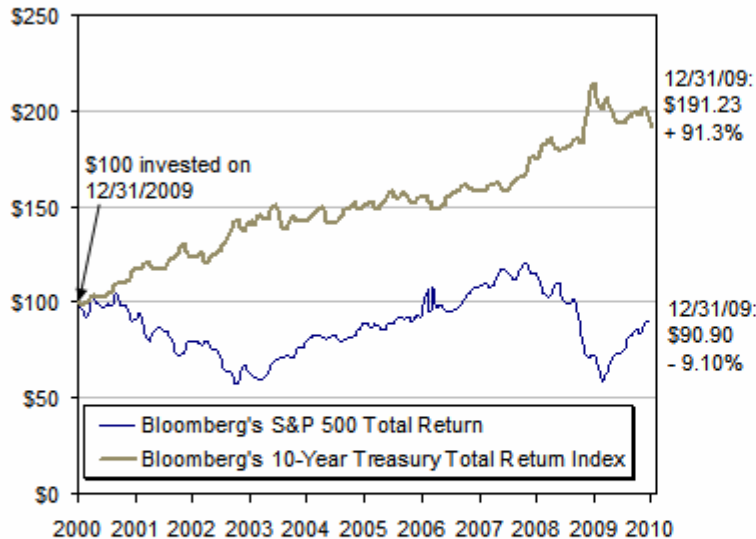
Low Quality, Beaten Down Equities Led the Way

- **50 Best S&P 500 Performers from 2008 gained just 9% in 2009**
- **50 Worst S&P 500 Performers from 2008 doubled in 2009**
- **50 Biggest Holdings in the S&P 500 rallied 22% in 2009**
- **50 Smallest Holdings in the S&P 500 rallied 113%**
- **Highest Dividend Yielding Equities Rallied 36%**
- **Lowest Dividend Yielding Equities Rallied 71%**
- **Most Heavily Shorted Stocks Rose 60%**
- **Least Shorted Stocks Rose 20%**
- **Companies with the Most Foreign Revenue Rallied 71% (weak dollar)**

*source: Bespoke Investment Group

The Lost Decade for Equities

The S&P 500: 2000 - 2009



Source:
S&P Total Return: Bloomberg's total return analysis for SPX Index from 12/31/99 to 12/31/2009, monthly series, data through 12/31/09
10-Year Treasury Total Return: Bloomberg's F08210YR Index, monthly series, data through 12/31/09
Both data series set to \$100 on 12/31/99

Cumulative S&P 500 Sector % Price Changes by Decade

	2000s	1990s	1980s	1970s	1960s	1950s
S&P 500	-26	316	227	17	54	257
Cons. Discr.	-21	320	414	24	106	209
Cons. Staples	32	234	491	5	140	83
Energy	102	132	135	295	107	272
Financials	-40	323	169	19	80	228
Health Care	11	350	355	1	165	339
Industrials	-11	264	297	39	53	301
Info. Tech.	-54	1148	171	-13	368	1019
Materials	25	105	243	78	13	355
Telecom. Svcs.	-64	223	-	-	-	-
Utilities	11	37	137	43	30	120

Returns do not include dividends.

