



RESEARCH REPORT

Prepared by Financial Counselors, Inc.

SEPTEMBER 2009

THE ECONOMY

Fundamentals

For investors, the United States economy is at a rare juncture where macro-considerations (i.e., systemic risks) are at least as important as securities selection.

The last such juncture was the 1979 to 1982 period, when dramatic changes in (1) monetary policy – through high interest rates engineered by the Federal Reserve – were required in order to drain inflation from the system, and (2) fiscal policy – through adjustments to the tax system – were required to increase the incentive for private investment and to fuel consumption.

The damage to the economy caused by the recent financial crisis requires dramatic changes in policy as well. Yet policy can only go so far in getting us out of a deep financial hole. Monetary policy changes have made capital and liquidity available to the system. Fiscal policy has provided additional deficit spending. Yet we are concerned that too much of this medicine might do more harm than good.

Aside from the long-term risk posed by the burgeoning national debt, we believe the greatest near- and intermediate-term risk continues to be the crippled housing market, its impact on the health of the banking system, and the impact of an anemic and “jobless” economic recovery. These critical factors are locked in a dangerous dance that can have an impact on everyone.

Housing

The beleaguered housing market showed signs of life over the summer, with sales of existing and new single-family homes tracing a gradual rising trend. The good news on the single-family home market was partially offset by disappointing action in the multi-family residential and commercial real estate markets, while applications for building permits remained mixed. Yet the housing market is far from healthy and many risks remain, which, if realized, could cause the economy to slide backwards.

Despite modest signs of recovery, the essential problem with the housing market is that supply exceeds demand at the current average home price, so home prices continue to fall in search of the price that will bring more buyers and sellers together. This market imbalance is likely to continue for some time. We discuss the primary factors affecting supply and demand below.

Factors Affecting the Supply of Homes

Size of the housing market. The Census Bureau reports that there were 130.8 million residential homes in the U.S. as of the second quarter of 2009. Of these, approximately 4.6 million were seasonal, 1.9 million were

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QUOTE OF THE MONTH:

“Fears of financial collapse have receded substantially...After contracting sharply over the past year, economic activity appears to be leveling out, both in the U.S. and abroad, and the prospects for a return to growth in the next year appear good.”

—**Federal Reserve Chairman Ben Bernanke at the Fed’s annual retreat in Jackson Hole, Wyoming**

“Job insecurity, together with declines in home values and tight credit, is likely to limit gains in consumer spending.”

—**Fed Chairman Ben Bernanke testimony to the House of Representative’s Committee on Banking, Housing, and Urban Affairs on July 21**

“The credit aftershock will continue to haunt the economy.”

—**Doug Kass, President of Seabreeze Partners Management, L.P.**

vacant and for sale, and 4.4 million were vacant and for rent. Eighty-nine million homes, or 68 percent, have mortgages. According to the Mortgage Bankers Association (MBA), one in every eight U.S. households with a mortgage, or 8.5 million borrowers, is late on their payments or already in foreclosure.

Inventories of unsold homes are falling but remain high. After peaking at 4.2 million units, representing an 11-month supply in June of 2008, inventory shrunk to 3.8 million, or a 9.4-month supply, by June 2009. The historical average is a 7.5-month supply. Yet the headline supply figures may mask the actual inventory level. We believe a “shadow inventory” is hanging over the market: many potential sellers may be waiting for prices to improve. *The shadow inventory is likely to continue weighing down home prices.*

Existing home sales have far exceeded new home sales. This indicates to us that buyers are bottom feeding. It may also mean that the construction industry will remain depressed. Historically, six existing homes are sold for every new home sold. This ratio expanded dramatically to 14:1 at the peak of the housing depression until improving slightly to 12:1. New home sales and new home construction (currently running at approximately one-quarter to one-third of capacity) are likely to remain lackluster. The pressure on the home building industry is strong enough that the Atlanta Federal Reserve Bank recently said that many construction jobs may be permanently lost, and that tradesmen should be trained for different jobs. *Fewer new homes will likely gradually relieve price pressure.*

