



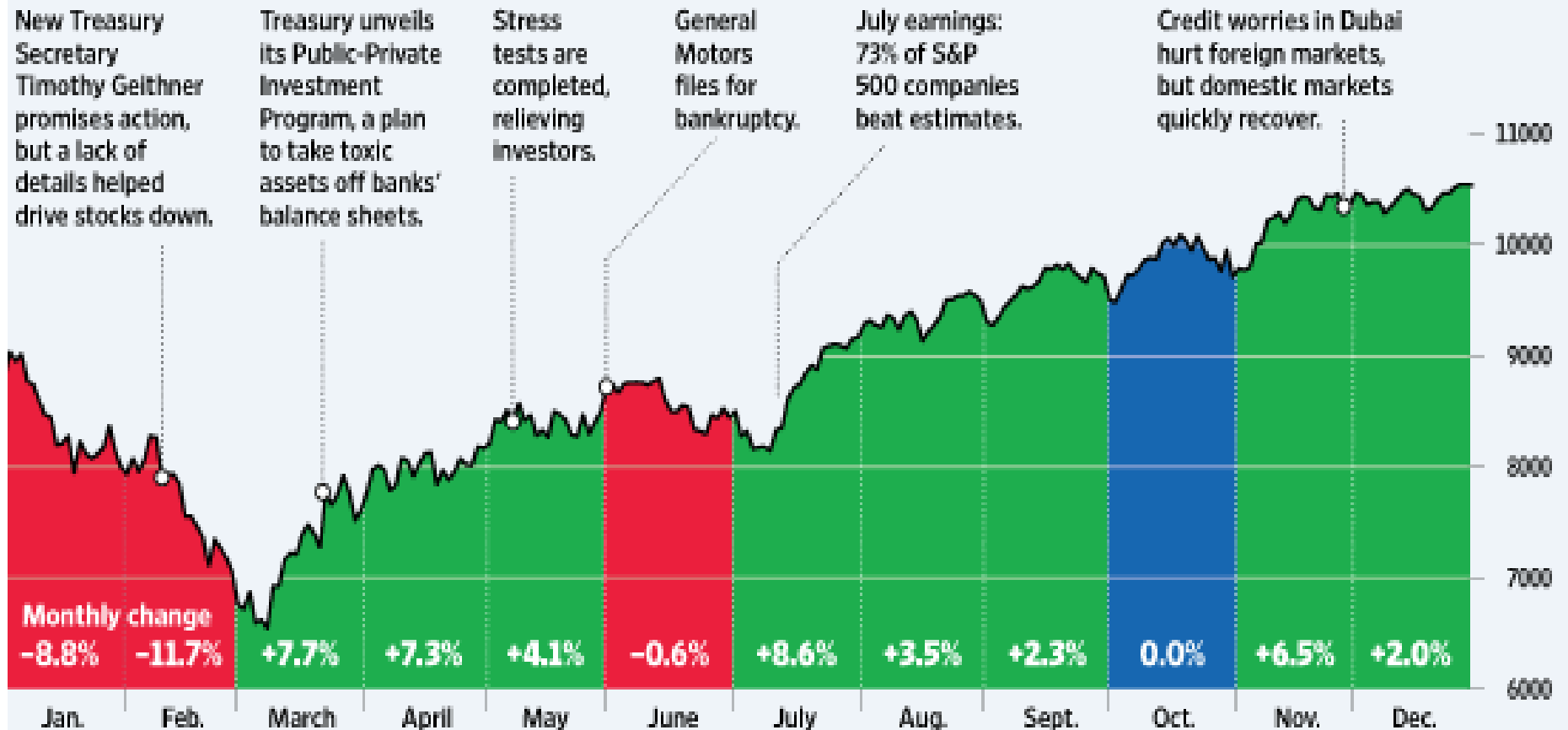
# 2010 Economic Outlook and Investment Strategy