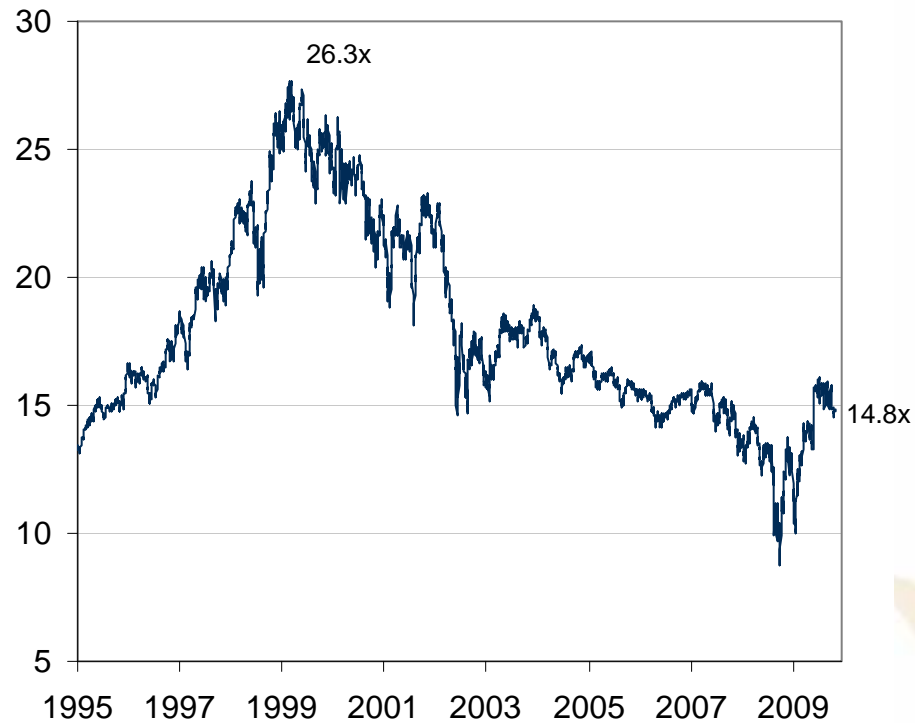
Source: Standard and Poor's, Bloomberg, RBC Wealth Management

The Lost Decade for Equities

- We have never had a ten year span with such poor equity returns
 - Negative 9.9% for the S&P in aggregate from 01/01/09-12/31/09
 - Best decade ever was the 1950s – 487% total return
- The only asset classes that showed positive returns were bonds, small cap stocks and emerging markets
- This is a tough pill to swallow after investors grew accustomed to 10%+ equity returns through the 1980s and 1990s
- It is important to remember that we began this decade with a multiple (Price-to-Earnings ratio) of 28x on the S&P 500 – it has been a long decade of multiple compression (we're now below 20x earnings, depending on how you choose to define your Price-to-Earnings ratio)

The Lost Decade for Equities

S&P 500 Price-to-Forward Earnings Ratio



Source: FactSet, monthly series, data through December 2009

Looking Ahead to 2010

The Large Gains are Behind Us

- As is often the case, the most robust gains for equities happen within the first few months of a Market bottom

Previous Bull Markets

Bull Market Start Date	First 10 Months % Change	Month 10-22 % Change	Implied 2010 S&P 500
7/8/32	89%	21%	1358.08
4/28/42	47%	8%	1221.52
6/13/49	33%	23%	1384.62
9/14/53	32%	40%	1582.44
10/22/57	22%	24%	1395.00
6/26/62	33%	14%	1289.50
10/7/66	31%	2%	1146.69
5/26/70	44%	8%	1212.36
10/3/74	41%	18%	1333.85
3/6/78	14%	7%	1211.02
8/12/82	59%	-6%	1054.33
10/19/87	16%	33%	1498.52
10/11/90	31%	8%	1219.52
10/9/02	26%	9%	1228.02
3/9/09	65%	?	?

