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October 29, 2009

Kanaly Trust Quarterly Investment Outlook & Strategy Conference Call

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Chief Investment Officer

Overview

- The Federal Reserve, Treasury, and FDIC have artificially supported asset prices to prevent deflation in the wake of a three decade-long debt-fueled spending binge
- The monster rally in all risky asset classes since March 2009 implies a “V-shaped” economic recovery is underway
- Recent economic growth is unlikely to be sustainable once the stimulus is withdrawn
- Equity market rally is showing signs of exhaustion, though corporate earnings and “performance chasing” leave room for more upside
- This is not August 1982; rather, we expect an environment more like the 1970s stagflation period
- Market likely in a broad trading range: actively managed portfolios are likely to perform better than indexed strategies
- Debt destruction leads to deflationary pressure and U.S. Dollar strength over the near term

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2009 Market Performance – YTD

Index Performance as of September 30, 2009

EQUITIES	3rd Quarter	YTD	12 months
S&P 500	15.61	19.26	(6.91)
DJIA	15.82	13.49	(7.38)
Nasdaq	15.91	35.59	2.54
Russell 2000	19.28	22.43	(9.55)
MSCI EAFE	19.52	29.58	3.80
MSCI Emerging Mkts	21.04	64.88	19.44
FIXED INCOME			
BarCap US 1-3yr Govt	0.85	1.32	4.40
BarCap Int Govt/Credit	3.25	4.92	10.01
BarCap High Yield	14.22	48.98	22.34
BarCap 5yr Muni	3.75	6.81	11.01
ALTERNATIVES			
DJ Wilshire REIT	35.44	17.65	(29.35)
DJ UBS Commodity	4.24	9.06	(23.71)
Gold	8.75	14.25	15.70
Crude Oil	1.03	58.32	(29.84)

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Kanaly Trust Investment Model Performance – as of 9/30/09

	1Q 2009	2Q 2009	3Q 2009	Year to Date
Kanaly Model Portfolios				
Balanced Market MF Portfolio (25/33/28/14)	-2.4%	9.5%	8.9%	**16.4%**
Balanced Market MF Portfolio - Taxfree FI (25/33/28/14)	-1.1%	8.4%	8.7%	**16.5%**
Equity Only	-8.3%	21.4%	17.0%	**30.2%**
Fixed Income - Taxable	-0.2%	6.5%	6.4%	**13.1%**
Fixed Income - Tax Free	2.4%	1.9%	4.9%	**9.5%**
ALTs - No MLPs	-2.7%	9.3%	9.6%	**16.6%**
ALTs - With MLPs	0.1%	10.3%	10.5%	**20.7%**
Benchmarks				
S&P 500 (60%) / Intermediate Taxable (40%)	-7.3%	9.9%	10.5%	**12.6%**
S&P 500 (60%) / Intermediate Muni (40%)	-6.2%	9.8%	12.2%	**15.6%**
S&P 500 Index	-11.0%	15.9%	15.6%	**19.3%**
iShares Barclays Interm Govt/Credit Bond	-2.1%	1.1%	3.1%	**2.1%**
iShares S&P National Municipal Bond	0.8%	0.9%	7.1%	**9.0%**

Note: Numbers in parentheses above denote percentages invested in Equity/Fixed Income/Alternatives/Cash

The asset allocation models above represent an approximation of how the portfolios perform; actual results may differ from the models. Returns are shown before fees and are not AIMR/GIPS compliant. The return information provided above represents past performance and is not necessarily indicative of future results. Further, specific client portfolio(s) investment returns and results may vary from figures noted above based on account-specific circumstances.

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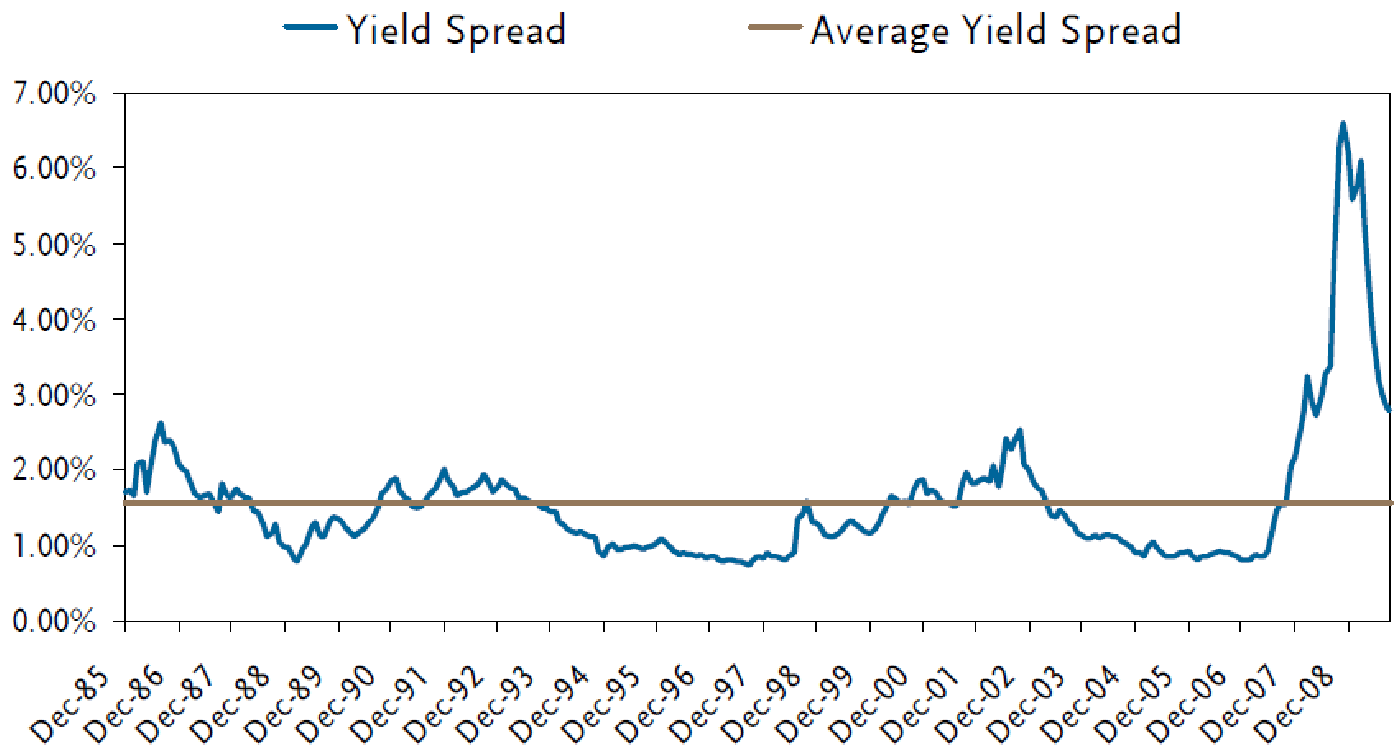
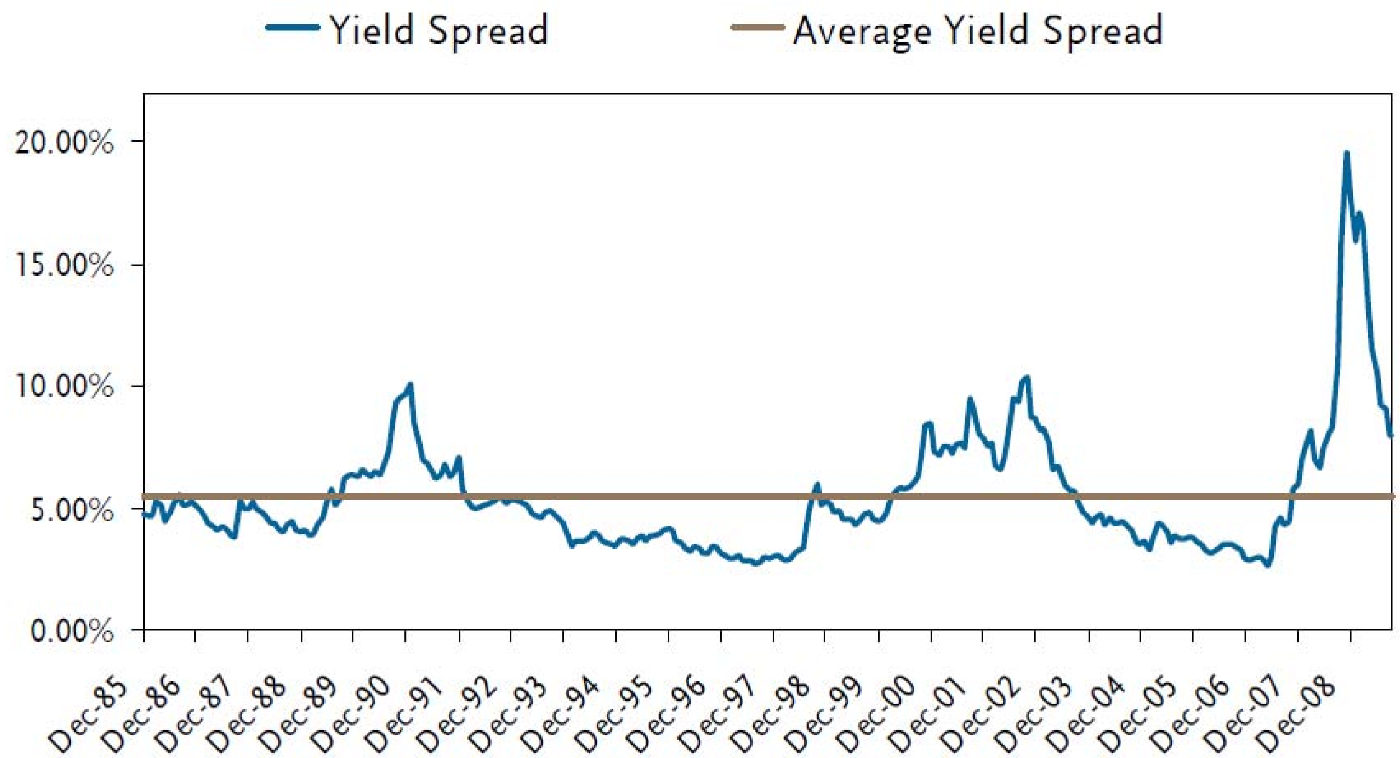
Merrill Corporate Index Yield Spread to Treasuries



