



FERGUSON WELLMAN
CAPITAL MANAGEMENT



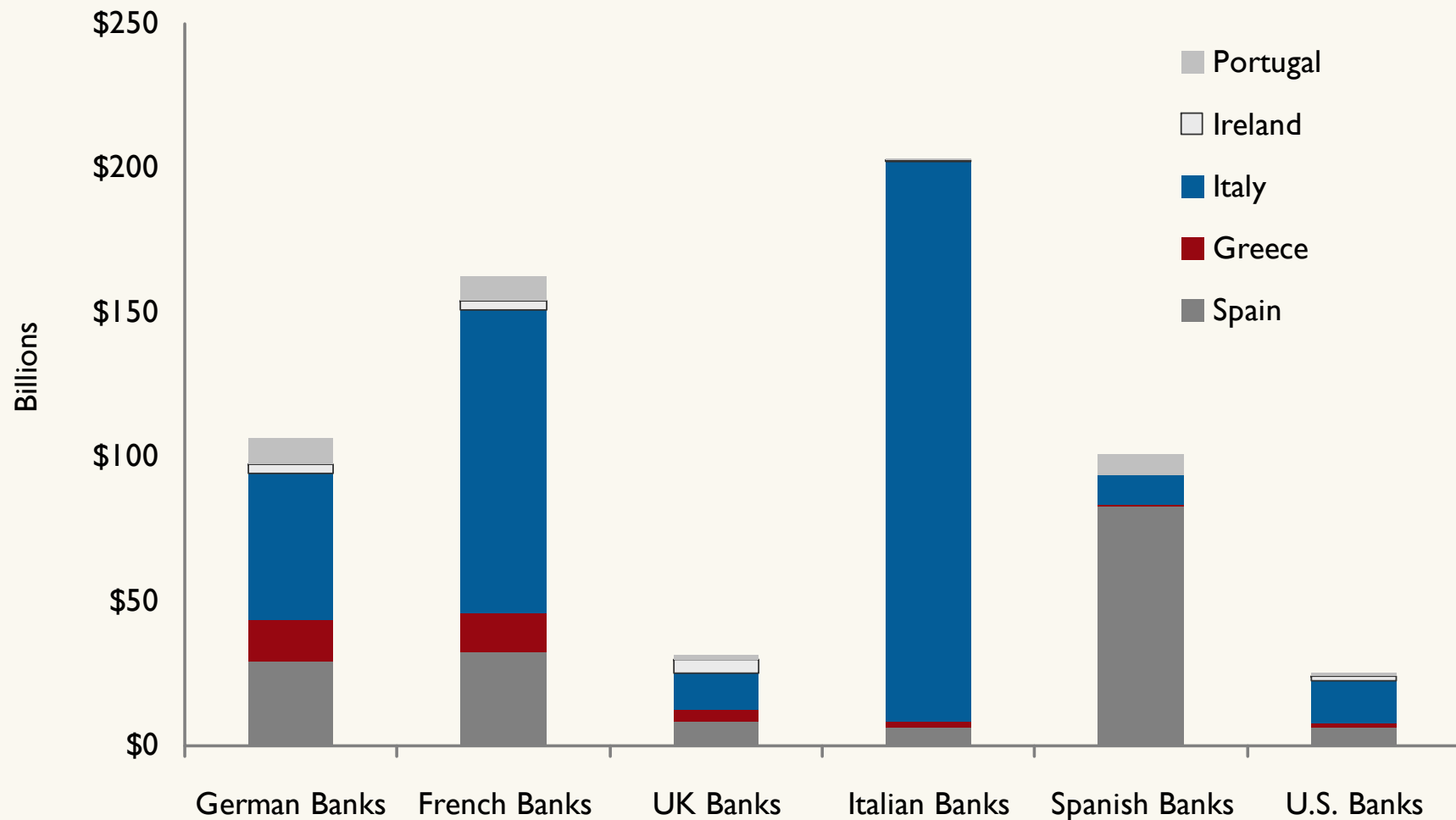
First Quarter 2012
Investment Outlook
“Must Be
Present To Win”

presented by
George W. Hosfield
Chief Investment Officer



EU Debt ... Whose Problem Is It?

