

Investment Policy Committee Notes

March 19, 2009

4350 Brownsboro Rd.
Suite 210
Louisville, KY 40207
p (502) 259-2500
f (502) 259-1501
www.cbandt.com



Economic and Stock/Fixed Income Market Outlooks

Economic Outlook

Recent Reports

- February Advance Retail Sales (-0.1%, -8.6% YOY) & Sales Less Autos (0.7%, -5.0%) better than expected with positive revisions.
- February Industrial Production (-1.4%, -11.2% YOY) & Capacity Utilization (70.9%) in line with estimates.
- February Producer Price Index (0.1%, -1.3% YOY) rose less than expected. PPI ex-Food & Energy (0.2%, 4.0% YOY) basically in line.
- February Consumer Price Index (0.4%, 0.2% YOY) & CPI ex-Food & Energy (0.2%, 1.8% YOY) basically in line.
- F.O.M.C. Federal Funds Rate (0.25%) unchanged as expected. Fed announced that they have decided to purchase up to \$300 billion of longer-term Treasury securities over the next six months to support a low rate environment. They also expanded other asset purchases.

Upcoming Reports

- (3/23) February Existing Home Sales (4.45M vs. 4.49M, -0.9%).
- (3/25) February Durable Goods Orders (-2.0% vs. -5.2%) & Durables ex-Transportation (-2.0% vs. -2.5%).
- (3/25) February New Home Sales (300K vs. 309K, -2.9%).

Longer-Term Outlook

- We have written repeatedly since early fall 2008 that we are in a changed world. Many of the lessons learned and reinforced over decades of investing have not applied in this market. We believe the global economy will be forced to reset to a lower level over at least several years as debt and spending are sharply reduced.
- But while the macro environment may be new, what remains the same is that what matters from any point forward is what is being discounted in asset prices. We remain willing to take risk, but the opportunities being created allow us to be selective and we want to identify only those opportunities that have a very high likelihood of rewarding us over our investment horizon.

Market Outlook

Equity Outlook

- For many investors, the ability to withstand near-term risk is lower than it was, and we cautioned repeatedly that equities could retest or surpass their November lows, which they did last week. We also saw the potential for a near-term oversold rally which we are experiencing now.
- Even in our most negative scenario, returns from equities are decent from current levels—at least in the mid single digits (this reflects downward revisions in our earnings assumptions of a few months ago and a lower assumed P/E). They would be better than that in a still-bad, but less-severe economic environment.
- So while we are confident that from current levels stocks offer good longer-term return potential, we don't know what might happen in the shorter term. Stocks could drop once again, or they could continue this sharp rebound. We do know the market is forward looking and nearly always reaches a bottom well before the economy reaches a bottom.

Fixed Income Outlook

- We have been allocating to the many fixed-income opportunities that exist: municipals, investment grade bonds, TIPS, high yield, etc.
- Municipals gave back some of their recent strength in February, particularly intermediate bonds. We view this as a buying opportunity with tax increases on the horizon. In addition, bank demand for new issues may prove to be a catalyst for lower rates.

S&P 500 GICS Sector Performance and Recommended Sector Weightings

	% Total Return			Forward P/E Ratio	Actual Sector % Weightings	Forward Looking
	MTD	YTD	2008			CB&T Sector Emphasis
S&P 500 Sector						
Consumer Discretionary	9.5	-10.3	-33.5	36.7	8.5	Underweight
Consumer Staples	3.2	-11.3	-15.4	12.4	12.8	Overweight
Energy	6.1	-9.6	-34.9	13.8	13.6	Marketweight
Financials	24.8	-24.6	-55.3	13.3	11.4	Underweight
Health Care	5.8	-8.6	-22.8	10.4	15.3	Overweight
Industrials	6.9	-22.6	-39.9	10.1	9.5	Marketweight
Information Technology	8.2	0.7	-43.1	14.8	17.5	Marketweight
Materials	10.8	-5.9	-45.7	18.1	3.2	Marketweight
Telecommunication	7.9	-5.5	-30.5	12.8	4.1	Underweight
Utilities	0.7	-12.4	-29.0	10.4	4.2	Marketweight
S&P Composite 1500	8.1	-11.6	-36.7	13.2		
S&P 500	8.2	-11.4	-37.0	13.2		
S&P MidCap 400	7.2	-10.2	-36.2	13.4		
S&P SmallCap 600	6.8	-17.9	-31.1	15.1		

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.

NOT FDIC INSURED / NOT BANK GUARANTEED / MAY LOSE VALUE / NOT GUARANTEED BY ANY GOVERNMENT AGENCY / NOT A BANK DEPOSIT