

CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

BOSTON • DENVER • SAN FRANCISCO

February 2009 Outlook - Market Update

Bad Start:

The S&P 500 lost 8.4% in January 2009, its worst total return performance in the first month of any calendar year ever. The stock index lost 6.0% in January 2008. The S&P 500 has suffered a total return loss in 11 of the past 15 months. (source: BTN Research) It needs to be noted that the S&P 500 is worth \$7.2 trillion as of the end of January 2009. At the beginning of 2009, an estimated \$8.9 trillion of cash was invested in safety-oriented investments (e.g. money market funds) and not in the US stock market (source: Leeb Capital Management, Denver Post).

Unemployment quickens:

There was a total job loss of 598,000 in the month of January. This is the worst since 1974, and makes the national unemployment rate 7.6%. The total number of Americans that have lost their jobs in the past 12 months is at 4.1 million.

Persistent credit issues:

Credit problems remain pervasive with the 'de-leveraging' process expected to continue. Not only are businesses finding it hard to continue to raise capital, but so are local and state governments.

'Deleveraging' continues:

While banks continue to try to shore up the risk on their balance sheets, many corporations are following suit by significantly slowing down their production, and trying to 'de-leverage' their own balance sheets. Real consumer spending, as a function of unemployment, and / or the fear of unemployment dipped to close to -0.9% at the end of last year. As consumers continue to attempt to 'de-leverage' their own balance sheets, the pressure on corporate profits will continue to persist.

Stimulus:

Congress approved the Stimulus Bill of \$789 billion in the hopes of saving or creating 3.5 million jobs. A cursory review of tax cuts and the way that it's delivered, i.e. \$13/paycheck in late spring when with holding tables are adjusted, may do little to stimulate spending. First time homebuyers would get an \$8,000 credit for homes bought before the end of August, and purchasers of new autos will be able to deduct the sales tax. Our belief regarding the stimulus is that while it may help us in the short term by not piling on more unemployment, it obviously leaves a lot to be desired in regards to sustainability in the intermediate term.

Our positioning:

We believe that the US housing market's stabilization, a slowdown in unemployment, and the release in pressure on credit markets will provide the relief that the markets need in order to steady themselves. As always, we will remain focused on the investments and

economic factors that we believe drive long-term security prices: valuation, corporate earnings growth, real economic growth, and the overall level of interest rates. Until we see a break in the current pattern, we will continue to maintain defensive (cash or hedged) positions in our CIMCO model strategies.