Source: Merrill Lynch Indices, Bloomberg

Merrill High Yield Index Yield Spread to Treasuries



Source: Merrill Lynch Indices, Bloomberg

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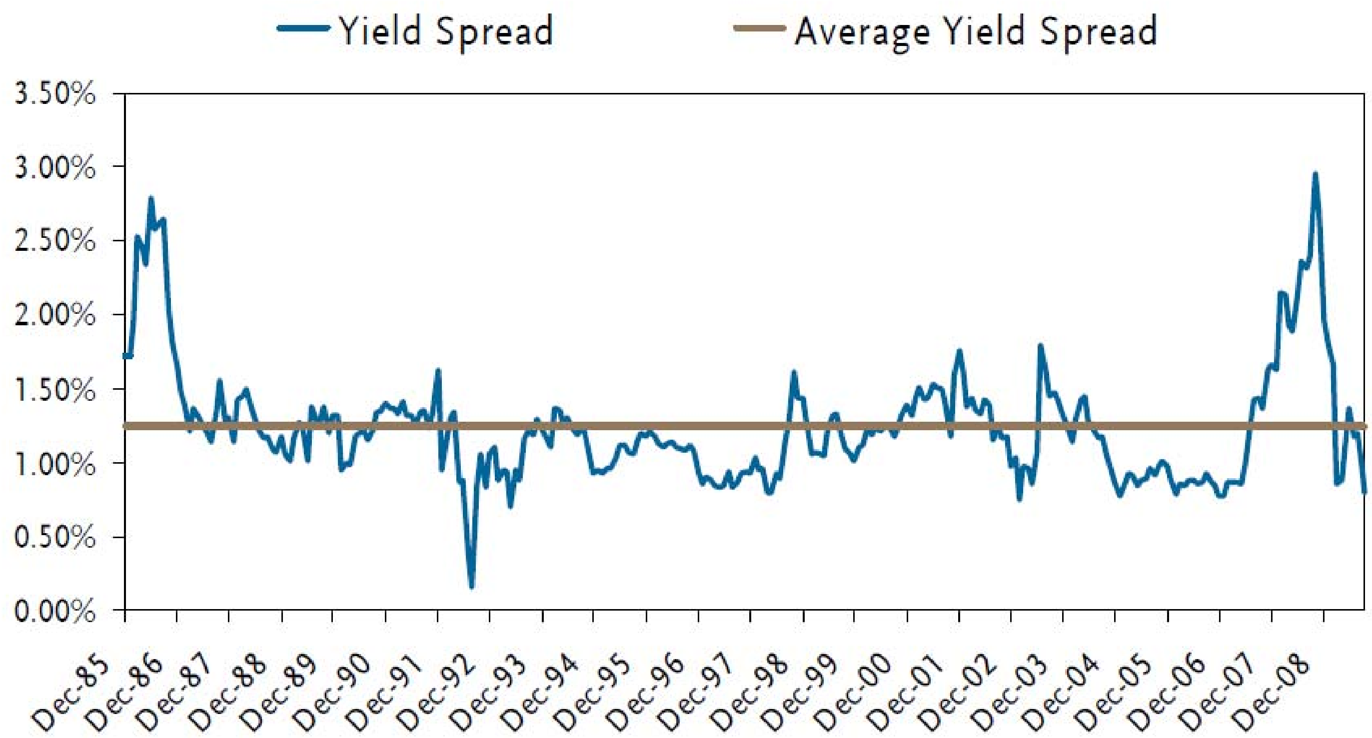
Merrill Mortgage Index Yield Spread to Treasuries



Source: Merrill Lynch Indices, Bloomberg

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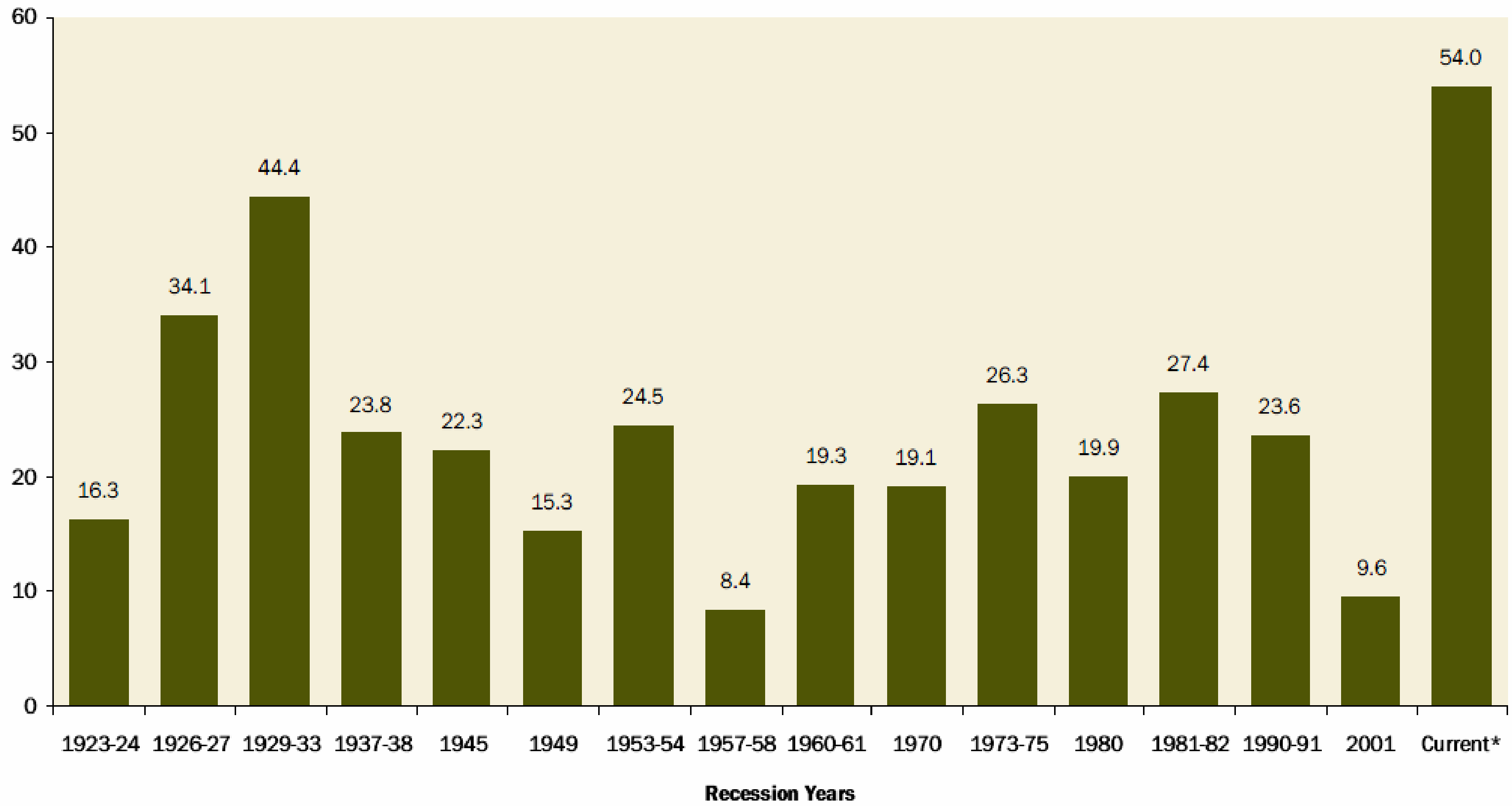
Sharpest Equity Market Rally Following Recession

United States: S&P 500 Composite Index

(percent change from market trough during recession to the official end of the downturn)



Notes:

**From March 9, 2009 to September 11, 2009*

Source: Haver Analytics, Gluskin Sheff

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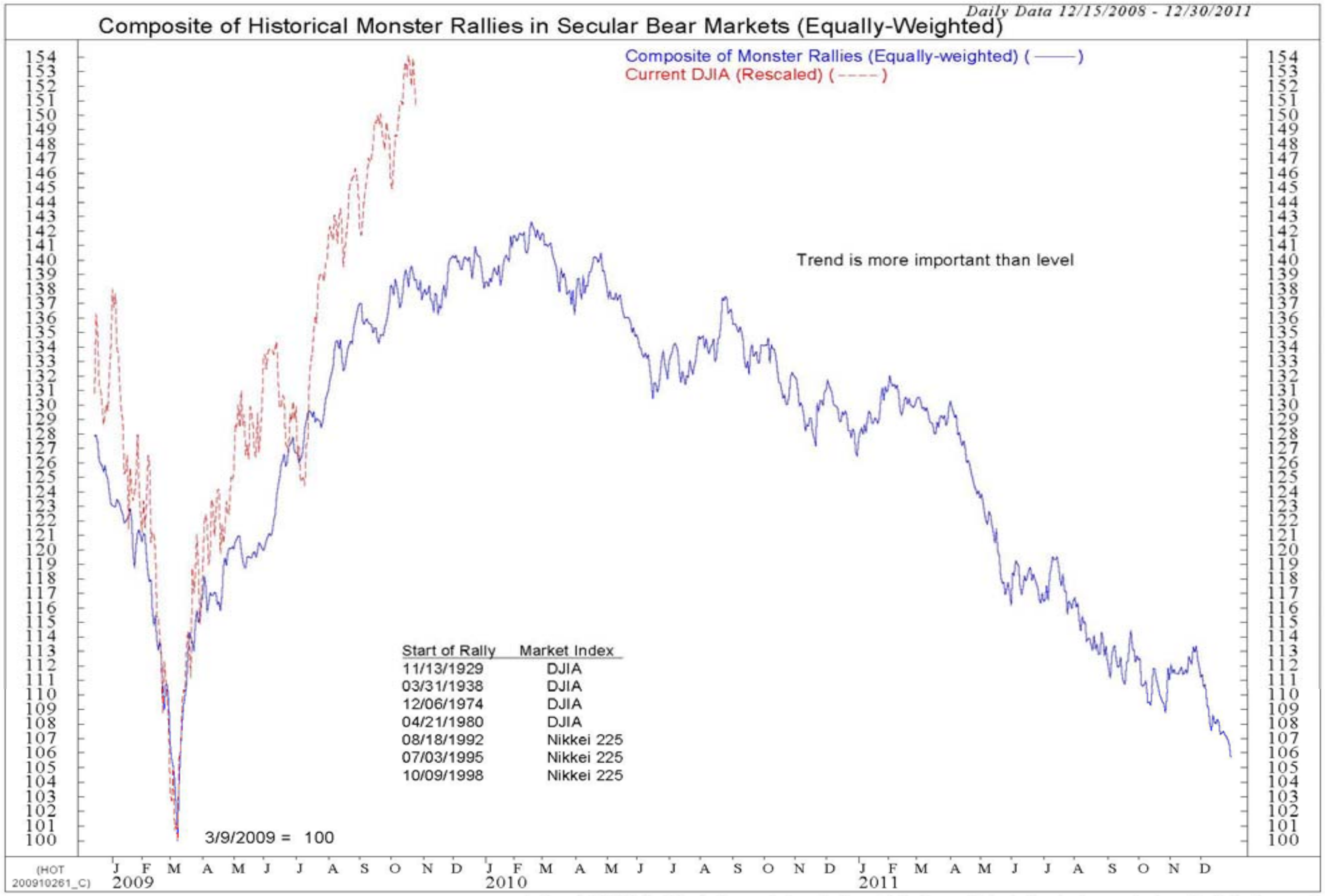
History Suggests Stocks Have Run Too Far, Too Fast



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S&P 500 Running into Strong Resistance Around 1,120

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Third Quarter Earnings Support the Rally

High percentage of companies beating earnings expectations:

