



Stanton & Castleton, Inc.

An independent firm

2009 Capital Markets Outlook

Towards the end of each year we meet several times to discuss any changes in our outlook for the next year. We both will have reviewed several Capital Market Outlook publications from a number of respected investment houses including Raymond James. This along with our research of the global markets from both an economic and geo-political perspective helps us establish our expectations for the coming year.

Our objective is to establish an outline for how we believe the markets may behave and identify what we see as the major risks to investments across all market segments. We do not pretend to be able to predict what will happen in the future, rather we want to establish confidence that the portfolios we recommend are positioned to benefit from positive market environments and are helping to reduce risk exposure through diverse asset allocation and manager selection during negative market periods.

The following is our 2009 Capital Markets Outlook:

Back to Basics...Interest Rates, Inflation, Liquidity & the Federal Reserve:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
2008	4.28%	4.03%	3.98%	3.94%	4.18%	5.02%	5.60%	5.37%	4.94%	3.66%	1.07%	NA	NA
2007	2.08%	2.42%	2.78%	2.57%	2.69%	2.69%	2.36%	1.97%	2.76%	3.54%	4.31%	4.08%	2.85%
2006	3.99%	3.60%	3.36%	3.55%	4.17%	4.32%	4.15%	3.82%	2.06%	1.31%	1.97%	2.54%	3.24%
2005	2.97%	3.01%	3.15%	3.51%	2.80%	2.53%	3.17%	3.64%	4.69%	4.35%	3.46%	3.42%	3.39%
2004	1.93%	1.69%	1.74%	2.29%	3.05%	3.27%	2.99%	2.65%	2.54%	3.19%	3.52%	3.26%	2.68%
2003	2.60%	2.98%	3.02%	2.22%	2.06%	2.11%	2.11%	2.16%	2.32%	2.04%	1.77%	1.88%	2.27%
2002	1.14%	1.14%	1.48%	1.64%	1.18%	1.07%	1.46%	1.80%	1.51%	2.03%	2.20%	2.38%	1.59%
2001	3.73%	3.53%	2.92%	3.27%	3.62%	3.25%	2.72%	2.72%	2.65%	2.13%	1.90%	1.55%	2.83%
2000	2.74%	3.22%	3.76%	3.07%	3.19%	3.73%	3.66%	3.41%	3.45%	3.45%	3.45%	3.39%	3.38%

Source: inflationdata.com

We can clearly see in the chart above how a 5 fold increase in oil prices rapidly pushed the inflation rate up to nearly 6% by July of 2008. It is also

equally clear that the near collapse of commodity prices forced inflation down to 1% in a few months. In fact when the latest data for 2008 is complete we suspect the inflation rate dipped below 1% in November.

This 82% drop in inflation was a result of the global economic deleveraging that hit full stride during the 4th quarter of 2008. Our long held view that markets eventually regress to the mean tells us that our lofty market highs were as much an illusion as the recent market lows of November. The recession has been much more severe than expected and the volatility reached unprecedented levels. As a result the Federal Reserve has lowered rates effectively to zero. Short term interest rates are at historical lows as the government tries to add liquidity to the capital markets and get lending at all levels restarted. We have seen nearly 7 Trillion Dollars move into short term treasuries, money market and CD's of under 6 months maturity during 2008. These funds came from wholesale liquidations of investment assets in stocks, bonds, real estate, commodities...just about all asset classes. The need to increase liquidity and reduce risk coupled with the forced liquidations by banks and hedge funds only fueled the public fear adding to the overall selling. In this current environment we see little risk of a near term rate increase by the Federal Reserve.

The Economy:

It is increasingly likely in our opinion that the large pool of short term investments will not stay un-invested for long. Investable capital will not sit with a near zero return once stability is achieved. Even with a very low inflation rate the real return will be negative at today's rates. However, right now investors have been opting for cash which at least slows their portfolio decline to low single digits. When the palpable fear is lessened investors will start to look for return. It is understandable how cautious investors and lenders have become. The levels of volatility we experienced reached new heights in the 4th quarter of 2008. We also saw record volume in stock trading as selling peaked. It appeared to us that we reached capitulation selling during the 4th quarter of 2008, evidenced by the following chart that shows the New York Stock Exchange Group Volume Records ten highest volume days. This may not predict a bottom in the markets nor can we say a new "bull" market is about to emerge, only that valuations have become increasingly compelling as selling pushed prices to near decade lows.

NYSE Group Volume Records – Top 10 Days:

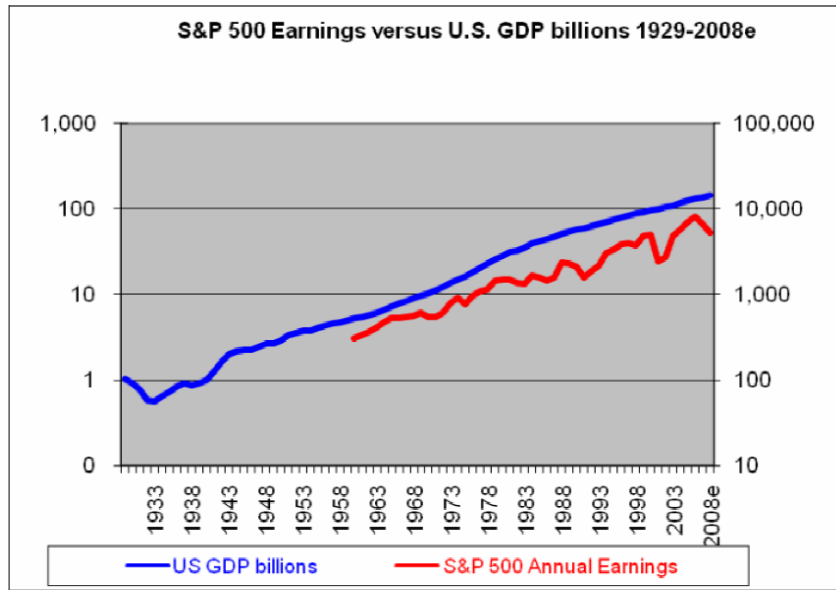
Rank	Trade Date	NYSE Group Volume in all Issues Traded
1	10/10/2008	8,868,467,181
2	9/18/2008	8,231,011,279
3	9/19/2008	7,298,900,777
4	9/16/2008	7,147,352,982
5	10/8/2008	7,016,361,893
6	9/17/2008	7,015,697,149
7	9/15/2008	6,305,827,897
8	10/6/2008	6,265,231,622
9	9/29/2008	6,179,854,031
10	10/9/2008	6,125,898,052

