

LarsonAllen Financial, LLC Market and Economic Update

SUMMARY

- I) **Equity Markets**—We believe the current equity bull market is a cyclical (short term, one to three year) rally within a secular bear market (long term, seven to 15+ years) that began in 2000. We believe the initial phase of this cyclical stock market rally is complete and we are most likely moving into a period of consolidation.
- II) **Credit Markets**—Credit spreads continue to improve across the entire credit complex. The fixed income markets have historically been very good gauges of future economic activity and the current credit market is telling of an improving economic picture over the next six to twelve months.
- III) **Economy**—The recession has ended on most measures except employment. We are seeing improved economic activity across most sectors and we believe the most likely outcome is a modest continuation of an improving economic picture throughout 2010.
- IV) **Risks**—There are several risks to the economic recovery. The biggest is perhaps the fact that sovereign governments around the world continue to issue record levels of debt. Several European countries including Greece, Spain, United Kingdom, as well as Ireland, Japan, and the United States find themselves in very challenging situations as debt relative to economic output continues to increase. Can the debt markets absorb the massive amount of credit required by these countries, especially after the Federal Reserve withdraws its financial support in the capital markets?

CONCLUSION

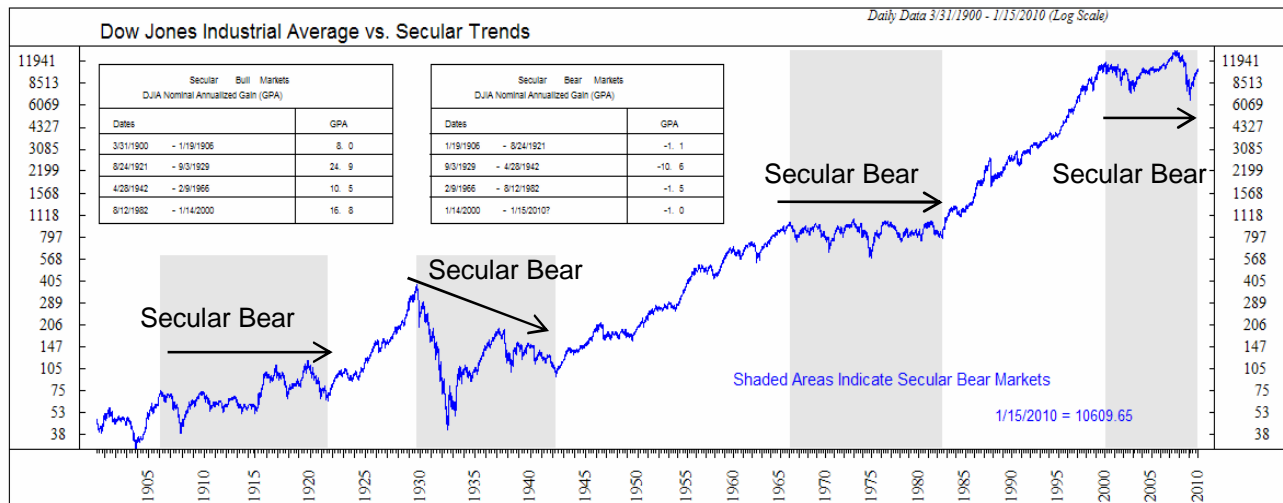
Economic data along with credit market information points to a slowly improving economic situation. Corrections within the equity market should be viewed as a longer term positive as the market creates a stronger foundation for the current cycle. A big risk to the current cyclical stock market rally would be a sharp advance without 5–10 percent corrections along the way. Risks to the economic recovery exist and will most likely keep a lid on stock price multiple expansion and risk taking within capital markets. Emerging economies are providing new marketplaces and new end-aggregate demand which will help offset some of the diminishing net aggregate demand within the advanced economies. The lift from the emerging economies may be one positive that is being overlooked by many economists.

ECONOMIC UPDATE

I. Equity Market Overview

Equity markets tend to move in longer term (secular) trends. This is evidenced by chart 1 displaying secular bull and bear markets in the United States over the past 90 years. Secular bear markets are shaded. Secular bull markets tend to be long-term upward trends driven by a growing economy, manageable debt levels, financial market innovation, and favorable supply and demand characteristics within most economic sectors. Secular bear markets tend to be induced by a disruption to the supply/demand equilibrium. Post WWII recessions occurred primarily due to excess supply. Inventory lead recessions tend to be somewhat shallow in economic impact and duration. The more severe recessions/depressions have been driven by a reduction in net aggregate demand due to excessive debt levels. Simply put, debt provides the ability to consume today what one must pay for tomorrow. Too much debt creates an artificial surge in current demand (consumption) which in return leads to a more significant drag on future consumption as more dollars are required to service and retire debt. Today's debt levels are far beyond normal expansionary levels. In response to a tepid labor market, consumers are de-leveraging (paying down debt or defaulting on debt) which means less current consumption. The process of de-leveraging and increased savings could take several years. A possible result of de-leveraging, increased savings, and lower economic output is lower price-to-earnings ratios (the price investors pay for future corporate earnings). This represents a head wind for stocks which tends to occur in a secular bear scenario. The one savior to the de-leveraging story in many developed countries is the powerful growth and increasing net aggregate demand from the emerging economies. Many emerging economies around the world are expected to witness 5-10 percent GDP growth in 2010 (Source: Bloomberg).

