



Invested In Relationships

**Market Insight
from Emerson's
Investment Strategy Committee**

February 2010

Economic Considerations

Positives:

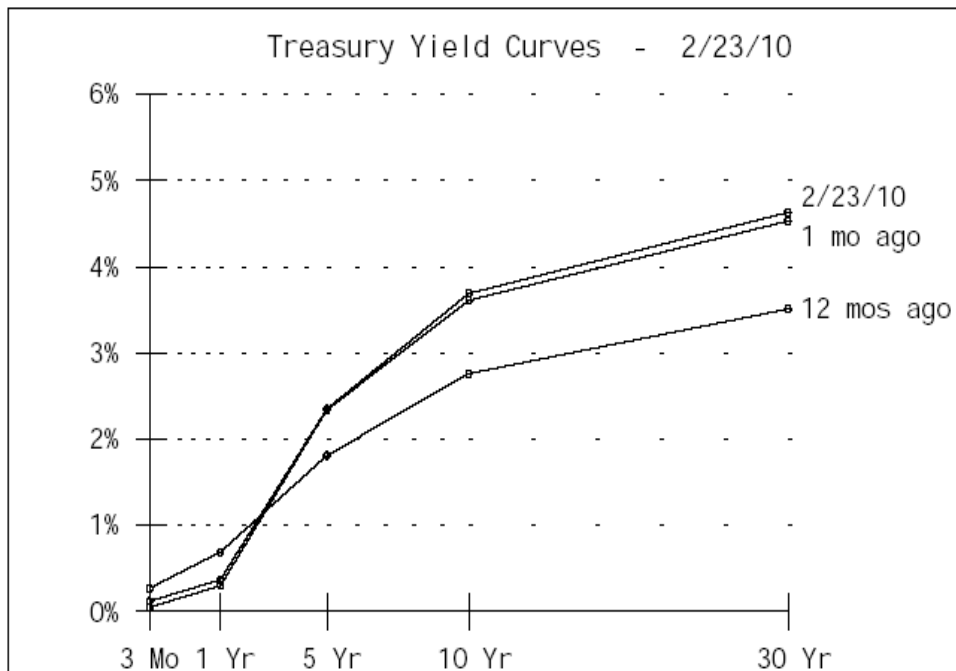
- + Stimulus initiatives, including low interest rates, having positive impact
- + Global economies improving
- + Credit conditions indicating normal economic recovery
- + ISM survey up dramatically
- + Productivity & excess capacity likely to contain inflation; core inflation is benign
- + Government net interest cost is under 10% of Federal budget
- + Positive projected earnings comparisons in 1st quarter, 2010
- + Housing starts have bottomed; now improving
- + New issuance of equity indicating renewed appetite for risk

Conclusion: Economic recovery in place – respect the positive message from the market

Negatives:

- Bad debt on bank balance sheets persists
- Potential tax increases and increased regulation
- Potential “Paradox of Thrift” (savings restrains economic recovery)
- U.S. becoming a major debtor nation creating economic risk
- Growing municipal state and federal deficits
- Commercial real estate problems/defaults
- Entitlement programs loom as economic challenge in 2015-2020
- Fiscal policy trends are dreadful; can politicians contain the deficit?

Fixed Income Indicators



Steepening Yield Curve

Yield Curve

- Yield curve indicating economic optimism
- 10 year Treasury now around 3.8% (rising)
- Short interest rates negative in real terms –positive indicator for future, expansionary

