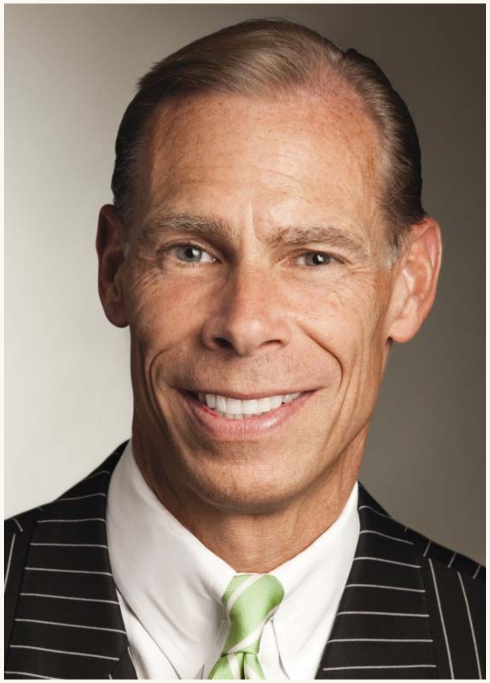
FERGUSON WELLMAN

CAPITAL MANAGEMENT



Fourth Quarter 2012 Investment Outlook

Don't fight the Fed … or the ECB

presented by

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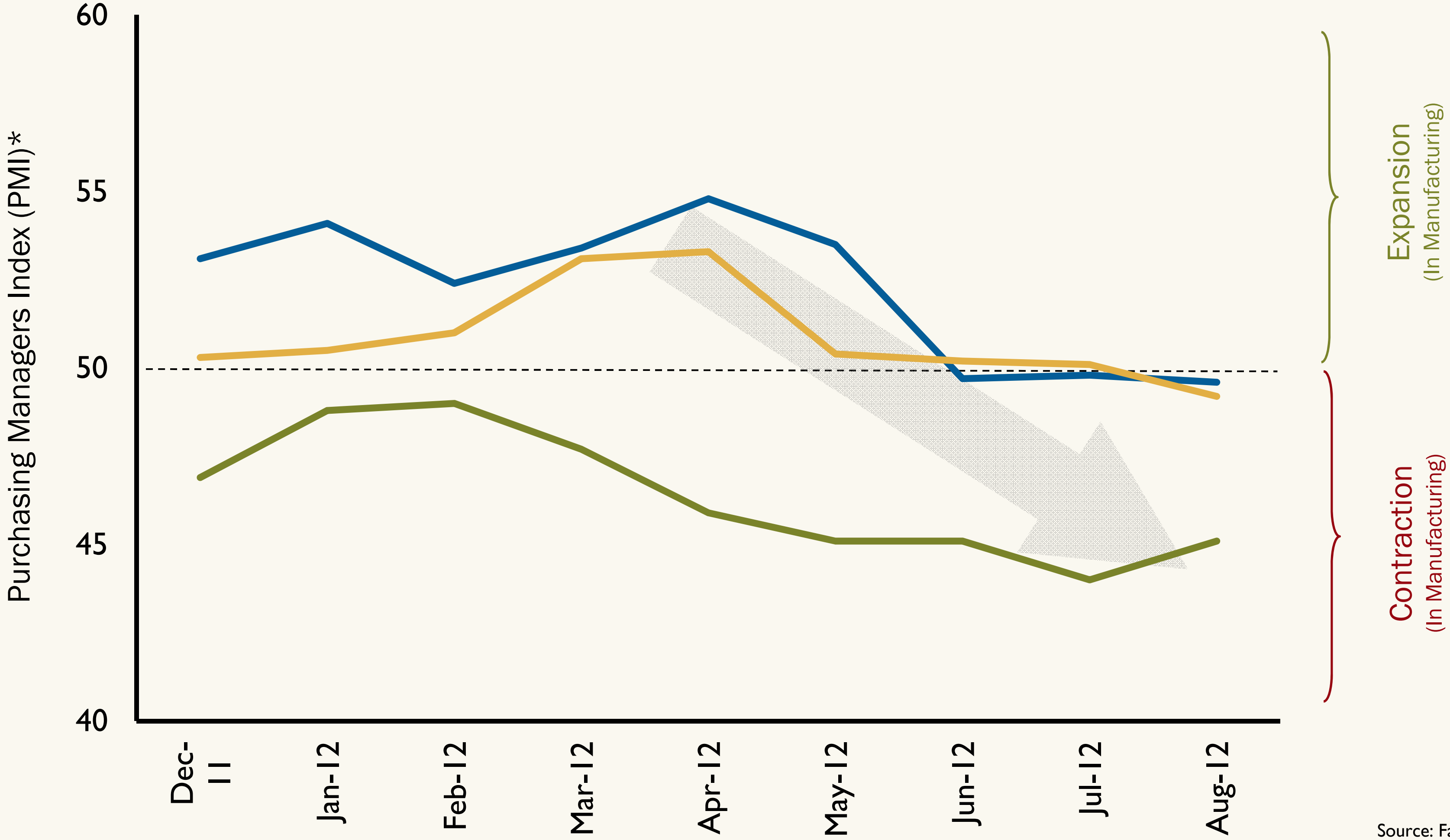
Growth Is Slowing Everywhere