Unprecedented government stimulus around the world has now reversed the negative feedback loops and secular bear market trend setting the course for a short term (cyclical) recovery in asset prices. The first leg of the advance of this cyclical rally has most likely run its course. We are now most likely in the consolidation phase of the current cyclical rally where markets trade sideways, demanding more information on the economy and corporate earnings before the next stage of advance occurs. Stock market corrections during this cyclical rally should be expected and welcomed as these corrections move stock from weaker hands into stronger hands giving the rally a stronger foundation.

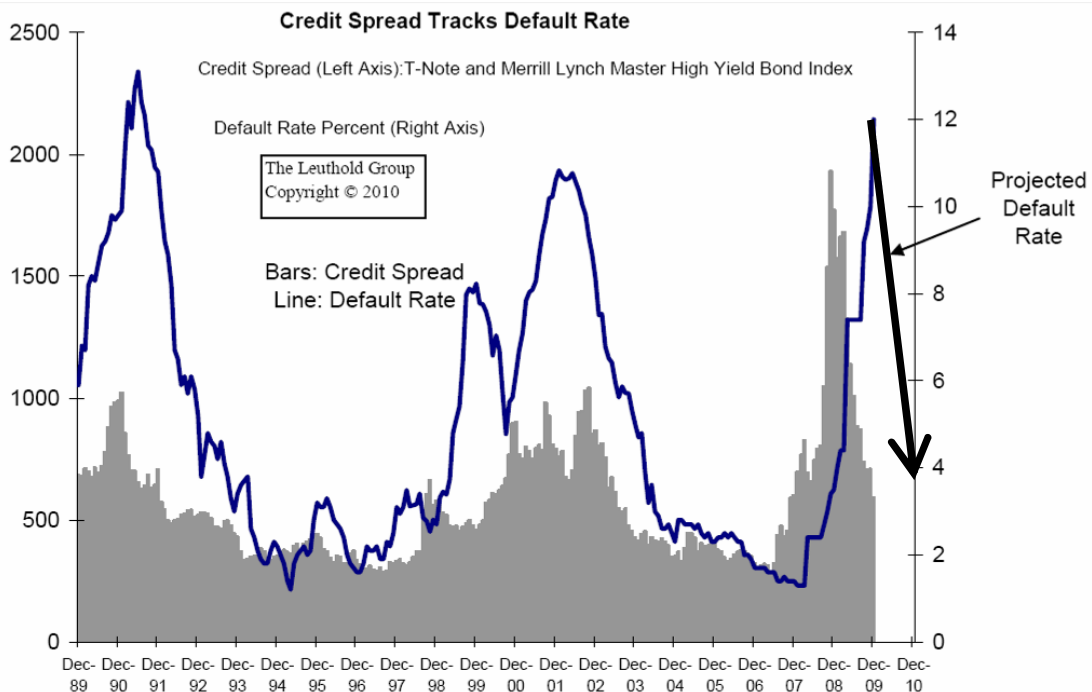
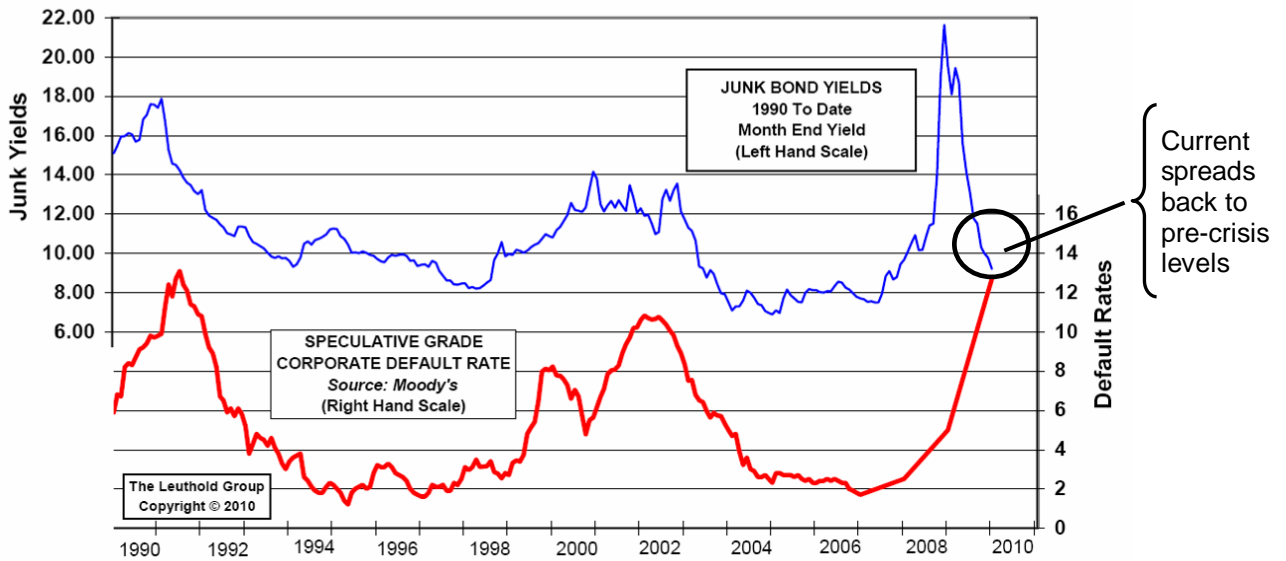


