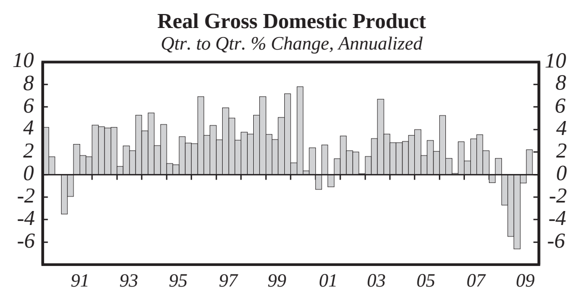
WENTWORTH, HAUSER AND VIOLICH

REVIEW AND OUTLOOK - WINTER 2010

Global economy has emerged from its worst recession of the past 50 years.

The United States and the global economy emerged from recession in the third quarter of 2009. Within the U.S. real gross domestic product (GDP), the total inflation-adjusted output of goods and services within the U.S., grew at an annual rate of 2.2 percent in the third quarter following four consecutive quarters of decline. The Organization for Economic Cooperation and Development (OECD) whose 30 members, including the U.S., make up about 61 percent of global GDP stated that in the third quarter its group reported an annual growth rate of 2.1 percent, the first positive growth rate since the first quarter of 2008. The OECD comprises "developed" economies. With "developing" economies such as China and India also reporting robust third quarter growth rates, it appears that the global economy has emerged from its deepest economic downturn since the 1930s.

The U.S. economy will report positive economic growth in the second half of 2009.

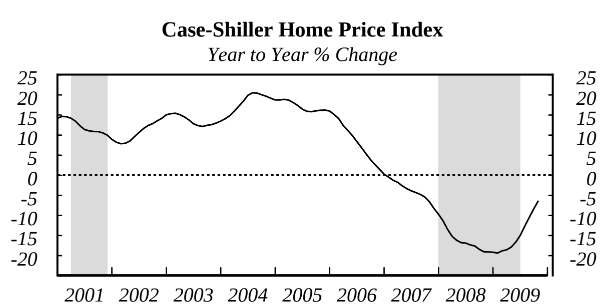


Recently reported data regarding the United States confirms that the pace of economic recovery is gaining some traction. Real GDP is forecast to have grown at an annual rate of about 4 percent in the fourth quarter following the third quarter's 2.2 percent gain. Without the one-time "cash for clunkers" rebate, GDP advanced only 0.5 percent in the third quarter. The Blue Chip Economic Indicators consensus of economists forecasts a 2010 GDP growth rate of about 3 percent. This estimate has been revised upward in each of the past several months. Manufacturing activity, as measured by the Institute of Supply Management (ISM), rose in December to an index level of 55.9, its fifth consecutive month of expansion following 18 months of decline. An index level above 50.0 indicates that manufacturing activity is growing.

Growth will continue throughout 2010.

Industrial production has risen in four of the past five months for the first time since 2005. Capacity utilization also rose to its highest level of 2009 in December. The Index of Leading Economic Indicators has risen for 8 consecutive months, a string of monthly increases that has not occurred for five years. This suggests that the economy will expand through at least the first half of 2010.

The services, construction and government sectors of the economy, as measured by the ISM Non-Manufacturing Index, rose to 50.1 in December. This index is well off its low at the beginning of 2009, but has moved sideways over the past several months. These sectors, are no longer a drag on the economy but until the service sectors show meaningful expansion, job growth will face headwinds. Services comprise about 70 percent of GDP.



Personal disposable income has gained some strength over the past several months, buoyed by higher transfer payments (unemployment insurance), lower tax payments and a modest increase in wages and salaries.

The housing market has likely bottomed despite continued foreclosures.

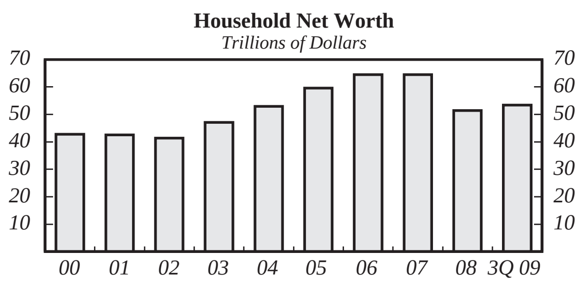
The housing market appears to be seeking a bottom although the evidence is mixed. The various housing price surveys indicate that prices have troughed. The latest releases for existing home sales are up while new home and pending home sales are down. Foreclosures continue to rise. Government programs such as the homebuyer tax credit distort the monthly figures and interfere with the normal tendency of the marketplace to correct the excesses and imbalances that have occurred in this sector.

Employment appears to be stabilizing although it historically lags an economic upturn.

