



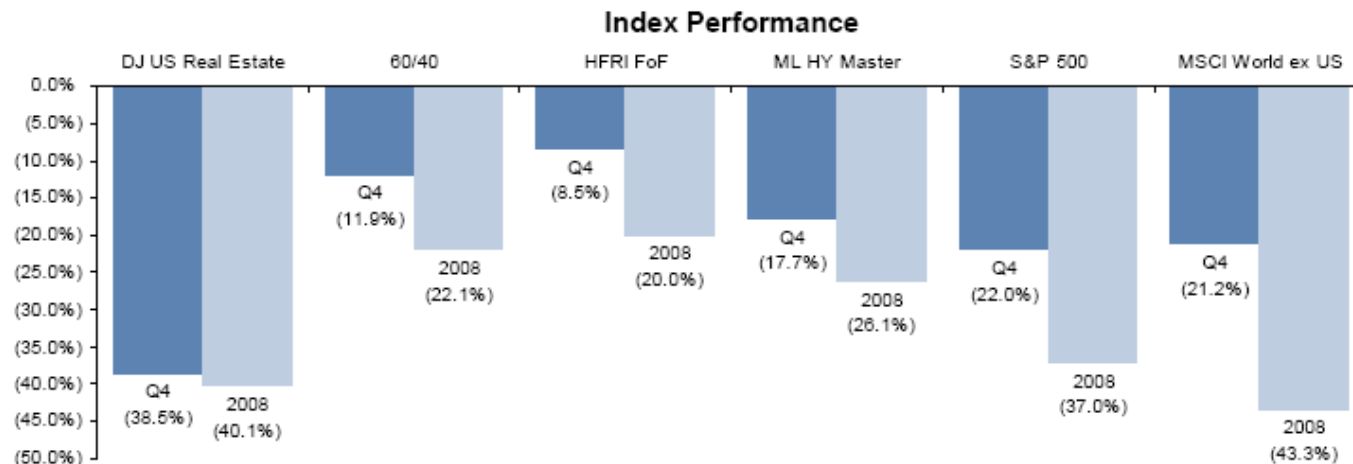
January 30, 2009

2009 Market Outlook & Investment Strategy

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Chief Investment Officer

2008 Market Overview

- Global financial crisis sparked recession, market meltdown, flight to safety
- 2008 returns were the worst in decades for most asset classes
- Very few traditional places to hide: cash, Treasuries, gold
- International markets performed worst due to U.S. Dollar strength



Source: Hatteras, Hedge Fund Research, Morningstar, Bloomberg

Economy fell off a cliff in September 2008



Manufacturing in a severe contraction



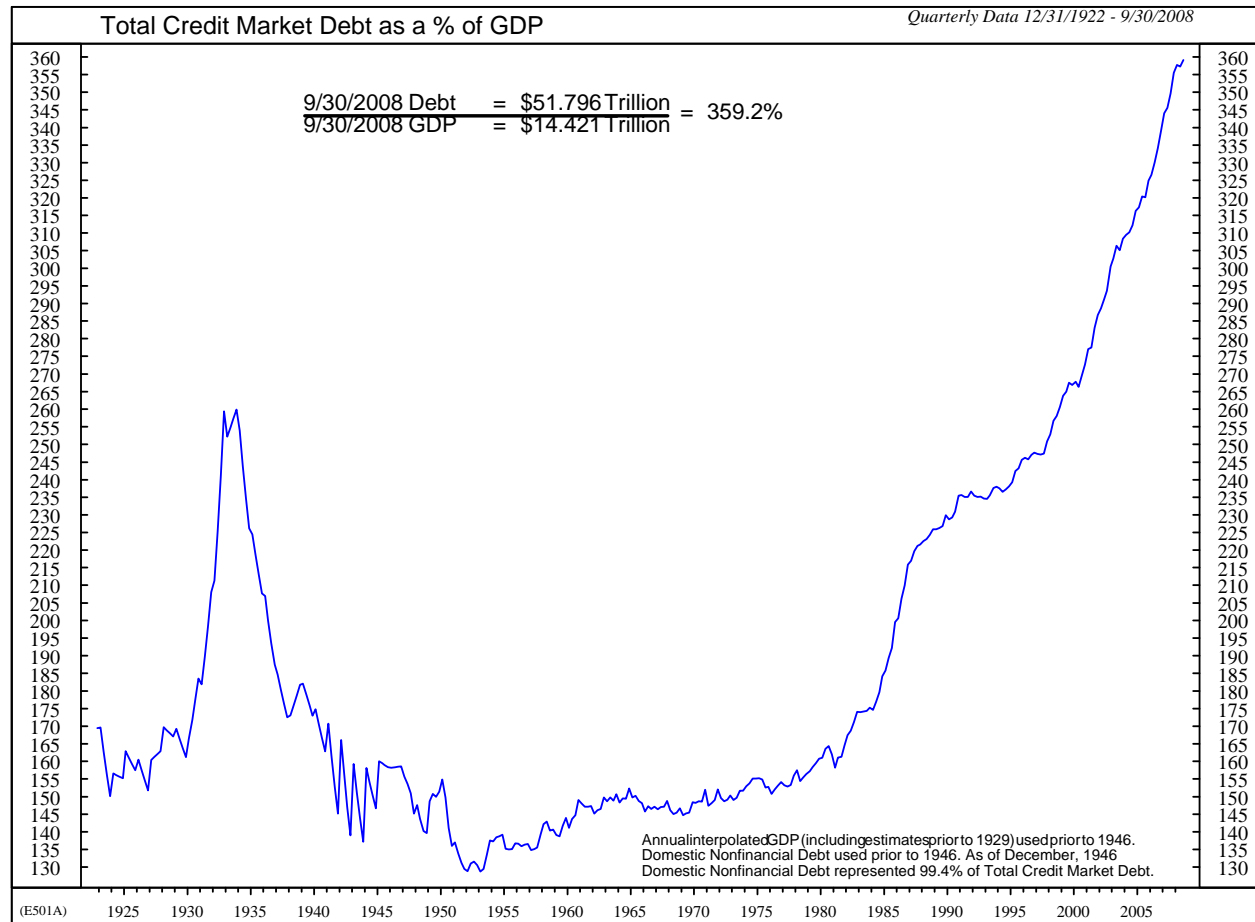
Even the service sector has sharply decelerated