Source: Bloomberg, RBC Wealth Management



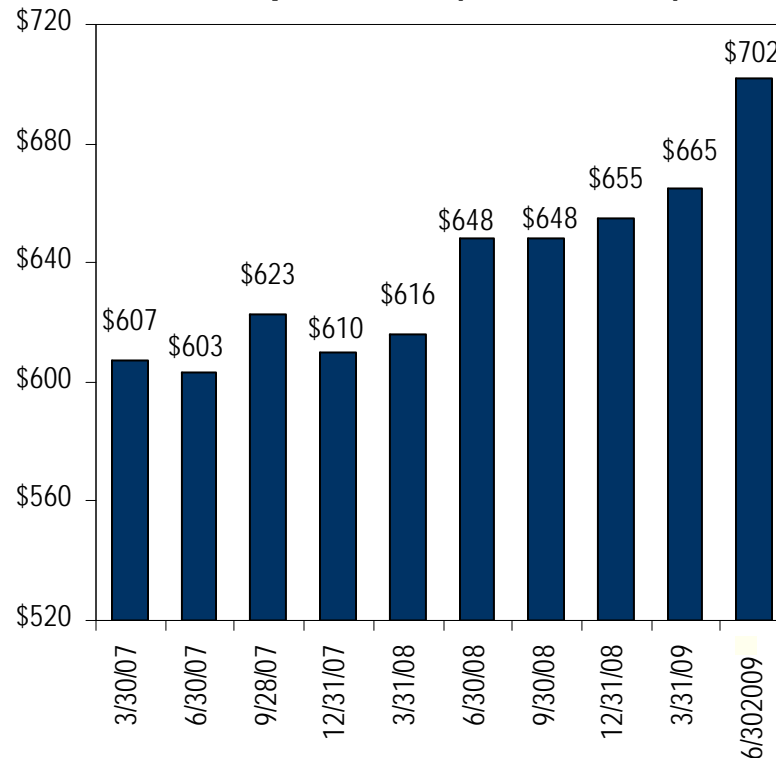
Looking Ahead to 2010

The Large Gains are Behind Us

- **Expect to see the shift from Early Cyclical, highly economically sensitive sectors (that have already priced in recovery) to steady growth, less economically sensitive sectors (Health Care, Utilities, Consumer Staples)**
- **Although equity returns may not be robust, they offer compelling risk-reward vs. cash or bonds where yields are ridiculously “skinny”**
- **Focus on free cash flow and dividend yield, strategies that lagged in 2009 and stand to outperform in 2010**

Companies have also “De-Leveraged”

S&P 500 Non-Financial Cash & Equivalents (in \$ Billions)

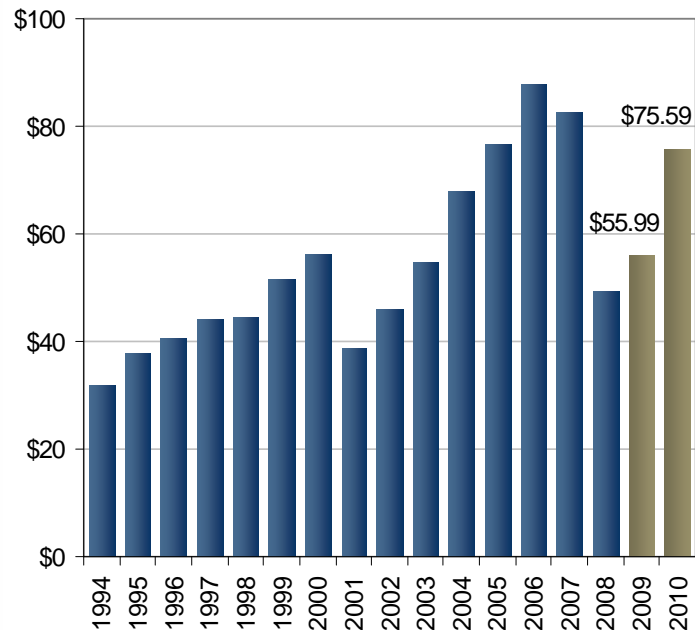


Source: Standard & Poor's; data shows total cash and cash equivalent levels for non-financial companies listed in the S&P 500 Index