**Gregory D. Sullivan, CPA/PFS, CFP®**  
President and CEO  
Harris SBSB

**Gary Lyons, MBA**  
Director of Portfolio Management  
Harris SBSB

# 2009 Dow Jones Market Recap

The market's downs and ups in 2009

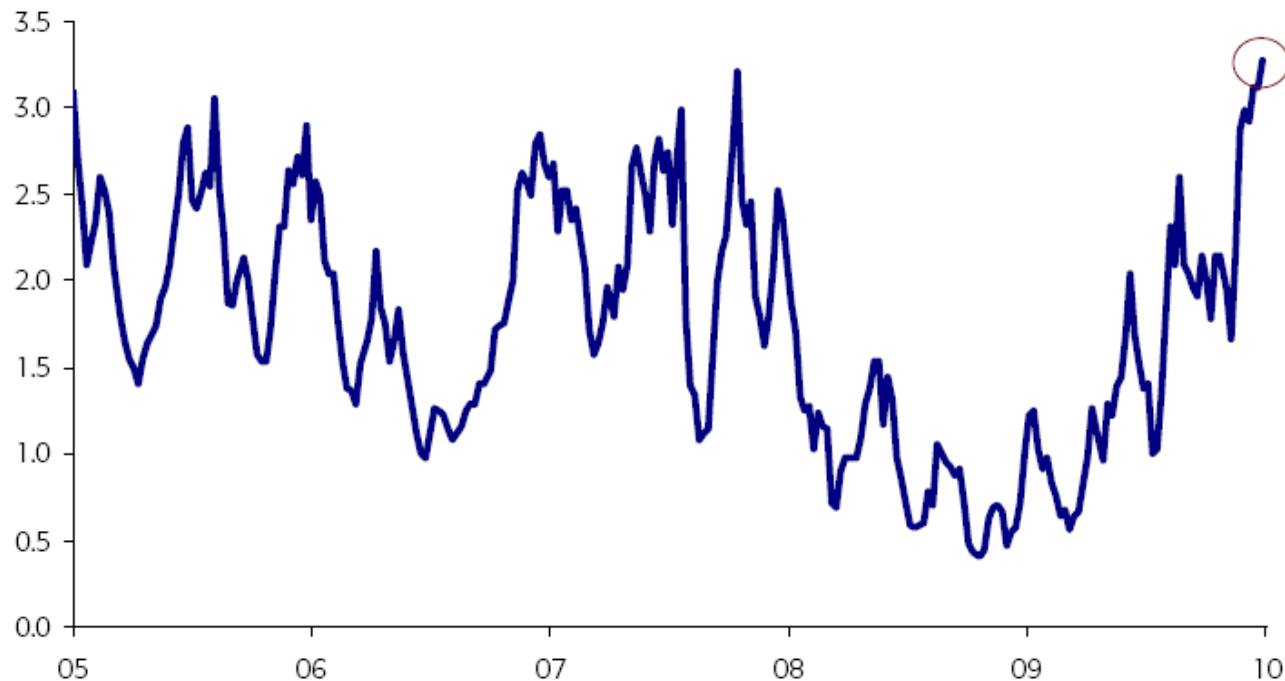


Source: WSJ Market Data Group

# Has The Wall of Worry Been Climbed?

Sentiment toward equities finished the year at extremely bullish levels, according to the Investors' Intelligence survey of newsletter writers. The ratio of bulls to bears is currently the highest on record back to 2005 as only 15.6% are bearish—that's down from almost half in March when equities bottomed. The last four times the bull-bear ratio was this high, the S&P 500 corrected an average of 8% within the following month. A like-sized pullback early in 2010 wouldn't be surprising, and would serve to unwind some of this newfound bullish sentiment.

Investors' Intelligence Bull/Bear Ratio



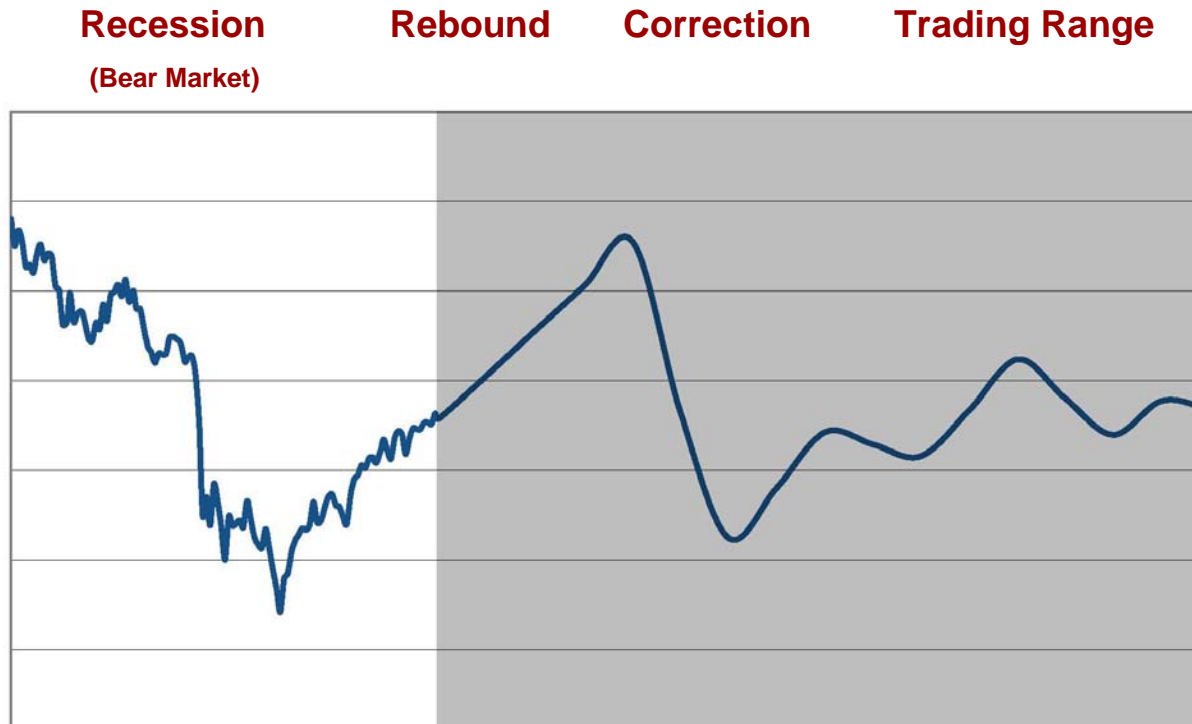
# Key Positives

- World GDP is resuming growth
- ECRI's Leading Index is improving
- Market valuation is fair
- Liquidity is high
- Inflation is tame
- Corporate earnings are improving
- Risk taking by investors is increasing