Greece Is Only a Small Part

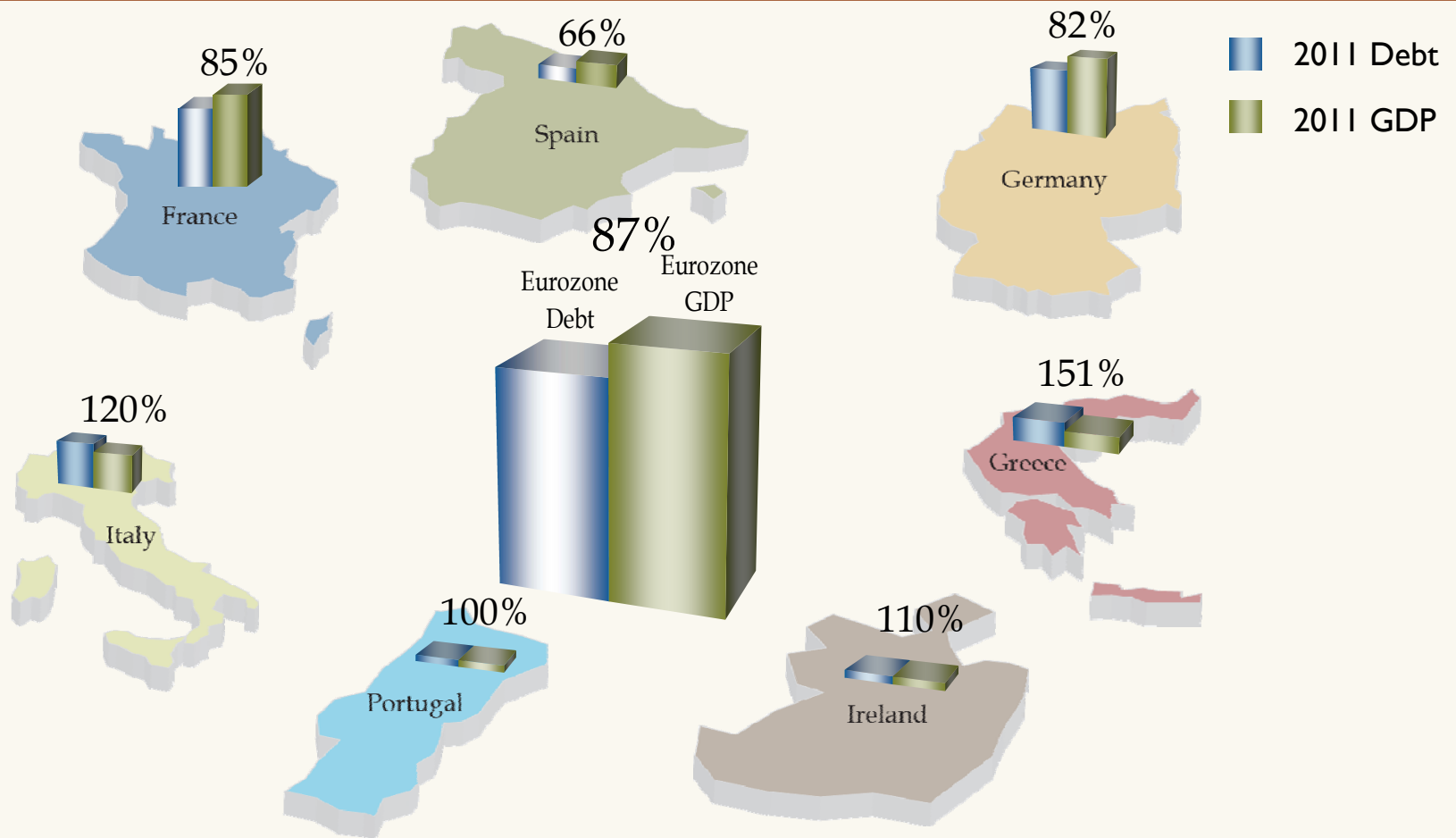


Source: Strategas

- Unlike the financial crisis in 2008, sovereign-debt issues are primarily held by the European banks
- Primary exposure is with the Italian, French and German banks