(Chart 1)

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II. Credit Markets

Credit markets (bond markets) tend to be a leading indicator of future economic activity. Credit markets have continued to improve in a very methodical fashion over the past several months. Credit markets foretold problems in the residential real estate markets and Wall Street banks long before these problems become apparent to the public and the equity market. Investment grade corporate bond spreads have now returned to pre-credit crisis levels. We continue to see investors willing to take on more credit risk in return for higher yields. Analyst expectations of corporate bond defaults and municipal bond defaults have diminished due to improving economic activity and the improved ability to re-finance debt in the credit markets.

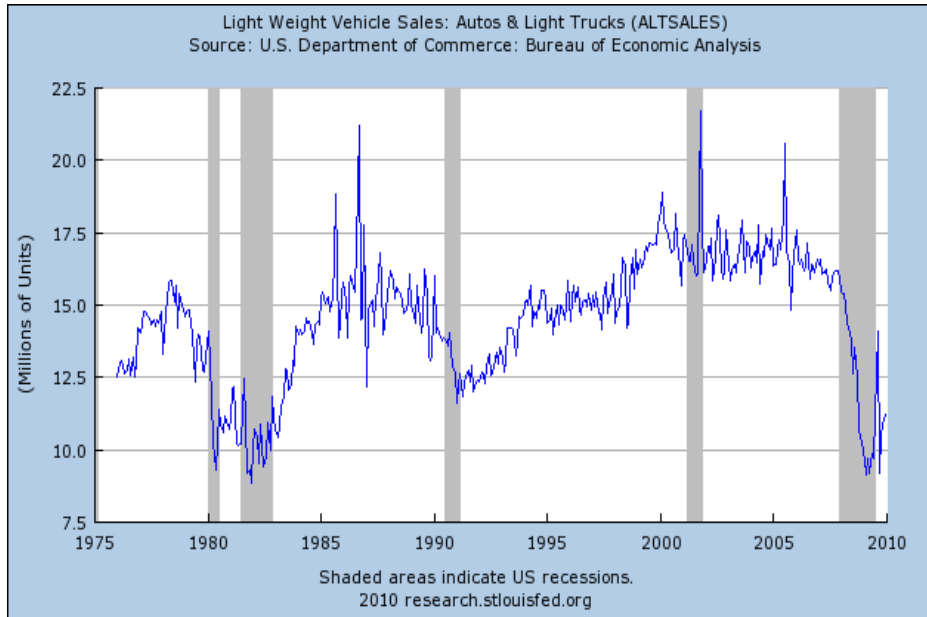


III. Recent Economic Activity Tells of an Improving Story

- Most economic data is pointing to a modest recovery in 2010 if current trends continue.
- New vehicle sales show an improving picture due to improved credit conditions and renewed consumer confidence.