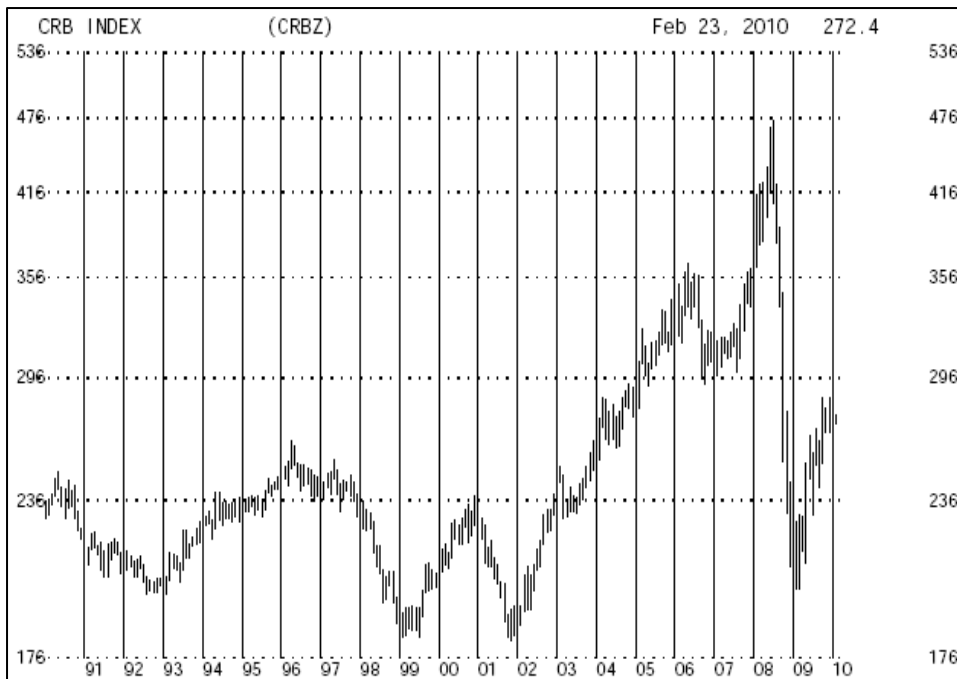


Baa to U.S. Treasury "Spreads" Are Stabilizing

Corporate Interest Rate Spreads

- Default rates below expectation
- Investment grade spreads are close to normal
- High yield spreads also declining
- Bond market is healthy again

Alternatives Outlook



Commodities

- 2010 YTD CRB price is negative
- Favorable global demand
- Cyclical trend is positive
- Oil price is rising

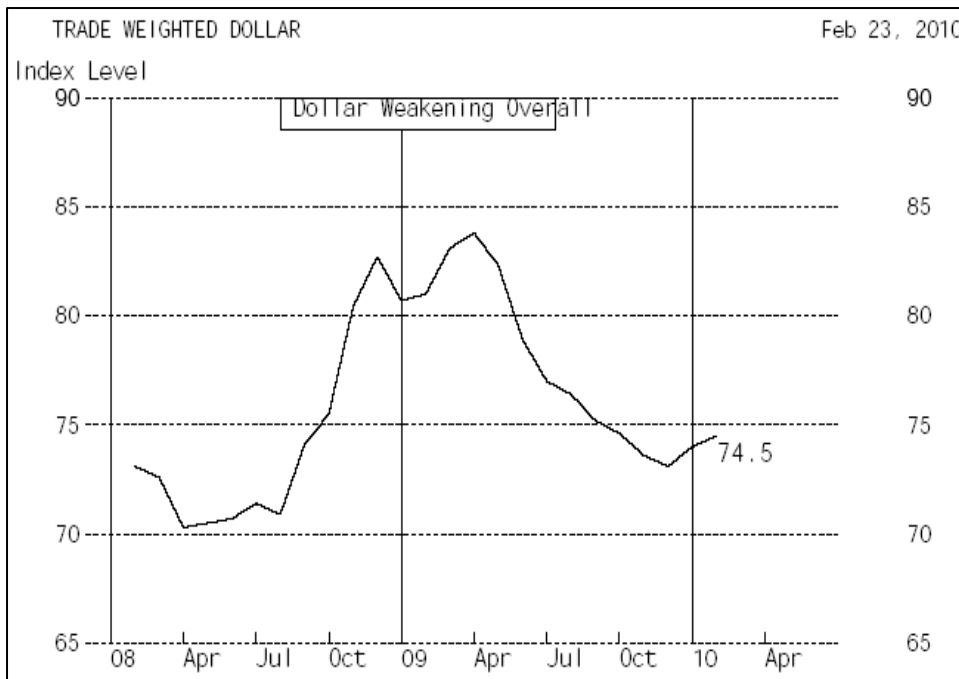
Commodity Prices –Rebounding from 2008



Real Estate Investment Trusts

- Valuations (P/FFO) are reasonable compared to historic levels
- Investor expectations are low
- Improving industrial and retail sales will support rising prices
- Yield > 4%
- Improving balance sheets