Substantial job losses expected

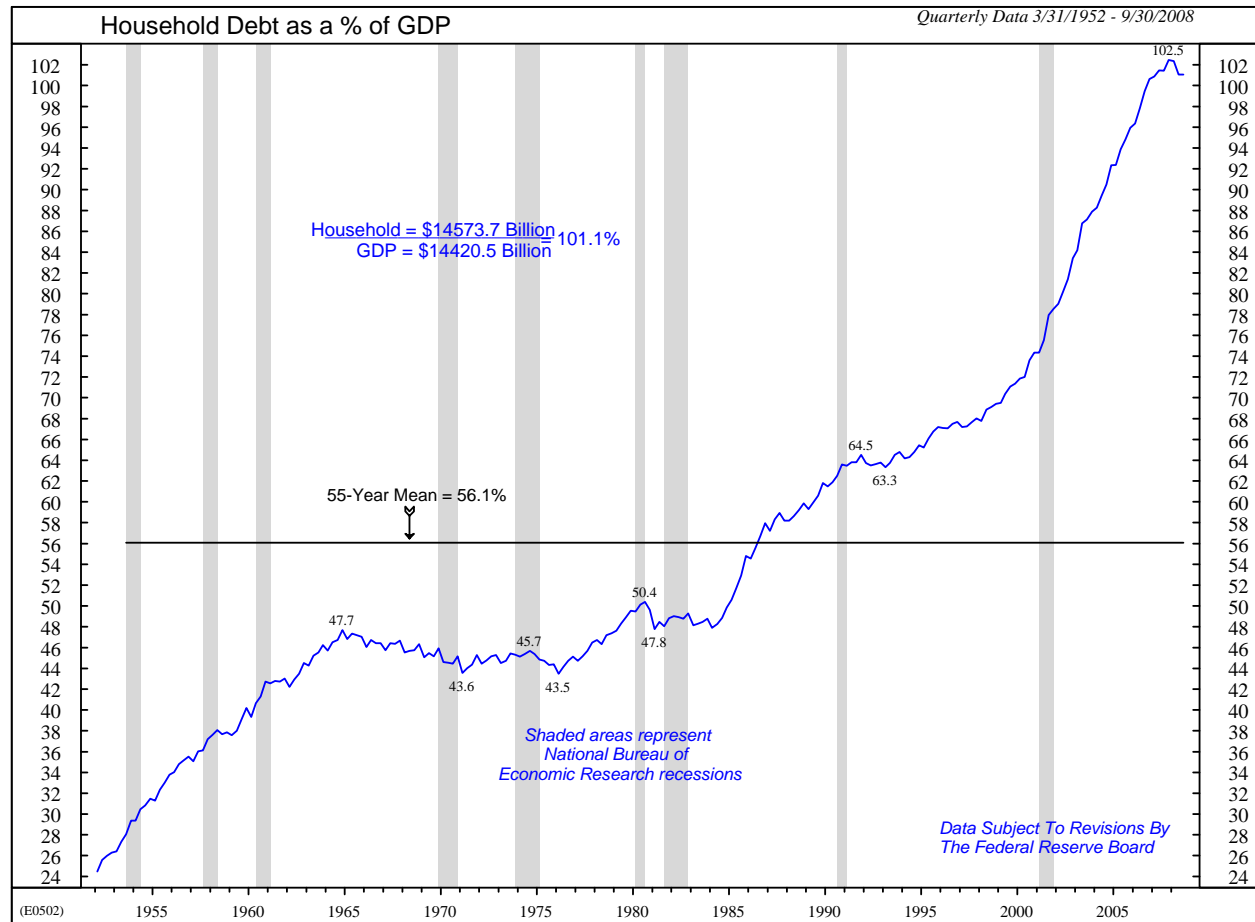


Too much debt is the problem



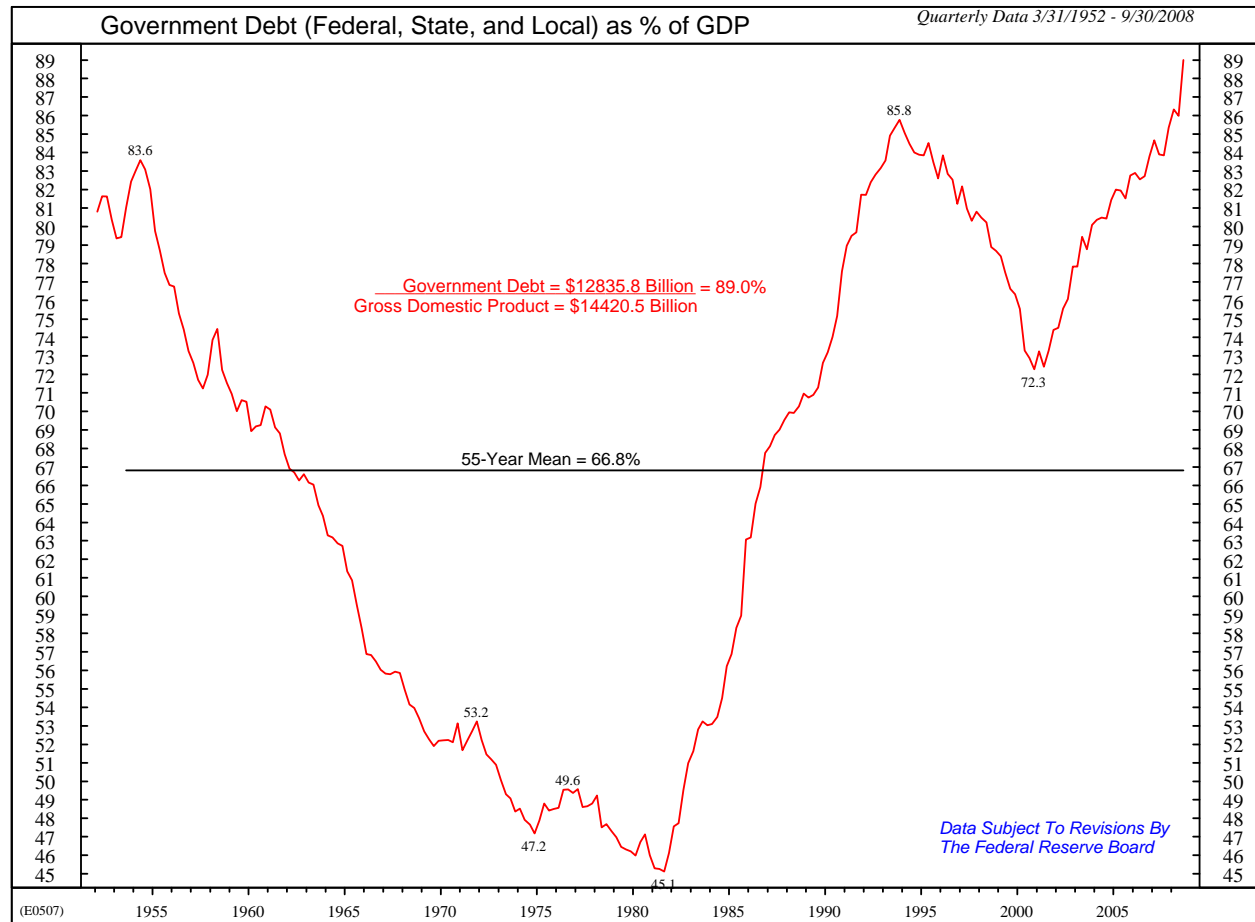
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Consumers borrowed heavily to support spending



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Government debt set to soar well beyond historical highs



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Is the worst over?