Foreclosures. The MBA reported that as of last June, 4 percent of mortgages were in foreclosure. Sub-prime borrowers had been the primary driver of foreclosure

rates, but with the weakened economy the problem has bled into prime and fixed-rate mortgage borrowers. According to the FDIC, banks held \$29.7 billion of property (homes and condominiums) acquired through foreclosure in the first quarter of 2009, almost double the previous year’s first-quarter total, and the figure has likely increased over the past five months. *Sales by banks of foreclosed homes, representing 31 percent of home sales in July, many at deep discounts, may continue to weigh on home prices.*

High delinquency rate. As of June of this year 9 percent of all mortgages had missed at least one payment and were delinquent. The U.S. delinquency rate rose to a seasonally adjusted 9.12 percent in the first quarter of 2009. The number of mortgages entering the foreclosure process rose to 1.37 percent at May’s end. Mortgage delinquencies were reported to still be rising in all 50 states. The average time from delinquency to foreclosure is 18 months. *Delinquency rates often lead to foreclosure, which would put additional pressure on home prices.*

Sub-prime mortgage recastings. Foreclosures may accelerate as several million “Pay Option ARMs” and “Alt-A” mortgages awake from their dormancy and descend like locusts on the mortgage market. These mortgages are set to recast over the next five years, with the first swarms coming in waves this fall and next spring. A mortgage recasts when the monthly payment terms change. An interest-only payment may switch to interest-and-principle payments, for example. Most changes won’t be favorable and will often result in higher, and perhaps unaffordable, monthly payments. Creditworthy borrowers are able to refinance into safer mortgages, but many borrowers do not qualify for refinancing.

To compound the problem, home prices have fallen dramatically since almost all of the sub-prime mortgages were written; many homeowners are “underwater”. New principle-and-interest payments may reflect negative equity, forcing some homeowners to simply walk away from their loans. Banks helped this spring when many agreed to delay a wave of mortgage recastings for one year, but the bill must eventually be paid. *As mortgages recast and job losses mount, mortgage delinquency and foreclosure rates could be set to rise in the months ahead. The increase in the supply of homes could push home prices lower.*

Factors Affecting the Demand for Homes

High household debt levels. Household debt is at a record-high of \$14 trillion. Approximately \$12 trillion is mortgage debt. Household debt service-to-disposable income is currently 19 percent, versus the recent historical average of 15 to 16 percent, though this figure has declined as households have shifted from consumption to saving. Consumer credit outstanding fell for the first time in decades in the third-quarter of 2008, and has been shrinking at a 4.6 percent rate since. Households are not yet in a strong enough position to start bidding up home prices, but they may be headed in that direction.

Unemployment. Companies have cut approximately 7.4 million jobs since the recession began in December 2007. Although the rate of job losses slowed over the summer, a trend reversal has not been established, and heavy household and federal debt loads suggest that the consumer, comprising 70 percent of economic activity, won't be ready to start spending again and meaningfully contribute to GDP growth for perhaps several years. Job and income losses have not only adversely affected the average homeowner's ability to service their mortgage: their efforts to seek relief through refinancing are often rejected due to lower income levels. *A so-called “jobless” economic recovery is likely to weigh on housing demand and prices.*

Banks. Banks, already weighed down by toxic mortgage assets, are now seeing prime mortgage assets come under stress. Despite an ongoing program to rebuild capital through the wide interest rate spreads engineered by the Fed, bankers are now reluctant to lend to anyone but the safest credits, and they will likely remain that way for the foreseeable future.

Relatively tight bank credit will likely continue to weigh on housing demand and prices.

Tax credits. The federal government's \$8,000 tax credit for new home buyers is set to expire at year-end, but Congress may extend or even increase the credit to as high as \$15,000. This tax credit is thought to have been an important factor in driving demand in 2009, as first-time home buyers comprised 30 percent of home buyers. *If extended, tax credits are likely to increase demand for homes and support home prices.*

“Making Homes Affordable.” The President's program to help prevent foreclosures is not gaining the hoped-for traction: as of August, only around 12 percent of eligible borrowers had signed up. *Despite the meager response, the program is likely to support home prices.*

Conclusions. The housing sector has historically led the economy out of recession as lower interest rates engineered by the Fed drove demand for homes by making mortgages more affordable. This traditional chain of events has been considerably muted this time around due to the deplorable condition of the housing market. Many economists expect the recovery of the economy and employment to be muted as well, and may even be at risk if the housing market deteriorates further.

