

TALKING POINTS

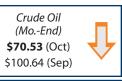
A Recap of October 2008

The Economy

A survey of 45 top economists by USA TODAY was completed on October 23. The economists expect real GDP growth to be negative in Q3 (-0.5%), Q4 (-2.0%) and Q1'09 (-0.7%), but show positive in Q2 (1.0%), Q3 (2.0%) and Q4 (2.3%) of 2009. They expect the federal funds rate to rise from 1.00% today to 1.75% by Q4'09. They see inflation (CPI) declining from 4.9% (Q3'08) to 1.7% (Q3'09) and the unemployment rate rising from 6.1% (Q3'08) to 7.2% (Q3'09). The one silver lining in the economy is the plunge in the price of oil, which, if sustained, could provide a needed boost to discretionary spending.





















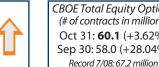


The Stock Market

Indices (Source: Bloomberg) Oct. Y-T-D S&P 500 -16.79% -32.83% DJIA -13.88% -28.16% Nasdaq 100 -16.28% -35.74% S&P 400 -21.74% -32.96% Russell 2000 -29.02% -20.81% MSCI World (ex U.S.) -20.80% -43.03% MSCI Emerging Markets -27.38% -53.25% Top Subsectors (Source: S&P) Oct. Y-T-D **Educational Services** -0.9% 17.2% 11.4% Biotechnology -1.8% -29.1% Regional Banks -4.1% **Agriculture Products** -5.4% -55.4% -6.5% 10.9% **Brewers**

Only 1 out of the 130 subsectors that comprise the S&P 500 posted a gain, down from 18 last month. In October, the dividend-payers (377) in the S&P 500 (equal weight) posted a total return of -20.39%, vs. -21.87% for the non-payers (123), according to Standard & Poor's. Year-to-date, the payers declined 34.72%, vs. a loss of 38.82% for the non-payers. For the 12-month period ended October '08, payers fell 38.57%, vs. a decline of 44.86% for the non-payers. The number of dividend increases (S&P 500) yearto-date totaled 213. That lagged the 239 increases over the same period in 2007. The dividend yield on the index stood at 2.81% at the end of October – almost as high as the yield on a 5-yr.T-Note (2.83%). In the 1990s, the S&P 500 posted an average annual total return of 18.2%, well above its 10.4% average gain since 1926, according to data from Ibbotson Associates. So far this decade, the S&P 500 has posted an annualized return of -0.94% through September 2008. However, when you put the two decades together (12/89-12/07) the average annual total return for the index adjusts to 10.5%, right in line with its historical norm. So far in 2008, the index is off 32.8%, which is in the vicinity of the average bear market return (since 1926) of -33.5%, according to Jim Stack, president of InvesTech Research.

U.S. Dollar (U.S. Trade-Weighted Basket) 8.5% (Oct) 12.7% (Y-T-D) \$ was down 10.0% in '07







Short Interest (NYSE) Oct 15: 13.61B (-23.11%) Sep 15: 17.70B (-0.56%) Record 7/08: 18.61 billion shares



The yield on the 10-Yr. T-Note rose 14 basis points in October closing at 3.97% – 50 basis

points below the close on 10/31/07. The global credit crunch has frozen the system to such

S&P 500 P-E Ratio (Trailing 12-mo. earnings) 18.86 (10/31) 23.40 (9/30)



The Bond Market

Oct. Y-T-D Yield Index (Source: Lehman) 0.67% 5.31% 2.38% U.S. Treasury: Intermediate 5.91% GNMA 30 Year -1.32% 2.22% Municipal Bond (22+) -4.12% -13.64% 6.31% U.S. Aggregate -2.36% -1.74% 5.67% Intermediate Corporate -4.89% -11.62% 9.03% U.S. Corporate High Yield -15.91% -24.38% 18.67% Global Aggregate -3.69% -4.11% 4.44% Global Emerging Markets -20.56% -26.12% 12.73%

1.00%

1.57%

3.97%

6.53%

6.08%

Key Rates as of October 31

Fed Funds

2-Yr.T-Note

10-Yr. T-Note

30-Yr. Mortgage

Bond Buyer 40

Key Yield Spread The spread between the Merrill Lynch High Yield Master II Index and the 10-Yr. T-Note was 1,481 basis points on 10/31/08. It was 429 on 10/31/07 and 990 on 9/30/08. (Source: Bloomberg)

an extent that the only debt group sought by investors were the ones "backed by the full faith and credit of the U.S. government." Speculative-grade debt, while trading at attractive spreads, may be facing more headwind due to the recessionary-like climate. The global speculative-grade default rate stood at 2.8% in September, up from 2.7% in August, according to Moody's. The rate was 1.3% a year ago. Moody's is now forecasting the rate will rise to 7.9% by 9/09. The U.S. speculative-grade default rate stood at 3.4% in September, up from 3.3% in August. Moody's is now forecasting the rate will rise to 5.1% by the end of 2008.

2008 Debt Issuance through September (Source:Thomson Financial)		
Debt Category	\$ Amount	% change over '07
Corporate	\$628.8 Billion	-29.1%
Convertible	\$33.0 Billion	-43.8%
Asset-Backed	\$153.0 Billion	-80.7%
Municipal	\$319.9 Billion	-1.4%

The Investment Climate

Net cash outflows from equity funds totaled \$56.2 billion in 9/08, vs. outflows totaling \$19.7 billion in 8/08, according to the Investment Company Institute. Bond funds had outflows totaling \$898 million, down from \$3.0 billion in 8/08. Money Market funds had outflows totaling \$145.2 billion, compared to inflows totaling \$28.4 billion in 8/08.Y-T-D thru 9/08, equity fund outflows totaled \$124.2B, vs. \$93.2B in bond fund inflows and \$198.2B in MMF inflows.