Percentage of S&P 500 Companies Beating Consensus Revenue & EPS Estimates

	3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009
% Beating on Top-Line (Revenue)	52.8%	33.8%	36.4%	50.1%	62%
% Beating on Bottom-Line (EPS)	58.1%	60.1%	67.5%	72.3%	80%
Revenue to EPS Surprise Ratio	0.91	0.56	0.54	0.69	0.78

Source: Strategas Research

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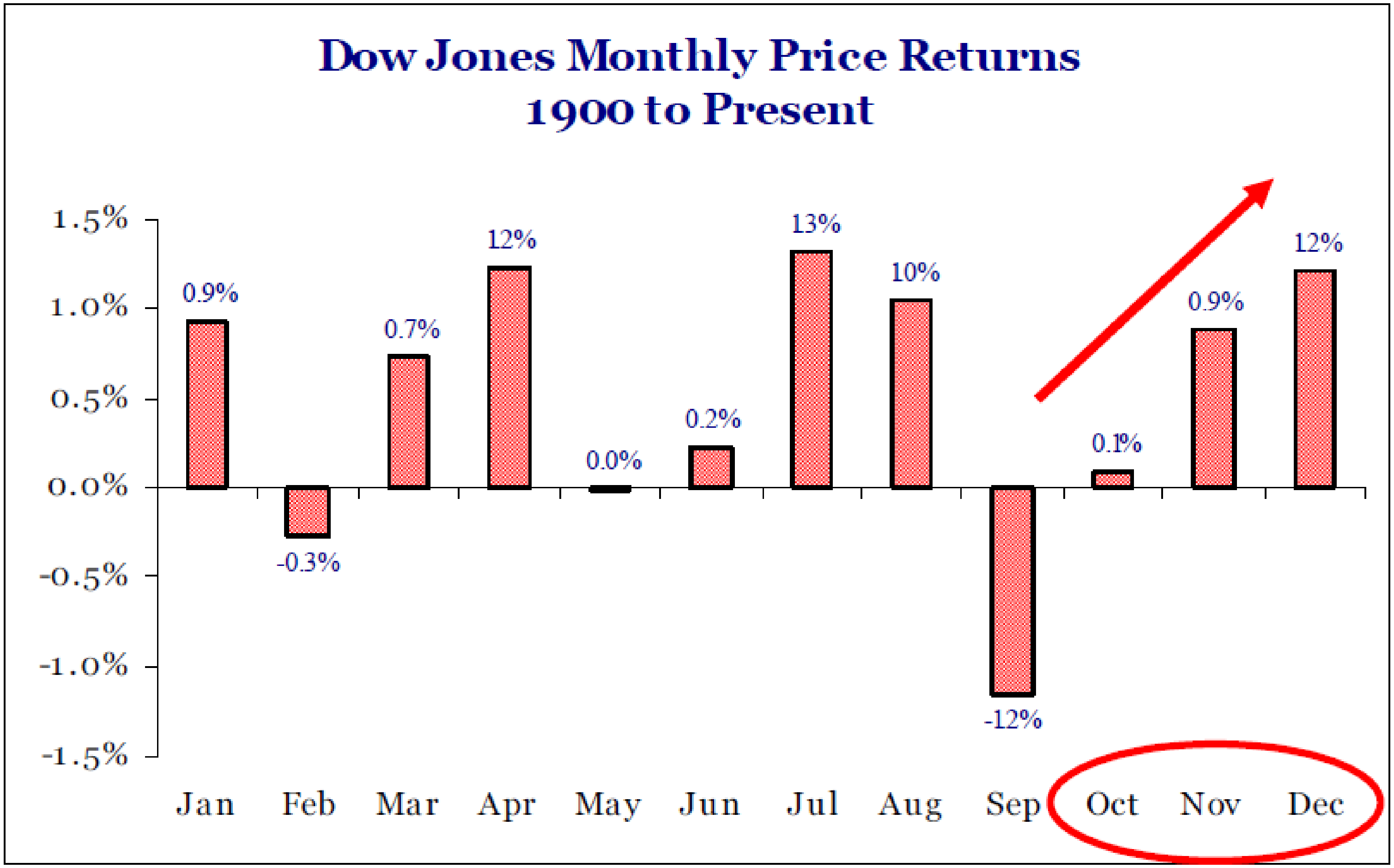
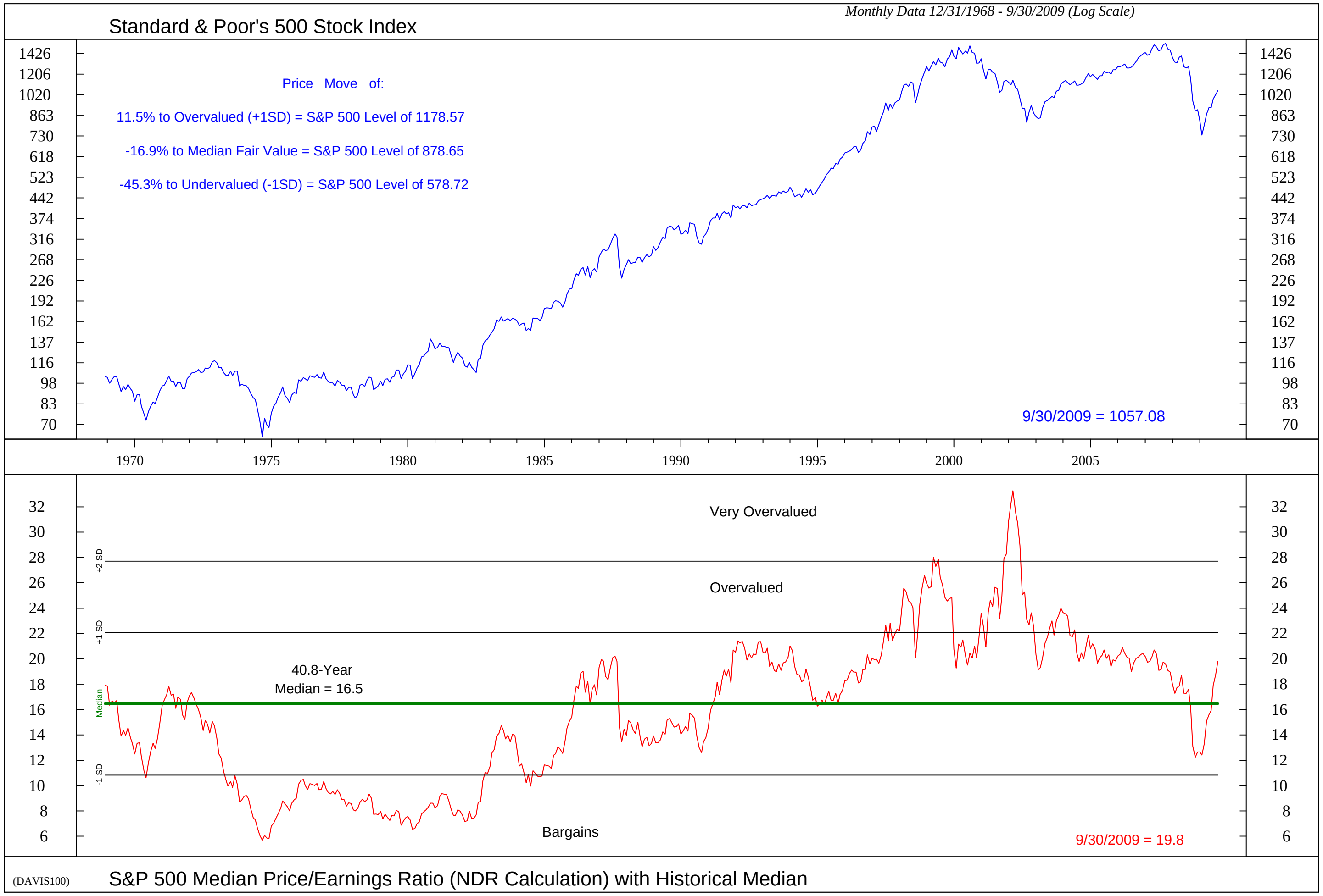
Stocks Entering a Seasonally Strong Period



Source: Strategas Research

Equity Market Valuation

- **Stocks are about 17% above fair value based on median P/E**



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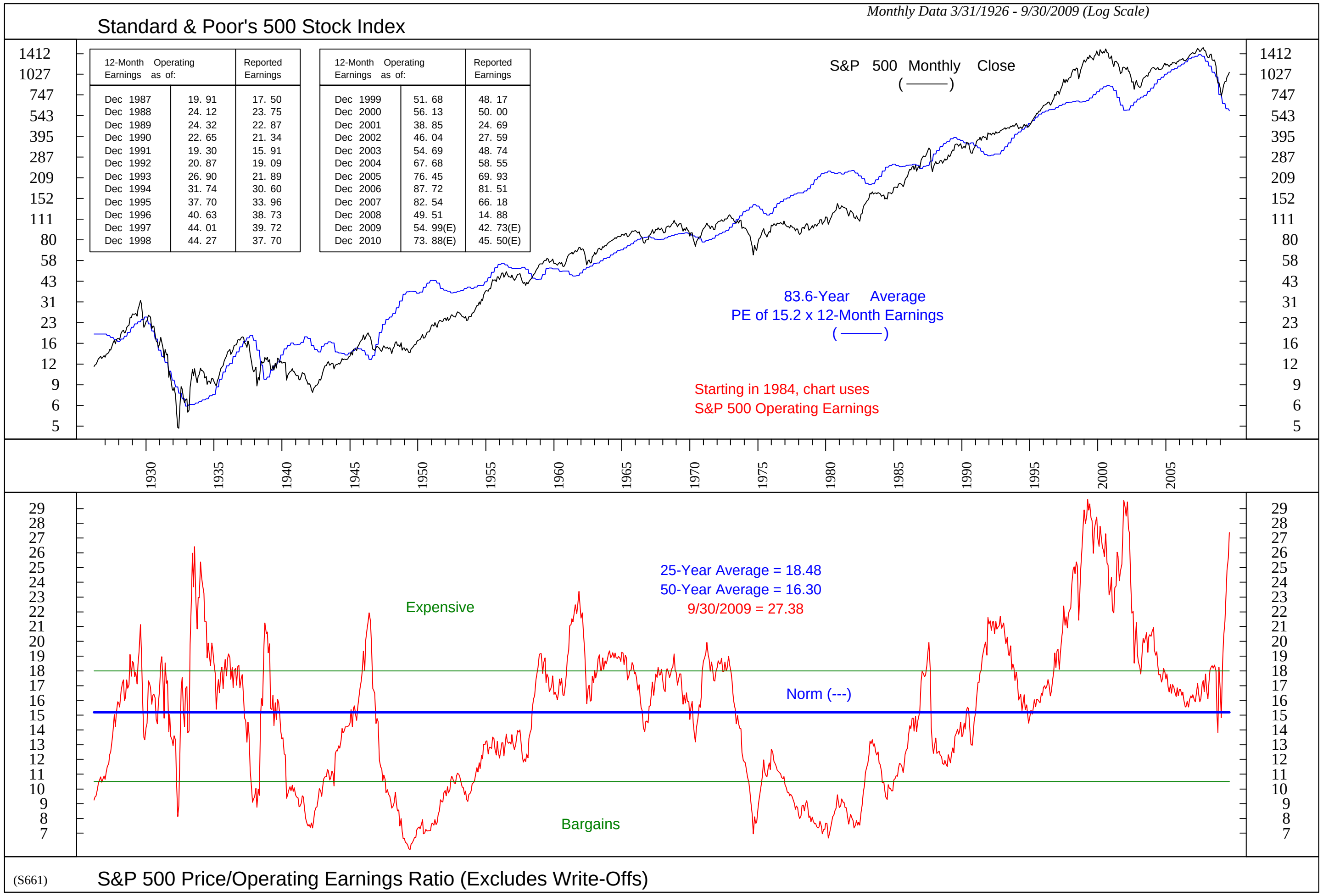
Equity Market Valuation