Severe Crisis to Be Averted ... Austerity Will Reign

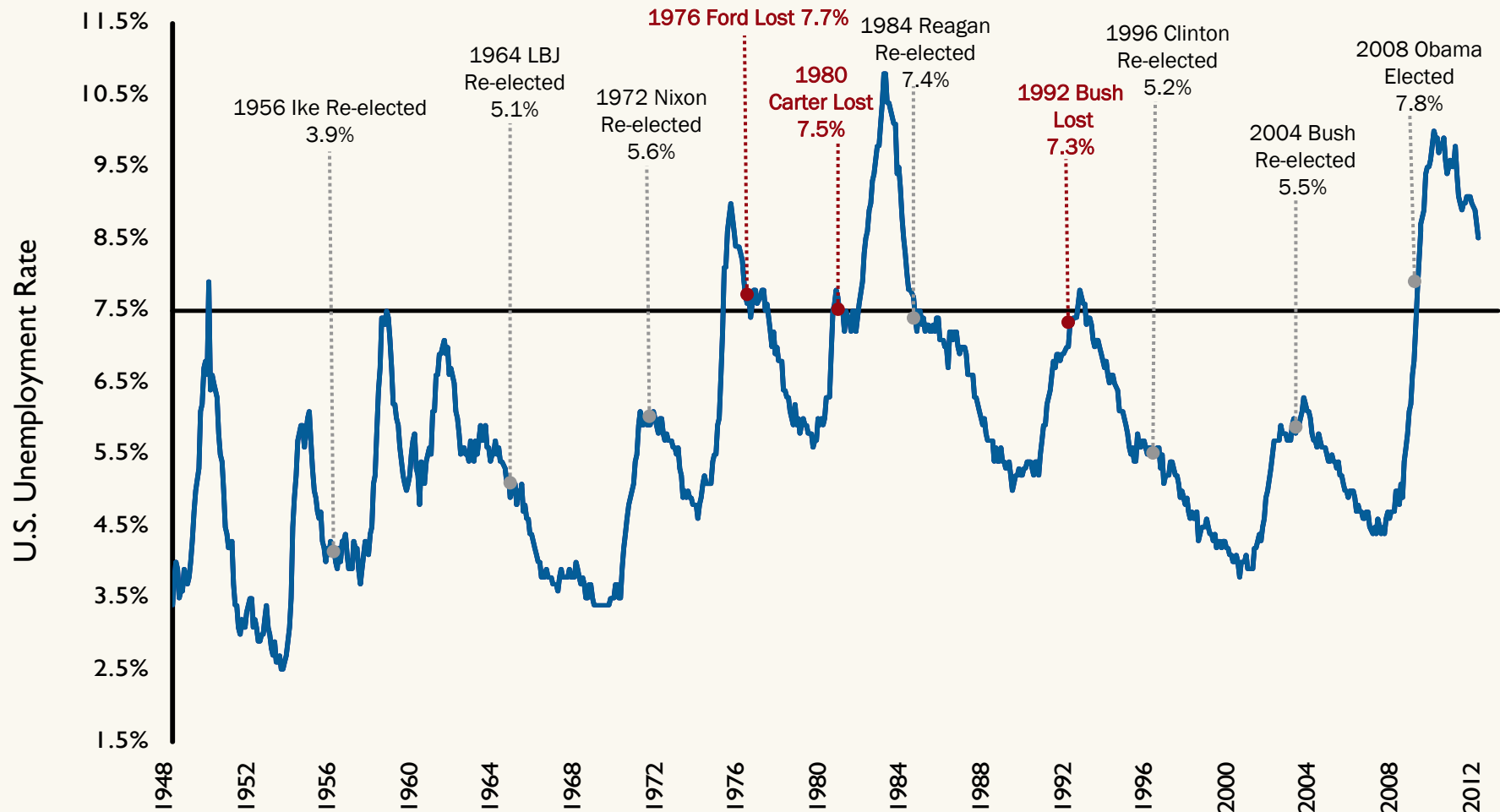


Sources: Oxford Economics, Bank for International Settlements, IMF, World Bank, UN Population Division

- Ratification of fiscal compact by all 17 countries
- European Central Bank (ECB) will provide banks with liquidity (funding)
- Inevitable bailout of the southern countries by the north
- The union will stay intact ... for now



The Election: “It’s the Economy, Stupid”

