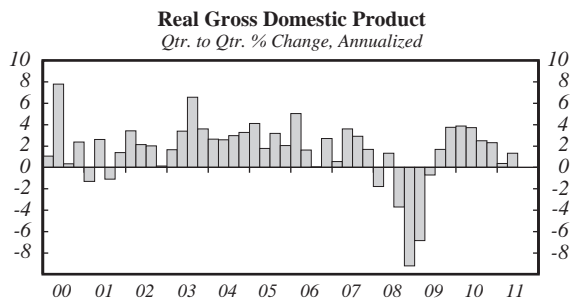


WENTWORTH, HAUSER AND VIOLICH

REVIEW AND OUTLOOK - FALL 2011

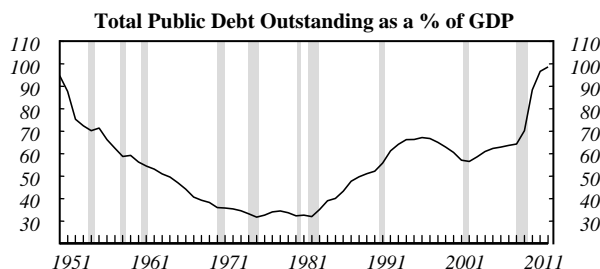
U.S. economy experiencing slower growth.



Economic growth within the United States has slowed significantly over the past several quarters. In the first half of 2011, real Gross Domestic Product (GDP), the total output of goods and services within the United States adjusted for inflation, grew at an annual rate of 0.9 percent. For all of 2010, real GDP grew at 3.0 percent, however, the rate of growth decelerated throughout 2010 from an annual rate of 3.9 percent in the first quarter to 2.3 percent in the fourth quarter.

Revised GDP figures show a deeper recession and slower recovery.

With the second quarter GDP report, the government revised its data going back to 2003. The revisions showed the recession to be deeper, and the recovery to be milder than previously reported. The 2007-09 Great Recession experienced a 5.1 percent decline in real GDP compared to the earlier figure of 4.1 percent. The recovery in economic activity from the second quarter of 2009 through the second quarter of 2011 was revised to a 4.6 gain in total output, down from 4.9 percent. The significance of these revisions is that the growth in real GDP of the past two years has not yet surpassed the peak of the prior economic cycle in the fourth quarter of 2007. This underscores that this is the weakest economic rebound of the same length, following a recession, in the post-World War II period which covers eleven cycles.



The downward revision in GDP also underscores the nation's growing debt burden. Total outstanding U.S. government public debt is \$14.7 trillion representing 98.3 percent of GDP. This debt is growing at a clip of \$3.9 billion a day. By the end of the year, the outstanding public debt will exceed 100 percent of GDP a level that virtually all economists believe is unsustainable. The

federal budget deficit is about 8 percent of GDP, also an unsustainable level relative to the long-term health of the economy.

The Administration and Congress have not been able to address the short-term problem of a depressed level of economic activity and the long-term problem of huge unfunded future liabilities of Social Security, Medicare, Medicaid and the new health care reform legislation.

U.S. government debt downgraded by S&P.

This deterioration in the fiscal situation of the United States, and the comedic events surrounding an increase in the debt ceiling, caused Standard & Poor's to downgrade the credit rating of the United States to below AAA. This is the first downgrade in U.S. debt since ratings were initiated. France and the Isle of Man have higher credit ratings than the U.S.

The legislation that increased the debt ceiling above \$14.3 trillion in August created a twelve-member Joint Legislative Committee to recommend to Congress by November 23 ways to cut the federal budget deficit. If recommendations are not enacted by Congress automatic reductions in defense and discretionary spending will occur.

Recently released economic data are mixed and suggest that the economy may be on the brink of entering another recession after only eight or nine quarters of growth. The average

Post-WW II expansion has lasted 59 months and the expansions have become greater in length with the past three expansions averaging 95 months.

Consumers are de-leveraging.

The reasons for the anemic nature of this recovery are several. After many years of profligate spending and borrowing, consumers are saving and de-leveraging. The high unemployment rate and lack of job growth have increased the fear among consumers of becoming unemployed. Corporations are also unwilling to invest or hire. The multitude of burdensome regulations of the past decade, including the Sarbanes-Oxley Act (2002), The Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) and the Patient Protection and Affordable Health Care Act (2010), not to mention the numerous rulings, mandates and regulations handed down by various government agencies, have spawned incomprehensibly complex laws that have resulted in uncertainty, anxiety and caution as to the future course of the economy. When uncertainty increases, the willingness of consumers to spend and companies to commit capital to long-term investment diminishes.