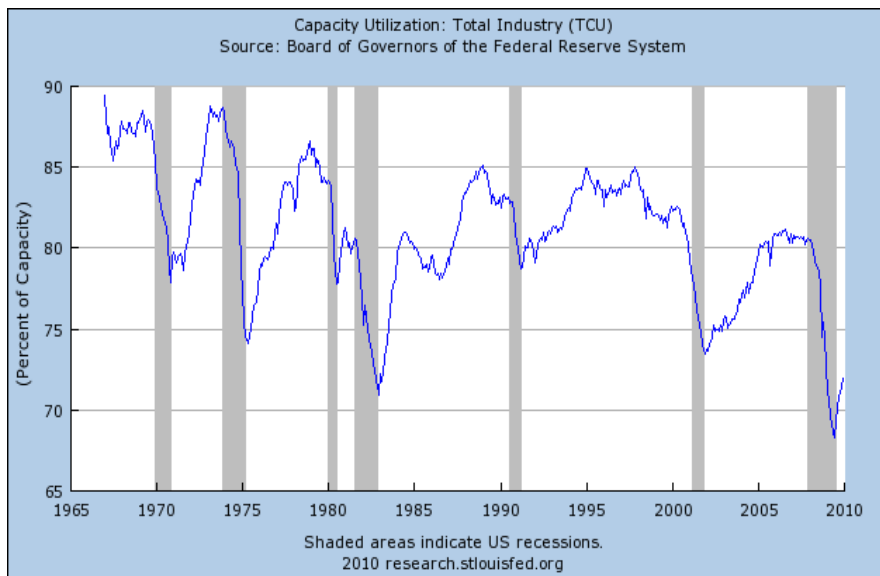
Total Vehicle Sales (MM Units/Annualized; 2009)

September	October	November	December
9.186	10.429	10.889	11.207



Manufacturing Capacity Utilization (2009): Continuing To Improve

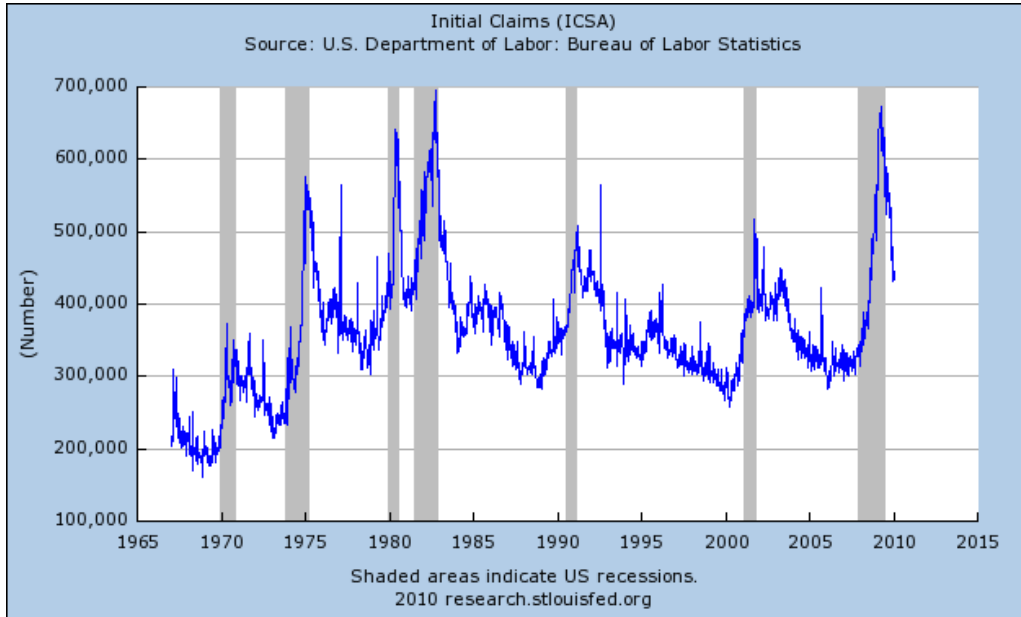
September	October	November	December
70.8	71.0	71.5	72.0