Global Institute of Supply Management (ISM)

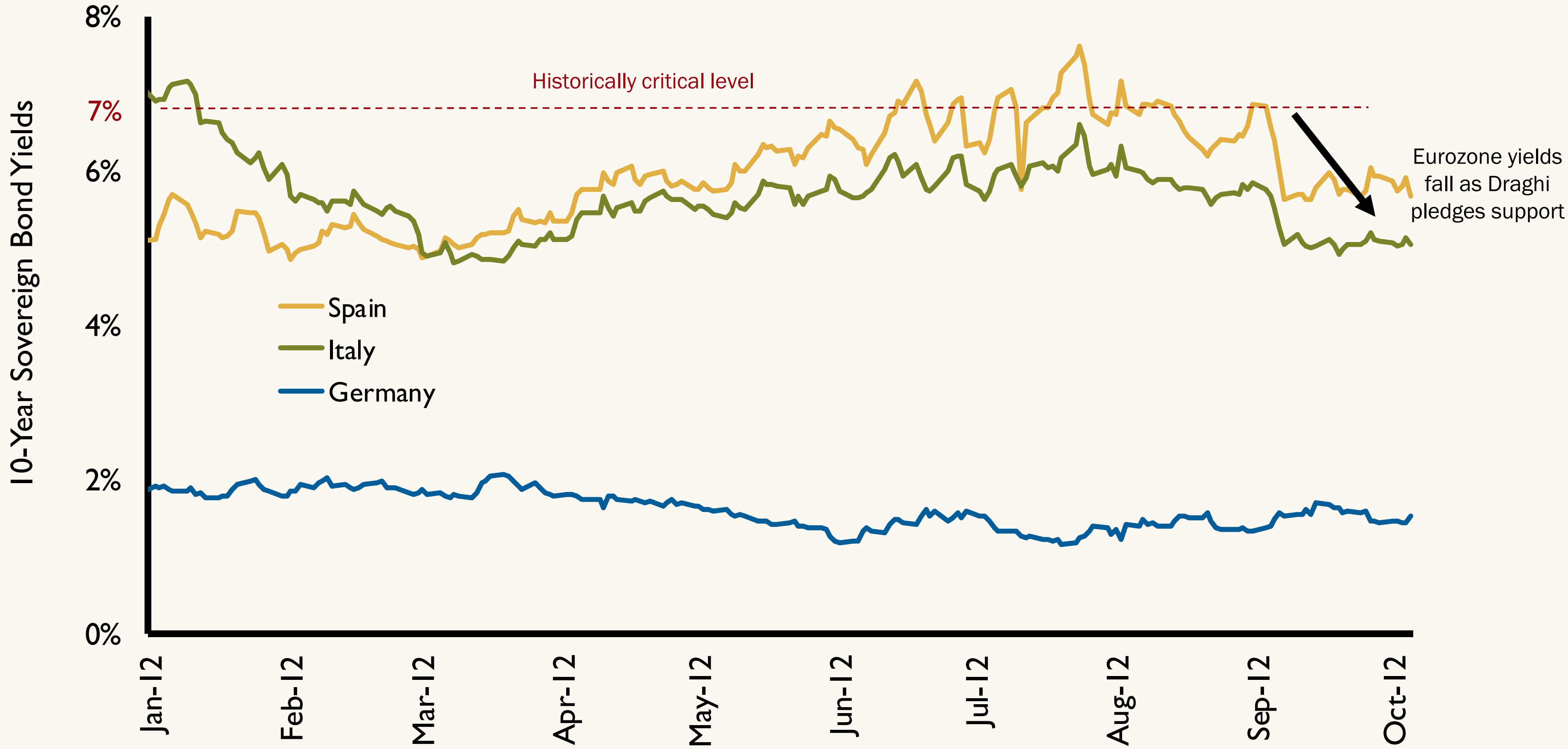


Source: FactSet

- In stark contrast to equity prices, economic growth continues to deteriorate in virtually every corner of the world
- We believe China will ultimately execute a "soft landing"
- We don't see a near-term catalyst to "jump start" domestic economic growth until after the election