Excessive regulations stifling the economy.

Banks have tightened lending standards.

Additionally, banks have reduced their willingness to lend. Lending standards have increased but uncertainty has also increased as a result of actions by the government. Government policy since the 1930s has been to promote home ownership. Fannie Mae and Freddie Mac were created to facilitate the mortgage market. The Community Reinvestment Act of 1977, and laws that followed, essentially mandated banks to provide mortgage loans to “rural and underserved areas.” To comply with these mandates, banks had to lower their lending standards thereby creating sub-prime mortgages. Congress authorized Fannie and Freddie to buy these mortgages. The Fed lowered interest rates in the early 2000s and a housing boom ensued. There were profits to be made by all. Throw in some greed, larceny, corruption and incompetence and a boom-bust housing cycle occurred. The government rescued its own agencies (Fannie and Freddie) and other financial institutions. Now the government, through the Federal Housing Finance Agency, is suing the banks for misleading Fannie and Freddie on the loans the banks sold to the government agencies. This occurred during the time that Fannie and Freddie themselves were making enormous profits, paying their CEOs millions of dollars in compensation and undertaking accounting mischief. No wonder people have little confidence in their government and no wonder the banks are cautious about making mortgage loans.

Labor market remains weak.



The labor market has exhibited renewed weakness of late. Initial claims for unemployment insurance have trended upward over the past couple of months and the nonfarm payroll employment numbers have shown a loss of momentum over the past year. Nonfarm payrolls are 6.6 million below the peak of the past cycle in January 2008. The unemployment rate in September was 9.1 percent, marginally better than the average of

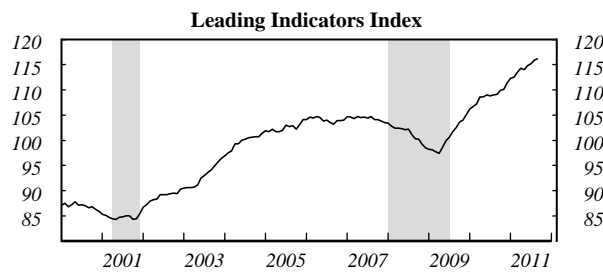
9.2 percent for the past year. There are 14 million people who are unemployed, 6.2 million who want a job but are not looking for one (i.e. have withdrawn from the labor force), and 9.3 million who want to work full time but are only working part time. This under-utilization of the labor market has negatively impacted consumer income and spending, consumer confidence and federal and state tax receipts.

Retail sales have likewise exhibited a slowing trend. Over the past twelve months the annual rate of change in retail sales has fallen from 7.2 percent, to 2.9 percent for the past six months to 2.1 percent for the past three months to no change in August. Similar diminishing trends have been reported by the ISM Non-manufacturing Survey, the ISM Manufacturing Survey, the Chicago Purchasing Managers' Survey, the Philadelphia Fed Survey and the Empire State Manufacturing Survey.

Housing market remains weak.

The housing market remains depressed. Existing home sales, new home sales and housing starts are near cyclical lows. Twenty-five percent of homeowners with a mortgage owe more than their house is worth. Over six million households are delinquent on their mortgage payments or in foreclosure as of the end of the second quarter of 2011. The Case-Shiller Home Price Index has fallen 31.7 percent from the April 2006 peak. Homeowners have lost close to \$7 trillion in equity over the past five years. In perspective that is almost half of the total GDP of the U.S. in 2010. The fallout from the housing bust has adversely impacted consumer sentiment and confidence and attendant consumer spending. The economy is not likely to get a boost from the housing market in the foreseeable future.

Most economic indicators suggest continued but slower growth.



Other economic data point to continued, albeit slow, economic growth over the next six to nine months. The Index of Leading Economic Indicators has increased in each of the past four months. Over the past six months, which is considered the best indicator of future economic activity, the Leading Index has risen at an annualized rate of 4.8 percent and is 6.5 percent above the year-earlier level. Interest

rates remain at historically low levels. The 90-day Treasury bill yields 0.01 percent (reflecting a level of risk-aversion that is focused on return “of” principal, never mind return “on” principal) while the 10-year Treasury yield has fallen below 2.0 percent. The 30-year Treasury bond yield hovers around 3.0 percent. A positively sloped yield curve, whereon longer-term interest rates are higher than short-term interest rates, has historically been a positive sign for the economy.