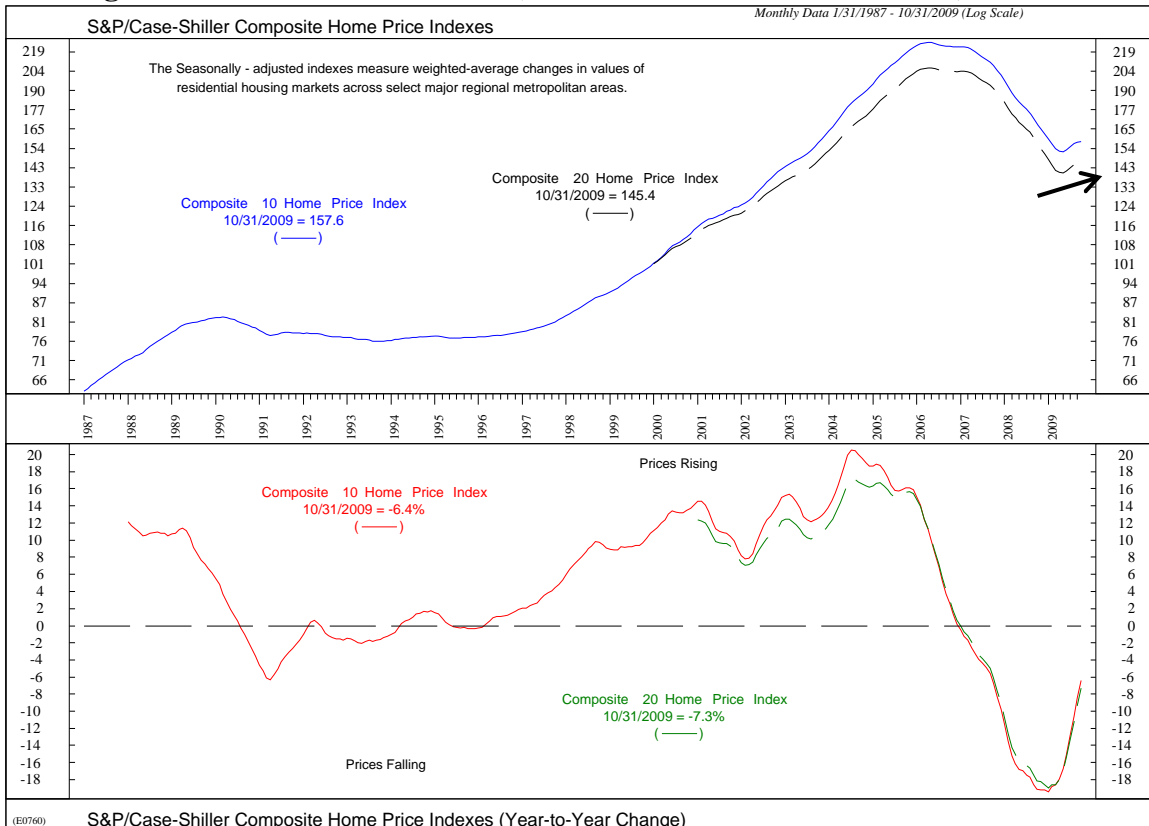
III. Recent Economic Activity Tells of an Improving Story (continued)

New Claims for Unemployment Insurance (2009): Continuing To Improve

September	October	November	December
557,000	524,000	505,000	475,000



Housing Prices Continue to Stabilize (Case Schiller Home Price Index)



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IV. Risks to a Cyclical Recovery

- Record issuance of sovereign debt is expected to fund government deficits around the world. We believe these deficits, if continued, could become a big risk to long-term economic growth.

Annex Table 27. **General government financial balances**
Surplus (+) or deficit (-) as a per cent of nominal GDP

