

## JANUARY 2009

### Contents

The Economy: Shuttering Jurassic Park	2
Interest Rates: Low Inflation Gives the Fed the Green Light	5
The Stock Market: Positioning Portfolios for the Bull Market	5

The Markets	Current 12/31/2008	3-month Values	3-month Change	Year-ago Values	12-month Change
<b>Cash</b>					
Taxable MMF Yield	0.89%	1.93%	-104bp	3.99%	-310bp
Tax-Exempt MMF Yield	0.58%	1.37%	-79bp	2.70%	-212bp
<b>Fixed Income</b>					
Federal Funds Rate	0.00%	2.00%	-200bp	4.25%	-425bp
5-Yr US Treasury note	1.55%	2.97%	-142bp	3.52%	-197bp
10-Yr US Treasury bond	2.25%	3.83%	-158bp	4.11%	-186bp
5-Yr Aaa Muni Bond Index	2.56%	3.30%	-74bp	3.27%	-71bp
30-Year Conv. Mortgage	5.36%	6.02%	-66bp	5.94%	-58bp
<b>Equities*</b>					
S&P 500	903	1,166	-22.6%	1,468	-38.5%
S&P LargeCap 100	432	545	-20.8%	686	-37.1%
S&P MidCap 400	538	727	-26.0%	858	-37.3%
S&P SmallCap 600	269	361	-25.5%	395	-32.0%
EFAA Foreign Index	45	56	-20.3%	79	-42.9%
S&P 500 PE Ratio	12.7	13.0	-2.3%	16.1	-21.1%
S&P 500 Dividend Yield	3.1%	2.5%	60bp	1.9%	120bp
<b>Misc.</b>					
Inflation Rate (CPI, ann'l rate)	1.07%	5.37%	-430bp	4.43%	-336bp
CRB Index (Commodities)	230	346	-33.6%	359	-36.0%
London Gold / oz.	884	874	1.1%	835	5.8%
Crude Oil / bbl.	45	101	-55.7%	92	-51.3%
<b>Recent Economic Data</b>					
Real GDP - Quarter: 3rd Qtr.	-0.50%		Personal Income	-0.20%	
ISM Manufacturing Index	32.40		Personal Spending	-0.60%	
Industrial Capacity Utilization	75.40		Retail Sales	-1.60%	
Productivity - Quarter: 3rd Qtr.	1.30%		New Home Sales	-2.90%	
Unemployment Rate	6.7%		Consumer Confidence	38.00%	

\*Stock index performance excludes dividends

bp = basis point (1/100th of one percent)

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ONE SOUTH WACKER DRIVE, 24TH FLOOR | CHICAGO, IL 60606-4654  
PHONE 877.674.7878 OR 312.338.7878 | FAX 312.338.1594 | KBUITS@ATGTRUST.COM | WWW.ATGTRUST.COM

**Economic Forecasts\***

	2008	08:3Q	08:4Qe	09:1Qe	09:2Qe	09:3Qe
Real GDP	1.1%e	-0.5%	-6.2%	-2.6%	-0.4%	1.9%
GDP Price Deflator	2.3%e	3.9%	1.5%	1.7%	1.0%	80.0%
10-Year Treasury Bond	2.25%	3.88%	2.25%a	2.00%	2.00%	2.00%
Fed Funds Rate	0.00%	1.88%	0.00%a	0.00%	0.00%	0.00%

\* Mesirow Financial estimates  
e = estimated

**QUOTE OF THE MONTH:**

*“The good news about this recession is that the abruptness of the fall has encouraged the kind of aggressive policy responses that will bring about a recovery. But while we’re starting to see signs of the bottom, we’re not there yet.”*

— Chief Investment Officer Orie L. Dudley Jr. of The Northern Trust Company

**The Economy: Shuttering Jurassic Park**

2008 was the Jurassic Park of investing, as several marauding beasts that were thought to have been wiped out by the Securities Act of 1933 were magically reanimated and set free to terrorize an unsuspecting investing audience.

The potpourri of terrors unleashed by these voracious monsters included real bear raids, banks taking improper risks with depositors’ money, unregulated advisors (hedge funds) selling the blue sky to investors, rampant and unregulated speculative leverage obscured from view by the dark clouds of the so-called “shadow market,” a gigantic Ponzi scheme (Bernard Madoff), a lack of due diligence by many funds of funds, and predatory mortgage and consumer lending that resulted in runs on banks, bank failures, crushed financial empires, a financial landscape that may be fundamentally altered, and even suicides over lost fortunes.

The Securities Act was designed to protect the investing public from such rapaciousness. Obviously, a decade’s worth of imprudent relaxation of the rules, coupled with a frequent disregard of the rules by regulators (who may have been a bit too clubby with those they were charged

to regulate), negated the well-designed safeguards of the bygone epoch. The result was the kind of bear market our grandparents lived through, and it lopped off approximately 40 percent, or more than \$7 trillion, of domestic stock-market value.

The only safe place for investors to hide in 2008 turned out to be the highest and strongest tower in the land – U.S. Treasury securities – as the omnivorous beasts even found some money market funds to nibble on before being repelled by guarantees from the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC).