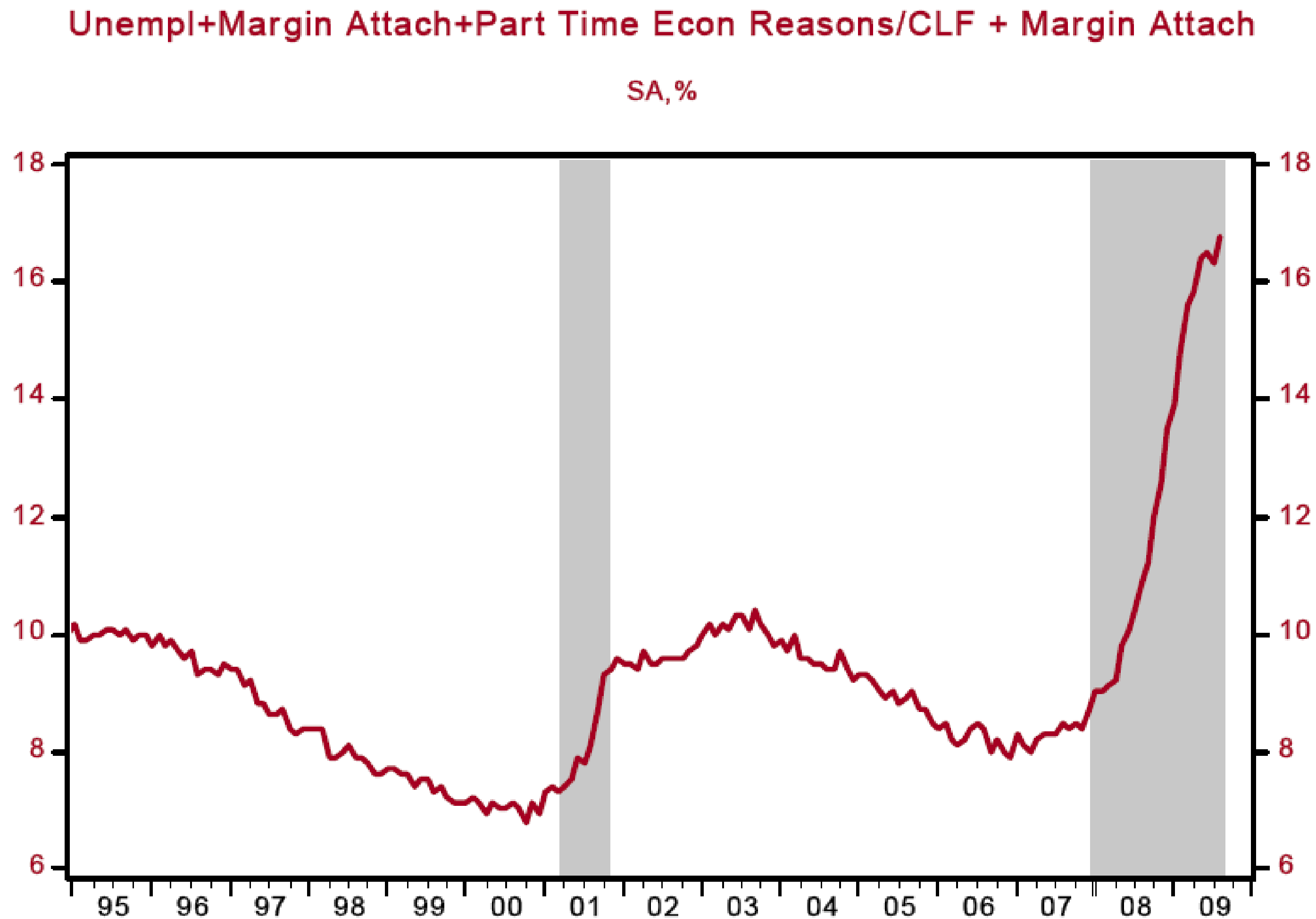
- **Stocks are very expensive based on GAAP reported earnings**



12-Month Operating Earnings as of:		Reported Earnings
Dec 1987	19. 91	17. 50
Dec 1988	24. 12	23. 75
Dec 1989	24. 32	22. 87
Dec 1990	22. 65	21. 34
Dec 1991	19. 30	15. 91
Dec 1992	20. 87	19. 09
Dec 1993	26. 90	21. 89
Dec 1994	31. 74	30. 60
Dec 1995	37. 70	33. 96
Dec 1996	40. 63	38. 73
Dec 1997	44. 01	39. 72
Dec 1998	44. 27	37. 70

12-Month Operating Earnings as of:		Reported Earnings
Dec 1999	51. 68	48. 17
Dec 2000	56. 13	50. 00
Dec 2001	38. 85	24. 69
Dec 2002	46. 04	27. 59
Dec 2003	54. 69	48. 74
Dec 2004	67. 68	58. 55
Dec 2005	76. 45	69. 93
Dec 2006	87. 72	81. 51
Dec 2007	82. 54	66. 18
Dec 2008	49. 51	14. 88
Dec 2009	54. 99(E)	42. 73(E)
Dec 2010	73. 88(E)	45. 50(E)

Unemployment Continues to Rise



Source: Strategas Research

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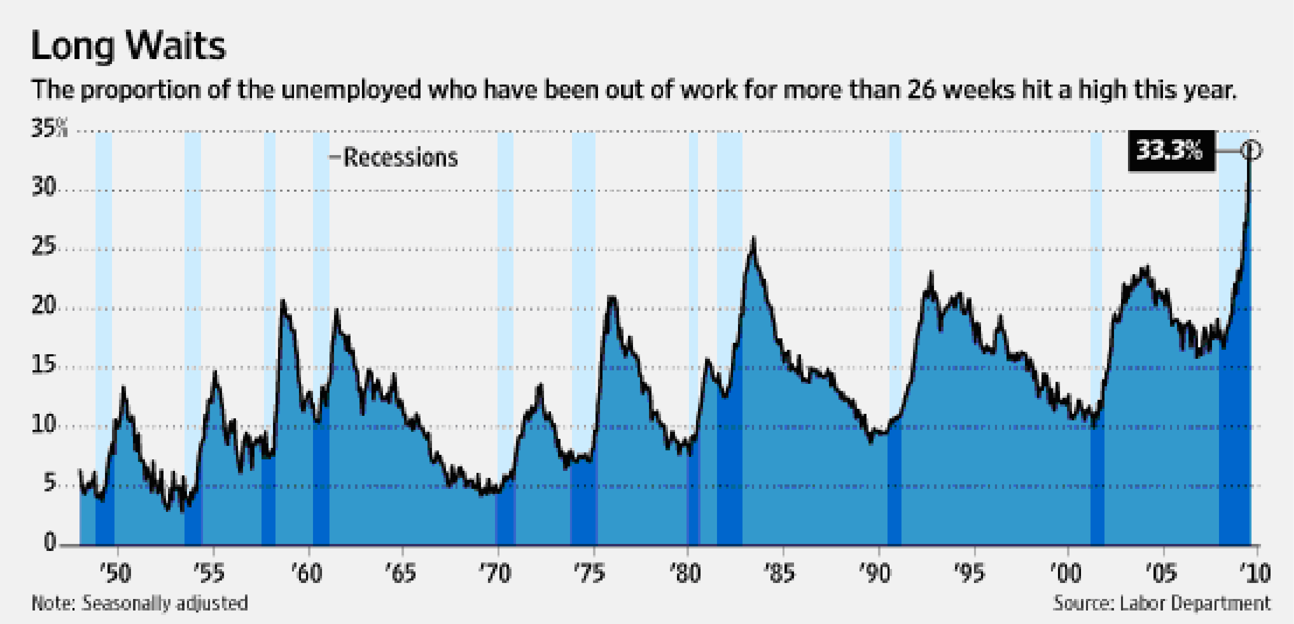
Long-Term Unemployed at a Record High



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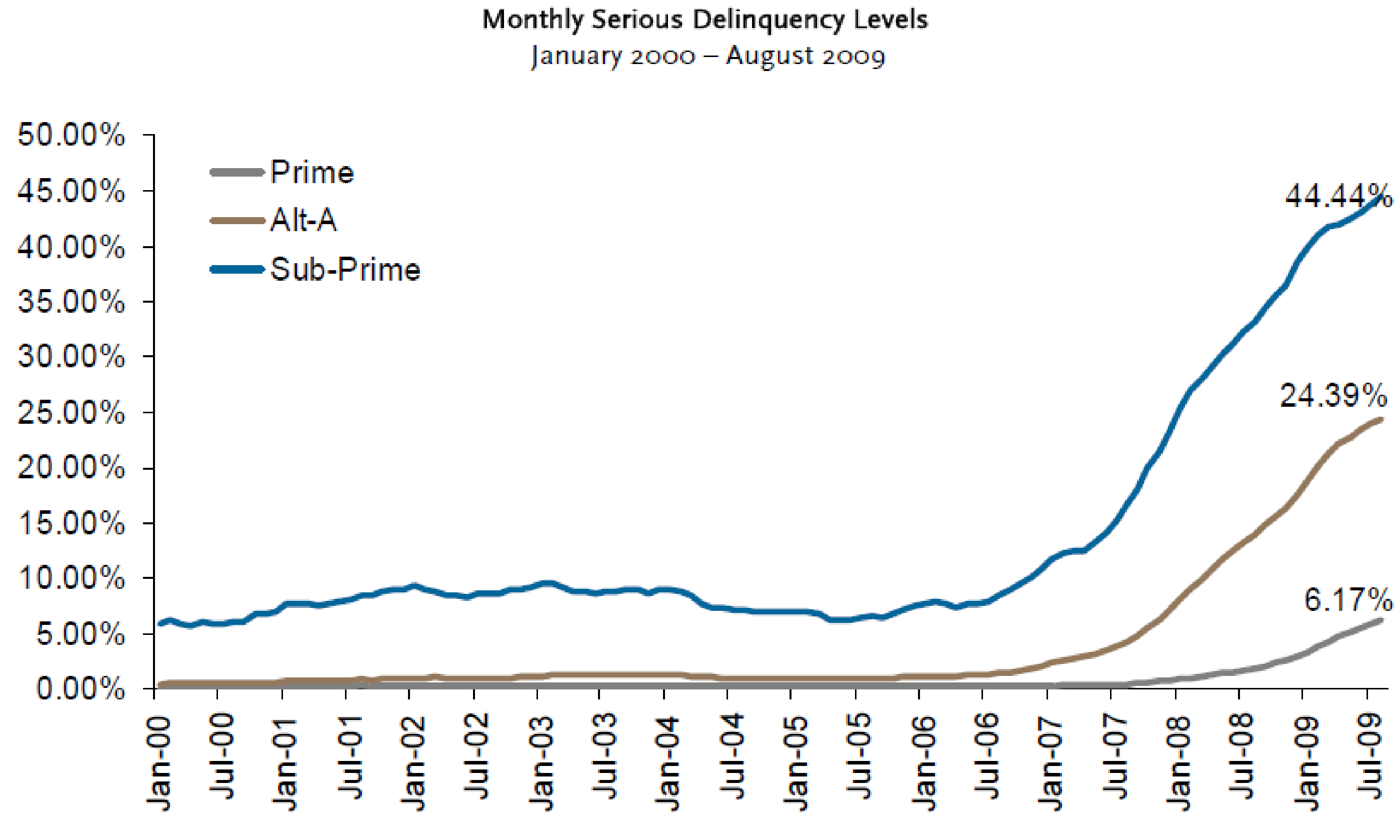
Securitized Mortgages - Delinquencies