Employment and the Consumer

America is a consumer-based society. Healthy consumer demand has historically driven the economic growth that Americans now expect will advance their standard of living. But consumer spending has been the primary victim of this “Great Recession”. Personal liabilities (debt) have remained abnormally high, while asset values (e.g., homes, properties, businesses and equities) have shrunk dramatically – by as much as 30 percent on average. As a result, gross consumer spending has fallen 2.0 percent since the recession began – the most since the Great Depression in the 1930s.

The public felt comfortable driving their debt levels higher while the economy was strong, jobs were secure, incomes were steady or rising and asset values were going up. So comfortable, in fact, that debt levels were driven higher in lockstep with bubble-level asset prices. The same may be true of government budgets at all levels, but, notably, not for the nation's

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Common Stock Recommendations

September 2009

S&P 500	Ticker	Status	8/31/09 Price	2009 Estimate		2010 Estimate		5-year		Financial Ratios				Mkt. Cap (Mil.)	S&P Rank
				EPS	P/E	EPS	P/E	Est EPS Growth	Div.	Yield	Profit Margin	5-Yr ROE	Debt/ Capital		
	SPX	-	\$1,020.62	\$53.94	18.9	\$68.40	14.9	-	\$25.59	2.5%	6.5%	17%	33%	\$75,236	-
CONSUMER DISCRETIONARY															
Best Buy	BBY	Buy	\$36.28	\$2.87	12.6	\$2.86	12.7	13%	\$0.56	1.4%	2.2%	24%	18%	\$16,406	B+
Burger King Holdings, Inc.	BKC	Buy	\$17.93	\$1.48	12.1	\$1.45	12.4	15%	\$0.25	1.4%	1.3%	17%	46%	\$2,440	NR
Coach	COH	Buy	\$28.29	\$1.92	14.7	\$1.90	14.9	15%	\$0.15	0.5%	19.3%	43%	1%	\$9,410	B+
Kohl's	KSS	Buy	\$51.59	\$2.82	18.3	\$3.20	16.1	15%	-	0.0%	5.4%	17%	23%	\$16,668	B+
Staples	SPLS	Buy	\$21.61	\$1.13	19.1	\$1.36	15.9	14%	\$0.17	0.8%	3.5%	18%	28%	\$15,315	B+
Walt Disney Co.	DIS	Buy	\$26.04	\$1.76	14.8	\$1.87	13.9	8%	\$0.35	1.4%	11.7%	12%	27%	\$48,090	A
Yum! Brands	YUM	Buy	\$34.25	\$2.13	16.1	\$2.36	14.5	12%	\$0.76	2.2%	8.5%	84%	88%	\$15,712	A-
Lowe's	LOW	Hold	\$21.50	\$1.20	17.9	\$1.34	16.0	12%	\$0.35	1.6%	4.6%	19%	19%	\$31,922	A
McDonald's	MCD	Hold	\$56.24	\$3.89	14.5	\$4.27	13.2	9%	\$2.00	3.6%	18.3%	20%	44%	\$61,936	A-
Target	TGT	Hold	\$47.00	\$3.02	15.6	\$3.36	14.0	14%	\$0.65	1.4%	3.4%	17%	54%	\$35,447	A+