**Park Officials Respond**

The Federal Reserve, the U.S. Treasury, the new administration and Congress have mobilized all means at their disposal to slay the beasts. These efforts are not without long-term risks. But the factors that led to the current financial problems were so extreme that the only other choice may be to let the economy sink and allow the markets to find their own level of equilibrium – a politically unacceptable alternative.

Whenever a relatively simple solution to a problem, such as government bailouts, is applied to problems in a complex system, such as the economy, the law of unintended consequences comes into play. The most obvious potential long-term consequences are massive federal debt and inflation spurred by growth in the money supply. These risks are not lost on the authorities and are deemed acceptable under the current set of circumstances.

### Markets Begin to Stabilize

The government's response gained some early traction and helped the markets to regain a measure of confidence. The credit and stock markets have begun to stabilize following the autumn panic. The so-called TED spread, the yield spread between comparable U.S. Treasury securities and the London Interbank Rate, and an indicator of credit-market liquidity, has continued to narrow since governments launched their counterattacks last fall. This suggests that the credit freeze has thawed considerably. Stock-market volatility has fallen dramatically and appears to have found respite in a trading range.

### The Securities Act, Part 2

Officials are also drawing up plans to close down the investment park through a tough and contemporaneous set of financial regulations. The de facto reestablishment of Glass-Steagall (a law enacted in 1933 and abolished in 1999 that separated commercial and investment banks) is central in reestablishing order on Wall Street. We say "de facto" because the extinction of the five big investment banks in 2008 through merger or reorganization as commercial banks has largely negated the need for the law.

For historical perspective and to help understand what went wrong, we present a brief review of The Glass-Steagall Act of 1933. The purpose of the act was to protect bank depositors and control speculation. It created the FDIC and other bank reforms. The act also prohibited bank holding companies from owning other financial institutions, especially investment banks (and vice versa) because the risk tolerance of the customers of each were vastly different. This prohibition was so fundamental to the intent of the act, that this exchange between the act's cosponsor, Senator Carter Glass, and Senator Joseph Robinson is quoted in an FDIC Statement of Policy:

**Mr. Glass of Virginia:** "Here [in section 21] we prohibit the large private banks whose chief business is investment business, from receiving deposits. We separate them from the deposit banking business."

**Mr. Robinson of Arkansas:** "That means if they wish to receive deposits they must have separate institutions for that purpose?"

**Mr. Glass:** "Yes."

Numbed by nearly two decades of bull markets in financial assets, the simple essence of the reasoning behind the act was evidently forgotten by 1999, the year in which Glass-Steagall was done away with by the Gramm-Leach-Bliley Act. Wall Street tyrannosauruses were thus free to roam and ravage the vaults that held the deposits of commercial bank customers, devouring the assets that depositors entrusted their bankers to invest in something more digestible than the toxic diet of highly leveraged sub-prime and Alt-A mortgages, which left little more than losses in their wake. It is these assets – or capital – that banks, with government support, are currently in the process of building again.

### The Recession

The economy has been in recession since December 2007, but it only became apparent to most observers when business suddenly ground to a halt in September, as the mortgage crisis came to a head and the credit markets froze. In order to limit the damage, the government has responded by committing \$8 trillion, or about 55 percent of 2008 estimated gross domestic product, to shore up the housing markets, help banks recapitalize, unbind the credit markets, prevent key industries from failing, and provide cash for consumers to spend. The anticipated economic stimulus plan, expected sometime in February, may be in the area of \$775 billion, much of which will be in the form of tax relief and incentives for workers and businesses.

### Employment Falls

Dismal economic reports may confront investors on a daily basis, but perhaps the most relevant to many are the unemployment reports. The nation depends on consumer spending to grow, and consumer spending depends on income, and fewer jobs means less income. The Jan. 7 ADP National Employment Report, an unofficial employment gauge released a couple of days

before that of the Labor Department, showed private sector employment fell by 693,000 jobs in December, worse than expected. While the economy can still grow when the manufacturing sector is in recession, it can't flourish without growth in income and consumer spending, so employment will be a key indicator as we try to measure the length of the downturn.

December's large number compares with those registered during the 1981–1982 recession, which makes for scary headlines. Yet the labor force is larger now, so the number of people who have lost jobs so far in this recession is substantially smaller as a percentage of the workforce than it was 26 years ago. The civilian labor force in 1983 was 111.5 million. Today it is 154.3 million, an increase of 38 percent. Even though rising unemployment is undoubtedly the nation's top economic concern, it helps to look behind the numbers to gauge the impact.

How high the unemployment rate will climb during this cycle is anyone's educated guess. Nine percent, or more than 12 million people, appears to be the most popular guess at the moment. That would be approximately as high as the rate ultimately climbed in the 1981–1982 downturn.

### Trying to Measure the Business Cycle

What the markets are trying to grasp is the ultimate extent and depth of this business-cycle downturn. Until investors get a good handle on that, the stock market will continue to feature skirmishes between the bears and the bulls. Our best guess is that the downturn will become known to historians as the 2008–2009 recession, and it will ultimately be far less severe than the downturn of the 1930s.