# Key Concerns

- Unemployment still too high (U3=10%; U6=17.2%)
- Federal deficits still growing (\$1.32 trillion deficit in 2009)
- Consumer debt still elevated (124% debt to personal income)
- Wave of adjustable rate mortgage resets (average \$30 to \$35 billion per month through 2011)
- Post stimulus sustainable GDP growth
- U.S. dollar weakness
- China could stumble
- Excessive bullishness by equity analysts

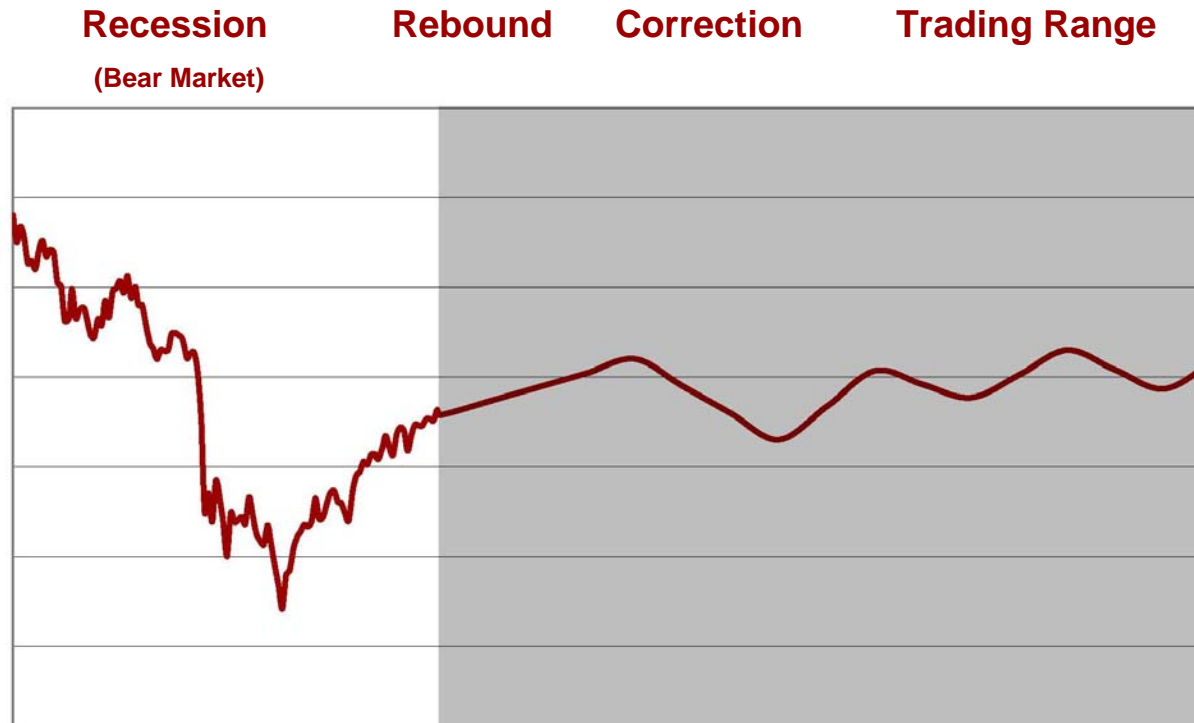
# Typical Stages of a Bear Market – Strong Recovery



**Scenario 1** – **Global recovery accelerates.** This is the bullish scenario. Stimulus continues. Interest rates stay low. Equities outperform and credit spreads continue to tighten.

**Probability: Low Estimated equity returns: 25 to 35%**

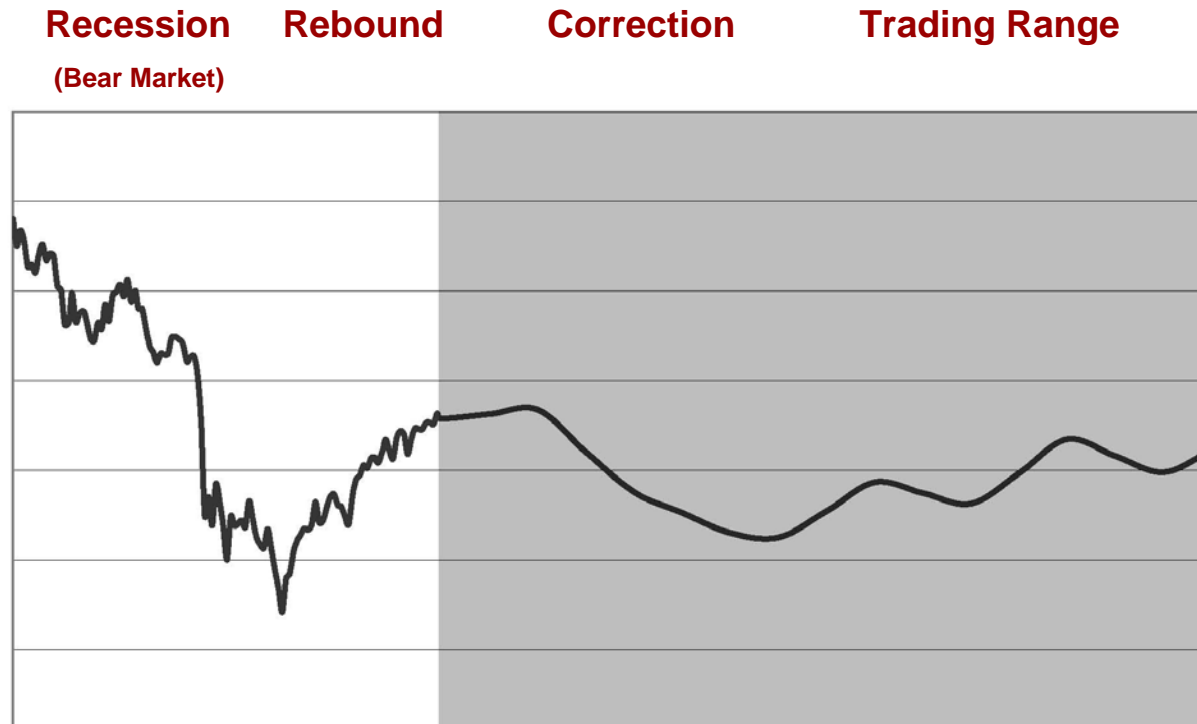
# Typical Stages of a Bear Market – Controlled Recovery