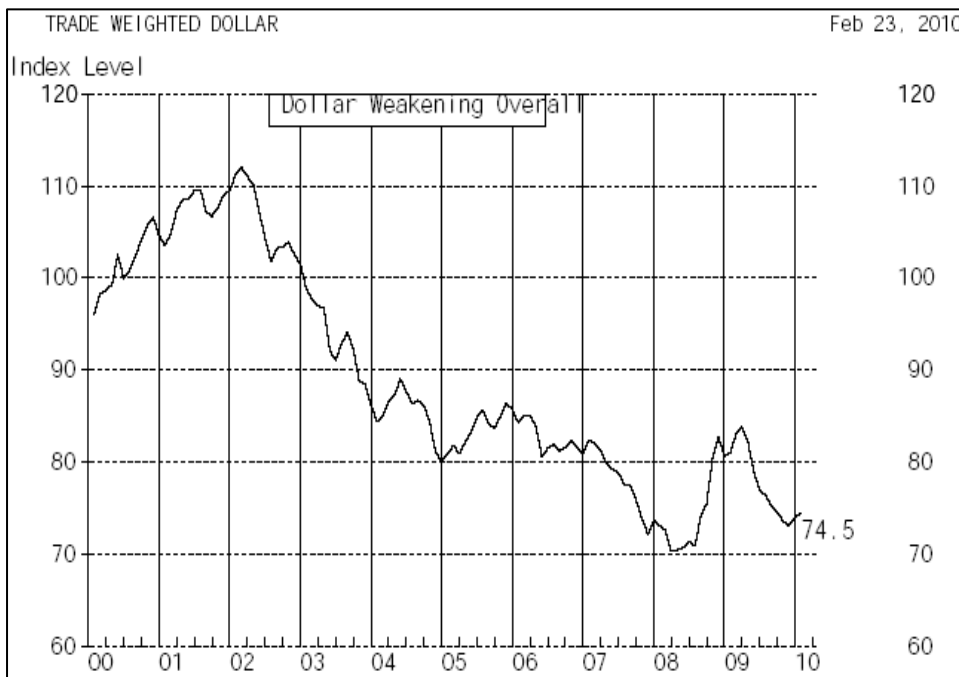
U.S. Dollar Outlook



Dollar is Stabilizing (2 year chart)

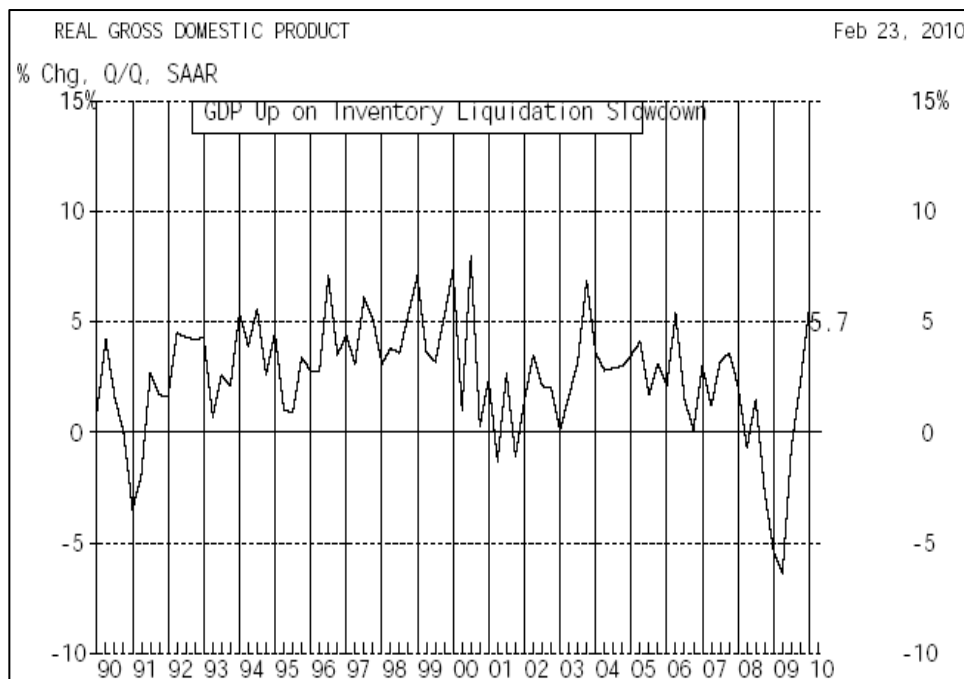
Trade Weighted Dollar

- Dollar improved in January and February
- Concerns about European Sovereign debt is hurting Euro
- Long-term outlook for Euro may be problematic
- Weak fundamentals in foreign economies should limit dollar risk
- Change in Fed policy would strengthen dollar