Includes volume executed on the NYSE, NYSE Crossing Sessions, NYSE TRF, and NYSE Arca, in all issues by NYSE Group. Source NYSE Data.com Factbook

Equity Valuations:

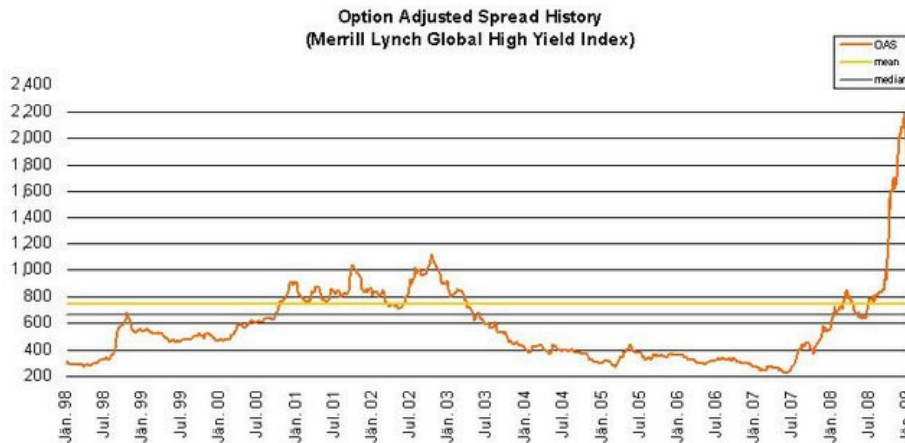
Once again we face the moving target of what defines fair market valuations for stocks. The cooling economy morphed into a full blown recession catching market analysts off guard. They have had to rapidly decrease their earnings forecast for 2009 which in turn lowers the outlook for fair value in the S&P 500. If we use a P/E ratio of 17 (the S&P fifty year average P/E 1955-2005) and then use the top down operating earnings per share for 2009 of \$57.97 (source: Standard & Poor's Index Services, S&P 500 Earnings and Estimate report) we might expect the S&P 500 to be fairly valued around 985.49. This would imply at current levels the S&P 500 may be undervalued. Our belief is that as we emerge from this recession in 2009 the earnings forecast will be slowly adjusted upward, perhaps not the levels we saw just in 2006 of \$84.69 however any improvement in estimates will raise the "fair value" for the S&P 500.

We see a lot of bargains out in the markets today, especially if you believe that our economy is not headed for a depression. As these funds begin to flow back into the markets, lending will reappear and we will have started down the road to economic recovery. In the last century recessions have lasted between 8 – 16 months with the average being 11 months. We are currently in the 13th month of this recession, so by this measure it would be reasonable to say we are more likely closer to the end of the recession than the middle. Remember long term growth to the U.S. GDP has grown steadily since the depression while S&P 500 earnings growth can be more fitful.



Bond Markets:

Our position is that because of the extreme selling across all asset classes in the 4th quarter of 2008 there are tremendous opportunities in the intermediate term corporate and municipal bond market. We would stick to the investment grade or better rated bonds, however the bargains extend up and down the rating scale. In the high yield corporate market we have seen the spread over U.S. Treasuries exceed 2200 basis points (22%).



Not every company is going to default on their debt; in fact the vast majority will meet their obligations. In the municipal bond market we can find yields of highly rated bonds that exceed taxable bonds! Again, the opportunities are abundant in today's environment. At some point the Federal Reserve will raise interest rates, however we feel that is a ways off. The Fed can not go

any lower than zero so they need the economy to securely move forward before getting anywhere near the brakes.

Currency Markets:

The dollar is rallying! Everything is relative. I guess the “de-coupled” world that was going to sit out the U.S. Recession in the “new paradigm” is not. The Dollar is already up 16.66% from the lows of summer 2008. We believe the currency markets cycles are longer term in nature and would not be surprised to see the strong dollar last for an extended period.

Oil & Real Estate:

Brent Crude hit a high of \$145.15/bbl on 07-03-2008; Brent has fallen to \$48.58/bbl on 01-06-2009. At these levels we feel the clear overvaluation is over. We could see oil stay at these levels or lower for the next few months; however on balance prices could climb in the second half of 2009. Although not to the levels we saw in summer 2008.

Like oil we feel the Real Estate Market could bottom in the first half of 2009, however the underpinnings for a rapid increase in property value may be some years off. Our position is that going forward this market will be less leveraged with investors and lenders having the fallout of lax lending practices fresh in their experiences.

“In the end, how your investments behave is much less important than how you behave.”

**Benjamin Graham
The Intelligent Investor**

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