**Scenario 2 – Controlled recovery.** Markets remain range bound with an upward bias. Gradual easing in stimulus and easy money policies. Risk assets outperform. Fixed income underperforms.

**Probability: High    Estimated equity returns: 10 to 12%**

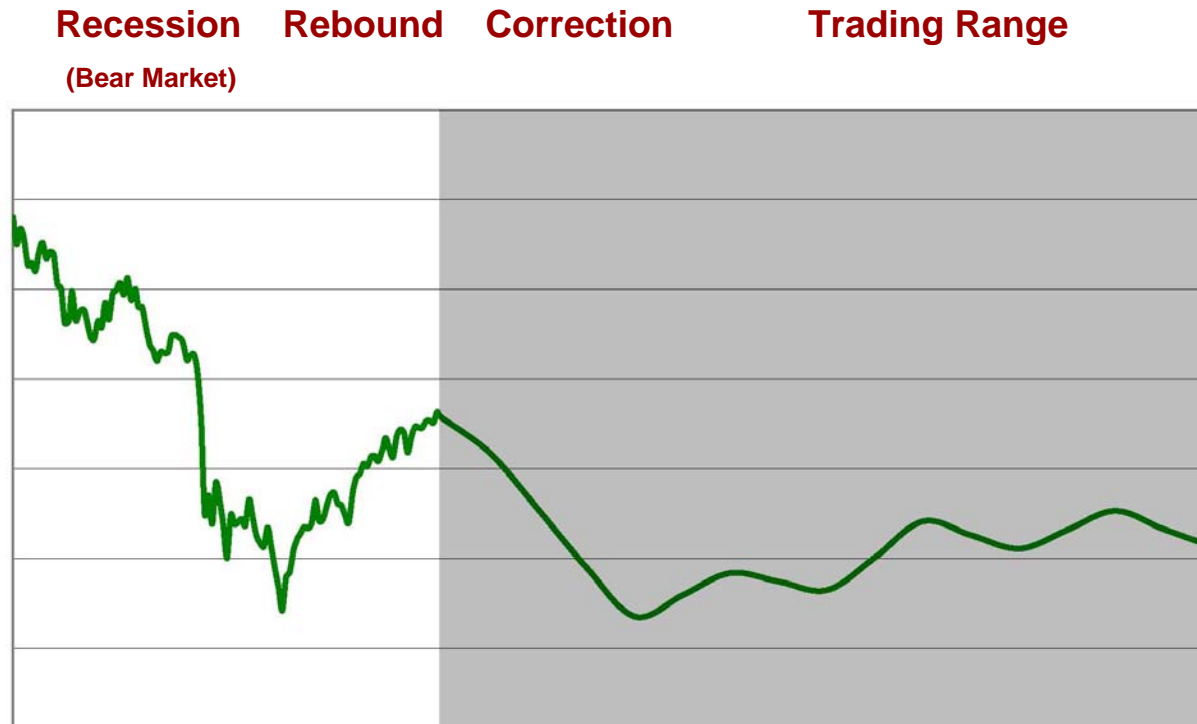
# Typical Stages of a Bear Market – Recovery Falters



**Scenario 3 – Global recovery falters.** Economic stagflation occurs. Employment does not recover. Interest rates rise. Equities and bonds both perform poorly.