### The Power of Interest Rates

We believe that the primary factors behind the 1981–1982 recession were more insidious than those that caused the current downturn. A collapsing housing market affects many, but it works to the advantage of buyers, too. The near collapse of the financial system certainly affects most businesses and workers. Yet the cure can be fairly simple and straightforward: Help the banks replace lost capital, invest through TARP, and increase liquidity through measures offered by the Federal Reserve. These measures offer a reasonably good chance for a timely cure.

In contrast, the primary factor that led to the 1981–1982 recession was inflation. The cure was nearly as damaging as the disease: a prolonged period of very tight monetary policy that pushed interest rates sky-high until enough money was drained out of the economy to force inflation rates down.

Inflation negatively affected every American business and individual:

- ❑ Inflation robbed bond holders of the buying power of their principal, which drove market interest rates higher for protection.
- ❑ High interest rates raised the cost of capital, creating a disincentive for business to invest in expansion, while high-inflation expectations damaged business confidence and made it difficult to plan ahead.
- ❑ High interest rates raised the cost of financing consumption, thereby lowering overall demand.
- ❑ Mortgage interest rates as high as 16 percent made it difficult for most Americans to afford a home.
- ❑ High interest rates provided strong competition for stocks, so stock prices fell to competitive earnings yields of 15 percent or more, or a price-earnings ratio of 6x to 7x.

These conditions are just the opposite today. The low rate of inflation provides the Federal Reserve with room to maneuver by lowering short-term interest rates and providing liquidity to the financial markets. Falling mortgage rates have already sparked a significant level of mortgage refinancing, releasing more income for general consumption, saving, and investment. Coupled with lower housing prices, low mortgage rates provide the ultimate remedy for the sick housing market.

### Strong Monetary Stimulus Will Take Time to Heal the Economy

The Fed has provided the money, but it has not yet filtered through the economy enough to reverse the downturn. This is most likely because (a) banks don't have enough good capital to lend yet, (b) negative momentum following the swift downturn last fall, and (c) business, consumer, and market confidence is low. In essence, people are doing the rational thing when they

are scared: hunkering down.

Changes in the direction of monetary policy impact the financial markets and economy with a lag of anywhere from six to 18 months; the Fed most recently changed course and began easing in December 2007. The benefits should begin to appear soon, and the recent stabilization of the stock market might be indicative of that. Ultimately, it is this process that will bring people out of hiding, however gradual it may turn out to be.

In the weeks and months ahead, we foresee a gradually increasing beneficial effect of low interest rates and liquidity creation competing with grim economic headlines for the mood of stock investors, suggesting a range-bound stock market that, given the enormous monetary stimulus, should eventually be resolved on the upside.

### **The Misery Index – Not that Miserable**

Ronald Reagan was swept into office in 1980 because people were miserable, and the Reagan campaign used a simple index to tell people how miserable they were, the Misery Index. The Misery Index, which was created by economist Arthur Okun, an adviser to President Lyndon Johnson in the 1960s, is:

#### *Unemployment Rate + Inflation Rate*

A combination of rising costs through inflation and falling incomes through unemployment makes people miserable. The higher the index, the higher the misery.

The current Misery Index is 6.7 percent (unemployment rate) + 1.1 percent (inflation rate) = 7.8. This number gains meaning when viewed in a historical context, enabling investors to compare broader economic and market conditions at different points for understanding.

For comparison, the Misery Index was 10.8 in 1970, 17.7 in 1975, and 20.8 in 1980.

### **Interest Rates: Low Inflation Gives the Fed the Green Light**

From the minutes of the December Federal Open Market Committee meeting: *“In the United States, headline consumer prices declined in recent months while core consumer price inflation slowed further. With energy prices falling sharply and the rate of increase in food*

*prices moderating, headline PCE prices fell in October, and data from the consumer price index indicated that the decline extended into November. Measures of inflation expectations continued to fall or hold steady during the intermeeting period.”*

The falling rate of inflation coupled with falling inflation expectations provided the Fed with the confidence to drop its target short-term lending rate – the fed funds rate – to virtually zero, providing further monetary stimulus to the economy. We expect the Fed to maintain this policy for the indefinite future. The lower rate was immediately reflected in important interest rates throughout the economy, including a 3.25-percent prime rate and mortgage rates below 5 percent. We view these low rates as a powerful long-term positive for the economy and markets. The bond market appears to agree, as the yield curve remains positively sloped, indicating that bond traders expect economic growth.

### **The Stock Market: Positioning Portfolios for the Bull Market**

Our sense is that the stock market will remain range-bound for a period of time, perhaps between 8,000 and 10,000 on the Dow Jones Industrial Average, as the massive amount of liquidity pumped into the system by the Federal Reserve works hard to gain traction against what could prove to be stubborn resistance from ongoing poor corporate earnings reports as the economic cycle bottoms. This process should last through the first two quarters of 2009. Precise timing for a sustainable upsurge in stock prices is impossible to gauge, but with history as a guide, the Fed’s liquidity push should enable stocks to eventually take the high ground, creating a bridgehead for a sustained economic recovery.

