

ECONOMIC MARKET REVIEW AND OUTLOOK

December 31, 2010

Often times the effects of government stimulus programs are only temporary. The federal government's "Cash for Clunkers" and "Home Buyer Tax Credit" are two examples. In both cases, rather than creating long lasting increases in demand, they simply moved demand forward, only to give it back later. Auto sales rose from an annual rate of 10 million vehicles to above 14 million at the peak of the Cash for Clunkers program, only to fall below 10 million the following month. Home sales rose from an annual rate of 4.5 million units to 6.5 million units just prior to the first expiration of the home buyer tax credit program in November 2009. The program's extension to April 2010 created a second peak at 5.5 million units. Following the program's expiration, home sales fell to a new low of 3.7 million units by July 2010.

On August 27 of this year, the Federal Reserve announced the latest of their efforts to stimulate the economy. Pointing to concerns about high unemployment rates and low inflation levels, they announced a program of increasing the nation's money supply by purchasing government bonds with newly created dollars. This program, known as "Quantitative Easing" is designed to push up the price of assets throughout the economy in hopes that the "wealth effect" of higher prices will cause individuals to spend more as their asset values grow relative to their debt levels. Markets reacted right on cue. From the August announcement through year-end, stock prices, as measured by the Standard & Poor's 500 Index, rose by 18%. Prices for commodities of all types also rose sharply as indicated by a 24% increase in the Commodity Research Bureau Index.

All this leaves us asking if this is just another case of moving demand forward, only to have it fall back later? We know, of course, that there is a limit to the returns that can be expected from stocks. Further, there is a point at which higher prices for commodities cause demand to decline. Therefore, a steep increase in prices over a short period of time is often just a case of demand moved forward. This would indicate that investors should look for more muted returns going forward than they would have otherwise received. The exception to this line of thinking hinges on whether or not the "wealth effect" of higher stock prices has a significant impact on spending. The "wealth effect" is defined as the amount that people increase their spending in response to an increase in their net worth. It is typically thought that individuals will spend 2.5% to 5% of the increase in their net worth over the following year. Should this be the case, economic growth could increase from a recent 2.5% rate to above 3% for a few quarters. (The reduction in the Social Security Tax Rate for 2011 will also help.) A higher economic growth rate would in turn be supportive of the recent rise in the prices of stocks and other assets.

Looking longer-term, our ten-year forecast for U.S. stock returns has declined slightly from this time last year. The new ten-year forecast projects an annualized total return of 6.5% to 8.5%, down from 7% to 9% one year ago. The combination of lower dividend yields and higher prices relative to trend earnings is responsible for the reduced forecast. We have also lowered our return expectations for bonds due to the simple fact that yields, while up

Equity Indices	4th Qtr.	2010
S&P 500	10.76%	15.06%
S&P 600	16.24%	26%
Russell 1000 Growth	11.83%	16.71%
Russell 1000 Value	10.54%	15.51%
EAFE (US\$)*	6.65%	8.21%

Total Returns for the period.
*an index of foreign stocks.

Interest Rates	9/30/10	12/31/10
90 Day US T-Bill	.16%	.12%
10 Yr US T-Bonds	2.53%	3.30%

GOELZER
INVESTMENT MANAGEMENT

Preserving and Growing Capital Since 1969

sharply over the past two months, are lower than they were one year ago. This forecast could certainly change if interest rates continue to move higher. For non-traditional assets, our return expectations are mixed, with lower expectations for gold and REIT's, and higher expectations for strategies such as merger arbitrage. Overall, we continue to expect a ten year annualized rate of return of 6% to 8% for our non-traditional assets portfolio.

We hope that 2010 was a great year for you and your family! Thank you for allowing us to serve as your investment advisor and for your continued confidence as we enter a new year.

Disclosure

This document is for information only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Any reliance you may place on the accuracy of this information or the validity of our opinion is at your own risk. The information is not intended to provide and should not be relied on for accounting, legal, and tax advice or investment recommendations. The views and strategies described in the piece may not be suitable to all readers and are subject to change without notice.

GOELZER
INVESTMENT MANAGEMENT

Preserving and Growing Capital Since 1969