**Probability: Medium    Estimated equity returns: -10 to -20%**

# Typical Stages of a Bear Market – Recovery Fails

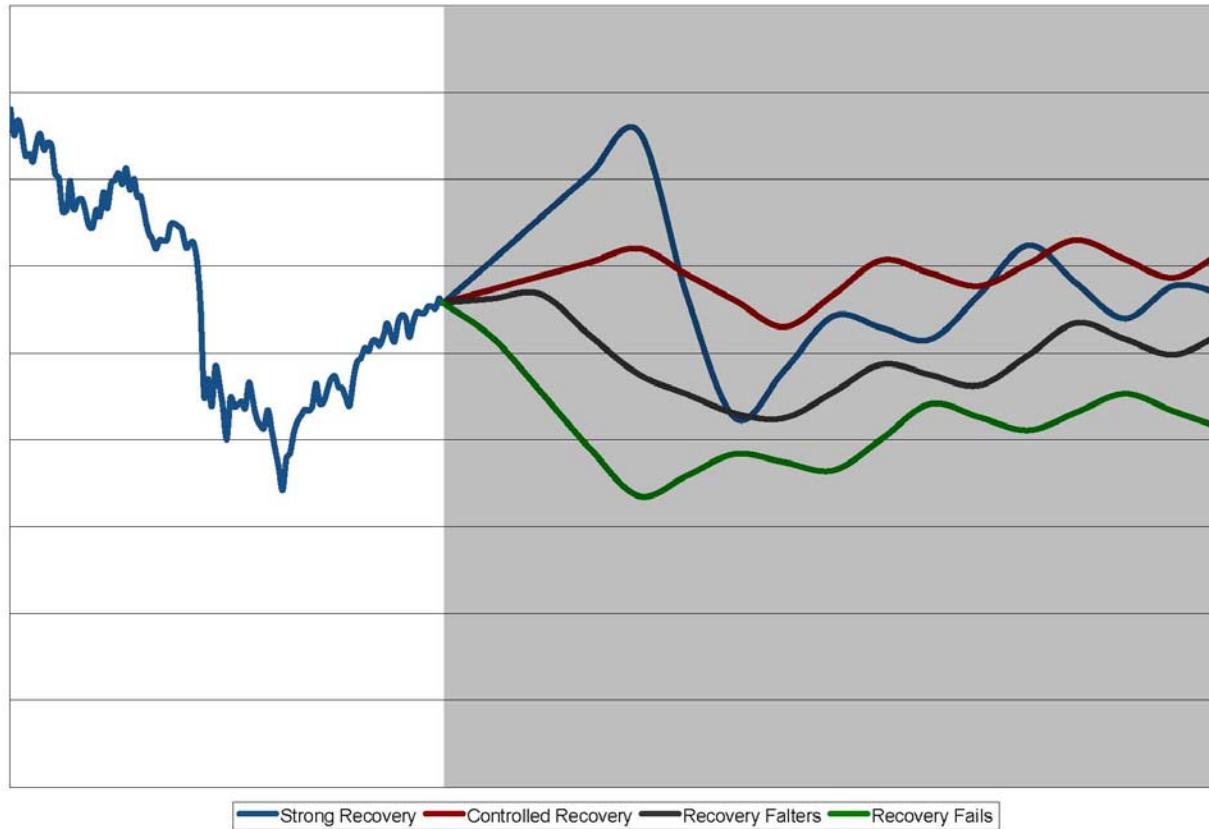


**Scenario 4** – Global recovery fails. Deflation reasserts itself. A double dip becomes evident. Equities and corporate bonds perform very poorly. Cash is king.

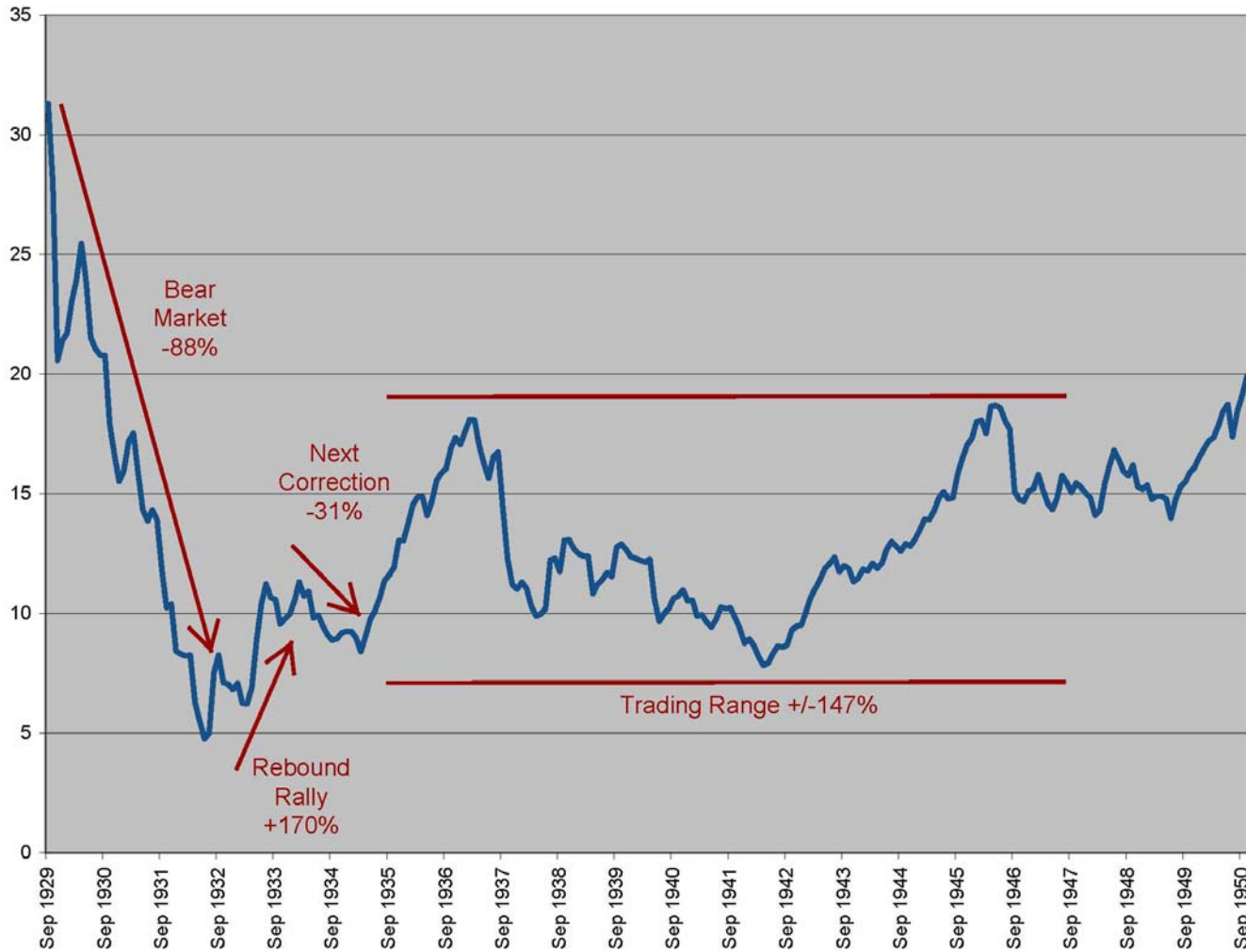
**Probability: Low Estimated equity returns: -20 to -40%**