Trending Up (10 year chart)

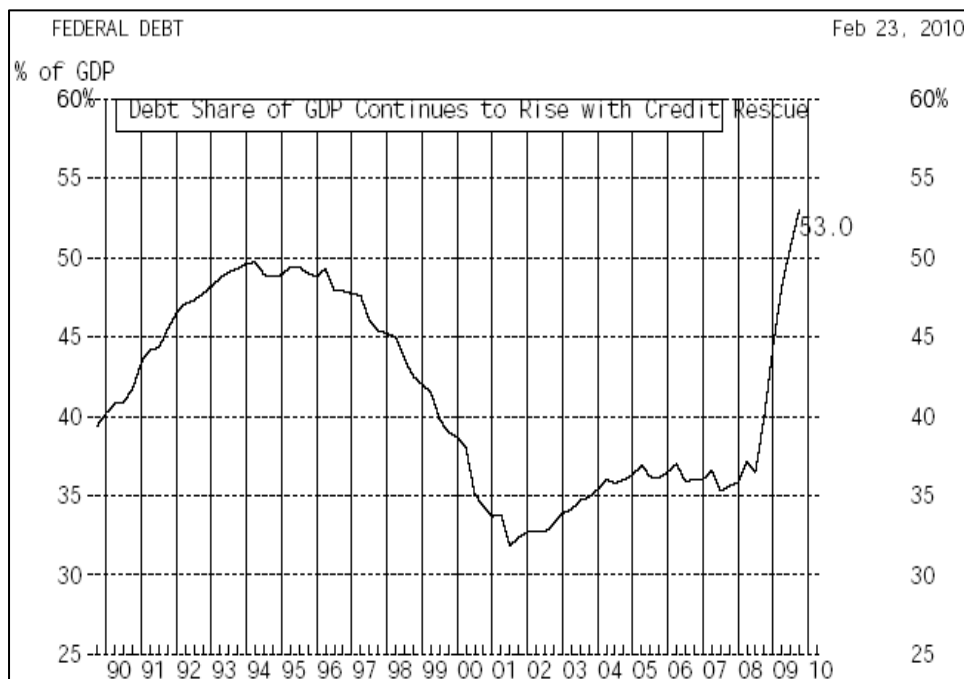
GDP Growth & Federal Debt Outlook



GDP Quarterly Growth

Gross Domestic Product

- Forecasting positive GDP in 2010
- GDP growth trending up
- Some Western Europe GDPs now positive