Many investors might find it difficult to accept such a cyclic progression after the drubbing that stocks have taken and as negative economic news continues to cross their computer and TV screens. But history has repeatedly shown that, not only do markets have a tendency to self-correct over longer periods of time as the supply and demand curves find equilibrium points, but that monetary policy counts. At this juncture, the amount of money flowing into the system is vast. Rational investment decision making, therefore, can be compromised, as the proven formula of low stock prices and significant money infusion is obscured by the poor

*Continued on page 8*

**Approved List of Common Stocks**

Stocks in the FSG Model Portfolio are in color.

**January 2009**

S&P 500	Ticker	Status	12/31/08		2008 Estimate		2009 Estimate		5-year		Financial Ratios				Mkt. Cap (Mil.)	S&P Rank
			Price	EPS	P/E	EPS	P/E	Est EPS	Growth	Div.	Yield	Profit Margin	5-Yr ROE	Debt/ Capital		
	SPX	–	\$903.25	\$71.31	12.7	\$63.60	14.2	–	\$28.38	3.1%	8.5%	18%	31%	\$78,530	–	
<b>CONSUMER DISCRETIONARY</b>																
	Best Buy	Buy	\$28.11	\$3.18	8.8	\$2.60	10.8	13%	\$0.54	1.9%	3.5%	25%	20%	\$11,579	B+	
	Burger King Holdings, Inc.	Buy	\$23.88	\$1.38	17.3	\$1.53	15.6	16%	\$0.25	1.0%	7.7%	13%	52%	\$3,216	NR	
	Coach	Buy	\$20.77	\$2.06	10.1	\$2.19	9.5	15%	–	0.0%	24.6%	44%	0%	\$6,790	NR	
	Kohl's	Buy	\$36.20	\$2.76	13.1	\$2.57	14.1	14%	–	0.0%	6.6%	17%	24%	\$11,031	B+	
	Staples	Buy	\$17.92	\$1.37	13.1	\$1.42	12.6	14%	\$0.33	1.8%	5.1%	19%	18%	\$12,784	B+	
	Walt Disney Co.	Buy	\$22.69	\$2.26	10.0	\$2.11	10.8	9%	\$0.35	1.5%	11.7%	12%	26%	\$42,000	A	
	Lowe's	Hold	\$21.52	\$1.50	14.3	\$1.35	15.9	12%	\$0.34	1.6%	5.8%	20%	22%	\$31,541	A+	
	McDonald's	Hold	\$62.19	\$3.62	17.2	\$3.83	16.2	9%	\$1.63	2.6%	10.2%	17%	43%	\$69,314	A-	
	Target	Hold	\$34.53	\$2.96	11.7	\$2.79	12.4	14%	\$0.60	1.7%	4.5%	18%	56%	\$25,993	A+	
	Williams-Sonoma	Hold	\$7.86	\$0.21	37.4	\$0.10	78.6	15%	\$0.48	6.1%	5.0%	20%	1%	\$830	B+	
<b>CONSUMER STAPLES</b>																
	CostCo Wholesale	Buy	\$52.50	\$2.97	17.7	\$2.93	17.9	13%	\$0.63	1.2%	1.8%	13%	20%	\$22,663	A-	
	CVS	Buy	\$28.74	\$2.44	11.8	\$2.74	10.5	14%	\$0.26	0.9%	3.5%	15%	19%	\$41,277	A	
	Estee Lauder	Buy	\$30.96	\$2.41	12.8	\$2.28	13.6	10%	\$0.55	1.8%	6.0%	26%	39%	\$6,080	A-	
	Pepsico	Buy	\$54.77	\$3.67	14.9	\$3.92	14.0	9%	\$1.65	3.0%	14.3%	34%	29%	\$85,064	A+	
	Philip Morris Int'l	Buy	\$43.51	\$3.33	13.1	\$3.49	12.5	12%	\$1.54	3.5%	10.9%	48%	44%	\$88,022	NR	
	Proctor & Gamble	Buy	\$61.82	\$3.50	17.7	\$4.29	14.4	10%	\$1.55	2.5%	14.5%	27%	22%	\$184,576	A+	
	Altria Group	Hold	\$15.06	\$1.66	9.1	\$1.78	8.5	10%	\$1.68	11.2%	24.1%	34%	13%	\$31,030	A	
	Coca-Cola	Hold	\$45.27	\$3.12	14.5	\$3.30	13.7	8%	\$1.52	3.4%	20.7%	32%	11%	\$104,735	A	
	Walgreen	Hold	\$24.67	\$2.18	11.3	\$2.11	11.7	14%	\$0.42	1.7%	3.7%	18%	9%	\$24,420	A+	
	Walmart	Hold	\$56.06	\$3.45	16.2	\$3.72	15.1	11%	\$0.95	1.7%	3.4%	21%	34%	\$219,898	A+	
<b>ENERGY</b>																
	Chevron	Buy	\$73.97	\$11.02	6.7	\$6.92	10.7	8%	\$2.53	3.4%	9.2%	26%	7%	\$150,292	A-	
	ConocoPhillips	Buy	\$51.80	\$11.10	4.7	\$6.80	7.6	7%	\$1.88	3.6%	6.9%	20%	19%	\$77,224	B+	
	Devon Energy	Buy	\$65.71	\$10.29	6.4	\$5.07	13.0	6%	\$0.64	1.0%	27.7%	19%	16%	\$29,031	A-	
	Noble	Buy	\$22.09	\$5.66	3.9	\$6.95	3.2	20%	\$0.16	0.7%	40.3%	17%	12%	\$5,830	B	
	Transocean	Buy	\$47.25	\$14.37	3.3	\$15.22	3.1	9%	\$0.12	0.0%	49.1%	13%	46%	\$15,081	NR	
	Exxon Mobil	Hold	\$79.83	\$8.63	9.3	\$6.29	12.7	7%	\$1.55	1.9%	11.3%	31%	6%	\$406,067	A+	
<b>FINANCIAL</b>																
	JP Morgan	Buy	\$31.53	\$1.39	22.7	\$2.42	13.0	10%	\$1.52	4.8%	21.5%	11%	74%	\$117,681	B	
	U.S. Bancorp	Buy	\$25.01	\$1.80	13.9	\$1.85	13.5	7%	\$1.70	6.8%	31.2%	22%	65%	\$43,882	A-	
	Northern Trust	Buy	\$52.14	\$4.44	11.7	\$3.98	13.1	12%	\$1.12	2.1%	20.7%	16%	50%	\$11,629	A-	
	Wells Fargo	Buy	\$29.48	\$2.01	14.7	\$1.75	16.8	8%	\$1.30	4.4%	20.5%	19%	70%	\$111,721	A	
	Aflac	Buy	\$45.84	\$4.01	11.4	\$4.60	10.0	15%	\$1.00	2.2%	10.6%	17%	19%	\$21,367	A	
	Goldman Sachs	Buy	\$84.39	\$4.65	18.1	\$7.94	10.6	11%	\$1.52	1.8%	13.2%	23%	79%	\$37,317	B+	