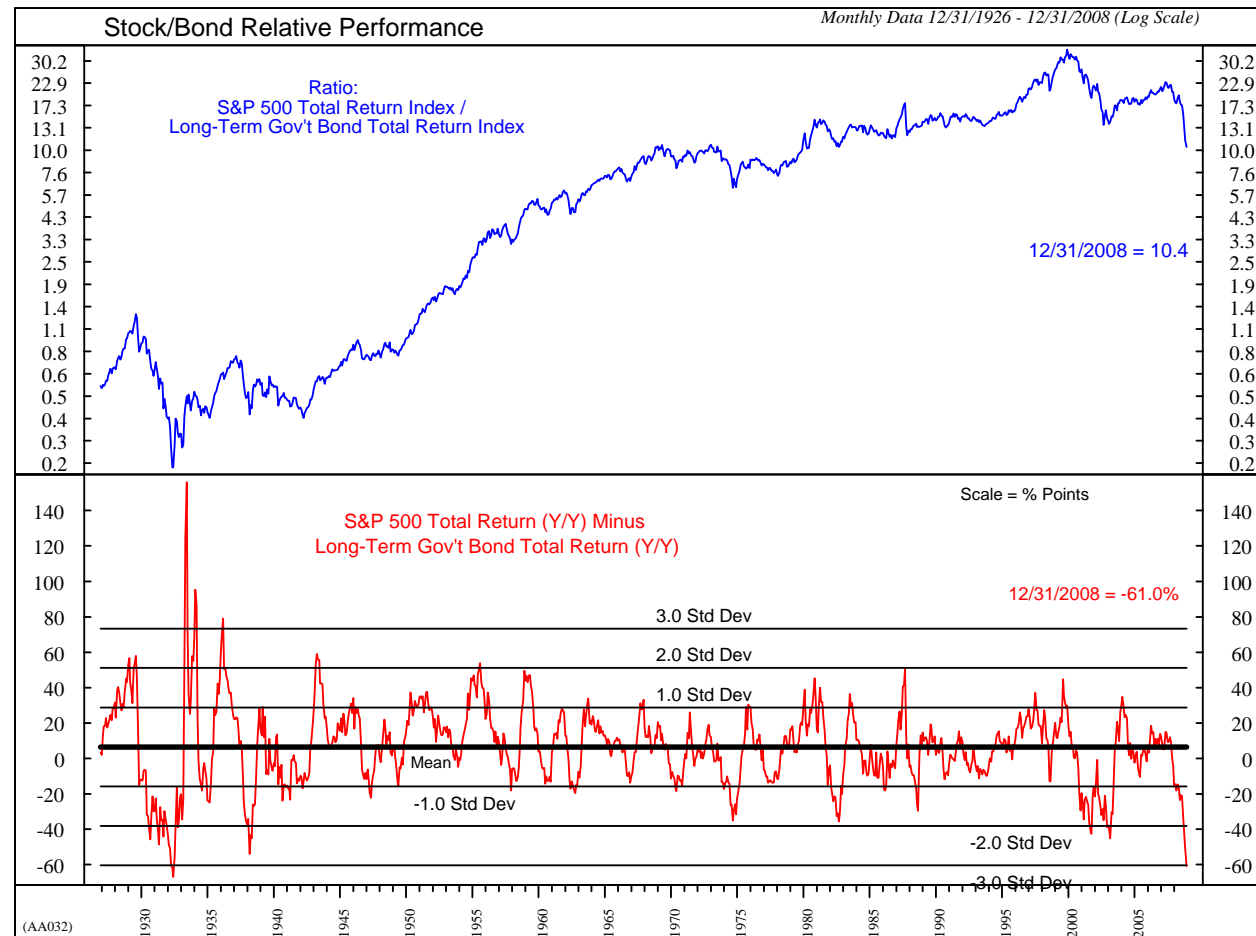
- The depth of this bear market has exceeded the average, but the duration has been shorter

10 WORST DROPS IN THE HISTORY OF THE S&P 500							
	DECLINE FROM PEAK	REQUIRED TO RECOVERY	MARKET PEAK	MARKET TROUGH	MARKET RECOVERY	DECLINE IN MONTHS	RECOVERY IN MONTHS
1	84%	512%	Aug-1929	Jun-1932	Feb-1945	34	152
2	51%	104%	Oct-2007	?	?	12	?
3	45%	81%	Aug-2000	Sep-2002	Oct-2006	25	49
4	43%	74%	Dec-1972	Sep-1974	Jun-1976	21	21
5	30%	42%	Aug-1987	Nov-1987	May-1989	3	18
6	29%	41%	Nov-1968	Jun-1970	Mar-1971	19	9
