

Investment Policy Committee Notes

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Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- Initial Jobless Claims (608K) higher than expected but Continuing Claims (6687K) lower than expected 6840K.
- May Existing Home Sales (4.77M, +2.4%) less than expected and slight negative revisions. New Home Sales (342K, -0.6%) lower than expected.
- May Durable Goods Orders (1.8%) & Durables Ex-Transportation (1.1%) were much better than expected but slight negative revisions.

Upcoming Reports

- (6/25) 1QF GDP (-5.7% vs. -5.7%).
- (6/25) 1Q Personal Consumption (1.5% vs. 1.5%).
- (6/26) May Personal Income (0.3% vs. 0.5%) & Personal Spending (0.3% vs. -0.1%).
- (7/01) Jun ADP Employment Change (-410K vs. -532K).

Longer-Term Outlook

- While we think that the policies and programs in place are likely to help move the economy towards recovery. But in our opinion, the impact of consumer and financial system deleveraging will almost certainly be a significant drag on economic growth over the next several years as saving and paying down debt replaces borrowing and spending. We also believe that no matter what the short-term outcome, there will be a price to pay down the road for the current policy actions—potentially in the form of a weaker dollar, higher inflation, higher interest rates and tax rates and, consequently, subpar economic growth and corporate profits, and lower stock market valuations.
- That being said, we are encouraged that the actions discussed above have taken the worst-case economic scenarios off the table. We are also encouraged by- the massive amounts of cash on the sidelines; earnings are (finally) being lowered to a level that reflects the weak economy; we are seeing glimmers of hope in some economic indicators. We are also encouraged by the improving signals in both equity & fixed markets.

Market Outlook

Equity Outlook

- Stocks have retreated in June as large-caps & international have posted negative returns. The S&P 500 as of 6/24 is down 1.8% and is now barely positive for the year. It continued to trade around 900 which we recently cited as the high-end of our fair value range. Smaller-cap indices as of 6/24 were down 1.2%. International performance has also been negative with EAFE down 1.2% and emerging-markets down 5%.
- We believe we are in an environment where stock picking may produce much better results than the overall market. Over the past few months, we have been able to find a lot of companies that meet our stringent criteria, and we remain confident that our disciplined investment approach will add a lot of value in this environment.

Fixed Income Outlook

- Fixed income has been performing as expected this year. Treasury yields have been in an uptrend though recent support has been established. Corporate & municipal bonds have outperformed but are now vulnerable to increasing rates. High-yield bonds, mostly funded from equities, continue to perform very well and were up over 7% for May.
- Tax-Exempt bonds hit resistance in June as Treasury rates moved higher and have not fully participated in the recent improvement. Valuations are now attractive to historical norms throughout the yield curve as we enter the seasonally strong months for municipals.

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	-2.4	5.4	-33.5	19.5	8.9	Underweight
Consumer Staples	-0.6	-3.0	-15.4	13.4	12.1	Overweight
Energy	-6.3	-3.8	-34.9	16.2	12.5	Marketweight
Financials	-4.6	-5.9	-55.3	20.5	13.5	Underweight
Health Care	0.1	-2.3	-22.8	11.1	13.9	Overweight
Industrials	-4.3	-8.0	-39.9	13.5	9.8	Marketweight
Information Technology	2.2	22.6	-43.1	17.4	18.5	Marketweight
Materials	-6.1	12.1	-45.7	30.8	3.2	Marketweight
Telecommunication	0.6	-4.5	-30.5	12.9	3.5	Underweight
Utilities	3.6	-3.5	-29.0	11.6	4.1	Marketweight
S&P Composite 1500	-1.9	1.2	-36.7	15.5		
S&P 500	-1.8	1.1	-37.0	15.3		
S&P MidCap 400	-2.3	5.3	-36.2	16.7		
S&P SmallCap 600	-2.1	-2.9	-31.1	21.3		

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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