^ Second-quarter 2009 data (6/30/09) is preliminary

Heavy Cost Cutting Should Improve Operating Leverage

S&P 500 Annual Earnings per Share



Light Shaded Bars indicate S&P forecasts.
Source: Standard & Poor's



Improving Earnings Picture in 2010

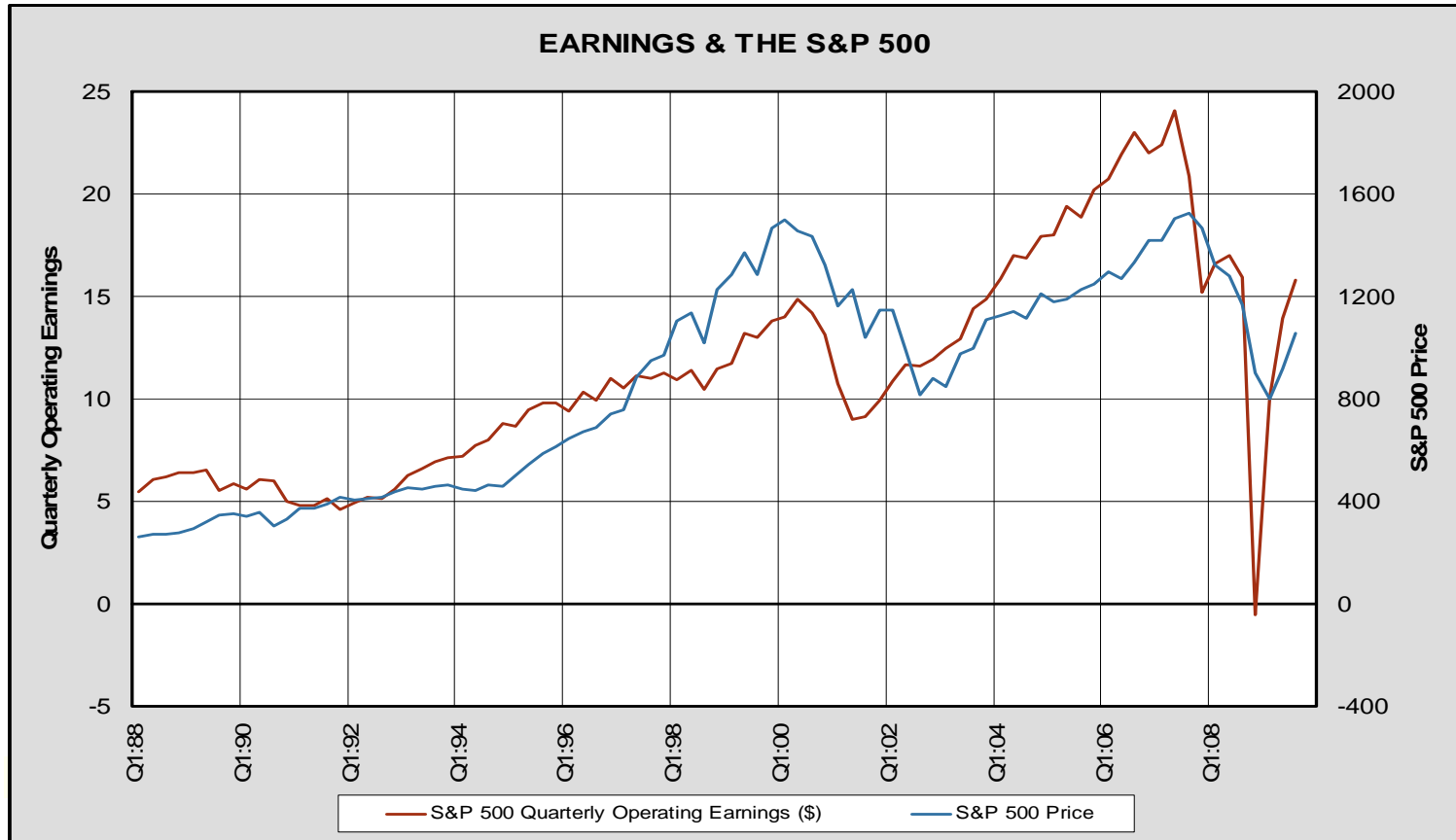
S&P 500 Operating EPS Estimates for S&P 500 Sectors