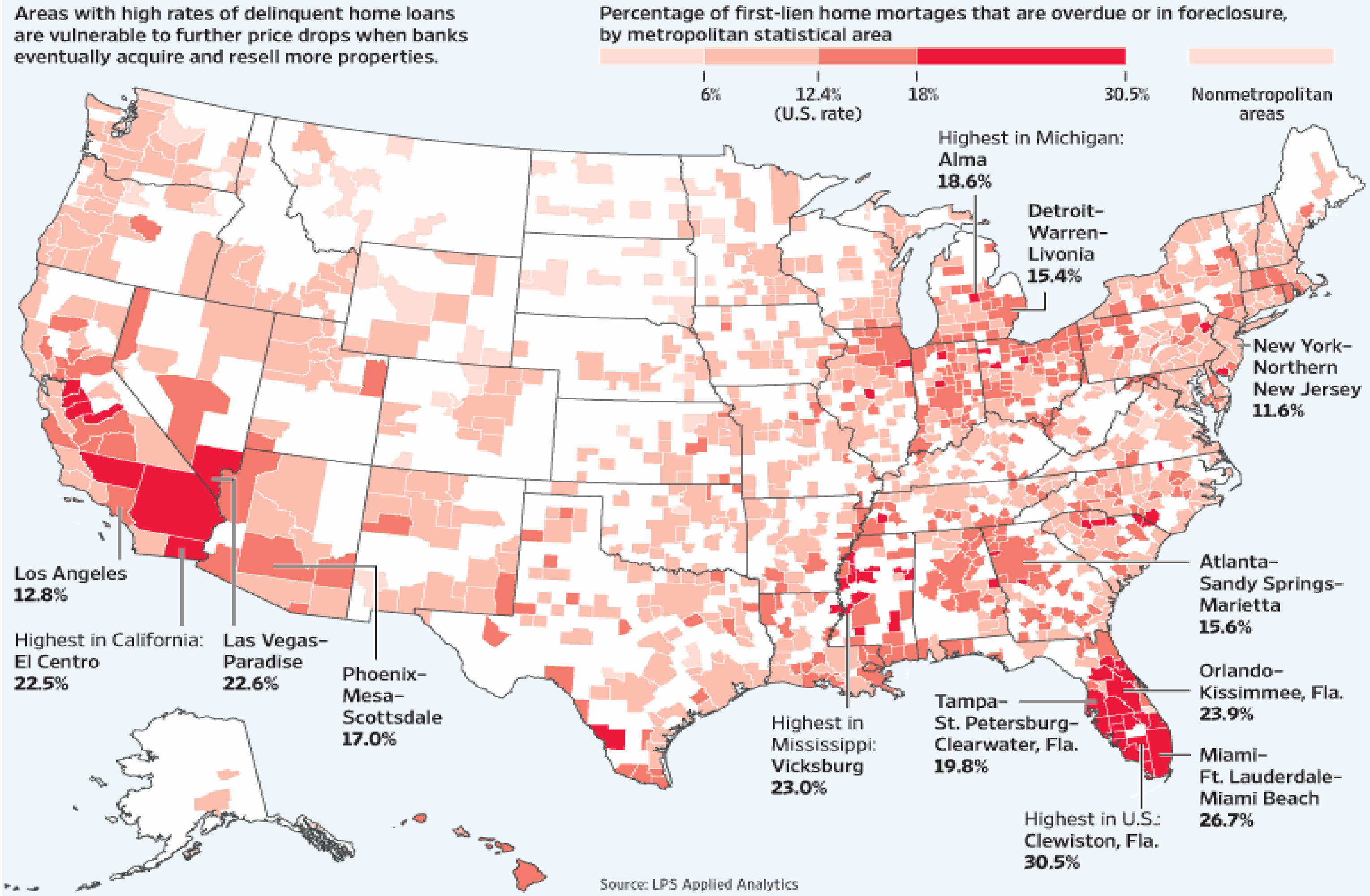
Serious delinquency level (60++) as a % of unpaid principal balance as of August 2009 (MBA)

Source: LoanPerformance data and TCW as reported as of September 5, 2009.
Note: Serious delinquencies refers to 60++ days late, REO or in foreclosure.

Record Foreclosures Prevent Sustainable Home Price Recovery

Concentrated Risk

Areas with high rates of delinquent home loans are vulnerable to further price drops when banks eventually acquire and resell more properties.



Source: LPS Applied Analytics

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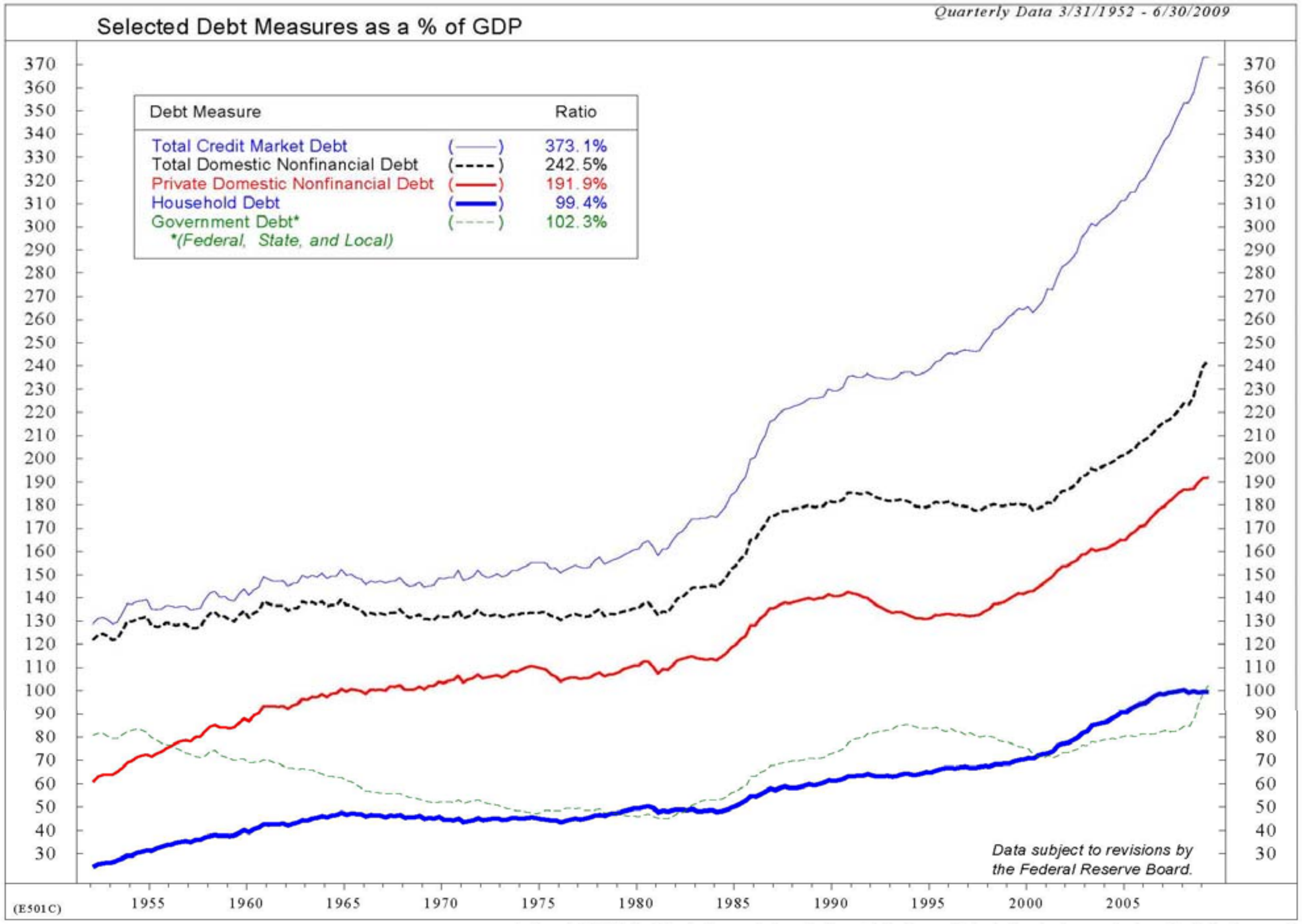
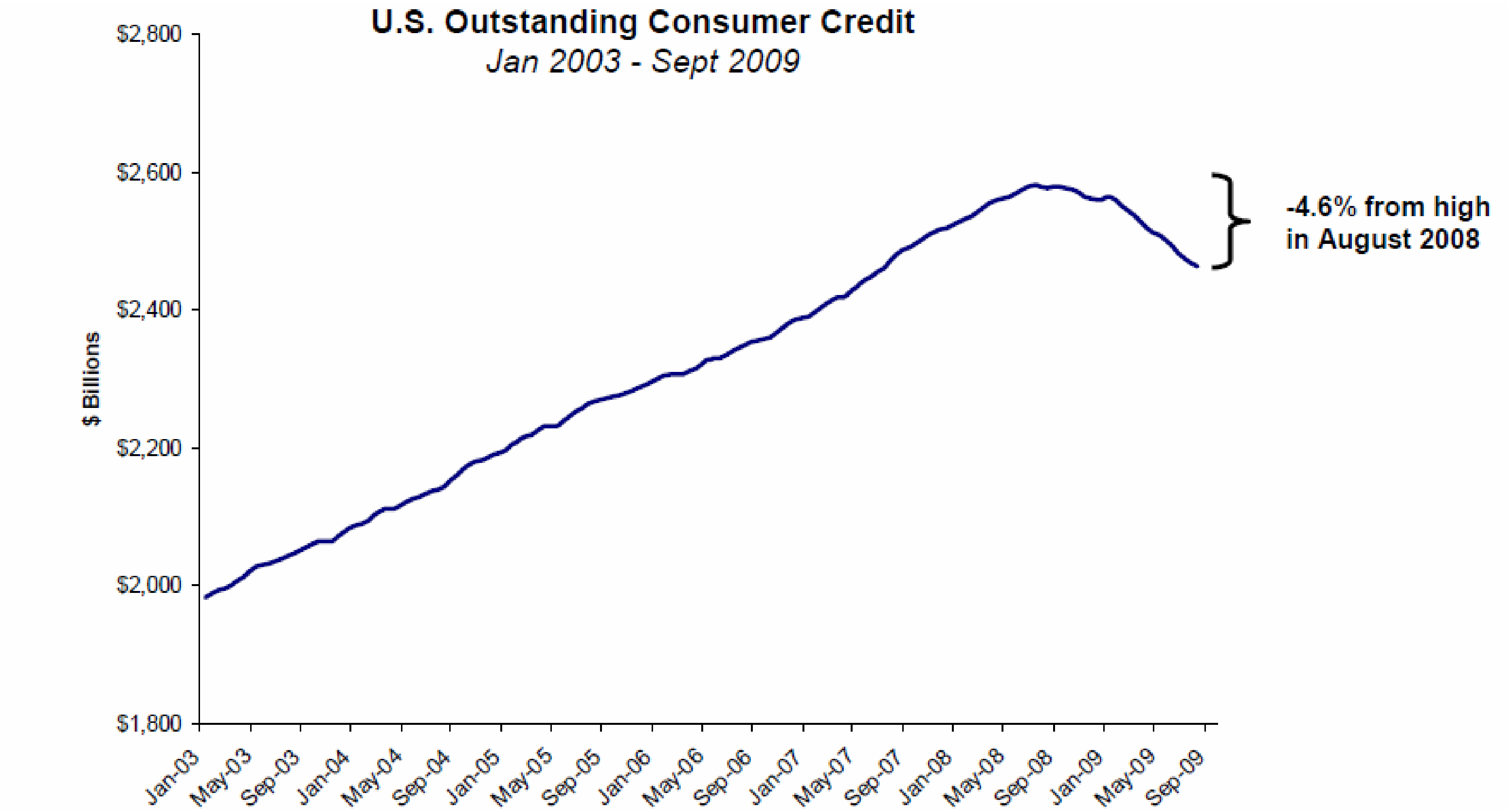
The Solution for Too Much Debt is…More Debt?