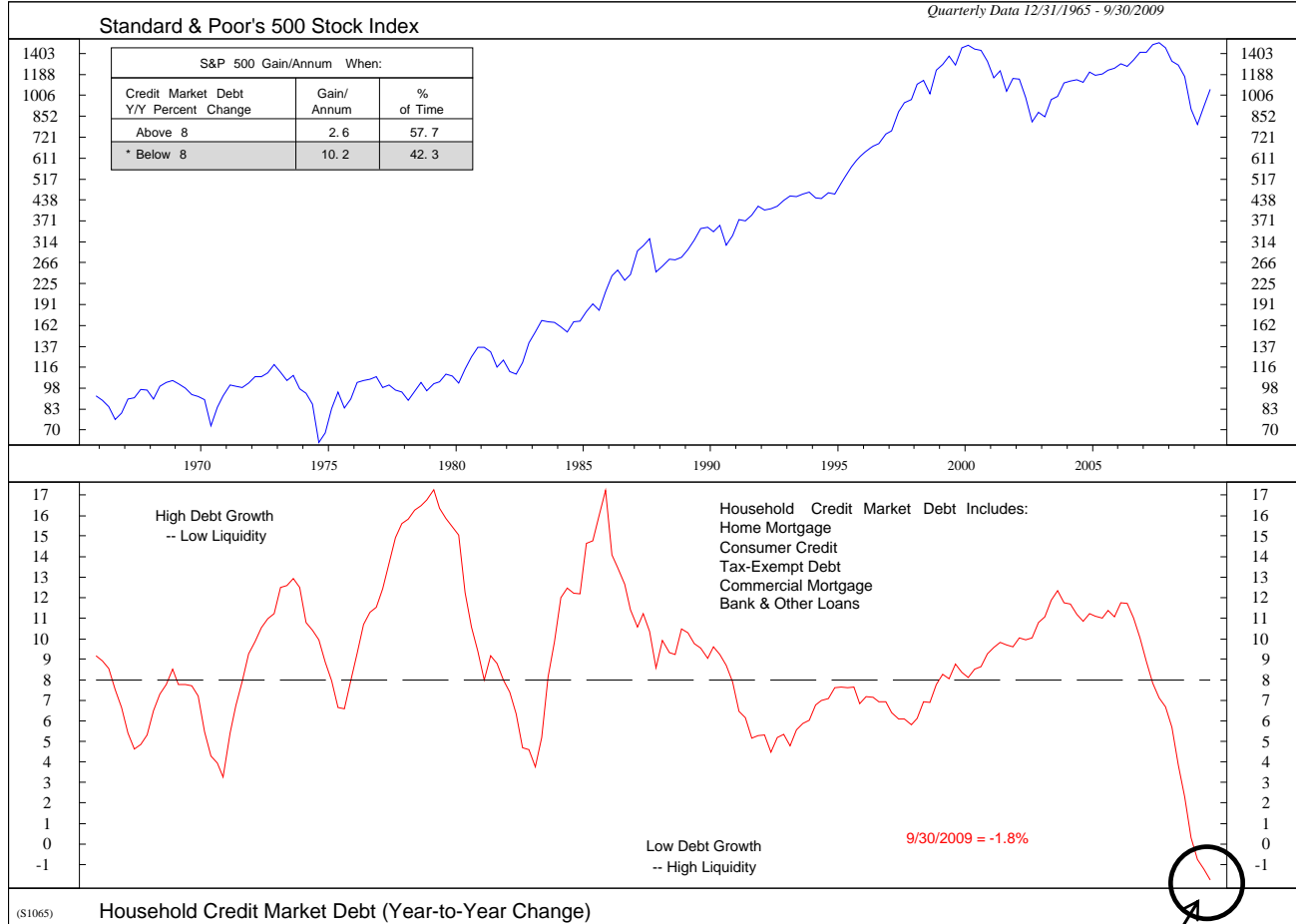
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Australia	-5.5	-4.4	-4.5	-3.7	-2.4	-0.7	1.6	2.0	0.9	-0.1	1.3	1.8	1.2	1.7	1.9	1.8	1.0	-4.0	-3.5	-2.6
Austria	-2.0	-4.4	-4.9	-5.9	-4.1	-2.0	-2.5	-2.4	-1.9	-0.2	-0.9	-1.6	-4.5	-1.7	-1.7	-0.7	-0.5	-4.3	-5.5	-5.8
Belgium	-8.2	-7.5	-5.2	-4.5	-4.0	-2.3	-1.0	-0.7	-0.1	0.4	-0.2	-0.2	-0.4	-2.8	0.2	-0.2	-1.2	-5.7	-5.6	-5.2
Canada	-9.1	-8.7	-6.7	-5.3	-2.8	0.2	0.1	1.6	2.9	0.7	-0.1	-0.1	0.9	1.5	1.6	1.6	0.1	-4.8	-5.2	-4.5
Czech Republic	..	..	..	-13.4	-3.3	-3.8	-5.0	-3.7	-3.7	-5.6	-6.8	-6.6	-2.9	-3.6	-2.6	-0.7	-2.0	-5.7	-5.6	-5.0
Denmark	-2.6	-3.8	-3.3	-2.9	-1.9	-0.5	0.0	1.4	2.3	1.2	0.2	-0.1	1.9	5.0	5.0	4.5	3.4	-2.5	-5.4	-4.0
Finland	-5.4	-8.3	-6.7	-6.2	-3.5	-1.3	1.6	1.6	6.9	5.0	4.1	2.4	2.2	2.6	3.9	5.2	4.4	-2.3	-4.8	-5.2
France	-4.5	-6.4	-5.5	-5.5	-4.0	-3.3	-2.6	-1.8	-1.5	-1.6	-3.2	-4.1	-3.6	-3.0	-2.3	-2.7	-3.4	-8.2	-8.6	-8.0
Germany	-2.5	-3.0	-2.3	-9.7	-3.3	-2.6	-2.2	-1.5	1.3	-2.8	-3.6	-4.0	-3.8	-3.3	-1.6	0.2	0.0	-3.2	-5.3	-4.6
Greece	-10.9	-11.9	-8.3	-9.1	-6.6	-5.9	-3.8	-3.1	-3.7	-4.4	-4.8	-5.7	-7.4	-5.3	-3.2	-4.0	-7.8	-12.7	-9.8	-10.0
Hungary	-8.2	-7.6	-12.8	-8.7	-4.6	-6.1	-7.9	-5.4	-3.0	-4.1	-8.9	-7.2	-6.4	-7.9	-9.4	-5.0	-3.7	-4.3	-4.1	-3.6
Iceland	-2.8	-4.5	-4.7	-3.0	-1.6	0.0	-0.4	1.1	1.7	-0.7	-2.6	-2.8	0.0	4.9	6.3	5.4	-13.6	-15.7	-10.1	-5.8
Ireland	-2.9	-2.7	-2.0	-2.0	-0.1	1.4	2.3	2.6	4.8	0.9	-0.3	0.4	1.4	1.7	3.0	0.2	-7.2	-12.2	-12.2	-11.6
Italy	-10.4	-10.1	-9.1	-7.4	-7.0	-2.7	-3.1	-1.8	-0.9	-3.1	-3.0	-3.5	-3.6	-4.4	-3.3	-1.5	-2.7	-5.5	-5.4	-5.1
Japan	0.6	-2.5	-3.8	-4.7	-5.1	-4.0	-11.2	-7.4	-7.6	-6.3	-8.0	-7.9	-6.2	-6.7	-1.6	-2.5	-2.7	-7.4	-8.2	-9.4
Korea	1.4	2.2	2.9	3.8	3.4	3.3	1.6	2.7	5.4	4.3	5.1	0.5	2.7	3.4	3.9	4.7	3.3	-1.8	0.4	1.1
Luxembourg	-0.2	1.5	2.5	2.4	1.2	3.7	3.4	3.4	6.0	6.1	2.1	0.5	-1.1	0.0	1.3	3.7	2.5	-2.3	-4.3	-3.6