S&P 500 Sectors	2009E	2010E	% Growth
Consumer Discretionary	\$9.96	\$14.01	40.7%
Consumer Staples	\$17.93	\$19.37	8.0%
Energy	\$17.64	\$33.59	90.4%
Financials	\$4.83	\$12.43	157.3%
Health Care	\$26.85	\$30.42	13.3%
Industrials	\$13.69	\$15.14	10.6%
Information Technology	\$16.31	\$21.34	30.8%
Materials	\$6.69	\$11.72	75.2%
Telecom. Services	\$7.53	\$7.80	3.6%
Utilities	\$11.72	\$12.88	9.9%
S&P 500 Index	\$55.99	\$75.59	35.0%

Source: Standard & Poor's

Improving Earnings Picture in 2010

Price Action Still Follows Earnings – Often Neglected



Improving Earnings Picture in 2010

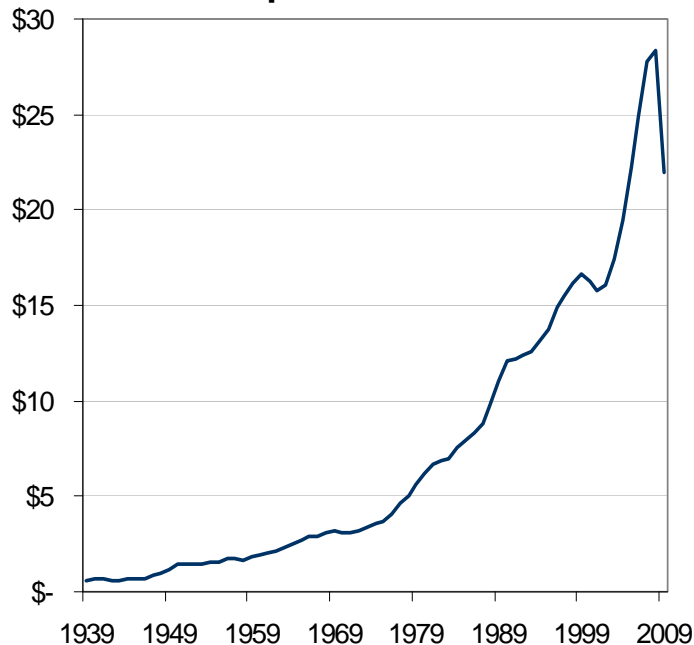
Price Action Still Follows Earnings – Often Neglected

	S&P 500 EPS				
	2006	2007	2008	2009	2010
Q1	20.75	22.39	16.62	10.11	16.53e
Q2	21.95	24.06	17.02	13.81	18.40e
Q3	23.03	20.87	15.96	15.78	19.72e
Q4	21.99	15.22	-0.09	16.21e	20.62e
Year	87.72	82.54	49.51	55.91e	75.27e
% YOY		-6%	-40%	13%	35%

Dividends Still Matter

*And they are Particularly Compelling when Bonds and
Cash Yield Record Low Returns*

**S&P 500 Annual Dividends
per Share**

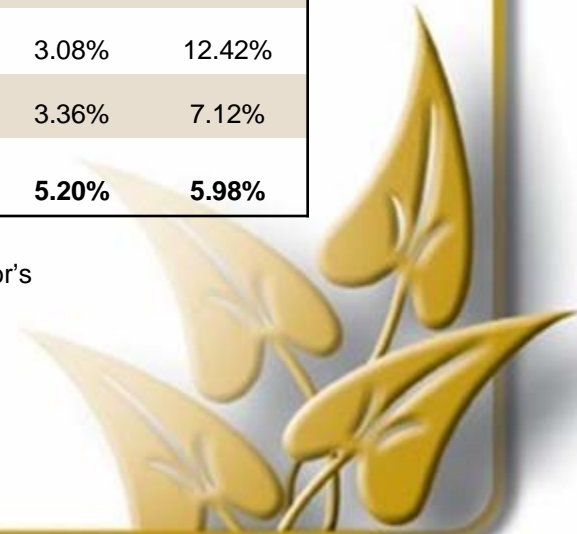


Source: Standard & Poor's, annual series, data through 2009; 2009 dividend per share is S&P's forecast