Consumers are Saving More, Paying Down Debt



Source: Federal Reserve and Bloomberg

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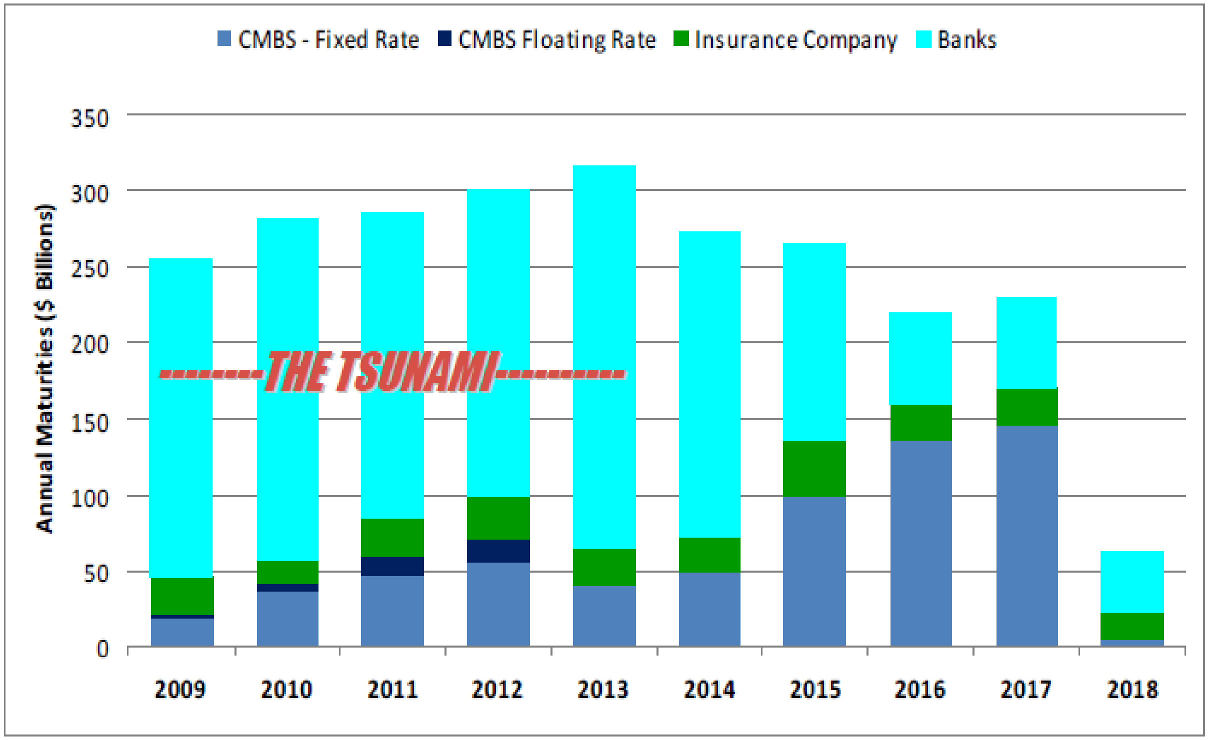
De-Leveraging of Commercial Real Estate

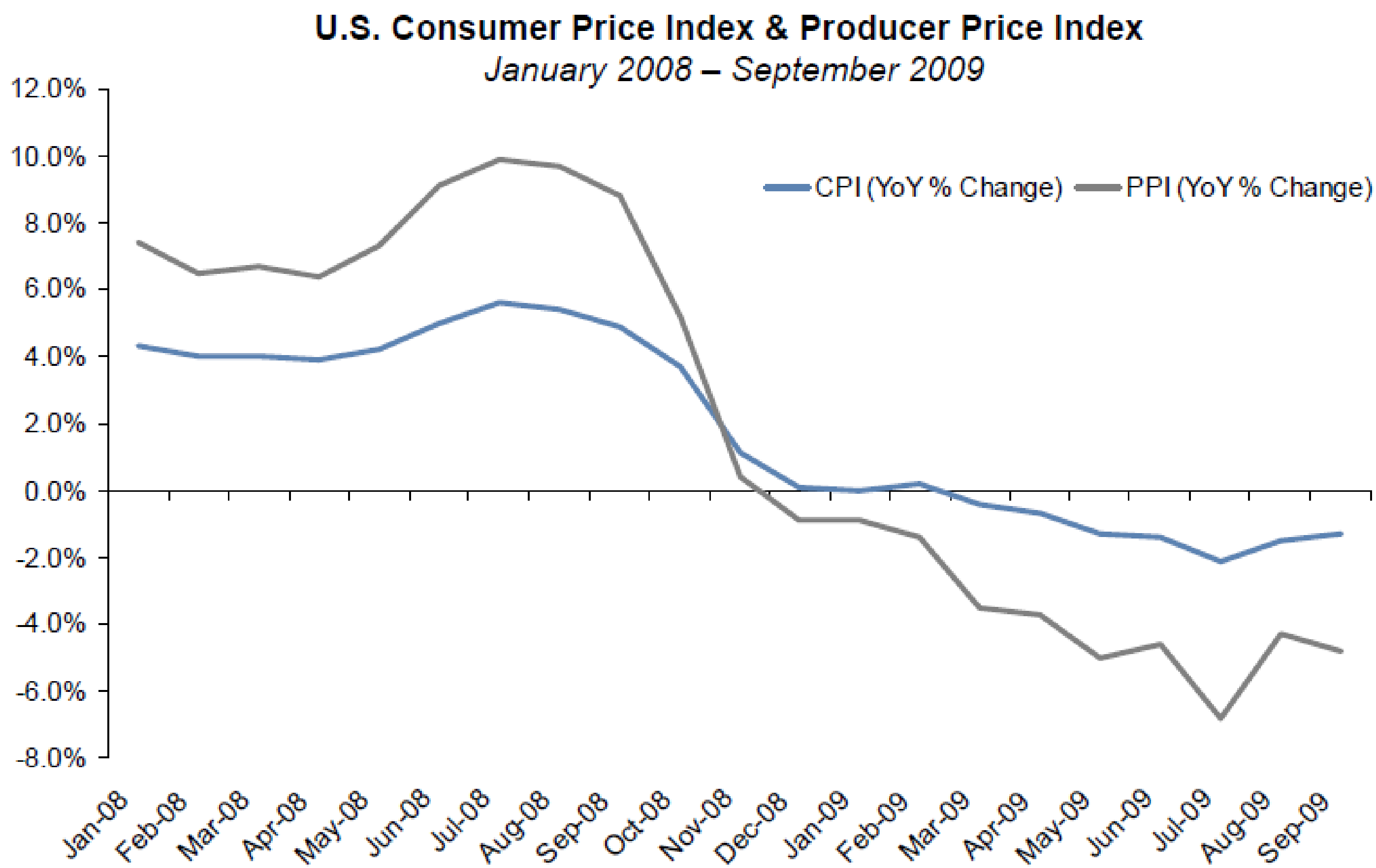
McKinsey Research estimates $430 billion of commercial real estate losses at banks over next 2-3 years

Estimated maturity profile of commercial mortgages in CMBS, life company and bank portfolios



Source: CB Richard Ellis, Deutsche Bank, Intex, TREPP, Mortgage Bankers Association, Federal Reserve