**Approved List of Common Stocks**

**January 2009**

*Stocks in the FSG Model Portfolio are in color.*

Ticker	Status	12/31/08 Price	2008 Estimate		2009 Estimate		5-year Est EPS Growth	Div.	Yield	Financial Ratios			Mkt. Cap (Mil.)	S&P Rank
			EPS	P/E	EPS	P/E				Profit Margin	5-Yr ROE	Debt/ Capital		
<b>HEALTHCARE</b>														
ABT	Buy	\$53.37	\$3.32	16.1	\$3.67	14.5	13%	\$1.44	2.7%	13.9%	21%	32%	\$82,808	A-
JNJ	Buy	\$59.83	\$4.53	13.2	\$4.64	12.9	8%	\$1.80	3.0%	17.3%	28%	16%	\$166,002	A+
MDT	Buy	\$31.42	\$2.61	12.0	\$2.93	10.7	12%	\$0.69	2.2%	16.5%	23%	30%	\$35,135	A-
SYK	Buy	\$39.95	\$2.83	14.1	\$3.19	12.5	17%	\$0.40	1.0%	16.4%	22%	0%	\$16,129	A+
TMO	Buy	\$34.07	\$3.12	10.9	\$3.34	10.2	14%	-	0.0%	8.0%	6%	12%	\$14,317	B-
WLP	Hold	\$42.13	\$5.45	7.7	\$5.84	7.2	11%	-	0.0%	5.5%	12%	28%	\$21,446	NR
AMGN	Hold	\$57.75	\$4.55	12.7	\$4.68	12.3	8%	-	0.0%	21.4%	15%	34%	\$61,187	B+
PFE	Hold	\$17.71	\$2.38	7.4	\$2.49	7.1	3%	\$1.28	7.2%	17.0%	12%	10%	\$119,417	B+
<b>INDUSTRIALS</b>														
DHR	Buy	\$56.61	\$4.16	13.6	\$3.80	14.9	12%	\$0.12	0.2%	11.0%	18%	19%	\$18,093	A+
EMR	Buy	\$36.61	\$3.15	11.6	\$2.78	13.2	11%	\$1.23	3.4%	9.9%	23%	27%	\$28,082	A
ETN	Buy	\$49.71	\$6.83	7.3	\$4.82	10.3	12%	\$2.00	4.0%	7.4%	20%	30%	\$8,197	B+
ITW	Buy	\$35.05	\$3.01	11.6	\$2.42	14.5	10%	\$1.18	3.4%	11.3%	18%	13%	\$17,916	A+
LLL	Buy	\$73.78	\$7.35	10.0	\$7.51	9.8	10%	\$1.20	1.6%	5.4%	12%	42%	\$8,809	A-
UTX	Buy	\$53.60	\$4.90	10.9	\$4.85	11.1	10%	\$1.35	2.5%	7.8%	22%	28%	\$50,953	A+
GE	Hold	\$16.20	\$1.87	8.7	\$1.39	11.7	10%	\$1.24	7.7%	13.2%	19%	75%	\$170,153	A+
<b>INFORMATION TECHNOLOGY</b>														
ADSK	Buy	\$19.65	\$1.95	10.1	\$1.61	12.2	14%	\$0.06	0.0%	16.4%	32%	0%	\$4,447	B
ADBE	Buy	\$21.29	\$2.08	10.2	\$1.80	11.8	15%	\$0.03	0.0%	24.4%	24%	7%	\$11,304	B+
CSCO	Buy	\$16.30	\$1.56	10.4	\$1.37	11.9	12%	-	0.0%	20.4%	23%	15%	\$95,438	B+
CTXS	Buy	\$23.57	\$1.62	14.5	\$1.76	13.4	15%	-	0.0%	15.4%	16%	0%	\$4,282	B+
HPQ	Buy	\$36.29	\$3.62	10.0	\$3.84	9.5	13%	\$0.32	0.9%	7.0%	15%	16%	\$88,878	B+
IBM	Buy	\$84.16	\$8.71	9.7	\$9.02	9.3	10%	\$1.90	2.3%	10.5%	30%	40%	\$113,065	A
MSFT	Buy	\$19.44	\$1.88	10.3	\$1.98	9.8	11%	\$0.48	2.5%	29.3%	31%	0%	\$172,930	B+
ORCL	Buy	\$17.73	\$1.30	13.6	\$1.42	12.5	15%	-	0.0%	24.6%	30%	31%	\$91,389	B
TXN	Buy	\$15.52	\$1.51	10.3	\$0.59	26.3	14%	\$0.41	2.6%	19.1%	18%	0%	\$20,121	B+
V	Buy	\$52.45	\$2.25	23.3	\$2.68	19.6	20%	\$0.32	0.6%	12.8%	N/A	0%	\$56,853	NR
ACN	Hold	\$32.79	\$2.65	12.4	\$2.79	11.8	12%	\$0.50	1.5%	6.7%	62%	0%	\$25,014	NR
FISV	Hold	\$36.37	\$3.30	11.0	\$3.74	9.7	15%	-	0.0%	10.4%	18%	61%	\$5,825	B+
WU	Hold	\$14.34	\$1.30	11.0	\$1.42	10.1	12%	\$0.04	0.3%	17.5%	N/A	N/A	\$10,261	NR
<b>MATERIALS</b>														
Materials SPDR	Buy	\$22.74	\$2.34	9.7	\$1.70	13.4	14%	\$0.93	4.1%	-	N/A	N/A	\$937	NR
<b>TELECOMMUNICATIONS</b>														
Vanguard ETF	Buy	\$44.82	\$(2.62)	-17.1	\$0.44	101.9	10%	\$2.00	4.5%	-	N/A	N/A	\$103	NR
<b>UTILITIES</b>														
Utilities SPDR	Buy	\$29.03	\$2.47	11.8	\$2.60	11.2	8%	\$1.20	4.1%	-	N/A	N/A	\$1,790	NR