**Dividend Growth and Earnings
Growth**

Time Period	Trough	Annualized Dividend Growth	Annualized Earnings Growth
1976-1981	(1975)	8.56%	7.65%
1982-1990	(1991)	6.63%	5.16%
1992-2000	(1991)	3.08%	12.42%
2002-2007	(2001)	3.36%	7.12%
1973-2008		5.20%	5.98%

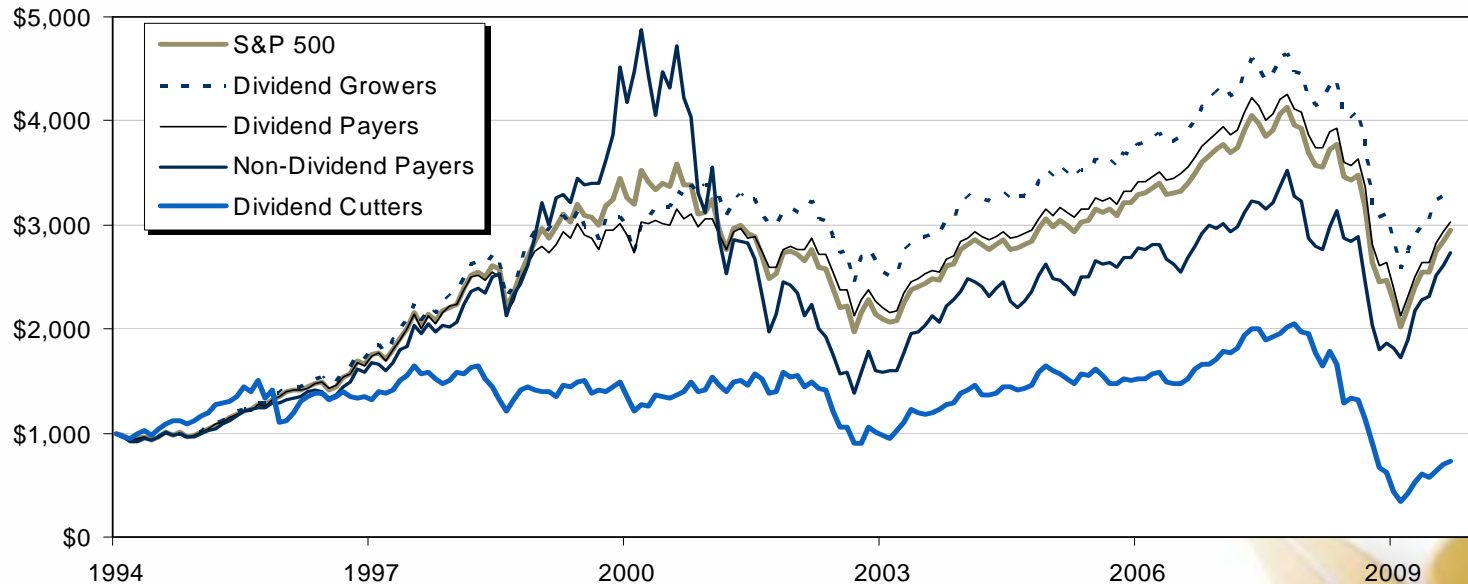
Source: Standard & Poor's



Dividends Still Matter

Dividend Growers have had the Best Returns over the Past 15 Years

Dividend Payers, Growers, and Cutters vs. The S&P 500

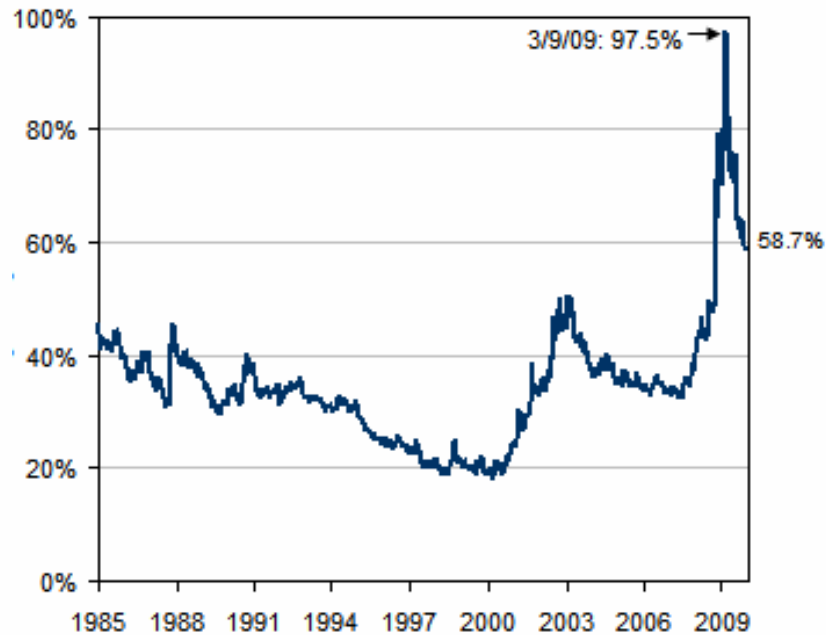


Market weighted total return indexes. January 1994=\$1,000

Source: RBC Capital Markets Quantitative Research

Many are still Underweight High Quality Equities

US Savings and Money Market Funds
as a % of Wilshire 5000



