CAPITAL INVESTMENT MANAGEMENT

Registered Investment Advisor

BOSTON · DENVER · SAN FRANCISCO

November 2009 Economic Update

The Economy

- The global economy is in the midst of a turnaround, led by China and other emerging countries in Asia and Latin America.
- As economic growth revives, pressure will build on governments to tighten fiscal and monetary policies. Getting the timing right and the proper mix in the move toward restraint is likely to be a major challenge.
- U.S. gross domestic product (GDP) met expectations, posting an increase of 3.5% for the third quarter, however consumer confidence was weaker than expected due to the continued soft jobs market.
- New home sales were lower than anticipated coming in at 402,000 instead of the forecasted 440,000. Legislation was recently cleared to extend the tax credit for homebuyers and make move-up buyers, as well as first-time buyers, eligible for a credit. See the attached addendum for a more in-depth look at housing data.
- Personal income remained relatively unchanged and has led to a further decrease in personal spending as a result of continued job losses and the end of the Cash for Clunkers program. High unemployment and unused manufacturing capacity, in addition to aggressive cost-cutting on the part of corporations, are factors exerting downward pressure on wages and salaries.
- Large-cap stocks have been outperforming their small-cap brethren as investors began positioning more defensively. Best performing sectors were Utilities, Consumer Staples, Healthcare, and Telecommunications. Financials, Materials, and Energy lagged.

Summary

- Skeptics continue to question the staying power of the stock market rally that we have seen since the March lows, with major indexes up over 50% many keep pointing to the need for a major pullback. We are, however, in the midst of a seasonal period that has usually been strong for the market and tough for those steadfast bears, with both November and December typically posting higher-than-average gains.
- As a rough rule of thumb, the strength of the early phase of recovery correlates with the severity of the decline that precedes it; the steeper the recession, the sharper the snapback in the first year of an economic rebound. Going forward, market gains might be more muted, and pullbacks are likely, which emphasizes the need for a disciplined portfolio strategy.
- As of late, CIMCO has been taking a more defensive position with portfolios in order to move quickly should we see a significant downturn. It is our stance that the last incline of any rally always carries with it the highest level of risk, and it is not in our portfolios' best interests to "eek out" those final gains when our primary goal in portfolio management has always been to minimize risk.

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