No Sign of Inflation



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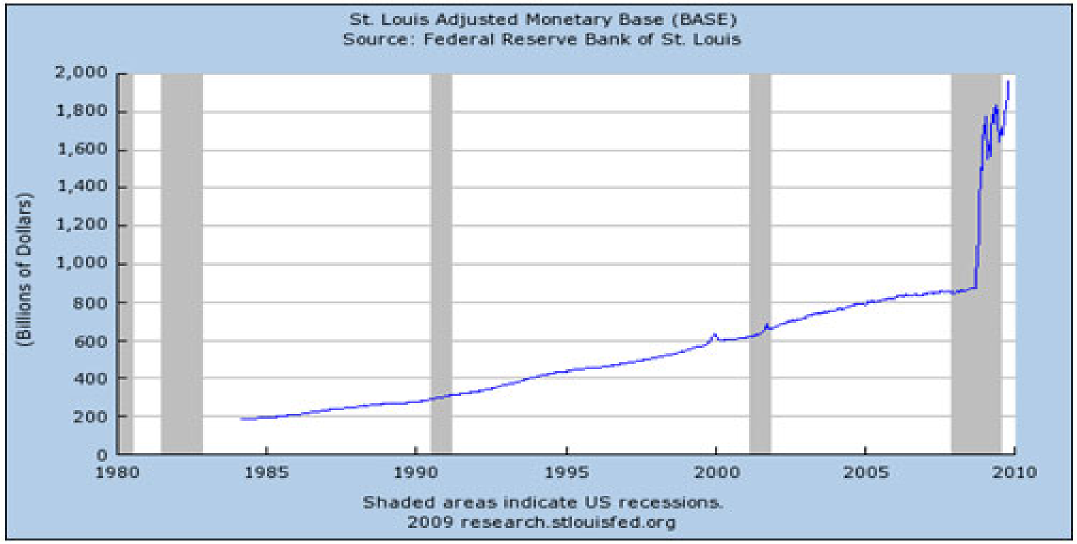
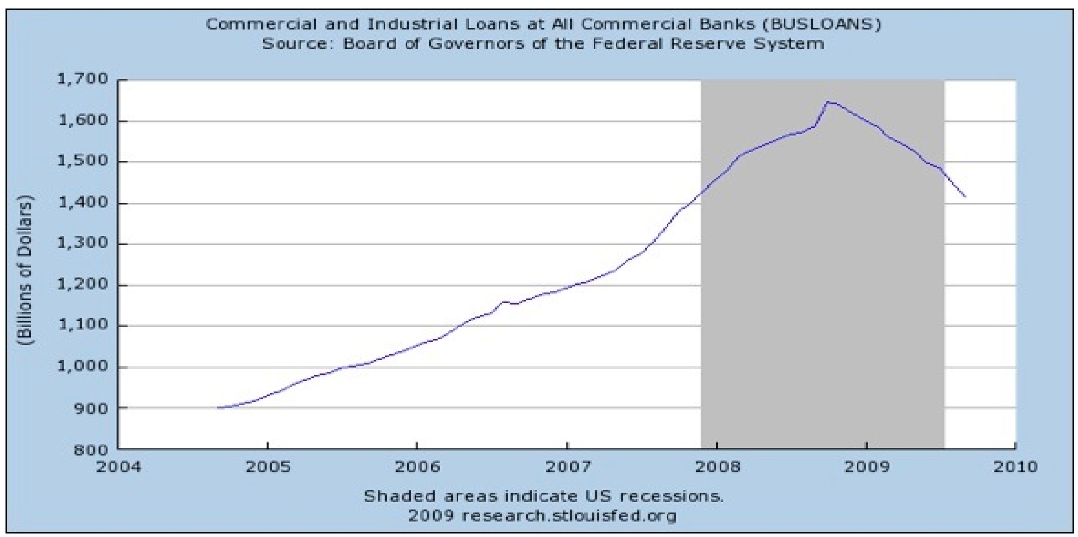
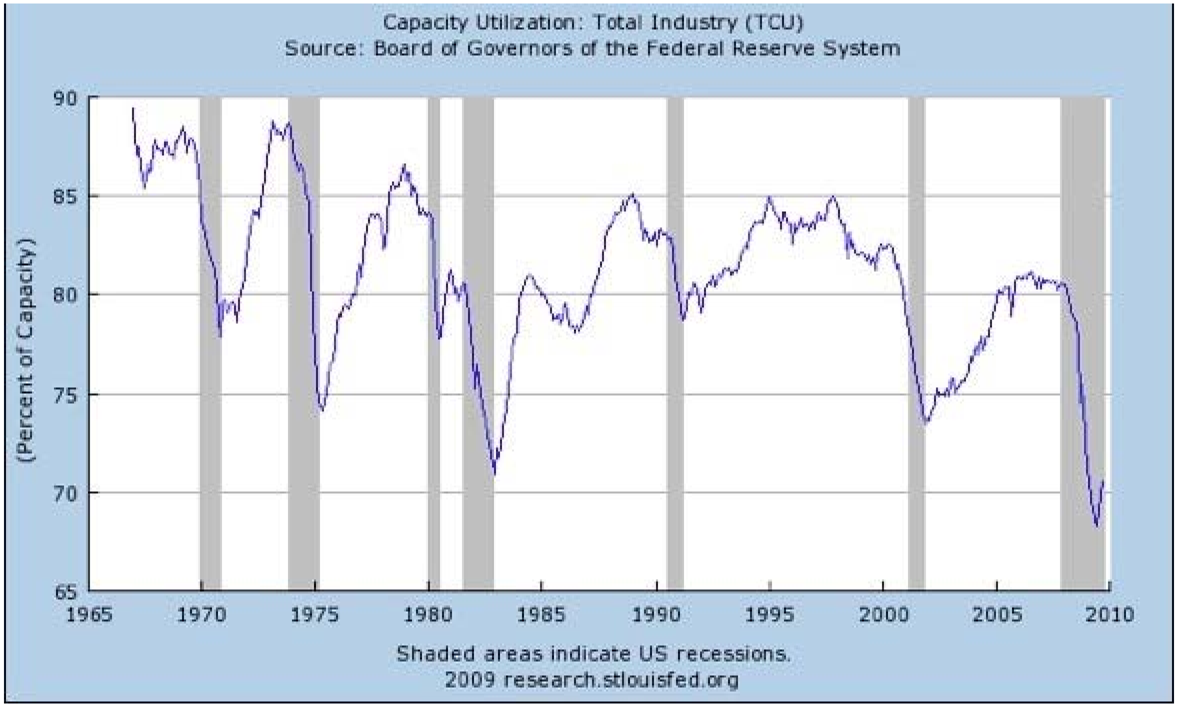
Fed Floods the System with Liquidity, But Banks Don't Lend





Excess Production Capacity = No Pricing Power



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Signs of Deflation

- Rising unemployment: 9.8% official rate, with 7% under-employed
  - Never been sustained inflation without rising wages
- Massive wealth destruction
  - Home prices down 30% from the peak
  - Commercial real estate down almost 40% from the peak
  - Trillions of dollars lost in the financial markets
- Banks unwilling to lend, consumers unwilling to borrow
- Anemic final demand
  - Cash for Clunkers
  - First Time Homebuyer Tax Credit
  - Wal-Mart slashes prices to stimulate holiday demand
- Low Capacity Utilization / Collapse in Industrial Production
- Massive De-Leveraging – IMF estimates $2 trillion in bank losses
- Largest tax increase in history coming in 2011

U.S. Dollar Sentiment is Extremely Negative

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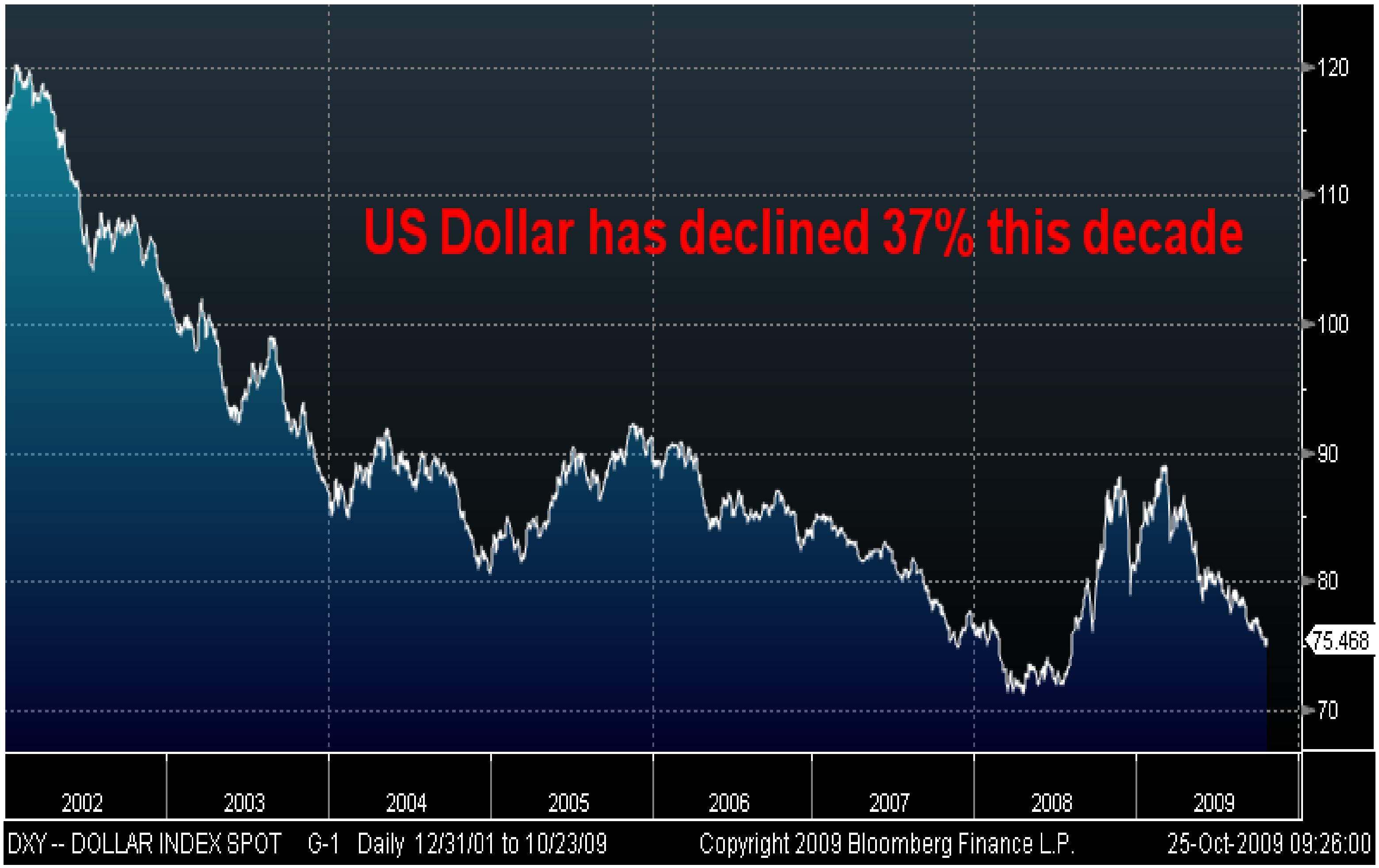
Massive U.S. Dollar Depreciation in this Decade



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Gold Has Vaulted to New Highs