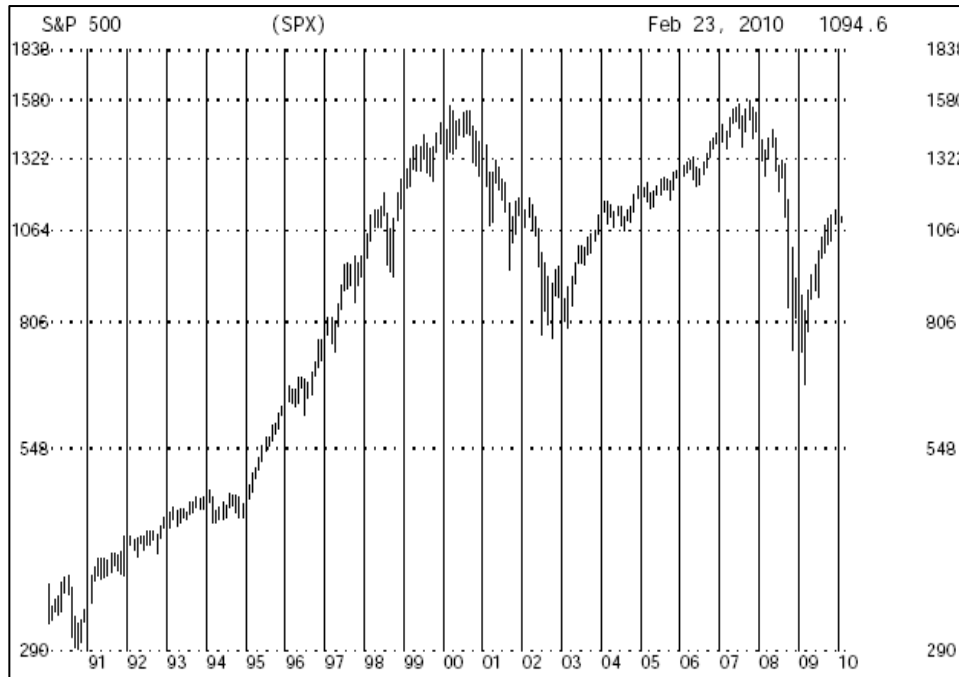


Debt/GDP

Federal Debt

- Debt compared to GDP rising substantially
- Rising debt/GDP = Higher 10 year UST yield
- Potential threat is inflation – long-term
- Political will to contain deficit in question

Equity & Global Outlook

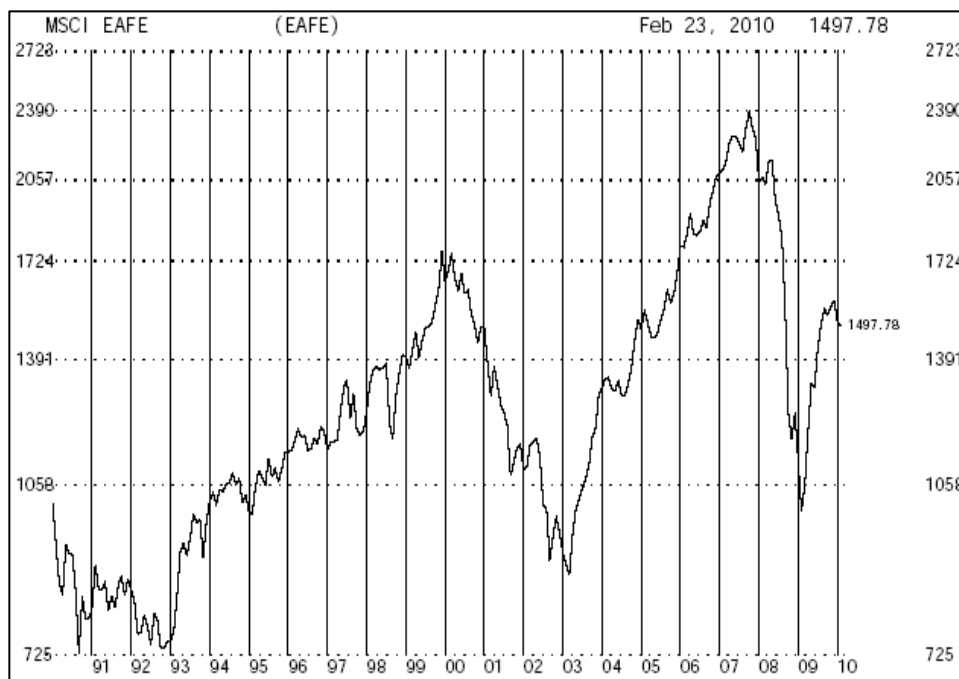


S & P 500

- Dramatic recovery from March; mostly P/E expansion
- Market turns up before economy is perceived to be turning (6 to 9 months)
- Fourth quarter earnings surprised on upside
- Corporate earnings continue to trend up

Improving Technical Picture

EAFE Index Outlook



Europe, Australasia and the Far East Index

- Forward P/E is reasonable
- Dramatic earning increases in 2010
- European markets could lag due to problems in PIIGS