7	22%	29%	Dec-1961	Jun-1962	Apr-1963	6	10
8	22%	28%	May-1946	Nov-1946	Oct-1949	6	35
9	16%	20%	Nov-1980	Jul-1982	Oct-1982	20	3
10	16%	19%	Jan-1966	Sep-1966	Mar-1967	8	6
Avg	36%	95%				15	34

Source: Bloomberg

Mean reversion potential favors stocks

- Massive flight to perceived safety of U.S. Treasuries
- Much of the doom has been priced in to equities
- Risk aversion is starting to ease



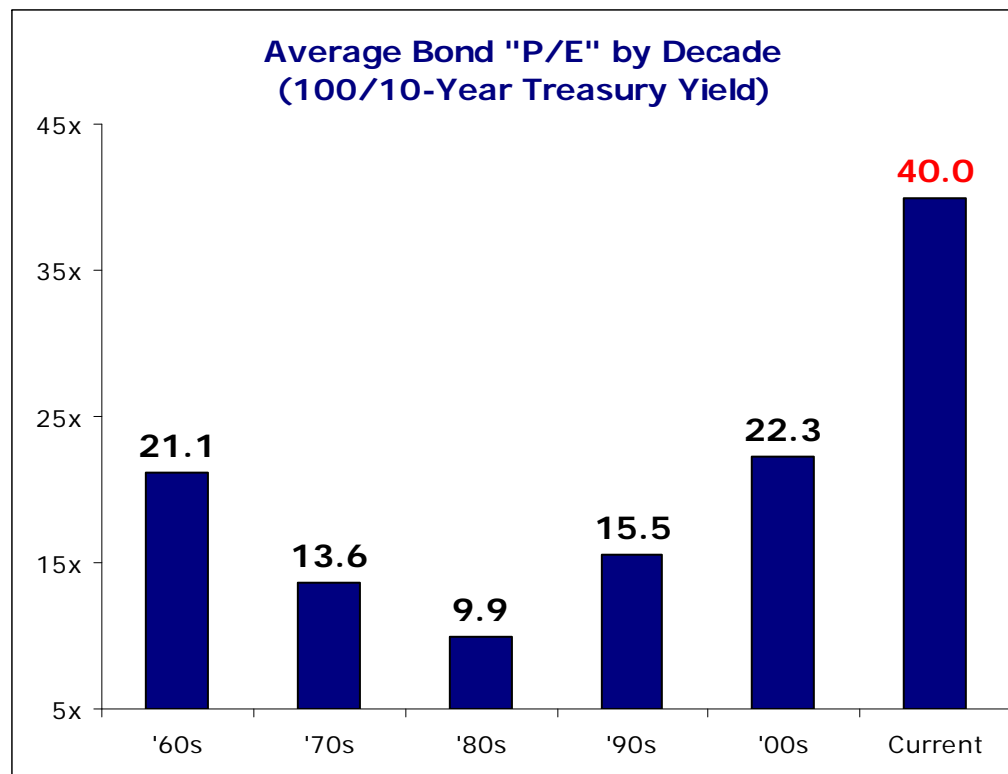
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Market currently in a consolidation phase