CONSUMER STAPLES															
Campbell Soup Co.	CPB	Buy	\$31.36	\$2.17	14.5	\$2.32	13.5	8%	\$1.00	3.2%	8.4%	65%	63%	\$10,926	B+
CostCo Wholesale	COST	Buy	\$50.98	\$2.47	20.6	\$2.70	18.9	12%	\$0.68	1.2%	1.8%	13%	18%	\$24,075	A-
CVS	CVS	Buy	\$37.52	\$2.62	14.3	\$3.01	12.5	14%	\$0.30	0.8%	3.8%	14%	17%	\$54,159	A+
General Mills	GIS	Buy	\$59.73	\$3.98	15.0	\$4.26	14.0	8%	\$1.76	3.0%	8.9%	22%	53%	\$19,249	A-
Pepsico	PEP	Buy	\$56.67	\$3.70	15.3	\$4.07	13.9	10%	\$1.75	3.0%	11.9%	34%	37%	\$89,578	A+
Philip Morris Int'l	PM	Buy	\$45.71	\$3.22	14.2	\$3.64	12.6	10%	\$2.16	4.7%	10.8%	51%	68%	\$90,331	NR
Proctor & Gamble	PG	Buy	\$54.11	\$4.25	12.7	\$3.69	14.7	10%	\$1.68	3.2%	14.3%	23%	25%	\$154,071	A+
Sysco Corp.	SY	Buy	\$25.49	\$1.77	14.4	\$1.81	14.1	12%	\$0.94	3.6%	2.9%	32%	42%	\$15,231	A+
Altria Group	MO	Hold	\$18.28	\$1.74	10.5	\$1.86	9.8	9%	\$1.30	7.0%	16.0%	32%	82%	\$38,251	A
Coca-Cola	KO	Hold	\$48.77	\$3.04	16.0	\$3.30	14.8	8%	\$1.61	3.2%	18.2%	30%	18%	\$115,634	A
Walgreen	WAG	Hold	\$33.88	\$1.98	17.1	\$2.27	14.9	14%	\$0.48	1.4%	3.7%	18%	14%	\$33,559	A+
Walmart	WMT	Hold	\$50.87	\$3.59	14.2	\$3.91	13.0	11%	\$1.09	2.1%	3.3%	21%	36%	\$202,333	A+
ENERGY															
Apache Corp.	APA	Buy	\$84.95	\$5.04	16.9	\$8.60	9.9	8%	\$0.60	0.7%	5.8%	19%	25%	\$28,166	A
Chevron	CVX	Buy	\$69.94	\$4.28	16.3	\$7.50	9.3	7%	\$2.63	3.8%	9.0%	28%	11%	\$138,242	A-
ConocoPhillips	COP	Buy	\$45.03	\$3.51	12.8	\$5.78	7.8	6%	\$1.88	4.2%	-7.1%	22%	33%	\$66,625	B
Devon Energy	DVN	Buy	\$61.38	\$3.17	19.4	\$5.74	10.7	5%	\$0.64	1.0%	-20.2%	18%	30%	\$27,424	B+
Transocean	RIG	Buy	\$75.84	\$12.06	6.3	\$11.46	6.6	4%	\$0.12	0.0%	33.2%	18%	45%	\$24,702	NR
Exxon Mobil	XOM	Hold	\$69.15	\$3.96	17.5	\$5.98	11.6	7%	\$1.64	2.4%	10.6%	34%	6%	\$337,578	A+
FINANCIAL															
Aflac	AFL	Buy	\$40.62	\$4.72	8.6	\$5.14	7.9	14%	\$1.08	2.8%	7.6%	18%	29%	\$17,856	A
Goldman Sachs	GS	Buy	\$165.46	\$15.80	10.5	\$16.51	10.0	12%	\$1.52	0.9%	4.3%	21%	75%	\$82,043	B+
JP Morgan	JPM	Buy	\$43.46	\$1.63	26.7	\$2.95	14.7	10%	\$0.86	2.0%	5.5%	8%	69%	\$165,175	B
T. Rowe Price Group	TROW	Buy	\$45.30	\$1.44	31.5	\$1.97	23.0	11%	\$0.99	2.2%	23.7%	23%	0%	\$11,295	A-
U.S. Bancorp	USB	Buy	\$22.62	\$0.85	26.6	\$1.44	15.7	8%	\$0.95	4.4%	20.3%	20%	62%	\$40,707	B+
Wells Fargo	WFC	Buy	\$27.52	\$1.67	16.5	\$1.70	16.2	10%	\$0.78	2.9%	6.3%	16%	67%	\$125,293	A-