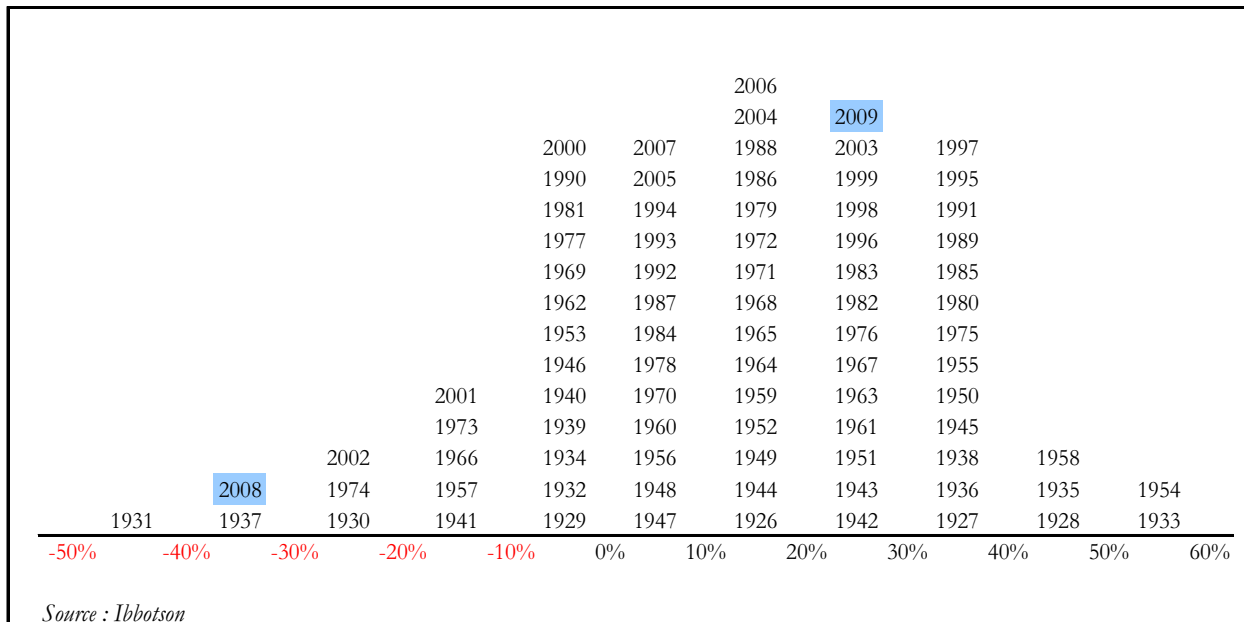
EAFE Index – Recovering

Equity & Global Outlook

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	As of 1/31/2010
Best	Commodities 24.2%	Bonds 9.0%	Commodities 23.9%	Emg Markets 56.3%	Emg Markets 26%	Emg Markets 34.5%	Emg Markets 32.6%	Emg Markets 39.8%	Bonds 5.2%	Emg Markets 78.5%	Bonds 1.53%
	Real Estate 19.5%	Real Estate 6.2%	Bonds 9.8%	Small-cap 47.3%	Real Estate 24.8%	Commodities 17.6%	Real Estate 29.9%	Large-cap Growth 11.8%	U.S. T Bills 2.4%	Mid-cap 40.5%	U.S. T Bills 0.0%
	Bonds 10.1%	U.S. T Bills 4.6%	U.S. T Bills 1.9%	Dev Markets 39.3%	Dev Markets 20.8%	Dev Markets 14.1%	Dev Markets 26.9%	Commodities 11.1%	Small-cap -33.8%	Large-cap Growth 37.2%	Large-cap Value -2.81%
	Mid-cap 8.3%	Small-cap 2.5%	Real Estate -2.8%	Mid-cap 37.9%	Small-cap 18.4%	Mid-cap 12.7%	Large-cap Value 22.4%	Dev Markets 8.6%	Commodities -36.6%	Dev Markets 27.8%	Mid-cap -3.34%
	Large-cap Value 7.0%	Emg Markets -2.4%	Emg Markets -6.0%	S&P 500 28.7%	Mid-cap 18.4%	Large-cap Value 7.1%	Small-cap 18.4%	Bonds 7%	Large-cap Value -36.9%	Small-cap 27.2%	S&P 500 -3.56%
	U.S. T Bills 6.5%	Mid-cap -5.6%	Large-cap Value -15.5%	Large-cap Growth 28.3%	Large-cap Value 13.7%	Real Estate 5.9%	S&P 500 15.8%	Mid-cap 5.6%	S&P 500 -37.0%	S&P 500 26.5%	Small-cap -3.68%
	Small-cap -3%	Large-cap Value -5.6%	Dev Markets -15.6%	Real Estate 27.5%	S&P 500 10.9%	Large-cap Growth 5.3%	Mid-cap 15.6%	S&P 500 5.5%	Large-cap Growth -38.4%	Real Estate 21.2%	Large-cap Growth -4.36%
	S&P 500 -9.1%	S&P 500 -11.9%	Mid-cap -16.2%	Large-cap Value 26.7%	Commodities 7.6%	S&P 500 4.9%	Large-cap Growth 9.1%	U.S. T Bills 5.1%	Mid-cap -41.5%	Large-cap Value 19.7%	Dev Markets -4.44%
	Dev Markets -14%	Large-cap Growth -20.4%	Small-cap -20.5%	Commodities 22.7%	Large-cap Growth 5.2%	Small-cap 4.6%	U.S. T Bills 4.7%	Large-cap Value -0.2%	Real Estate -41.7%	Commodities 18.7%	Real Estate -5.52%
	Large-cap Growth -22.4%	Dev Markets -21.2%	S&P 500 -22.1%	Bonds 4.1%	Bonds 4.3%	U.S. T Bills 3.1%	Bonds 4.3%	Small-cap -1.6%	Dev Markets -45.1%	Bonds 5.9%	Emg Markets -5.58%
Worst	Emg Markets -30.6%	Commodities -22.3%	Large-cap Growth -27.9%	U.S. T Bills 1.1%	U.S. T Bills 1.5%	Bonds 2.4%	Commodities -2.7%	Real Estate -20.2%	Emg Markets -53.2%	U.S. T Bills 0.3%	Commodities -7.29%