*PMI - An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

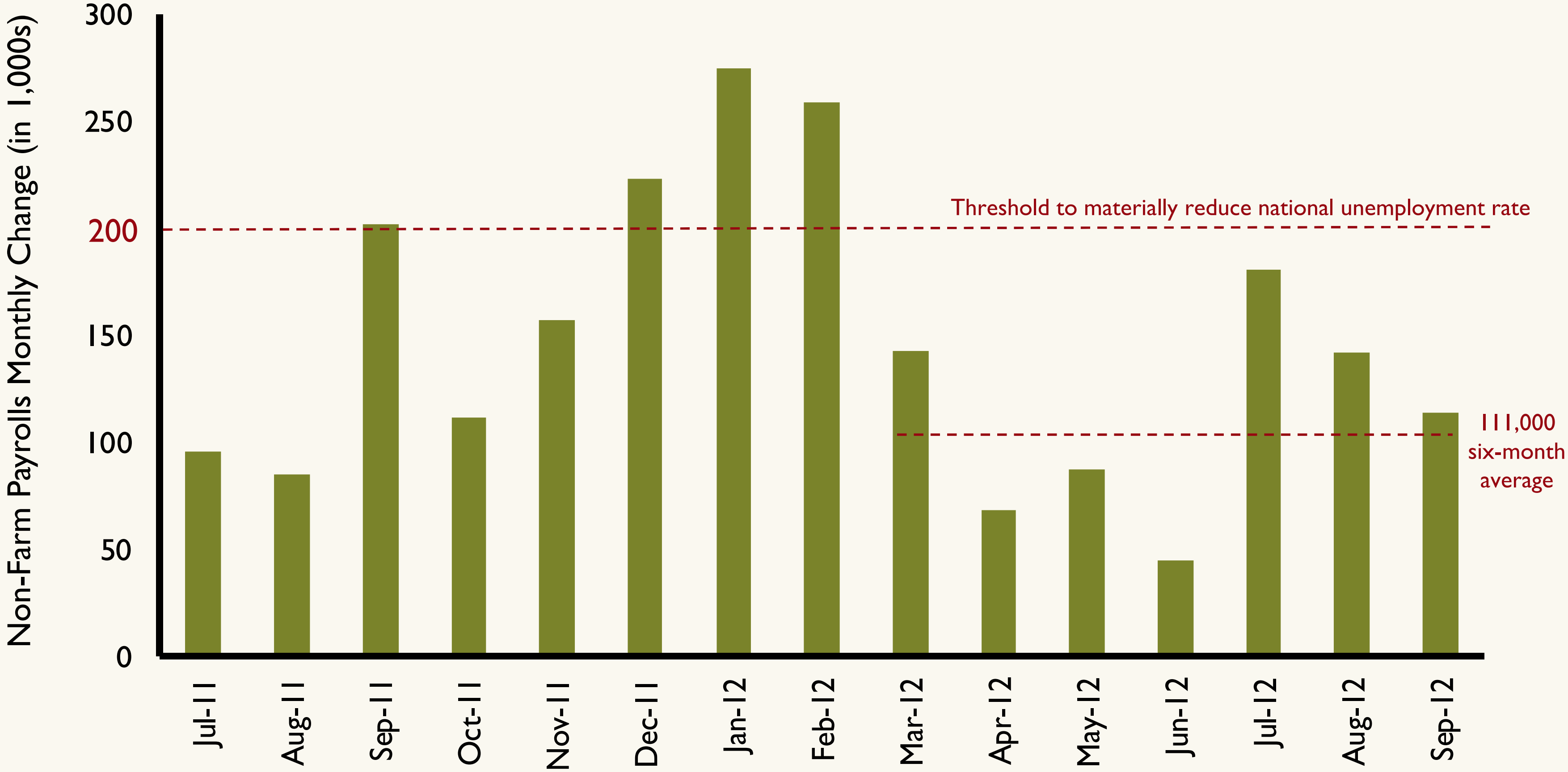
Loosening the Noose … on Europe



Source: Bloomberg

- The ECB's announced plan to purchase troubled countries' short-term debt forestalls a disorderly euro break-up
- European-style QE contingent upon countries applying to the new, 17-nation member, European Stability Mechanism (ESM) for aid