Common Stock Recommendations

September 2009

Ticker	Status	8/31/09 Price	2009 Estimate		2010 Estimate		5-year		Financial Ratios				Mkt. Cap (Mil.)	S&P Rank
			EPS	P/E	EPS	P/E	Est EPS Growth	Div.	Yield	Profit Margin	5-Yr ROE	Debt/ Capital		
HEALTHCARE														
Abbott Labs	Buy	\$45.23	\$3.69	12.3	\$4.10	11.0	12%	\$1.52	3.3%	16.0%	22%	36%	\$70,519	A-
Celgene	Buy	\$52.17	\$2.05	25.4	\$2.66	19.6	26%	-	0.0%	-68.0%	10%	0%	\$23,815	C
Johnson & Johnson	Buy	\$60.44	\$4.52	13.4	\$4.89	12.4	8%	\$1.90	3.1%	20.3%	29%	15%	\$166,216	A+
Stryker	Buy	\$41.46	\$2.94	14.1	\$3.28	12.6	13%	\$0.40	0.9%	17.1%	21%	0%	\$17,264	A+
Thermo Fisher Scientific	Buy	\$45.21	\$2.99	15.1	\$3.29	13.7	12%	-	0.0%	9.4%	6%	12%	\$18,699	B-
Cerner	Hold	\$61.71	\$2.42	25.5	\$2.83	21.8	18%	-	0.0%	11.3%	13%	8%	\$5,132	B
INDUSTRIALS														
Burlington Northern Santa Fe	Buy	\$83.02	\$4.97	16.7	\$5.57	14.9	10%	\$1.60	1.9%	11.7%	16%	44%	\$28,601	A
Danaher	Buy	\$60.71	\$3.37	18.0	\$3.64	16.7	12%	\$0.12	0.2%	10.4%	17%	21%	\$20,961	A+
Emerson Electric	Buy	\$36.87	\$2.21	16.7	\$1.99	18.5	10%	\$1.32	3.5%	9.9%	23%	34%	\$28,111	A
Illinois Tool Works	Buy	\$41.82	\$1.53	27.3	\$2.13	19.6	10%	\$1.24	3.0%	10.0%	19%	27%	\$20,857	A
L-3 Communications	Buy	\$74.40	\$7.36	10.1	\$8.10	9.2	10%	\$1.35	1.8%	6.2%	13%	39%	\$8,919	A-
Southwest Airlines	Buy	\$8.18	\$(0.01)	-818.0	\$0.33	24.8	14%	\$0.02	0.2%	1.6%	7%	39%	\$6,371	B
United Technologies	Buy	\$59.36	\$4.08	14.5	\$4.45	13.3	8%	\$1.54	2.5%	8.1%	22%	33%	\$57,012	A+
General Electric	Hold	\$13.90	\$0.99	14.0	\$0.91	15.3	7%	\$1.03	7.4%	9.9%	18%	75%	\$146,877	A
INFORMATION TECHNOLOGY														
Adobe Systems	Buy	\$31.42	\$1.51	20.8	\$1.67	18.8	15%	\$0.03	0.0%	24.4%	24%	7%	\$16,786	B+
Autodesk	Buy	\$23.43	\$0.89	26.3	\$1.17	20.0	10%	\$0.06	0.0%	7.9%	31%	0%	\$5,281	B
Cisco Systems	Buy	\$21.60	\$1.35	16.0	\$1.31	16.5	10%	-	0.0%	17.0%	23%	21%	\$125,971	B+
Citrix Systems	Buy	\$35.66	\$1.64	21.7	\$1.87	19.1	10%	-	0.0%	11.3%	14%	0%	\$6,518	B+
Hewlett-Packard	Buy	\$44.89	\$3.81	11.8	\$4.22	10.6	10%	\$0.32	0.7%	7.0%	15%	24%	\$107,620	B+
Intel	Buy	\$20.32	\$0.63	32.3	\$1.20	16.9	10%	\$0.56	2.9%	14.1%	17%	3%	\$109,689	B+
Int'l Business Mach	Buy	\$118.05	\$9.76	12.1	\$10.67	11.1	10%	\$2.10	1.8%	11.9%	36%	58%	\$155,211	A
Microsoft	Buy	\$24.65	\$1.70	14.5	\$1.67	14.8	10%	\$0.52	2.1%	24.9%	36%	9%	\$219,111	B+
Oracle	Buy	\$21.88	\$1.44	15.2	\$1.53	14.3	10%	\$0.10	0.5%	24.1%	27%	27%	\$109,486	B+
Research In Motion	Buy	\$73.06	\$3.43	21.3	\$4.13	17.7	20%	-	0.0%	17.1%	28%	0%	\$44,021	B
Visa	Buy	\$71.10	\$2.90	24.5	\$3.45	20.6	20%	\$0.42	0.6%	12.8%	N/A	0%	\$76,266	NR
Accenture	Hold	\$33.00	\$2.68	12.3	\$2.75	12.0	12%	\$0.50	1.4%	6.7%	62%	0%	\$26,463	NR
MATERIALS														
iShares S&P Global Mat'l	MXI Buy	\$52.75	-	-	-	N/A	N/A	\$0.73	1.4%	-	N/A	N/A	\$672	NR
TELECOMMUNICATIONS														
Vanguard ETF	VOX Buy	\$50.47	\$1.22	41.4	\$1.22	41.4	10%	\$1.37	2.7%	-	N/A	N/A	\$117	NR
UTILITIES														
Utilities SPDR	XLU Buy	\$29.23	\$2.35	12.4	\$2.54	11.5	8%	\$1.26	4.4%	-	N/A	N/A	\$2,227	NR