The employment situation is also showing signs of stabilizing. Initial claims for unemployment insurance have trended downward and are at the lowest level in 15 months. However, many claimants have exceeded the benefit period paid by states and are on federal emergency and extended unemployment insurance which are not reflected in the published weekly data. The total of claimants on jobless benefits of all types exceeds 10 million which suggests a very weak employment situation and some 15.3 million people are out of work. The unemployment rate in December remained at 10.0 percent, off modestly from its peak of 10.2 percent although the number of unemployed continued to climb modestly. Economists estimate that it takes GDP growth of about 2.5 percent to make a dent in the unemployment rate, or job creation of over 100,000 per month to bring the jobless rate down.

Construction spending has declined for 7 consecutive months and 13 of the past 14 months. Residential construction appears to be bottoming while commercial real estate construction remains weak. Foreclosures, rising vacancies, declining rents and barriers to refinancing term loans will plague the commercial real estate market throughout 2010.

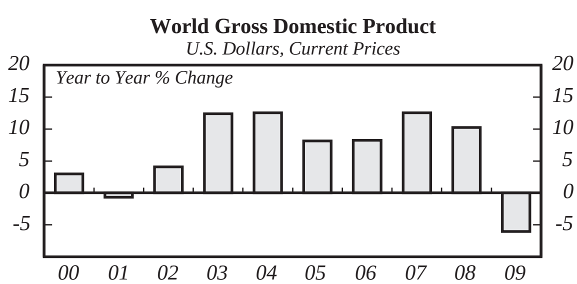
Household net worth has improved after falling sharply.



Household net worth has risen for two consecutive quarters and will be up in the fourth quarter when the data is released in March 2010. Household liabilities are down as consumers have paid off revolving debt, including credit cards, and non-revolving debt, including auto loans. Household assets have improved with the increase in home values and the rise in the stock market. Since its low of $48.5 trillion in the first quarter of 2009, household net worth has risen 10 percent to $53.4 trillion. A measure of the damage to households of the financial crisis over the past several years is that the net worth of households peaked in 2006 at $64.5 trillion, some 21 percent above the third quarter level. Improved household net worth has improved consumer sentiment and confidence.

Inflation, as measured by consumer prices, producer prices, and import and export prices, has exhibited a modest upward trend after having experienced year-over-year declines for much of 2009. This is further confirmation that the domestic and global economy has emerged from the economic downturn and cyclical deflation.

Foreign economies are also improving led by China and India.



The International Monetary Fund (IMF) is forecasting global GDP growth of 2.9 percent in 2010. This is higher than its prior forecasts and will likely be revised upward with the next release. China has revised its historic economic data to show higher GDP growth and a more service-oriented economy. The Chinese government has implemented an economic census in an effort to improve the accuracy of its statistical data. In 2008 China's GDP grew at a revised rate of 9.6 percent, up from 9 percent, to about $4.6 trillion. By comparison the current level of U.S. GDP is about $14 trillion. The higher base will raise the total of GDP for 2009 and thereafter. Growth in China has accelerated rapidly in the last half of 2009 growing at an average annual rate of 8.9 percent in the third quarter. China has surpassed Japan as the second largest economy in the world and Germany as the largest merchandise exporter. Japan's economy grew at an annualized rate of 4.8 percent in the third quarter while India's GDP advanced at an annual rate of 13.9 percent. The 16 nation euro zone, Great Britain, Africa, South America, Australia and Russia are also reporting economic data supporting the emergence from recession. However, the global economy remains fragile and vulnerable to the removal of various stimulus programs, undercapitalized banking systems and further loan write-downs, high unemployment, weak household finances and large public sector (federal, state and local) deficits. Indeed, the debt rating firms Standard & Poor's and Finch Ratings at the end of December downgraded Greece's sovereign debt, raising concerns about other possible downgrades of countries with growing federal budget deficits. One of the largest banks in Austria failed at the end of the year.

Coordinated policy actions by countries around the world perhaps prevented a global depression.

Coordinated and synchronized efforts of countries around the world to ward off depression and deflation appear to have played a role in abating the further hemorrhaging of the global economic collapse. These measures included large government spending or stimulus programs, central bank monetary stimulus and low interest rates, and government support and bailout of failing financial institutions. The normal forces of the marketplace also corrected some of the imbalances and excesses that were brought on by the prior economic expansion and policy errors that encouraged excessive speculation and risk taking. Thus, the response to the financial meltdown of 2008-2009 avoided the mistakes of the early Great Depression beginning in 1929. In that period the U.S. contracted the money supply, raised interest rates, raised taxes, cut government spending and initiated protectionist trade legislation that damaged world trade.

These actions may have sown seeds for future problems.