Treasuries in bubble territory

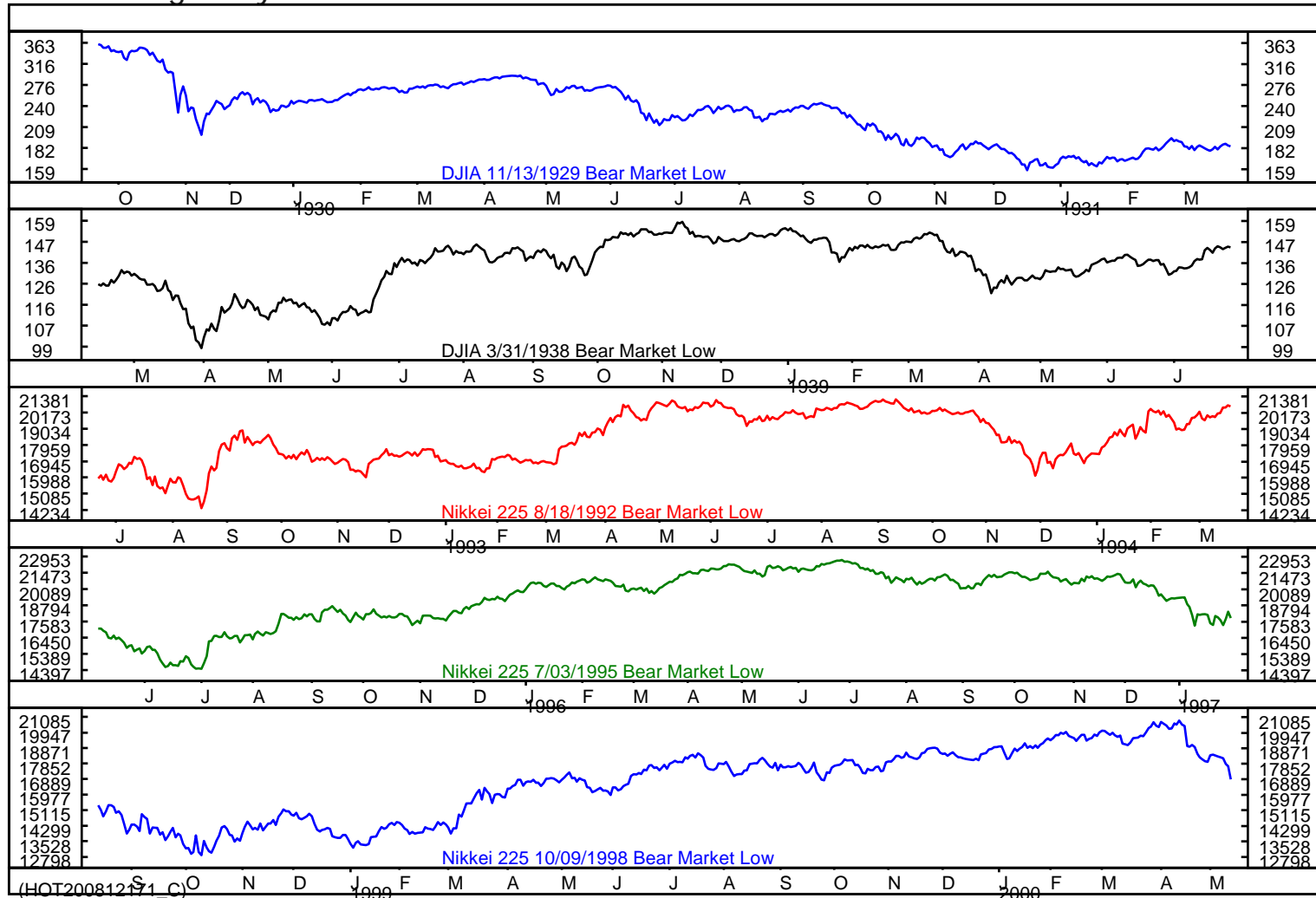
- At about 40x earnings (the reciprocal of the yield), Treasury bonds are outrageously expensive