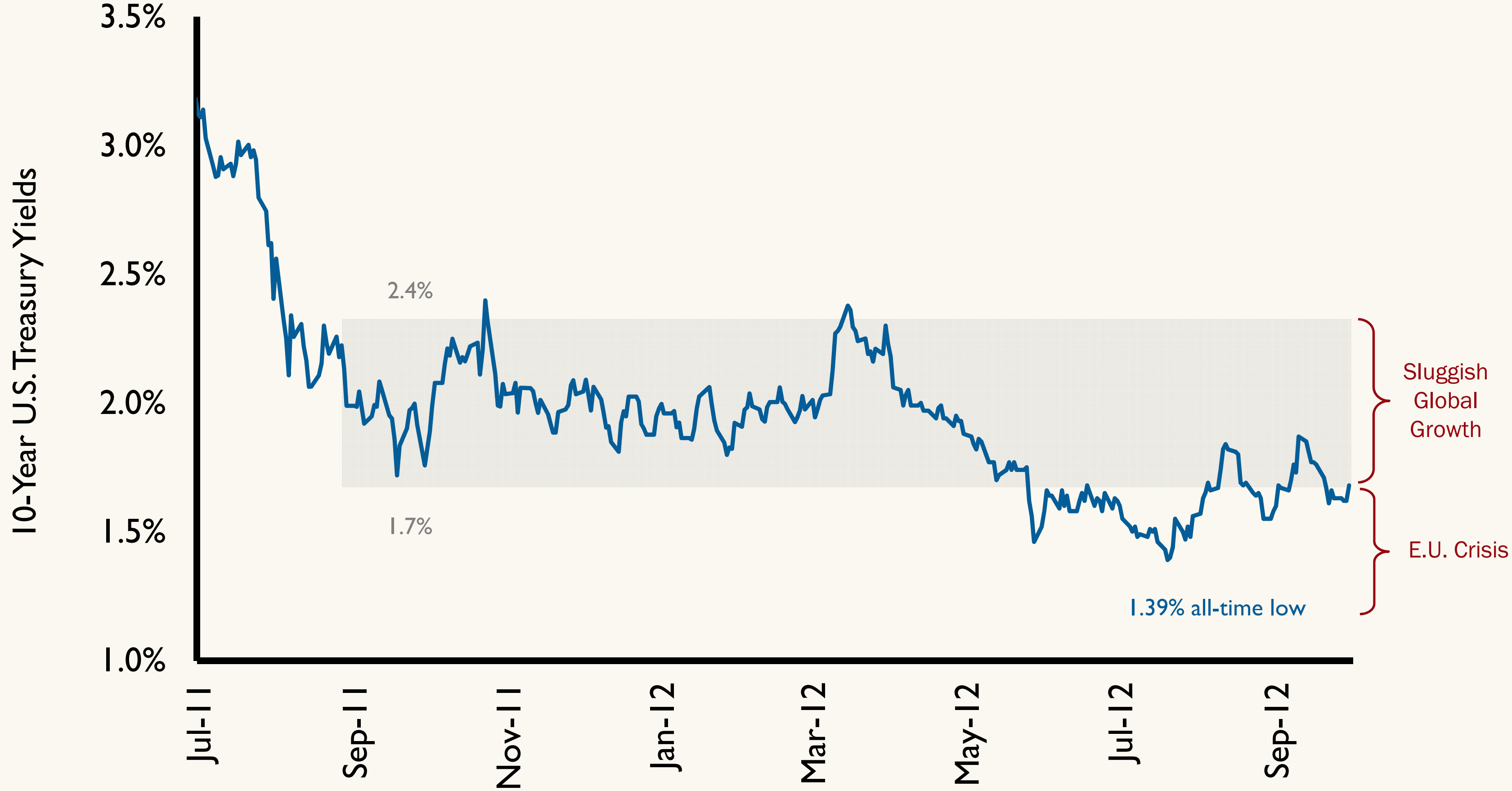
Job Growth Remains Stagnant



Source: Bureau of Labor Statistics

- A monthly gain in excess of 200,000 jobs is the threshold for materially reducing the 7.8 percent national unemployment rate
- Uncertainty concerning the "fiscal cliff" and the election are inhibiting both hiring and capital spending
- Fed policy makers' primary focus has now shifted to the labor market

Interest Rates Are Likely: "Low for Long"



Source: Bloomberg Financial Markets

- The FOMC extended its policy-rate guidance into 2015
- Until there is broad-based growth in jobs, the Fed will remain "all in"
- Central bankers' favored stimulative tool had been rate cuts, now it is asset purchases
- Based on a belief that ***rates can stay lower, longer*** - we are maintaining a slight underweight to bonds and neutral duration
- We continue to favor corporate bonds over Treasuries

"Grand Bargain" or Debt Downgrade?

Timeline for "Fiscal Cliff"

Portfolio Implications:

- We are positioned for an Obama victory; underweight defense and neutral energy
- If Romney wins, greater emphasis on energy and industrials

Lame duck Congress in session

- Temporary **resolution** forestalling the "fiscal cliff"

Likely a contentious process … much like the debt ceiling negotiations

- Congress and President legislate tax-and-spending reform?

Catalysts for a Resolution

- Bush tax cuts expire
- Payroll tax cut expires
- Health care law taxes take effect
- Sequester scheduled
- Debt ceiling limits hit
- Possible Ratings Downgrades