Netherlands	-4.2	-2.8	-3.5	-9.2	-1.9	-1.2	-0.9	0.4	2.0	-0.3	-2.1	-3.2	-1.8	-0.3	0.5	0.2	0.7	-4.5	-5.9	-5.3
New Zealand	-3.0	-0.3	2.9	2.8	2.8	1.4	0.4	0.0	1.9	1.8	3.8	4.0	4.1	5.2	5.9	5.0	3.1	-1.2	-3.3	-3.9
Norway	-1.9	-1.4	0.3	3.2	6.3	7.6	3.3	6.0	15.4	13.3	9.2	7.3	11.1	15.1	18.5	17.7	18.8	9.6	9.9	10.8
Poland	..	..	..	-4.4	-4.9	-4.6	-4.3	-2.3	-3.0	-5.1	-5.0	-6.3	-5.7	-4.1	-3.6	-1.9	-3.7	-6.4	-7.8	-6.8
Portugal	-4.2	-7.5	-7.2	-5.0	-4.5	-3.5	-3.4	-2.8	-3.0	-4.3	-2.9	-3.0	-3.4	-6.1	-3.9	-2.7	-2.8	-6.7	-7.6	-7.8
Slovak Republic	..	..	-8.8	-3.4	-9.9	-6.3	-5.3	-7.4	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.5	-1.9	-2.3	-5.9	-6.3	-5.0
Spain	-4.0	-7.3	-6.8	-6.5	-4.9	-3.4	-3.2	-1.4	-1.0	-0.7	-0.5	-0.2	-0.4	1.0	2.0	1.9	-4.1	-9.6	-8.5	-7.7
Sweden	-8.9	-11.2	-9.1	-7.3	-3.3	-1.6	1.2	1.2	3.7	1.7	-1.4	-1.2	0.6	2.0	2.4	3.8	2.5	-2.0	-3.0	-2.0
Switzerland	-3.1	-3.5	-2.8	-2.0	-1.8	-2.8	-1.9	-0.5	0.1	-0.1	-1.2	-1.7	-1.8	-0.7	0.8	1.6	1.6	-0.7	-1.3	-1.3
United Kingdom	-6.5	-8.0	-6.8	-5.8	-4.2	-2.2	-0.1	0.9	3.7	0.6	-2.0	-3.7	-3.6	-3.3	-2.7	-2.7	-5.3	-12.6	-13.3	-12.5
United States	-5.9	-5.1	-3.7	-3.3	-2.3	-0.9	0.3	0.7	1.5	-0.6	-4.0	-5.0	-4.4	-3.3	-2.2	-2.8	-6.5	-11.2	-10.7	-9.4
Euro area	-4.7	-5.8	-5.0	-7.6	-4.3	-2.7	-2.3	-1.4	-0.1	-1.9	-2.6	-3.1	-3.0	-2.6	-1.3	-0.6	-2.0	-6.1	-6.7	-6.2
Total OECD	-4.6	-5.0	-4.2	-4.8	-3.1	-1.7	-1.9	-0.8	0.2	-1.3	-3.3	-4.1	-3.4	-2.7	-1.3	-1.3	-3.5	-8.2	-8.3	-7.6
<i>Memorandum items</i>																				
General government financial balances excluding social security																				
United States	-6.7	-5.8	-4.5	-4.1	-3.2	-1.9	-0.9	-0.7	-0.1	-2.2	-5.5	-6.3	-5.8	-4.6	-3.6	-4.2	-7.7	-12.2	-11.6	-10.4
Japan	-1.9	-4.7	-5.8	-6.7	-6.9	-5.8	-12.5	-8.5	-8.2	-6.5	-7.9	-8.0	-6.6	-7.0	-1.7	-2.4	-2.3	-6.6	-7.1	-8.4