Source: Strategas Research

Monster rallies have occurred in secular bear markets

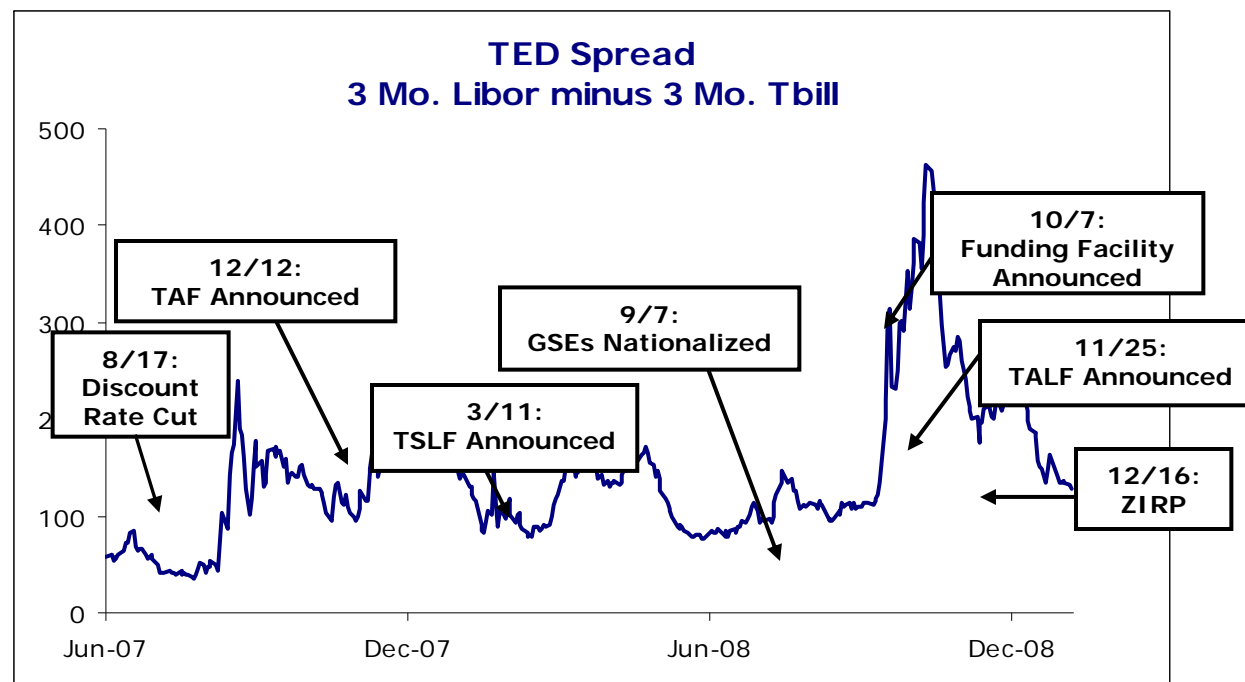
- Average rally within the bear markets below was 55%



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Gloves are off for the Federal Reserve

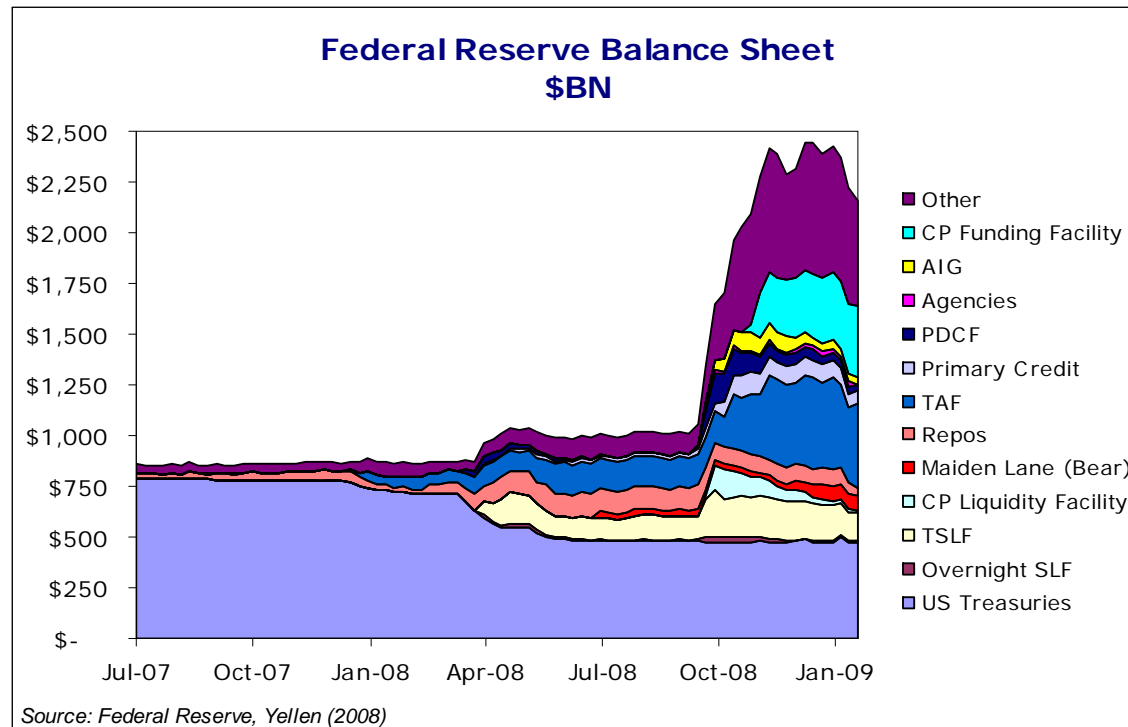
- Fed has taken unprecedented action to ease credit market pressures