Data Definitions

The fundamental research metrics listed on the Approved List are defined below.

Metric	Definition
Ticker	The symbol of the stock.
Status	The Financial Counselors, Inc. stock rating.
Price	Closing Price last for the preceding trading day. Relative calculation is a ratio
EPS Estimate	Mean estimated earnings for the company's fiscal year shown in column heading.
P/E Estimate	Price to Estimated Earnings ratio for fiscal year shown in column heading. Formula: Price / EPS Estimate.
Est. EPS Growth	The Long-Term Secular EPS Growth Rate estimated for a period of five years.
Div.	The sum of regular dividends paid for the last four quarters.
Yield	Formula: Dividend / 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-Yr ROE	Avg. of last 5 yrs return on equity. The ROE is 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 percentage of total capitalization. Formula: Long-term Debt / (Long-term Debt + Stockholders Equity).
Mkt. Cap	Last quarterly shares multiplied by Price.
S&P Rank	See below.

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:

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

publicly-traded companies as a whole. The nation's overconfidence led it to overshoot the mark, with the private and public sectors creating an unsustainable cash flow model. Once the asset bubble burst, we were left with an impotent investment and recovery model, leading us to our current economic stagnation.

Protracted period of high unemployment predicted. Atlanta Federal Reserve Bank President Dennis Lockhart recently told the Chattanooga Area Chamber of Commerce that, although he believes the worst of the economic downturn has passed, economic recovery will be slow and will contribute to a "protracted" period of high unemployment. "In my view, it is unlikely that we will see a return of jobs lost in certain sectors, such as manufacturing," Lockhart said. "In a similar vein, the recession has been so deep in construction that a reallocation of workers is likely to happen, even if not permanent." Mr. Lockhart added that the average manufacturing work week has fallen below 40 hours for the first time since 1983 and that the number of workers employed part-time has increased more in this recession than in any other.

A Graying Labor Force

The oldest-age worker group (55 years old and up) is projected to grow 46.7 percent, over quintuple the 8.5 percent growth projected for the labor force overall.

The prime-age workers group (25 to 54 years old) is projected to grow 2.4 percent, but decline as a share of the labor force 68.4 to 64.6 percent.

The 16- to 24-year old workers group is projected to decline from 14.8 to 12.7 percent of the civilian labor force.

Sixteen-Percent Unemployment Rate. Mr. Lockhart believes that the true unemployment rate is closer to 16 percent than the recently reported 9.7 percent. The higher rate reflects those people who have stopped looking for work or those settling for part-time jobs. We also note that the number of people applying to temporary work agencies, a leading employment indicator, continues to fall.