U.S. elections

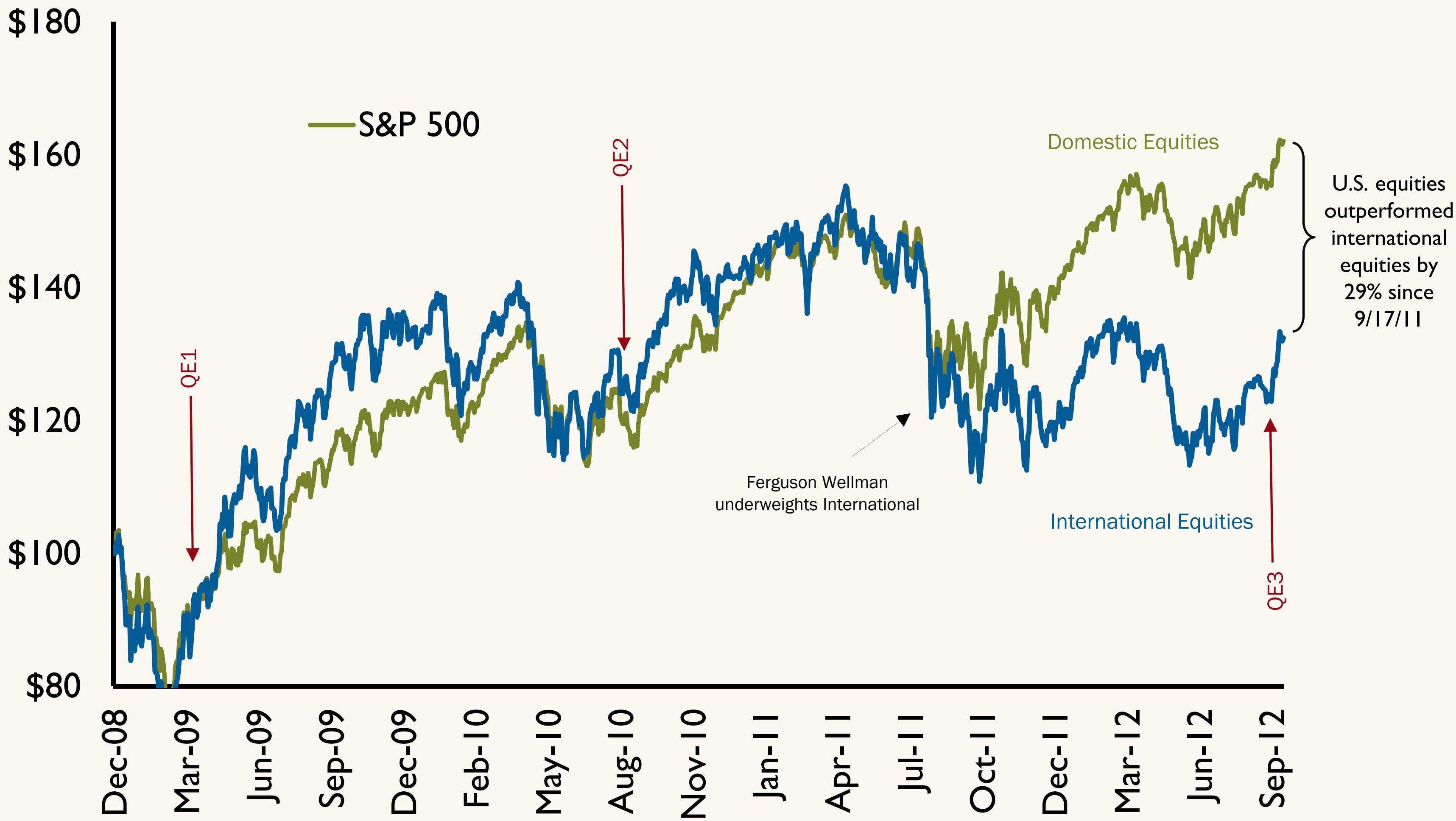
$16.4 trillion Federal debt ceiling reached (again)

$600 billion "fiscal cliff"

Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13

- "Fiscal cliff" won't get resolved before the election
- Bush tax cuts likely get extended for one year along the lines favored by the winner of the presidential race
- Long-term tax-and-spending reform is a necessary condition for material improvement in economic growth
- Failure to arrive at a timely solution could tip the economy into recession

