



MARKET PERFORMANCE — FOURTH QUARTER 2009

The Quarter in Brief: Stocks trended higher in the fourth quarter to cap off a stellar year. The gains for the quarter, while respectable, were less robust than those of the second and third quarters. Many portfolio managers locked in gains and moved to the sidelines. Moreover, renewed strength in the dollar also undermined some commodity-related stocks. Financial stocks, a key leader off the March lows, moved sideways for the most part, while big cap technology stocks pushed higher. After diverging noticeably from large cap stocks in October and November, small caps rallied in December to finish the year on an up note. Lastly, emerging market stocks turned in another strong quarter to finish the year with outsized gains.

Domestic Economic Health: The nation's GDP grew at 2.2% in the third quarter, following four straight quarters of negative growth. U.S. GDP is expected to register growth of 3% in the fourth quarter according to a group of blue chip economists surveyed by the Wall Street Journal. These same economists forecast that the economy will grow at 3% for all of 2010. While this number is respectable on its own, it is somewhat modest in light of growth rates following prior severe downturns in the economy.

Following a decline of 14.7% in the third quarter, companies in the S&P 500 are expected to post earnings growth of 184% in the fourth quarter relative to the fourth quarter of 2008, when financial stocks posted enormous losses. The financial, materials and consumer discretionary sectors are expected to post the highest growth rates for the quarter while the energy and industrials are expected to have the lowest growth rates. For 2010, Wall Street analysts expect aggregate earnings for companies in the S&P 500 to grow approximately 25% from 2009 levels, to \$75 per share. It is far from certain the economy will grow quickly enough in the New Year to generate such robust profit growth.

The 10-year Treasury fell during the quarter with the yield rising to 3.84%. The yield on the benchmark 10-year Treasury started the year at 2.24%. After rising sharply in the first half of the year, yields trended lower for much of the second half. However, there was a notable uptick in December on improving economic news and concerns by investors that rates would rise in 2010, especially if the Fed were to start raising the Fed Funds rate as expected.

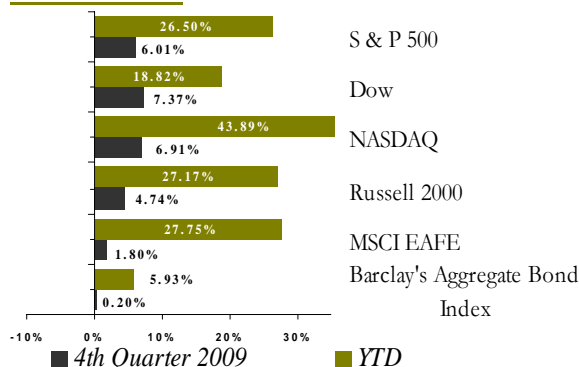
The Fed kept the Fed Funds rate unchanged at its November and December meetings. In its statement released after the December meeting, the Fed upgraded its assessment of the economy but reiterated that it anticipated "exceptionally low levels of the Fed Funds rate for an extended period of time." The Fed also stated that it expects to finish by March 2010 its plan to purchase \$1.25 trillion in agency mortgage-backed securities. Amazingly, in the past year the Fed purchased more than 70% of the mortgages that Fannie Mae, Freddie Mac and Ginnie Mae turned into securities according to the Wall Street Journal. A material rise in mortgage rates may cause the Fed to resume this purchase program. Separately, the Senate banking committee voted to nominate Chairman Bernanke to a second (four-year) term, clearing the way for his likely confirmation by the full Senate in January.

Commodities: Oil rose from \$70.61 to \$79.36 per barrel during the quarter. For the year, oil rose 78% from \$44.60 per barrel. Much of the rise was due to a growing belief the world economy was recovering and that healthy demand from emerging market economies would resume. Gold also rose during the quarter, touching a high of \$1,217.40 per ounce before settling at \$1,095.20 at year's end. For the year, gold rose 24%, from \$880.30 per ounce. A loss of confidence in paper currencies, including the dollar, helped fuel gold's climb higher. Despite its rise, gold is still 50% below its inflation-adjusted high of approximately \$2,300 per ounce dating back to 1980. Lastly, copper, considered a harbinger of future economic growth, also rose during the quarter. For the year copper rose approximately 140% to finish at \$3.3275 per pound.

Congressional Action: The House and Senate each passed health care reform legislation that, after reconciliation, President Obama is expected to sign into law early next year. Healthcare stocks, laggards for much of the year, rallied on the news. The stock market in general seemed unfazed by the massive bill and its implications for business not to mention the hundreds of billions of dollars it will likely add to soaring federal deficits. Many of the key provisions do not go into effect until 2014. Additionally, Congress extended the home-buyer credit until the spring of 2010, an indication that the housing market still needs support. Home prices appear to be stabilizing in many parts of the country, but the market remains fragile due in part to tighter lending standards, high unemployment and the prospect of a new wave of foreclosures in the New Year. Of note, little progress was made during the quarter or year on overhauling how the country's financial system is regulated so as to prevent a recurrence of the financial meltdown we experienced in 2008.