Russell 2000® Index (Small-Cap) measures the performance of 2,000 smallest companies in the Russell 3000® Index. **Russell Midcap® Index** (Mid-Cap) measures the performance of the 800 smallest companies in the Russell 1000® Index. **Russell 1000® Growth Index** (Large-cap Growth) measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. **Russell 1000® Value Index** (Large-cap Value) measures the performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values. **MSCI Developed Markets** (Dev Mkts) measure the equity market performance of 9 emerging market country indices: Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Egypt, Morocco, and South Africa. **MSCI Emerging Markets** (Emg Mkts) measure equity market performance of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **S&P 500 Index** (S&P 500) measures the performance of large capitalization U.S. stocks. The S&P 500 Index is a market-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. **Barclays Aggregate Bond Index** (Bonds) is comprised of investment grade corporate bonds. **S&P Real Estate Investment Trusts** (Real Estate) is comprised of price and income returns of all publicly traded REITs. **Dow Jones UBS Commodity Index** (Commodities) is composed of commodities traded on U.S. exchanges. Included in the DJ-UBSCI family are subindexes representing the major commodity sectors within the broad index: Energy (including petroleum and natural gas), Petroleum (including crude oil, heating oil and unleaded gasoline), Precious Metals, Industrial Metals, Grains, Livestock, Softs, Agriculture and ExEnergy. Also available are single commodity indexes on all of the individual components of the DJ-UBSCI, plus cocoa, lead, platinum and tin. **U.S. Treasury Bills** (U.S.T-Bills). Above performance represents indices and is not Emerson's actual performance. Contact Emerson to obtain Emerson performance exhibits. Sources: Bloomberg Financial Markets, Frank Russell Company. Performance of all cited indices is calculated on a total return basis and includes dividend reinvestment. Indices are not available for direct investment. Past performance is not indicative of future results. It is important to remember that there are risks inherent to any investment and there is no assurance that any asset class or index will provide positive performance over time. This report is provided by Emerson Investment Management, Inc.

Emerson Market Insight



In the chart above the columns represent the number of times since 1926 that stocks have achieved each annualized return.

Conclusion: 2008 was an “outlier” in history. 2009 was a robust recovery year.

Asset Allocation By Asset Class

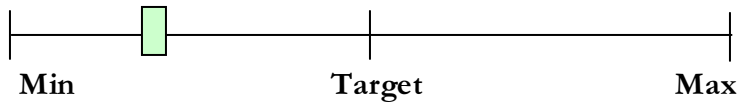
Equities



Overweight:

Economic Cycle—Recovery
 Stimulative Fiscal & Monetary Policy
 Low Interest Rates
 Low Inflation
 Rising GDP

Fixed Income



Underweight:

Low Interest Rates
 Interest Rates Likely Going Up
 Excess Liquidity
 Reflation
 Inflation/Bubble Threat

Alternatives



Underweight:

REITs & Commodity Recovery
 Usually Lag Equities

Emerson Equity Asset Allocation by Region

Overweight:

U.S. Large-Cap — Overweight
 U.S. Small-Cap — Overweight

Domestic



Neutral:

Developed—Neutral
 Japan Struggling
 Euro Area Slow to Recover
 Canada & Australia—Strong commercial and commodity driver economies
 Emerging — Neutral
 Fastest Growing Area of the World

International

