CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

BOSTON · DENVER · SAN FRANCISCO

January 2008 Outlook – Slowing Economic Growth and Corporate Earnings; Concern About Credit Remains

• A tightening of lending standards and general aversion to risk may indicate a slowing of economic growth in the United States. **We anticipate that corporate earnings will be negatively affected by a potentially tapped-out consumer,** continued credit difficulties, and an overall cautious economic backdrop.

• We expect that corporate earnings will continue to ease relative to earlier double-digit robust levels. In our opinion, **there is still no clear sign of a bottom in the housing market,** and with somewhat higher interest rates and more stringent lending criteria being applied, **it is uncertain when this drag on the broader economy will subside.**

• In the equity market, it is our view that earnings multiples are neither cheap nor rich, relative to current and forecasted corporate earnings. **We expect economic growth to remain moderate, though the probability of recession has risen.** While interest rates remain low on an absolute basis and corporate profits broadly are reasonably solid, we do not see a current catalyst for price-to-earnings (P/E) multiple expansion.

• We believe larger-cap stocks exhibit more attractive valuations and earnings potential relative to smaller-cap stocks. It remains our view that there is currently a higher risk/reward tradeoff for systematic portfolio exposure to companies with higher credit quality and greater liquidity. We continue to maintain a value bias in our large-cap equity segments. In our view, only those stocks with high credit ratings, lower P/E multiples, and demonstrated superior earnings growth are attractive in the current market environment.

• In the overseas markets, overall growth prospects are stronger than in the U.S.; however, **a sharp slowdown or recession in the U.S. could well have some impact on the overseas economies and markets.** Within the developed non-U.S. equity markets, we continue to favor a systematic overweight position in Europe and an active underweight position in Japan.

• Our longer-term risk/return estimates for stocks and bonds remain unchanged. **We continue to expect that longer-term returns in both these major asset classes will underperform their respective long-term averages** due to higher-than-normal valuation levels and modest growth expectations.