Industrial production has risen in each of the past four months. Commercial and industrial loans have begun to increase after falling for a year and a half and are 8 percent above their recession low. Consumer credit loans have also exhibited an upward trend as non-revolving credit (auto) has outpaced a continued decline in revolving (credit card) loans.

Economists are seeing increased odds of a recession.

In summary, forecasters have lowered expectations for U.S. GDP growth to 1 to 2 percent for the last half of 2011 and about 1.5-2.5 percent for 2012. Economists give the increased odds of a recession over the next six months at about one in three. The Federal Reserve, after its September 21, 2011 meeting, released the following statement: “Moreover, there are significant downside risks to the economy, including strains in global financial markets.”

European sovereign debt crisis a serious challenge.

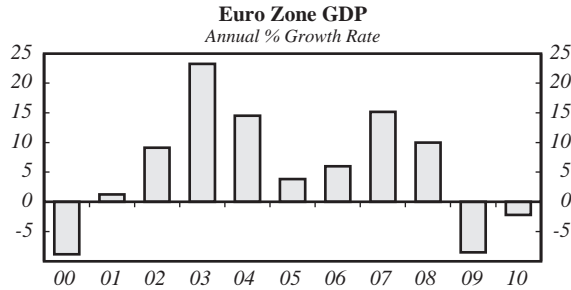
Indeed, the most immediate threat to the U.S. economy would appear to be the sovereign debt crisis in Europe. Greece is running out of money to fund its government debt, pay public sector wages and pay retirees’ pension and healthcare benefits. Portugal, Ireland, Italy and Spain are not far behind Greece. The sovereign debt of the various European countries is held throughout the banking system in Europe and Great Britain. A default could adversely impact the global financial system. The level of economic output, the foundation of debt-service capacity, is not sufficient to cover the liabilities of the euro zone’s peripheral countries.

Long-term solution to Europe's problems unlikely.

The European Financial Stabilization Facility (EFSF) has been created by the euro zone members as a “temporary” bailout fund. However there is disagreement as to how much each country should contribute and German resistance. The European Central Bank and the International Monetary Fund are also being asked to provide loans.

In return for the loans, Germany and others want the endangered countries to take steps to close their federal budget deficits. The actions include tax increases and reforms of labor laws and social welfare systems. Such steps could drive these economies into deeper recessions and higher unemployment resulting in reduced tax revenues and larger deficits. Austerity measures are likely to be met with public opposition, strikes and civil disorder and one or more countries leaving the euro zone. A breakup of the euro zone would have unpredictable negative effects on the global economy.

Global growth forecasts are being pared.



Forecasts for the global economy are being pared. China, India and Brazil are purposefully trying to slow their economies to rein in inflationary pressures. The forecasts for Japan, the U.S., the euro zone and Great Britain are for tepid to no economic growth for the second half of 2011 and into 2012. The slowdown in global growth is feeding upon itself. The developed countries have relied on

the emerging markets to spur export growth to offset weak domestic demand. The emerging and developing markets have relied on growth in the developed countries to fuel their economies through exports.

This slowdown may cause a reversal of monetary policy in those emerging countries that have raised interest rates to fight inflation. Brazil's central bank, which raised interest rates five times during the first seven months of 2011, lowered interest rates at its last meeting in response to slower growth. It is likely that the actions of Brazil's central bank will be followed by others so the correction process for curtailing inflation may already be underway. The IMF projects China to grow at 9.5 percent in the second half of 2011 and 9.0 percent in 2012. Its forecast for the global economy is growth of 4.0 percent, down from a June forecast of 4.3 percent. Given the higher base of global output, a 4.0 percent rate of growth for the world economy in 2012 should keep the developed countries from sliding into recession.

U.S. corporate profits are at a record level.

In the second quarter of 2011, corporate profits in the U.S. from current production after capital consumption and inventory valuation adjustments, considered the best measure of corporate profits, were at a record level and up 8.3 percent over the prior year. Corporate balance sheets are also in a strong position with record amounts of cash. The various domestic stock market indices sell at 10-12 times earnings and many of their dividend yields are above the 30-year U.S. Treasury yield, suggesting that the equity markets are undervalued, assuming there is not a serious further deterioration in the global economy. Given the fragile condition of the economy, government policy in the period ahead regarding taxation, spending, trade and regulation will determine the future course of economic activity.

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