Source: Strategas Research

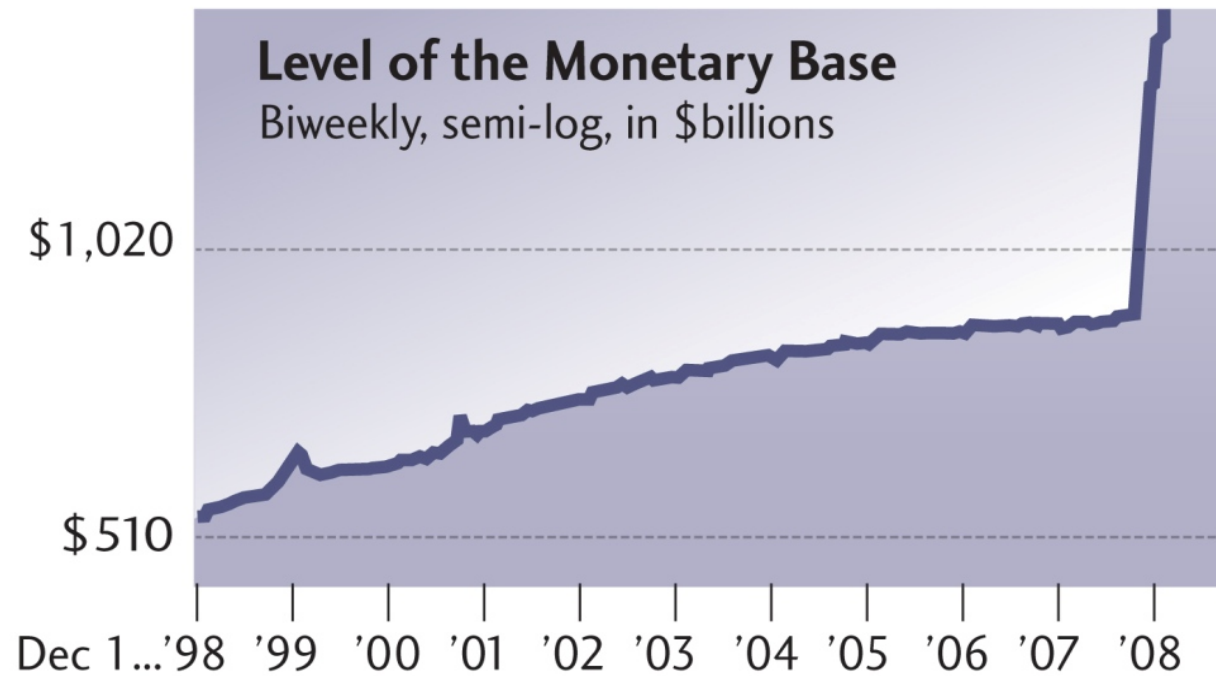
The Fed is the lender of *only* resort...

- Prior to 2008, the Fed's balance sheet was over 90% in Treasuries



Inflation in our future?