The Unfavorable Demographics of an Aging Population. The Bureau of Labor Statistics (BLS)

projects that the U.S. civilian labor force will grow by 12.8 million between 2006 and 2016, reaching 164.2 million by 2016. The projected 8.5 percent rate of growth is expected to be lower than 13.1 percent rate of the previous decade, when the civilian labor force grew by 17.5 million. Age demographics will shift dramatically over that of the previous decade as Baby Boomers enter their more reflective years. Don't expect life insurance, gold, and Viagra commercials on TV to disappear soon!

The BLS reported in August that the size of the labor force was 154.8 million people. Of that total, 139.7 million, or 90.3 percent, were employed and 14.9 million were unemployed. For the unemployment rate to decline to 5.0 percent by 2016, the economy must add 16.3 million jobs over the next seven years, an average of around 2.3 million jobs per year, or 192,000 jobs per month. For reference, the number of employed workers grew by 11.1 million, or 1.6 million per year, between 1999 and 2006, while nominal GDP grew at an average annual rate of 5.2 percent. On the flip side, employment fell by 5 million jobs, or 1.7 million per year, over the last three years, while nominal GDP fell by an average annual rate of 1.7 percent. To maintain the current 9.7 percent unemployment rate through 2016, the economy must add 8.6 million workers, or 1.2 million per year. Adding jobs may be that much more difficult with an aging population. 🌐

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Market Data

Economic Forecasts*	2008a	2009e	09:1Qa	09:2Qa	09:3Qe	09:4Qe
Real GDP	0.4%	-2.6%	-6.4%	-1.0%	3.0%	2.5%
GDP Deflator	2.1%	1.3%	1.9%	0.2%	1.1%	1.1%
10-Year Treasury Bond	2.25%	3.42%	2.74%	3.31%	3.76%	3.86%
Fed Funds Rate	0.00%	0.00%	0.00%	0.00%	0.20%	0.20%

* Mesirow Financial estimates. Quarterly data are seasonally adjusted at an annual rate.
e = estimated, a = actual

The Markets	Current 8/31/2009	3-month Values	3-month Change	Year-ago Values	12-month Change
Cash					
Taxable MMF Yield	0.07%	0.15%	-8bp	1.88%	-181bp
Tax-Exempt MMF Yield	0.10%	0.23%	-13bp	1.21%	-111bp
Fixed Income					
Federal Funds Rate	0.00%	0.00%	0bp	2.00%	-200bp
5-Yr US Treasury note	2.39%	2.34%	5bp	3.09%	-70bp
10-Yr US Treasury bond	3.40%	3.46%	-6bp	3.81%	-41bp
5-Yr Aaa Muni Bond Index	1.89%	1.89%	0bp	2.87%	-98bp
30-Year Conv. Mortgage	5.14%	5.33%	-19bp	6.37%	-123bp
Equities**					
S&P 500	1,021	919	11.0%	1,283	-20.4%
S&P LargeCap 100	475	428	11.0%	591	-19.7%
S&P MidCap 400	655	576	13.7%	816	-19.7%
S&P SmallCap 600	302	265	14.1%	387	-22.0%
EAFA Foreign Index	53	47	11.0%	64	-17.1%
S&P 500 PE Ratio	18.8	15.6	20.8%	14.1	33.3%
S&P 500 Dividend Yield	2.5%	2.9%	-40bp	2.2%	30bp
Miscellaneous					
Inflation Rate (CPI, ann'l rate)	-2.10%	-0.74%	-136bp	5.60%	-770bp
CRB Index (Commodities)	254	253	0.2%	392	-35.2%
London Gold / oz.	956	979	-2.4%	829	15.2%
Crude Oil / bbl.	69	66	4.1%	115	-40.2%

Recent Economic Data			
Real GDP - Quarter: 2nd Qtr.	-1.00%	Personal Income	0.00%
ISM Manufacturing Index	52.90	Personal Spending	0.20%
Industrial Capacity Utilization	68.50	Retail Sales	-0.10%
Productivity - Quarter: 2nd Qtr.	6.60%	New Home Sales	9.60%
Unemployment Rate	9.7%	Consumer Confidence	54.10%

**Stock index performance excludes dividends

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