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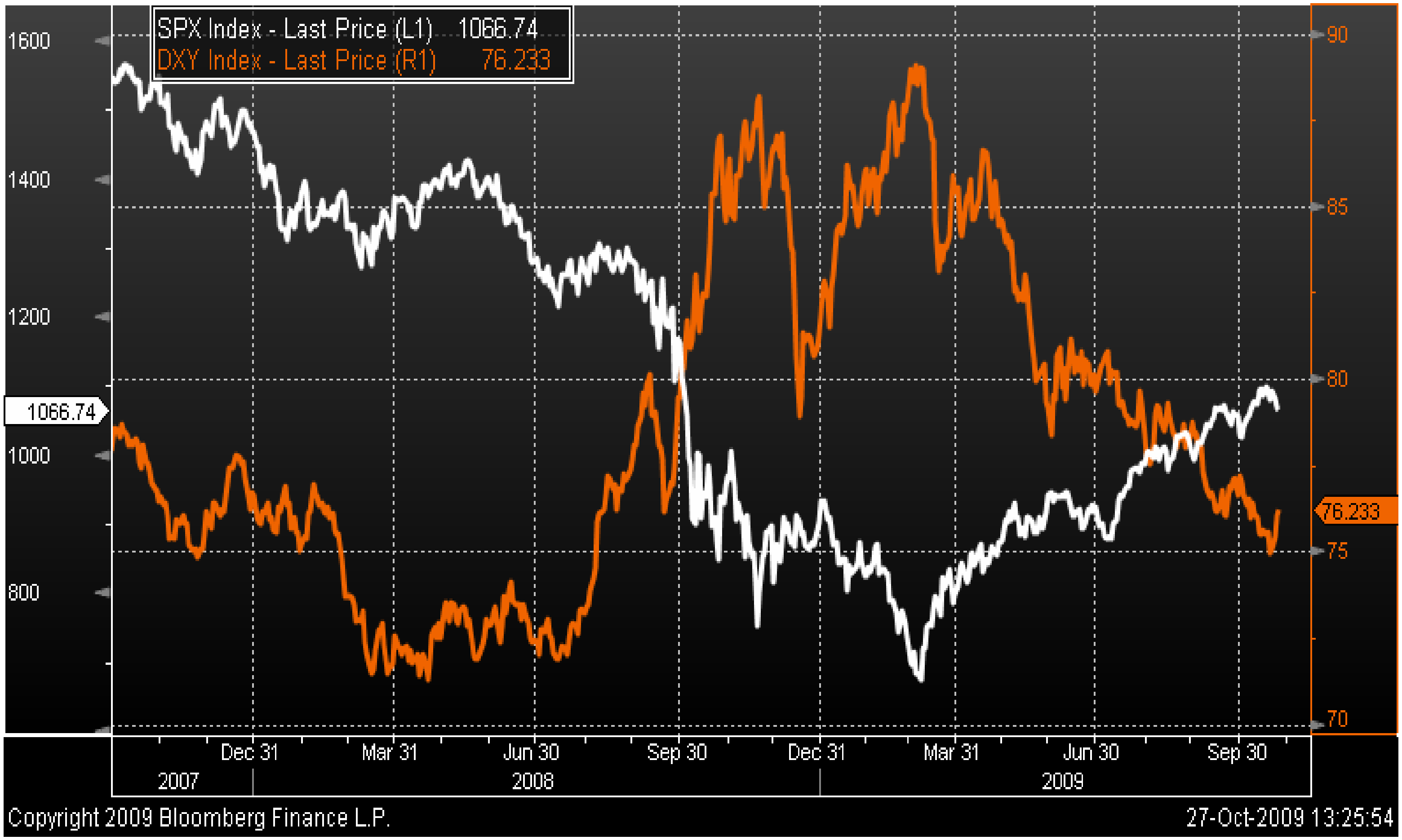
U.S. Dollar Devaluation vs. Asset Price Deflation

S&P 500 Index vs. U.S. Dollar Index



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This is not 1982 All Over Again…

Then & Now:
August 1982 vs. June 2009

	August '82	Current
Fed Funds Rate	10.25%	0.13%
Prime Rate	14.39%	3.25%
10-Year UST Yield	13.6%	3.7%
Trailing S&P 500 P/E	8.8x	21.8x
Price to Book	1.0x	2.0x
Dividend Yield	6.6%	2.6%
Top Marginal Tax Rate	50%	35%
Capital Gains Tax Rate	20%	15.0%
% of Workforce in Union	20.1%	12.4%

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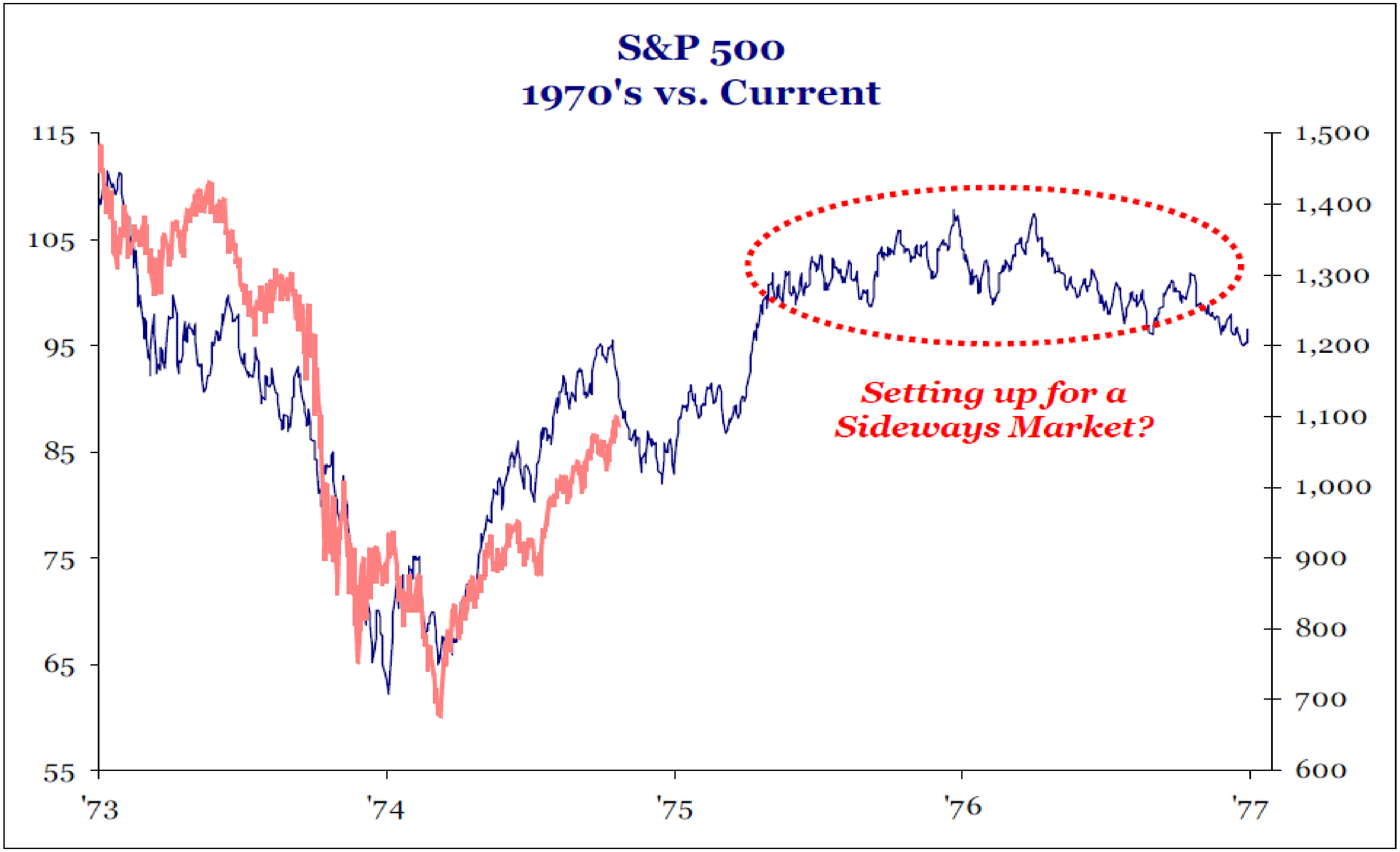
The 1970's All Over Again?



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Asset Allocation

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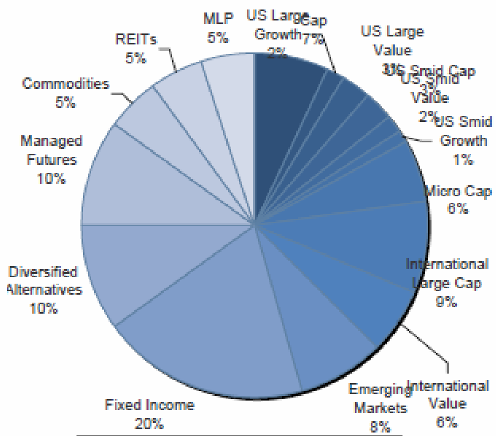
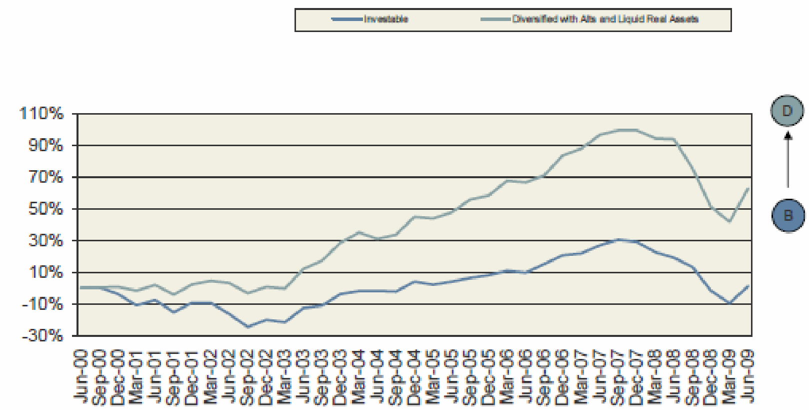
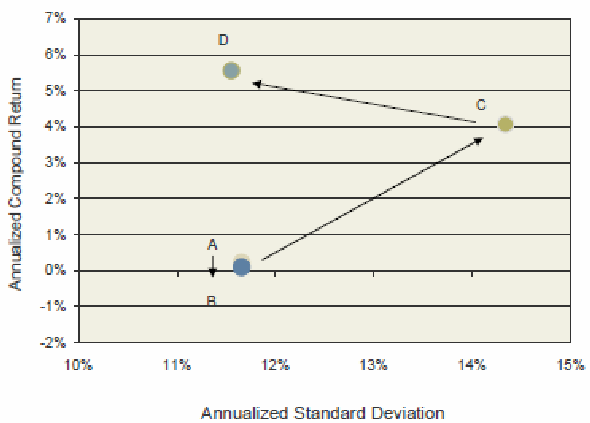
Diversified Equity, Alternatives and Liquid Real Assets

Includes a 20% allocation to alternatives and a 15% allocation to liquid real assets utilizing index data.





Risk - Return Matrix



Performance Data: 3th Quarter 2000 - 2nd Quarter 2009

	Cumulative Return (%)	Annualized Compound Return (%)	Annualized Standard Deviation[1]	Ending Market ($000) Value[2]	Market Value Change vs. Investable ($000)
A	2.0%	0.2%	11.7%	15,297	169
B	0.9%	0.1%	11.7%	15,129	
C	43.1%	4.1%	14.3%	21,465	6,336
D	62.6%	5.6%	11.6%	24,396	9,268

[1] *Annualized Standard Deviation calculated using quarterly data.*

[2] *Assumes beginning portfolio value of $15MM.*

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