Geopolitical: Iran reneged on a deal brokered in October that called for it to ship the bulk of its low-enriched uranium outside the country for further enrichment, before shipping it back to Iran for use in a medical-research reactor. The U.S. is expected to press for new economic sanctions against Iran. This stalemate will likely intensify in 2010, and bears close watching due to its obvious implications for the oil markets.

Market Scorecard



2010 OUTLOOK

Stocks enter the New Year with an upward bias, fueled by growing optimism over an improving economy. The housing market is showing signs of stabilization and the labor market should start to see net job growth in the coming months.

We believe the Fed will err on the side of raising rates too late instead of too soon, so as to avoid the possibility of snuffing out the nascent recovery. Consequently, we expect the dollar to remain weak and commodities to remain strong.

Along these same lines we expect concerns to grow that the Fed's ongoing easy money policy will ultimately result in inflationary pressures. As a result, we think longer-term Treasury yields will drift higher.

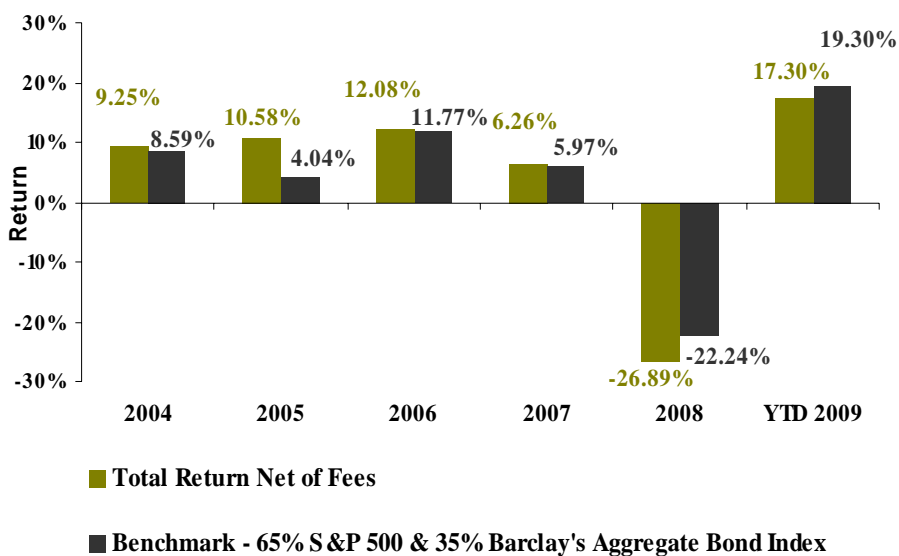
On the labor front, we expect the unemployment picture to slowly improve with companies gradually adding back workers out of necessity. Relative to the rapid pace at which employers shed jobs during the recession, job growth will likely prove modest.

We believe growth in overseas markets, particularly Asia, will remain strong. Having said this, we are mindful that China's massive stimulus plan may ultimately lead to a bubble in real estate and stock prices in that country.

Specific Strategies for 2010

- Overweight international stocks on the premise of a weakening dollar and better growth prospects overseas. Growth in emerging markets continues to handily outpace growth in developed countries.
- Overweight international bonds on the expectation the dollar will remain weak.
- Overweight energy stocks which should benefit from increasing demand from developing markets, especially Asia.
- Overweight technology stocks which continue to post strong earnings.
- Overweight large cap stocks that have better export capabilities and better access to credit markets relative to small cap stocks.
- Maintain a bias to short term fixed income securities due to the prospect of rising long term interest rates.
- Invest in ETFs that are designed to benefit from falling Treasury prices (and rising yields).