Note: Financial balances include one-off factors, such as those resulting from the sale of the mobile telephone licenses, but exclude financial transactions, such as public capital injections into private banks. As data are on a national accounts basis (SNA93/ESA95), the government financial balances may differ from the numbers reported to the European Commission under the Excessive Deficit Procedure for some EU countries. For more details, see footnotes 1

Source: OECD Economic Outlook 86 database.

IV. Risks to a Cyclical Recovery (continued)

- Credit issuance remains bleak as consumers and small business de-leverage.

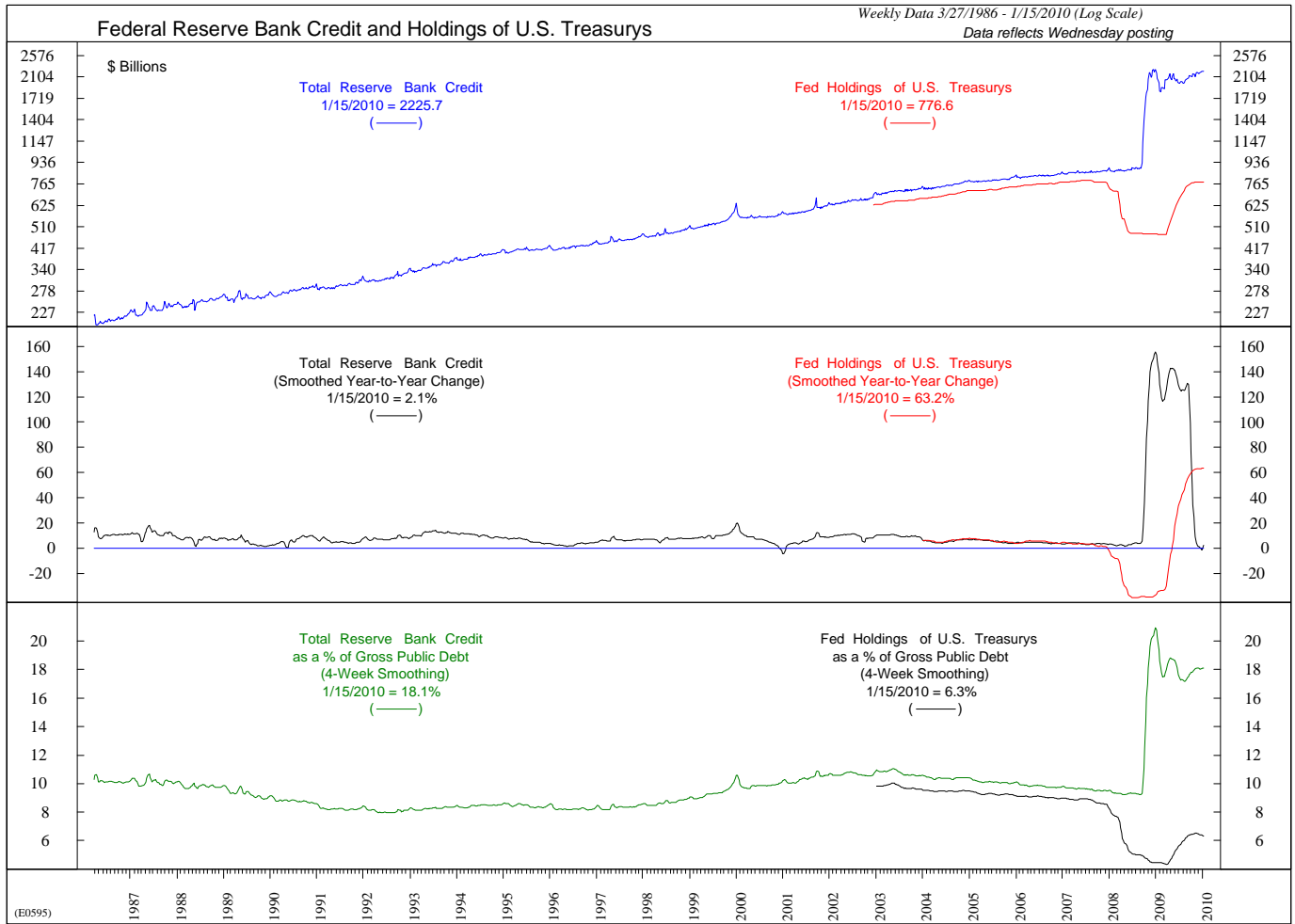


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Consumer debt contracting

IV. Risks to a Cyclical Recovery (continued)

- The Federal Reserve plans to withdraw its purchase of mortgage bonds and treasury bonds at the end of the first quarter (source: Bloomberg). If credit spreads begin to widen due to this action it could create disruption in the credit markets increasing the cost of capital and possibly threaten the fragile economic recovery.



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Conclusion

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This Market and Economic Update is prepared by LarsonAllen Financial, LLC. If you have any questions, please call 1-888-925-2926 and ask to speak with a Senior Wealth Advisor.

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