*Continued from page 5*

economic news that meets the eye in day-to-day reality.

We believe downside risk is much lower now than it was last summer when stock prices were higher and the mortgage market was just beginning to crumble. The media is often positive or negative at the wrong times, riding the current wave of popular sentiment. It is easy to see how investors might be confused.

Risk management is always at the heart of our investment approach, but it is particularly important now because more heavily indebted companies may continue to find it difficult to roll over their debt as long as bank lending remains tight. Our risk management begins with financial strength, and strong balance sheets reinforced by low capital needs and strong free cash flows are what we look for in order to maintain as wide a margin of safety as possible.

## CURRENT DISCLOSURES

It should not be assumed that recommendations made by the Feldman Securities Group, LLC (“FSG”) in the future will be profitable or will equal the performance of the list of securities for which Buy, Hold and Sell ratings are made by FSG.

FSG reserves the right to change a stock rating at any time.

The Feldman Securities Stock Rating System is a relative ranking system based on valuation - the more attractive a stock in terms of total return potential, the higher the rating. Once a stock has qualified under our Financial Strength and Earning Power criteria, Valuation is the primary determining factor, meaning that the stock price is of critical importance. Significant changes in estimated valuation can trigger a change in our rating. Feldman Securities Group, LLC’s Stock Ratings are defined as:

**BUY** – The current price suggests that the stock is likely to produce a total return that is greater than the relevant benchmark over the next 12 to 24 months.

**HOLD** - The current price suggests that the stock is likely to produce a total return that is about the same as the relevant benchmark over the next 12 to 24 months.

**SELL** - The current price suggests that the stock is likely to produce a total return that is less than the relevant benchmark over the next 12 to 24 months.

Over the past calendar quarter, the ratings breakdowns of stocks actively followed by FSG were:

BUY: 68.1%  
HOLD: 27.5%  
SELL: 4.3%

Research Analyst Bradley W. Young and Household invest in common stocks, some of which are on FSG’s approved list of stocks.

FSG does not make a market in nor underwrite any security. FSG does not take proprietary ownership in any stock covered in this report.

Factual materials obtained from sources believed to be reliable but cannot be guaranteed. Part II of Form ADV is available upon request. For further information please contact FSG at (800) 676-1755 or [research@fsgrhino.com](mailto:research@fsgrhino.com).

