

TALKING POINTS

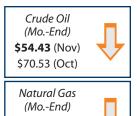
A Recap of November 2008

The Economy

The Blue Chip Economic Indicators survey calls for GDP in the U.S. to decline by an annualized 2.8% and 1.5% in Q4'08 and Q1'09, respectively. The Business Cycle Dating Committee of the National Bureau of Economic Research just announced that December 2007 marked the peak of the economic expansion in the U.S. The expansion lasted for 73 months, well below the 120 month expansion in the 1990s. In other words, the U.S. has been in a recession for the past year. Looking ahead, two of the biggest areas of concern for the economy are rising unemployment and foreclosures.

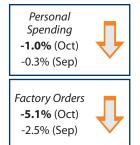






\$6.51 (Nov)

\$6.78 (Oct)









The Stock Market

Indices (Source: Bloomberg) Nov. Y-T-D S&P 500 -7.17% -37.65% DJIA -4.85% -31.65% Nasdaq 100 -11.05% -42.84% S&P 400 -9.27% -39.18% Russell 2000 -11.83% -37.42% MSCI World (ex U.S.) -5.36% -46.08% -7.57% MSCI Emerging Markets -56.80% Top Subsectors (Source: S&P) Y-T-D Nov. 32.1% -41.0% Agriculture Products -31.1% Gold 27.8% -44.9% Construction & Engineering 17.4% Brewers 14.8% 27.3% 9.8% -69.3% **Auto Manufacturers**

Only 20 out of the 130 subsectors that comprise the S&P 500 posted a gain, up from 1 last month. In November, the dividend-payers (374) in the S&P 500 (equal weight) posted a total return of -9.57%, vs.-12.96% for the non-payers (126), according to Standard & Poor's. Year-to-date, the payers declined 40.97%, vs. a loss of 46.75% for the non-payers. For the 12-month period ended November '08, payers fell 41.87%, vs. a decline of 48.10% for the non-payers. The number of dividend increases (S&P 500) year-to-date totaled 225. That lagged the 265 increases over the same period in 2007 and 267 increases registered in 2006. The correlation between U.S. and foreign stocks has steadily increased over the past three decades as the world has become more interdependent, according to *Worth*. The following data shows the increase in the correlation between the S&P 500 and the MSCI EAFE (Europe, Australasia, and the Far East) since 1980: 1980-1989 (0.47); 1990-1999 (0.54); and 2000-2007 (0.83). The higher the correlation (1.0 is a perfect correlation) is the fewer the diversification benefits to the investor. Y-T-D, foreign stocks have failed to provide any benefit to investors (see chart) following a good run for the 5-yr. period ended December 2007.

U.S. Dollar (U.S.Trade-Weighted Basket) **0.6%** (Nov) 13.4% (Y-T-D) \$ was down 10.0% in '07





Short Interest (NYSE) Nov 14: **13.58B** (-0.22%) Oct 15: 13.61B (-23.11%) Record 7/08: 18.61 billion shares



The yield on the 10-Yr. T-Bond fell 104 basis points in November closing at 2.92% - 102 basis

points below the close on 11/30/07. Bond investors willing to assume some additional risk have

the opportunity to pick up high yield corporates and long-term municipals at spreads not seen

S&P 500 P-E Ratio (Trailing 12-mo. earnings) 19.44 (11/28) 18.86 (10/31)



The Bond Market

Y-T-D Yield Index (Source: Lehman) Nov. 3.70% 9.20% 1.57% U.S. Treasury: Intermediate GNMA 30 Year 3.58% 5.88% 5.14% Municipal Bond (22+) -1.71% -15.11% 6.47% U.S. Aggregate 3.25% 1.45% 4.96% Intermediate Corporate 3.07% -8.91% 8.47% U.S. Corporate High Yield -9.31% -31.42% 21.83% 3.94% Global Aggregate 2.89% -1.34% **Global Emerging Markets** 3.70% -23.38% 12.09%

1.00%

0.98%

2.92%

5.70%

6.15%

Key Rates as of November 28

Fed Funds

2-Yr.T-Note

10-Yr.T-Bond

30-Yr. Mortgage

Bond Buyer 40

Key Yield Spread
The spread between the Merrill Lynch
High Yield Master II Index and the 10Yr. T-Note was 1,831 basis points on
11/28/08. It was 547 on 10/31/07 and
1,481 on 10/31/08. (Source: Bloomberg)

before. Portfolio Manager Sabur Moini cites the current 16 percentage point spread for respectable high yield credits over a 5-yr.T-Note as compelling. It is the widest spread ever and it implies defaults will rise from a 3-4% level today to 15%, according to *Forbes*. The average AArated state bond due in 20 years yields 5.3%. That is 120% the yield on the 20-yr.T-Bond. For the better part of the past 15 years that yield relationship has been 88% or less. Municipal rates have been pushed higher, in part, by selling from banks and insurance companies, according to *Forbes*.

Key Yield Spread

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2008 Debt Issuance through October (Source:Thomson Financial)		
Debt Category	\$ Amount	% change over '07
Corporate	\$652.7 Billion	-34.6%
Convertible	\$33.8 Billion	-45.1%
Asset-Backed	\$154.8 Billion	-81.6%
Municipal	\$341.5 Billion	-7.7%

The Investment Climate

Net cash outflows from equity funds totaled \$72.3 billion in 10/08, vs. outflows totaling \$56.4 billion in 9/08, according to the Investment Company Institute. Bond funds had outflows totaling \$40.6 billion, vs. outflows totaling \$973 million in 9/08. Money Market funds had inflows totaling \$142.1 billion, compared to outflows totaling \$87.6 billion in 9/08.Y-T-D thru 10/08, equity fund outflows totaled \$195.4B, vs. \$52.6B in bond fund inflows and \$398.0B in MMF inflows.