

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- The Fed bought \$2.551 billion of Treasuries in the first outright purchase of U.S. government debt since October as it reintroduces “quantitative easing”. The Fed bought 14 of the 25 securities listed for possible purchase maturing from August 2014 to February 2016.
- Sales at U.S. retailers rose less than forecast and consumer confidence held near an eight-month low, indicating the economic slowdown will persist into the second half of 2010. Prospects for U.S. growth also took a hit this week after reports showed the trade deficit swelled.

Upcoming Reports

- (8/24) Existing Home Sales (4.67m vs. 5.37m, -13.1%) & (8/25) New Home Sales (340k vs. 330k, +1.5%).
- (8/25) Durable Goods Orders (2.8% vs. -1.8%) & Orders Ex-Transportation (0.5% vs. -0.9%).

Longer-Term Outlook

- We think it’s likely that sometime within our five-year analysis horizon we’ll have another recession even if we don’t get a double dip soon. We’ve never relied on predicting the timing of recessions, but instead we have viewed recessions as creating the potential for tactical asset allocation opportunities because markets often overreact on the downside.
- This can create compelling valuations and potential return opportunities for investors with a solid valuation framework, patience, and longer time horizons. If we have a double dip, the market might overshoot to the downside again. And all else equal, if that happens we’ll reduce our underweight to equities in our balanced models because prospective equity returns will look more attractive at that point.

Market Outlook

Equity Outlook

- Our most-likely scenario, which is a subpar recovery and anemic growth, has the most impact on how much equity risk we are taking in our portfolios. The optimistic scenario and the double-dip recession scenario, both of which we think are less likely, also inform our decision making in terms of how underweighted or overweighted to equities we want to be.
- Our annualized return range from the most bearish to optimistic scenarios is -1% to 12% over the next five years, with our most-likely scenario currently suggesting returns could be around mid single digits. This includes dividends.

Fixed Income Outlook

- There is growing debate over a “bond bubble” with the continued rally. Overall yields are astonishingly low: US Merrill Broad at 2.42%, US Treasury at 1.51%, US Merrill Corporate at 3.82%, & US Merrill Municipal at 3.28%. US High Yield at 8.3% could even attract funds in here.
- Our annualized return range from the most bearish to optimistic scenarios is -3% to 3% over the next five years, with our most-likely scenario currently suggesting returns could be very low single digits. This includes income and reinvestment assumptions.

S&P 500 GICS Sector Performance and Recommended Sector Weightings

S&P 500 Sector	% Total Return			Forward P/E Ratio	Actual Sector % Weightings	Forward Looking
	MTD	YTD	2008			CB&T Sector Emphasis
Consumer Discretionary	0.3	6.5	41.3	14.4	10.3	Underweight
Consumer Staples	0.4	3.5	14.9	14.2	11.5	Marketweight
Energy	-0.1	-5.2	13.9	11.6	10.9	Overweight
Financials	-3.5	-0.8	17.2	13.2	16.0	Underweight
Health Care	2.6	-5.1	19.7	11.1	11.7	Marketweight
Industrials	-1.1	8.2	20.9	15.1	10.6	Marketweight
Information Technology	-2.1	-6.1	61.7	12.8	18.5	Overweight
Materials	1.1	-1.0	48.6	15.7	3.6	Underweight
Telecommunication	3.9	4.2	8.9	15.3	3.2	Marketweight
Utilities	1.5	1.4	11.9	12.3	3.8	Marketweight
S&P Composite 1500	-0.7	-0.2	27.3	13.5		
S&P 500	-0.5	-0.6	26.5	13.1		
S&P MidCap 400	-1.2	4.2	37.4	16.7		
S&P SmallCap 600	-3.6	1.7	25.6	18.5		

Sector recommendations are market-cap weighted, influenced by economic, fundamental, and technical consideration.

The above information is provided by outside data vendors; CB&T cannot guarantee the accuracy of the data provided.

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