The S&P Quality Ranking System assesses in a single symbol the growth and stability of a company's earnings and dividends history. Rankings are generated using a computerized system based on earnings per share and dividend records over the past 10 years. The following is a list of Quality Rankings with letter classifications and a brief description:

<u>Letter</u>	<u>Description</u>
A+	Highest
A	High
A-	Above Average
B+	Average
B	Below Average
B-	Lower
C	Lowest
D	In Reorganization
LIQ	Liquidation

The following is a list of fundamental research metrics listed on the stock profile and their definitions:

<u>Metric</u>	<u>Definition</u>
2008e EPS	Mean estimated earnings for the company's current fiscal year 2008.
2008e P/E	Price to Estimated Earnings ratio for Fiscal 2008. Formula: Current Price / Sum of quarterly earnings and earnings estimates for fiscal year 2008.
2009e EPS	Mean estimated earnings for the company's next fiscal year 2009.
2009e P/E	Price to Estimated Earnings ratio for Fiscal 2008. Formula: Current Price / Sum of quarterly earnings and earnings estimates for fiscal year 2009.
5-Year Est EPS Growth	The Long Term Secular Growth Rate estimated for a period of five years.
Div.	The sum of regular dividends paid for the last four quarters.
Yield	The dollar amount of the latest 12 months of dividends / closing price shown.
Market Cap (\$ mil.)	The dollar amount at which the public values all the shares outstanding of a publicly traded company. Formula: Shares Outstanding x Price.
Profit Margin	A measure of profitability; it answers the question of how much a company retains from each dollar of revenue after deducting all operating, interest, & tax expenses. Formula: Net Income / Revenue.
5-Year ROE	Avg. of last 5 yrs ROE. ROE = after tax profits earned for all the shareholders expressed as a percentage. Formula: Latest 4 Quarter EPS / (((Latest quarterly total Stockholders Equity from the Balance Sheet + Stockholders Equity 4 quarters ago from the Balance Sheet) / 2) / Shares Outstanding).
Debt/ Capital	Debt with a maturity of a 1 year or greater expressed as a percent of total capitalization. Formula: LT Debt / (LT Debt + Stockholders Equity).

**Historical company rating changes by the Feldman Securities Group** The last rating change is provided for all stocks that have been on FSG's Approved List over the last 12 months. Also, if a company's rating changed more than once in the previous 12 months, all ratings over the last 12 months are shown.

Company	Ticker	Rating	Date of Rating Change	Price at Rating Change	Price on 12/31/08
ABBOTT LABORATORIES	ABT	Buy	1/10/06	39.46	53.37
ACCENTURE	ACN	Hold	9/18/06	28.64	32.79
ADOBE SYSTEMS	ADBE	Hold	2/2/07	38.97	21.29
ADOBE SYSTEMS	ADBE	Buy	5/12/08	40.44	21.29
AUTODESK	ADSK	Buy	1/19/07	42.23	19.65
AFLAC	AFL	Hold	10/26/06	44.00	45.84
AFLAC	AFL	Buy	7/9/08	61.08	45.84
AMER INT'L GROUP	AIG	Buy	3/28/05	57.02	1.57
AMER INT'L GROUP	AIG	Hold	2/12/08	44.74	1.57
AMER INT'L GROUP	AIG	Sell	3/17/08	39.80	1.57
AMGEN	AMGN	Hold	10/26/06	75.98	57.75
BED BATH & BEYOND	BBBY	Buy	7/24/02	31.39	25.42
BED BATH & BEYOND	BBBY	Hold	5/19/08	32.68	25.42
BED BATH & BEYOND	BBBY	Sell	12/18/08	25.59	25.42
BEST BUY	BBY	Buy	6/15/05	45.08	28.11
BURGER KING HOLDINGS	BKC	Buy	5/19/08	30.23	23.88
CAPITAL ONE FIN'L	COF	Buy	1/19/07	77.62	31.89
CAPITAL ONE FIN'L	COF	Hold	7/22/08	42.08	31.89
CAPITAL ONE FIN'L	COF	Sell	7/25/08	39.27	31.89
COACH	COH	Buy	5/19/08	36.44	20.77
CONOCOPHILLIPS	COP	Buy	11/17/00	25.81	51.80
COSTCO WHOLESALE	COST	Buy	11/17/08	47.31	52.50
CISCO SYSTEMS	CSCO	Buy	7/17/07	29.73	16.30
CITRIX SYSTEMS	CTXS	Buy	2/2/07	31.90	23.57
CVS/CAREMARK	CVS	Buy	10/26/06	31.05	28.74
CHEVRON	CVX	Buy	5/3/06	57.96	73.97
DANAHER	DHR	Buy	5/8/01	28.66	56.61
DISNEY	DIS	Buy	8/6/08	31.31	22.69
DEVON ENERGY	DVN	Buy	5/3/06	62.19	65.71
EBAY	EBAY	Buy	10/6/06	29.36	13.96
EBAY	EBAY	Sell	9/23/08	21.48	13.96
LAUDER (ESTEE)	EL	Buy	11/10/05	32.63	30.96
EMERSON ELECTRIC	EMR	Buy	6/13/07	47.15	36.61
EATON	ETN	Buy	11/15/07	87.42	49.71
FISERV	FISV	Hold	11/14/07	52.88	36.37
GENERAL ELECTRIC	GE	Hold	10/26/06	33.97	16.20
GOLDMAN SACHS GROUP	GS	Hold	10/26/06	193.38	84.39
GOLDMAN SACHS GROUP	GS	Buy	5/2/08	200.27	84.39
GOLDMAN SACHS GROUP	GS	Hold	9/22/08	120.78	84.39
GOLDMAN SACHS GROUP	GS	Buy	10/15/08	113.15	84.39
HEWLETT-PACKARD	HPQ	Buy	11/14/07	48.91	36.29
INT'L BUSINESS MACH	IBM	Buy	11/14/07	102.63	84.16
ILLINOIS TOOL WORKS	ITW	Buy	10/5/05	38.22	35.05
JOHNSON & JOHNSON	JNJ	Buy	2/16/00	34.38	59.83
JPMORGAN CHASE & CO	JPM	Buy	10/3/07	46.21	31.53
COCA-COLA	KO	Hold	10/26/06	45.36	45.27
KOHL'S	KSS	Buy	3/17/08	39.97	36.20
L-3 COMM TITAN	LLL	Buy	3/21/05	68.19	73.78
LINEAR TECHNOLOGY	LLTC	Hold	11/19/07	30.35	22.12
LINEAR TECHNOLOGY	LLTC	Sell	7/24/08	30.63	22.12
LOWE'S COMPANIES	LOW	Buy	2/20/04	29.19	21.52
LOWE'S COMPANIES	LOW	Hold	5/19/08	24.25	21.52
MCDONALD'S	MCD	Hold	10/26/06	39.78	62.19