# Typical Stages of a Bear Market – Summary

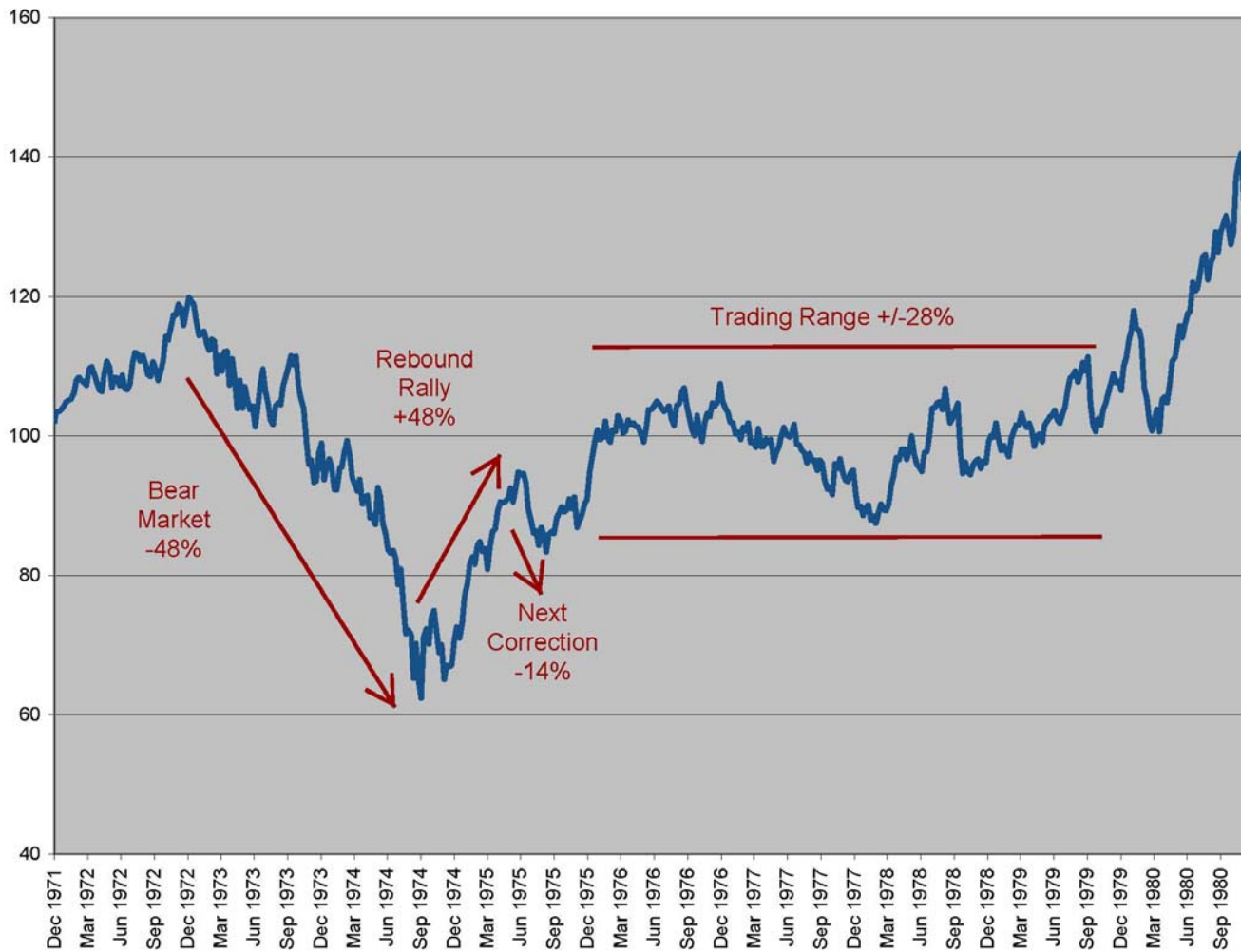
**Recession**      **Rebound**      **Correction**      **Trading Range**  
(Bear Market)