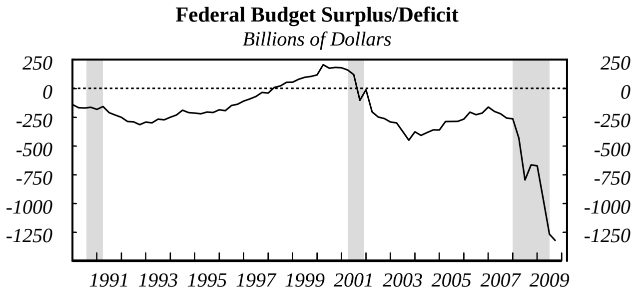
Government intervention into the private sector unprecedented.

While the policy responses to the financial and economic crisis of 2008-2009 may have averted a much worse economic collapse, they have sown the seeds for potential problems in the future. Within the U.S. the amount of government intervention into the private sector is unprecedented. The U.S. government underwrites 9 out of 10 home mortgages, is the largest underwriter of automobile loans, owns a controlling stake in two domestic automobile manufacturers, owns 80 percent of the largest life insurance company, has an equity ownership in nearly 600 banks, guarantees about $3 trillion in money-market mutual fund assets and has its fingerprints on parts of the railroad, electric utility and healthcare industries. Along the way, private property rights were overturned and the rule of law violated, as occurred when the Administration orchestrated the bankruptcy of General Motors.

Since the rescue of Bear Stearns by JPMorganChase in March of 2008 and the Federal Reserve guarantee of $29 billion of risky Bear Stearns assets, the government has committed $12.5 trillion to support various sectors of the economy of which over $2 trillion has been spent. General Motors now has 435 CEOs, every member of the House of Representatives. Nobody knows what impact this government intervention into the private sector will have on the future long-term economic growth of the United States. Will the threat of government action on property rights and the rule of law dampen entrepreneurial spirits? Will investors have less incentive to risk capital because of greater uncertainty or become more risk-oriented because the government may bail them out?

Free market capitalism encourages entrepreneurism and innovation and results in higher standards of living. One third of the world has been lifted out of poverty through its adoption over the past thirty years. Capitalism is a system of profit and loss. The benefits of a market economy are compromised when government stands ready to bail out those that fail. The forces of supply and demand determine the allocation of capital, the structure of pricing and the fate of those that survive or perish. A shift from a market-based economy to a command economy, where government committees override market forces to rescue failing firms (and determine what auto dealerships to close or hold open) and in so doing trample constitutional rights, can have adverse longer-term consequences on the future of the country. The government's role in the economy will be greatly expanded in the period ahead. Expect more regulation, supervision, intervention, control, red tape, pay czars and taxes.

Global economy remains vulnerable to an undercapitalized banking system, termination of stimulus programs, and large public sector deficits.



Of more immediate concern is the large federal budget deficit resulting from the decline in tax collections due to the recession coupled with the increase in federal spending and the enormous rise in the Fed's balance sheet. The federal budget deficit in fiscal 2009 ending in September totaled $1.4 trillion, 10 percent of GDP. Federal government receipts were 15 percent of GDP while spending was 25 percent of GDP. The estimated deficit for fiscal 2010 is $1.5 trillion. Total outstanding federal debt is forecast to increase from $10.7 trillion at year-end 2008 to $23.3 trillion in 2019. In the course of 2009, alone, it rose 15 percent. It appears that the federal government believes it can solve a problem that was caused by too much debt by creating more debt. Typically when governments create large public sector debt relative to the size of their economy, they devalue their currency with attendant higher inflation. They pay down future liabilities with cheaper units of currency.

The private sector is deleveraging despite government intervention to rescue those that should have failed. Household debt (credit and mortgage) has contracted at a record 2.6 annualized rate over the past six months while business debt has declined a record $437 billion. Corporate balance sheets are in their strongest positions in nearly fifty years.

The Federal Reserve has supported the economy by buying or supporting just about every financial instrument that was in trouble (mortgage-backed securities, AIG securities, etc.) as well as purchasing U.S. Treasuries and Agencies. This has created a huge supply of excess reserves that the banking system can potentially turn into money with future inflationary implications. When and how the Fed unwinds its balance sheet will be a major determinant of economic prospects over the course of the next several years.

SUMMARY

A recovering United States and global economy over the next several quarters and a large jump in productivity is expected to produce a significant increase in corporate profits in the period ahead. This should provide the backdrop for a favorable environment for the equity markets. Inflation rates remain subdued near-term and interest rates are low by historic standards. The interest rate spread between short-term and long-term Treasuries is at an all-time high which argues against a double-dip recession in 2010. The year will also benefit from economic and income shifts from 2011 to 2010 in anticipation of higher tax rates in 2011.

WENTWORTH, HAUSER AND VIOLICH
INVESTMENT COUNSEL

301 BATTERY STREET, SUITE 400
SAN FRANCISCO, CALIFORNIA 94111-3203
TELEPHONE (415) 981-6911
FACSIMILE (415) 288-6153

801 SECOND AVENUE, SUITE 1210
SEATTLE, WASHINGTON 98104-1518
TELEPHONE (206) 219-2450
FACSIMILE (206) 219-2479