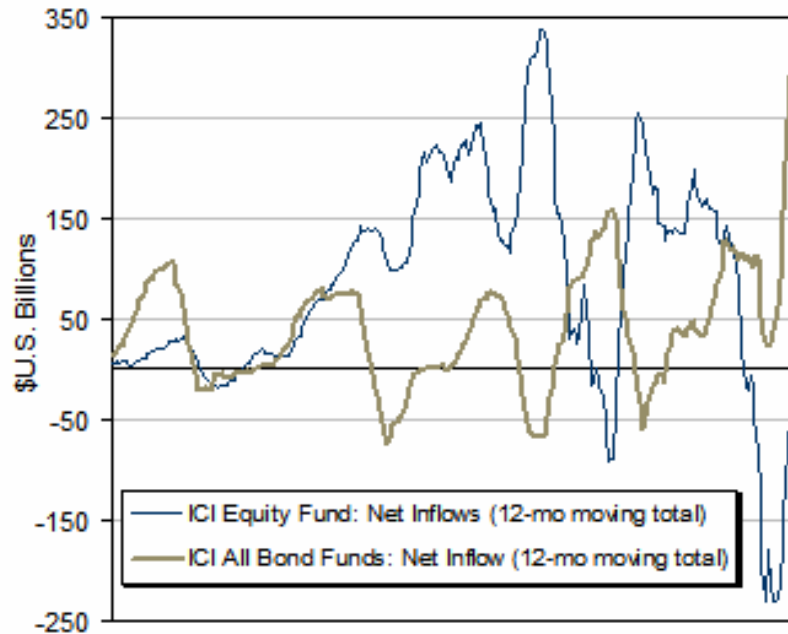
Source: RBC CM, FRB, Bloomberg, weekly series, data through 12/7/09



Many are still Underweight High Quality Equities

Most Mutual Fund Flows Have Been Chasing Bonds

Fixed Income Funds flows



1985 1988 1991 1994 1997 2000 2003 2006 2009

Source: RBC CM, Haver Analytics, ICI, monthly series, data through November 2009



The Bottom Line

- **The Economy is at a key Turning Point where Strong GDP Growth may Be on the Horizon**
- **There are Several Key Issues that Could derail GDP Growth and Cause a Double Dip Recession**
- **Equities have just Completed the most dismal Decade Ever**
- **US Corporations are Lean and have Eliminated a Ton of Debt**
- **Focus on Debt Free Companies with High Cash Flow**

Questions?