Johnson Bender & Co. Growth & Income Portfolio vs. Benchmark

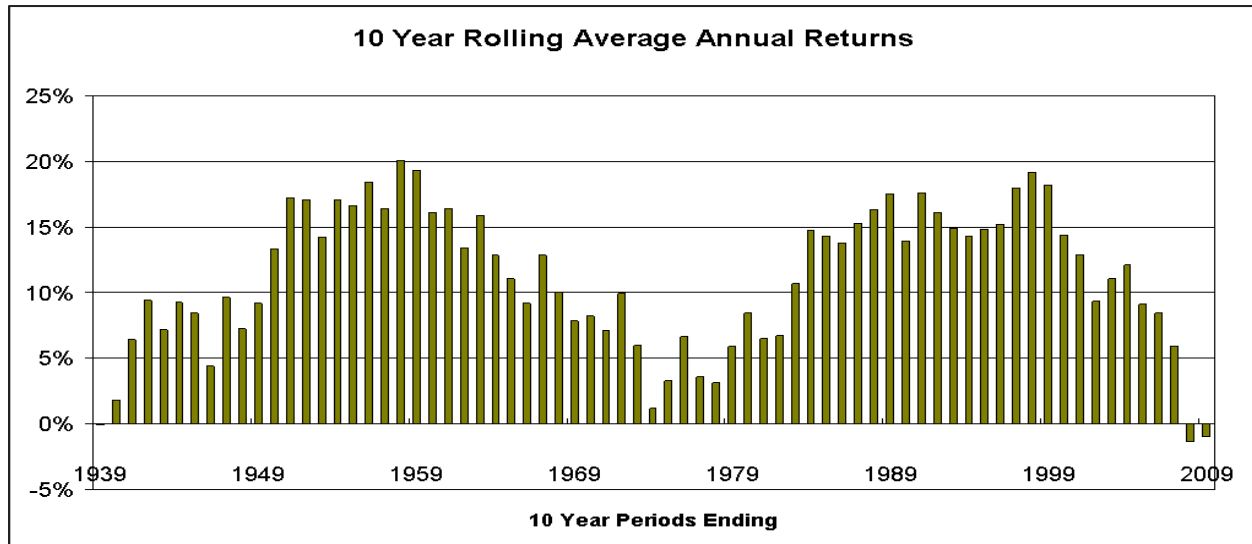


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conditions warrant, the portfolio may include investments in floating rate loan funds, high yield bonds, international bonds, preferred stock, CDs and money market funds. Lastly, the portfolio may include commodity holdings depending on market trends. All performance figures for the composite and the benchmark are net of management fees and expenses unless otherwise noted, include the reinvestment of dividends, are reported in U.S. Dollars and reflect the changes in net asset value. All performance figures are as of Dec. 31 of the year noted.



HISTORY REPEATING



The graph above depicts rolling 10-year returns for the S&P 500 for periods ending 1939—2009. The graph confirms what many of us have recently heard or read; namely, that stocks posted a negative return for the past decade. Of note, the graph also clearly indicates that the stock market has cycled through long periods of strength and weakness. On this basis, one might fairly expect solid returns from the equity markets in the coming decade. We tend to agree. However, the returns ahead may simply prove good instead of great for a handful of reasons.

First, companies in the S&P 500 are expected to earn a collective \$76 per share in 2010 according to a dozen top strategists recently surveyed by Barron's. Using this figure, the S&P 500 trades at a price-to-earnings multiple of approximately 15 (1,115/\$76). This is more or less the market's average over the last several decades. On this basis, the market is not "cheap" despite the fact that it has for all intents and purposes moved sideways for a full decade. Part of the problem stems from the fact that stocks entered the decade overpriced. The S&P 500 entered the year 2000 with a P/E close to 30. In essence, a significant portion of the outsized performance in stocks in the 1990's (see chart above) was nothing more than borrowing from future years.

Other factors to consider when weighing the expected performance of stocks in the coming decade include the prospect of higher taxes to stem soaring budget deficits. The U.S is expected to run deficits totaling \$9 trillion in the coming decade according to White House projections. The surge in entitlement outlays (e.g., social security and Medicare) for the aging baby boomers will only serve to exacerbate the problem. Higher taxes generally result in slower economic growth and consequently lower corporate profits. Any increased taxes on capital (e.g., capital gains and dividends) will likely lower the value of stocks as the after-tax return on these investments will obviously fall. In brief, higher taxes will likely serve as a headwind in the coming years.

Additionally, regulation will likely rise in the years ahead, resulting in slower growth for the economy. Specifically, financial companies will operate with less leverage, as dictated by regulators, and produce smaller profits. Moreover, utility companies and other manufacturers may well see greater regulation in an effort to limit green house gases. Lastly, health care companies may see more and more regulation as governments try to rein in the costs associated with treating their aging populations.

On the plus side, many emerging markets are growing at a healthy pace. In the past, the U.S. was the world's main driver of growth. Now, the world has additional locomotives in the form of China, India, Brazil and other emerging markets. This dynamic clearly bodes well for future economic growth both inside and outside the U.S.

UPCOMING EVENTS

WWW.JOHNSONBENDER.COM

Shell Retirement Seminars

- February 16th—The Plaza Club
- February 23rd—The Westlake Club
- March 25th—The Plaza Club

A Day At The Races

February 21st & March 6th—Sam Houston Race Park

Seating is limited.

Contact our office for more information:

832-615-3810 or rsvp@johnsonbender.com



Sources and Disclosures:

The Wall Street Journal

Barron's Magazine

The American Funds

Thompson Reuters

Standard & Poor's

Office of Management and Budget

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