# S&P 500 in the 1930s



# S&P 500 in the 1970s



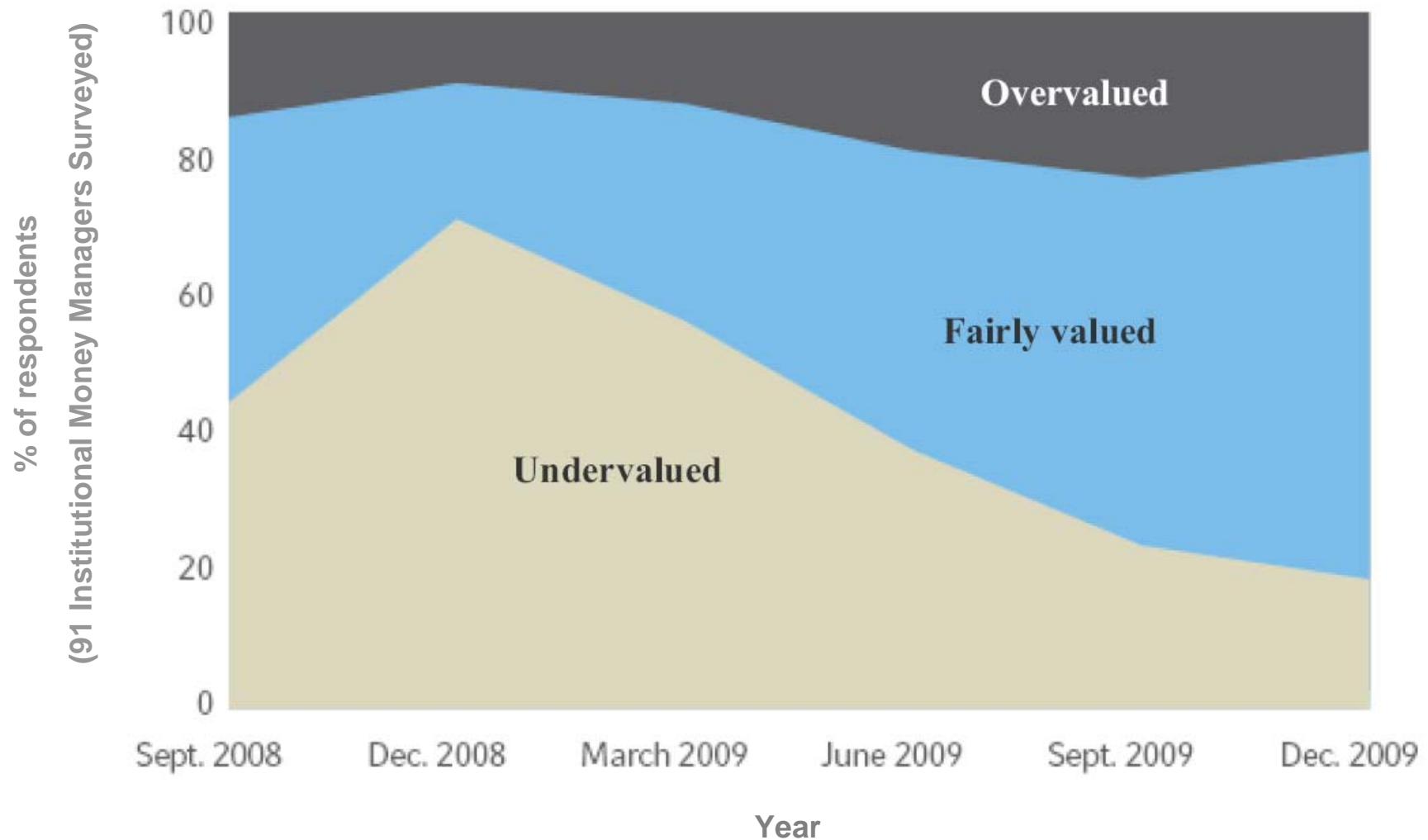
# Nikkei 225 in the 1990s



# Potential Performance Report Card for 2010

	<u>Stocks</u>	<u>Bonds</u>	<u>Commodities</u>	<u>Cash<sup>1</sup></u>
<b>Strong Recovery</b>	<b>B+</b>	<b>D</b>	<b>A+</b>	<b>D-</b>
<b>Controlled Recovery</b>	<b>A</b>	<b>B</b>	<b>B+</b>	<b>C</b>
<b>Recovery Falters</b>	<b>D</b>	<b>C</b>	<b>C</b>	<b>B</b>
<b>Recovery Fails</b>	<b>F</b>	<b>C-</b>	<b>D+</b>	<b>A</b>