Don't Fight the Fed … or the ECB

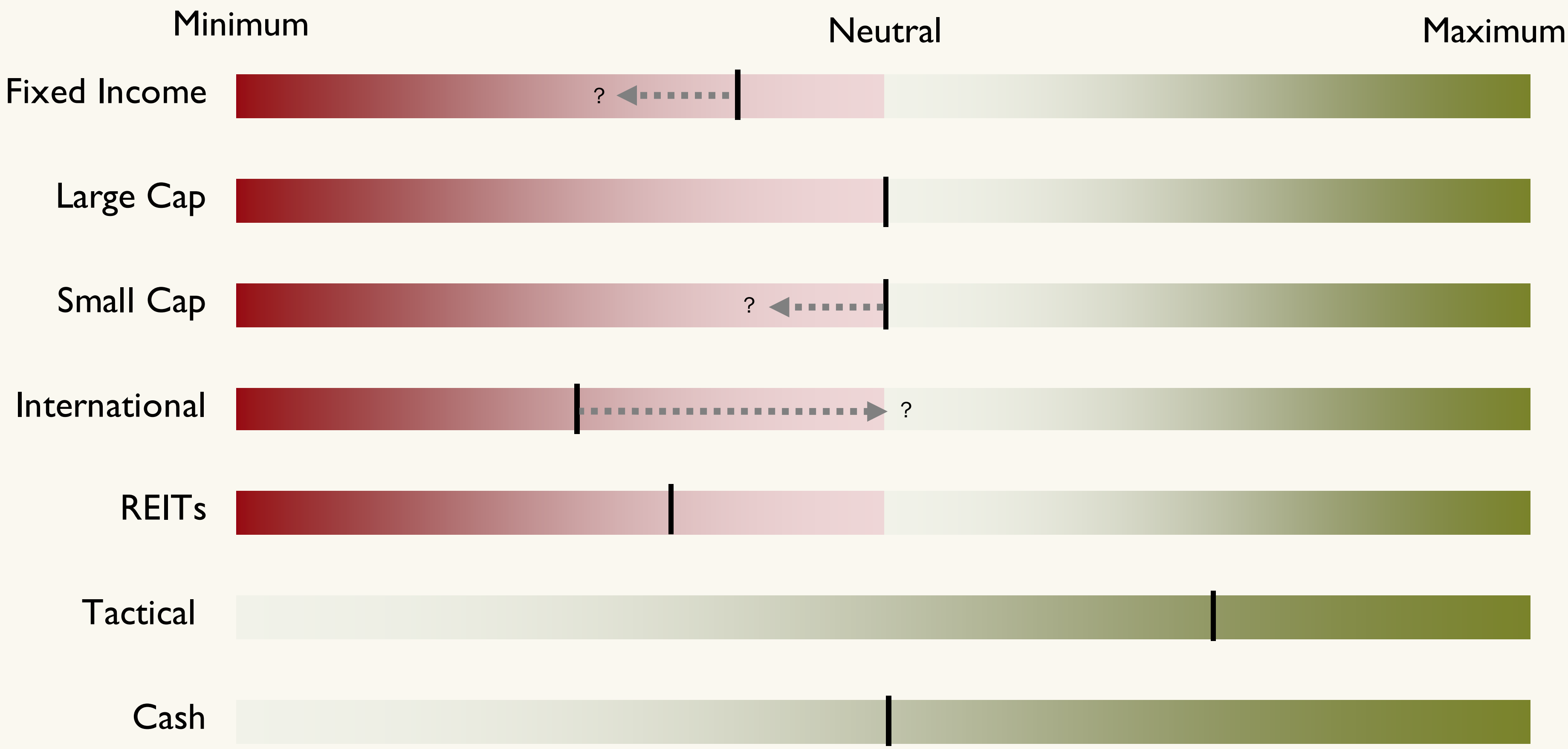


Source: FactSet

- International equities may present an opportunity
- The U.S. market currently trades at 13.3x (2013 EPS) … Germany, France, China and the UK at 8 to 10x (2013 EPS)
- QE3 has increased the possibility of dollar weakness, which enhances international returns
- We recently added to beaten-down European financials and are considering additions to emerging markets and small cap

Target Asset Allocation

Most Likely Next Moves – "Must be Present to Win"



- Remain positioned for heightened volatility
- Neutral allocation to domestic equities and slight underweight to fixed income
- Favor developed markets but looking for opportunity to increase international commitment
- Lower correlation (tactical assets) are an increasingly important asset class

Capital Market Outlook
Fourth Quarter 2012

"Don't fight the Fed … or the ECB"

Macro

- Pace of economic growth across the globe will continue to be challenged
- "Perpetual easing" is the new phase of central bank intervention
- Though up from the lows, rates will likely stay … lower for longer
- The Fed is trying to push capital toward "risk assets"
- For better or worse, the uncertainty of the election is about to be removed
- We remain braced for elevated market volatility

Risks

- Fiscal cliff (higher taxes and moderating government spending) in 2013
- "Hard landing" in China
- Policy error on either side of the Atlantic