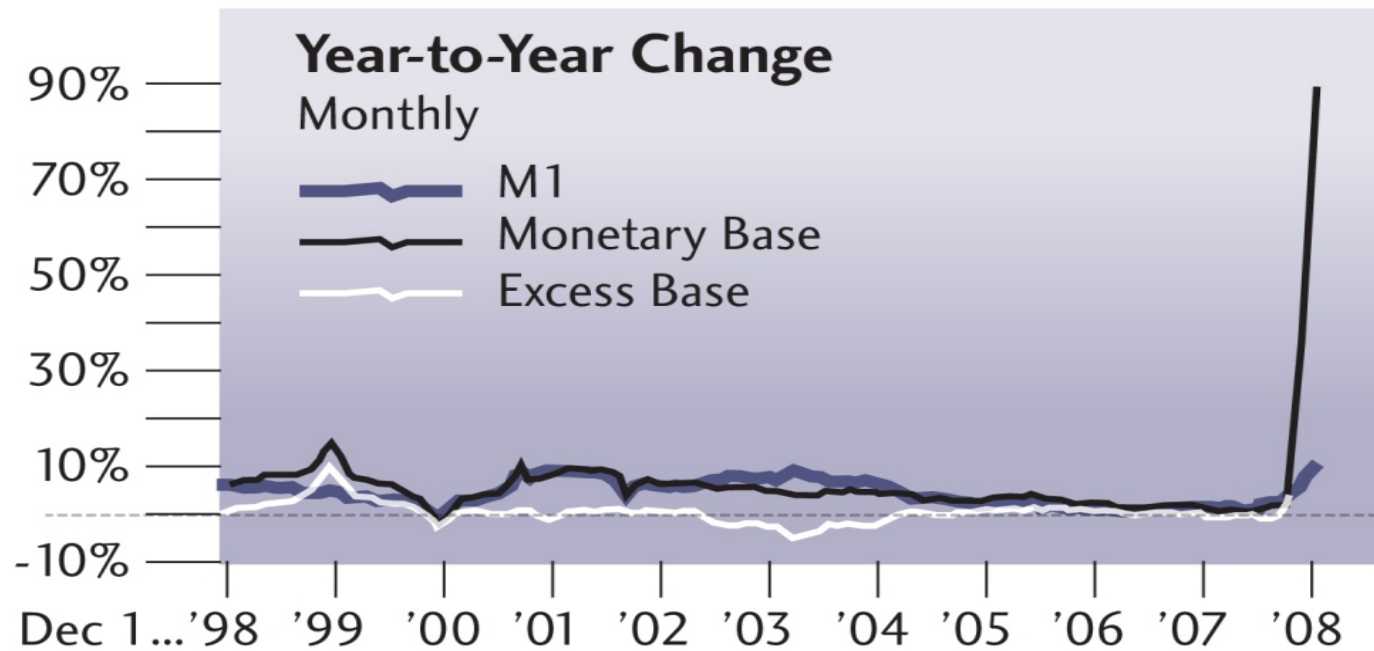
- Money supply is exploding



Source: Laffer Associates

Inflation in our future?

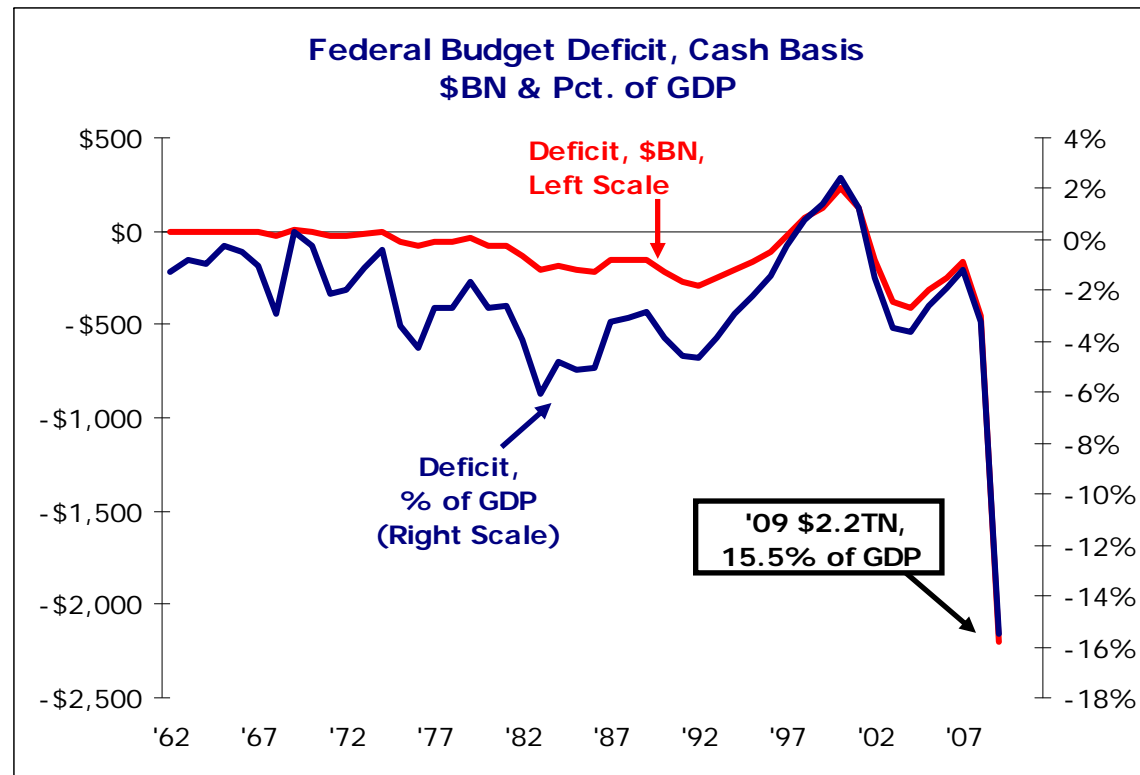
- “Inflation is everywhere and always a monetary phenomenon” – Milton Friedman



Source: Laffer Associates

Inflation in our future?

- U.S. budget deficit is set to explode
- Huge implications for inflation, growth, interest rates, dollar valuation



Source: Strategas Research

Investment philosophy remains valid:

Reduce volatility while enhancing expected return, in an effort to maximize the benefits of investment compounding:

- Broad diversification among traditional and alternative asset classes including stocks, bonds, commodities, real estate, hedge funds, and private investments
- Maintenance of appropriate liquidity
- Disciplined asset allocation policy for the long term
- Access the best and brightest investment talent
- Intelligent use of active and passive strategies
- Close attention to fees and taxes



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