# MSCI World Equity Market Valuation Forecast

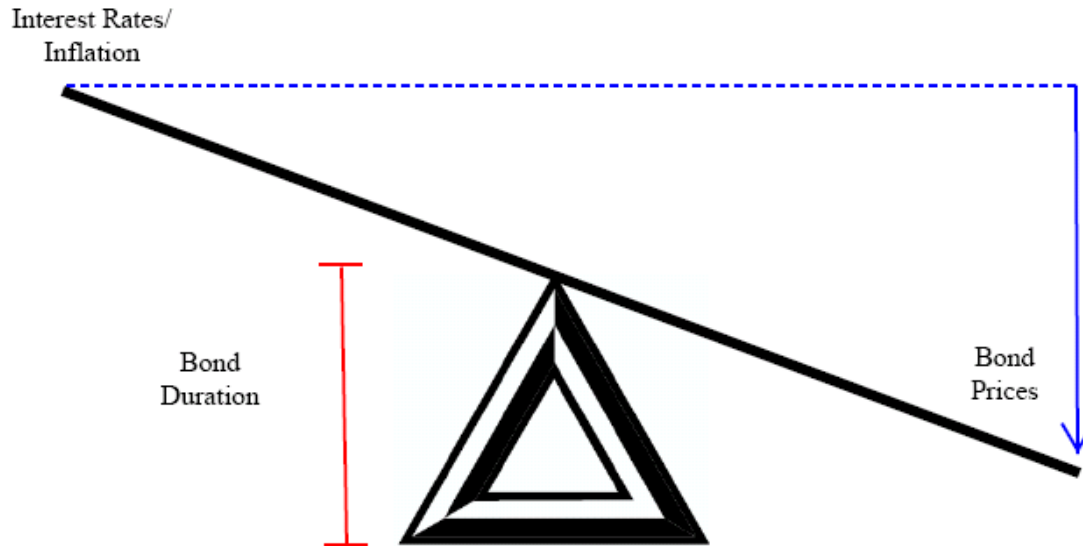


# Hypothetical S&P 500 Market Values at Various Projected Earnings and P/E Ratios

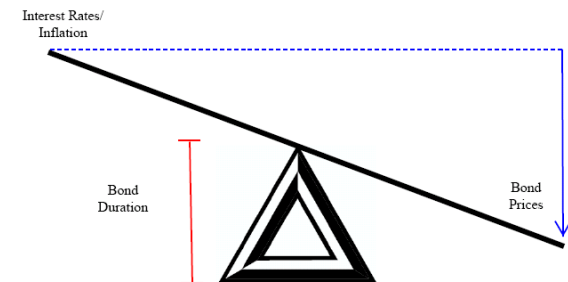
<u>P/E Ratio</u>	<u>\$60 EPS</u>	<u>\$75 EPS</u>	<u>\$80 EPS</u>
10	600	750	800
12	720	900	960
15	900	1125	1200
18	1080	1350	1440

# Bond Pricing

Loss of principal from rising interest rates is mitigated by reducing the duration of the bonds.



We continue to reduce the duration of the bond portfolios.



# Sample Balanced Model Portfolio

	<u>Baseline</u>	<u>Current Allocation</u>	<u>Differential</u>
	<u>Normalized Period</u>		
Short Term Reserves	8%	24%	16%
Int/LT Term Fixed Income	37%	31%	-6%
Equities	50%	37%	-13%
Alternatives	5%	8%	3%



[Greg.Sullivan@harris-sbsb.com](mailto:Greg.Sullivan@harris-sbsb.com)  
703-734-9300 ext. 785

**Greg Sullivan** is President of Harris SBSB, a service of Harris Private Bank that provides comprehensive financial planning and wealth advisory services to affluent clients. Mr. Sullivan, who co-founded Harris SBSB in 1991, is responsible for ensuring the continued growth and development of the business and specializes in providing investment management, tax advisory and financial planning services to clients.

Mr. Sullivan earned his bachelor's degree from Pennsylvania State University and has over 25 years of experience advising affluent clients. He is a CERTIFIED FINANCIAL PLANNER™ professional, a Certified Public Accountant (CPA) and is accredited as a Personal Financial Specialist (PFS) by the American Institute of Certified Public Accountants.

Mr. Sullivan is actively involved in the financial planning community. He is past president of the International Association for Financial Planning (now called the Financial Planning Association) and served on its Board of Directors from 1989-1997. He is a founding member of the Alpha Group, a nationally recognized group of leading financial planners. Mr. Sullivan was recognized by Barron's as one of the Top 100 Independent Advisors and by Washingtonian magazine as one of the area's Top Financial Planners in 2009.



[Gary.Lyons@harris-sbsb.com](mailto:Gary.Lyons@harris-sbsb.com)  
703-734-9300 ext. 596

**Gary Lyons** is Director of Portfolio Management at Harris SBSB where he specializes in investment strategy and policy. In addition to meeting with clients to discuss investments, Mr. Lyons chairs Harris SBSB's Investment Policy Committee.

Mr. Lyons earned his B.B.A., with honors, in Accounting and Finance from the University of Georgia and his M.B.A., also with honors, in Finance from the University of Kentucky.

Prior to Harris SBSB, Mr. Lyons served as Executive Director of Riggs & Co.'s domestic Wealth Management Division where he had full responsibility for all aspects of the firm's domestic wealth and asset management businesses. Before joining Riggs & Co., Mr. Lyons served as the Managing Director of the Alexandria Bancorp Group of companies. He was responsible for a 75-person staff with full profit and loss responsibility for \$19.8 billion in assets under management, \$140 million in annual revenues and a \$28 million operations budget. He directed the operations of seven offices in five countries.

Mr. Lyons currently serves on the board of The Patrick Foundation, a private charitable foundation that contributes to various organizations in areas of interest to the foundation trustees (mainly environmental). He has also served on the boards of Transatlantic Trading and Leasing Corp., Shield International Insurance Corp., as well as Ellwood Venture Capital Corporation. He previously served on the Financial Accounting Standards Board from 1991-1995 and The Canadian Society of Management Accountants from 1993-1995.

## Disclosures

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