*Continued on next page*

**Historical company rating changes by the Feldman Securities Group (continued)** The last rating change is provided for all stocks that have been on FSG's Approved List over the last 12 months. Also, if a company's rating changed more than once in the previous 12 months, all ratings over the last 12 months are shown.

Company	Ticker	Rating	Date of Rating Change	Price at Rating Change	Price on 12/31/08
MEDTRONIC	MDT	Buy	9/18/06	45.77	31.42
ALTRIA GROUP	MO	Hold	4/2/07	21.04	15.06
ALTRIA GROUP	MO	Buy	3/17/08	21.58	15.06
ALTRIA GROUP	MO	Hold	5/2/08	20.43	15.06
MORGAN STANLEY	MS	Buy	5/3/06	52.65	16.04
MORGAN STANLEY	MS	Hold	3/17/08	36.17	16.04
MORGAN STANLEY	MS	Sell	10/15/08	18.13	16.04
MICROSOFT	MSFT	Buy	9/15/06	26.20	19.44
NOBLE	NE	Buy	6/6/07	46.15	22.09
NORTHERN TRUST CORP.	NTRS	Buy	7/25/08	77.07	52.14
ORACLE	ORCL	Buy	7/17/07	20.38	17.73
PEPSICO	PEP	Buy	7/1/02	44.31	54.77
PFIZER	PFE	Hold	10/26/06	25.07	17.71
PROCTER & GAMBLE	PG	Buy	10/26/06	61.53	61.82
PHILIP MORRIS INTL	PM	Buy	4/4/08	51.37	43.51
TRANSOCEAN	RIG	Buy	5/23/08	152.01	47.25
STARBUCKS	SBUX	Buy	3/31/06	37.63	9.46
STARBUCKS	SBUX	Sell	8/6/08	14.52	9.46
SLM	SLM	Hold	1/19/07	45.17	8.90
SLM	SLM	Sell	7/9/08	16.33	8.90
STAPLES	SPLS	Buy	3/17/08	20.77	17.92
SUPERVALU	SVU	Buy	9/23/08	22.52	14.60
SUPERVALU	SVU	Sell	11/21/08	9.40	14.60
STRYKER	SYK	Buy	2/3/05	50.84	39.95
TARGET	TGT	Hold	10/26/06	58.32	34.53
THERMO FISHER SCI	TMO	Buy	5/20/08	58.35	34.07
TEXAS INSTRUMENTS	TXN	Buy	10/3/07	35.76	15.52
U.S. BANCORP	USB	Buy	8/5/04	24.14	25.01
UNITED TECHNOLOGIES	UTX	Buy	8/20/08	64.75	53.60
VISA	V	Buy	4/28/08	75.63	52.45
VANGUARD TELECOM ETF	VOX	Buy	4/16/07	76.68	44.82
WALGREEN	WAG	Hold	9/18/06	48.68	24.67
WELLS FARGO	WFC	Buy	7/24/02	18.75	29.48
WELLPOINT	WLP	Buy	1/24/07	76.00	42.13
WELLPOINT	WLP	Hold	3/11/08	47.26	42.13
WAL-MART STORES	WMT	Hold	10/26/06	50.14	56.06
WILLIAMS-SONOMA	WSM	Buy	12/26/06	32.07	7.86
WILLIAMS-SONOMA	WSM	Hold	3/17/08	22.91	7.86
WESTERN UNION	WU	Hold	10/2/07	20.97	14.34
WRIGLEY (WM) JR*	WWY	Buy	12/31/99	33.18	N/A
WRIGLEY (WM) JR*	WWY	Hold	4/29/08	76.91	N/A
WRIGLEY (WM) JR*	WWY	Sell	8/27/08	79.38	N/A
SPDR MATERIALS SELCT	XLB	Buy	4/16/07	38.56	22.74
SPDR UTILITIES INDEX	XLU	Buy	4/16/07	39.80	29.03
EXXON MOBIL	XOM	Hold	5/3/06	61.32	79.83

\* Acquired by Mars, Inc. on 10/6/08.