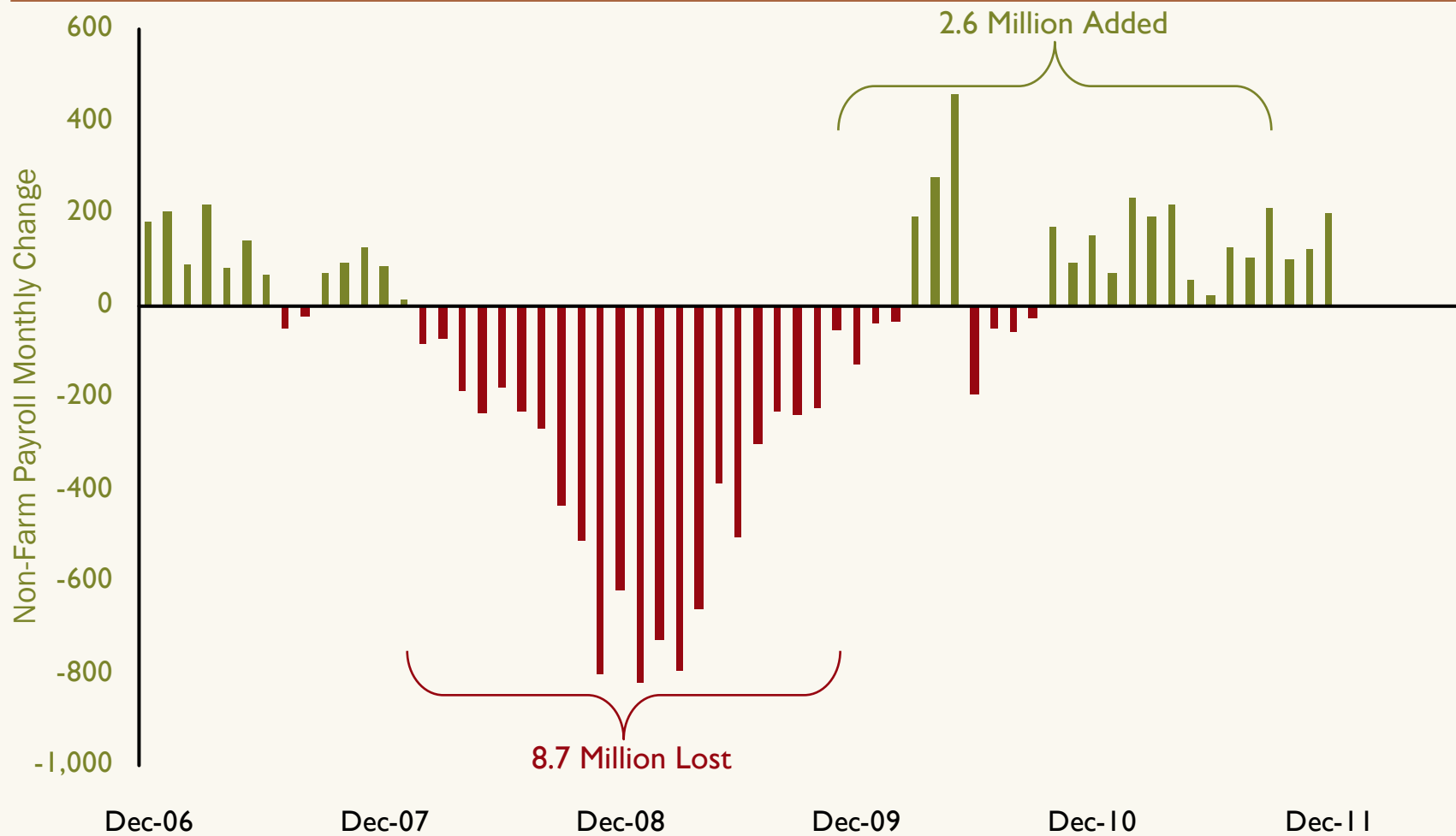


Source: ISI

- Though an unemployment rate of approximately 7.5 percent has been a Maginot line, as can be seen with Reagan in 1984, the direction matters
- Fiscal reform should be the focus of the election, but ultimately people vote with their pocketbook



Employment Is Improving ... Slowly



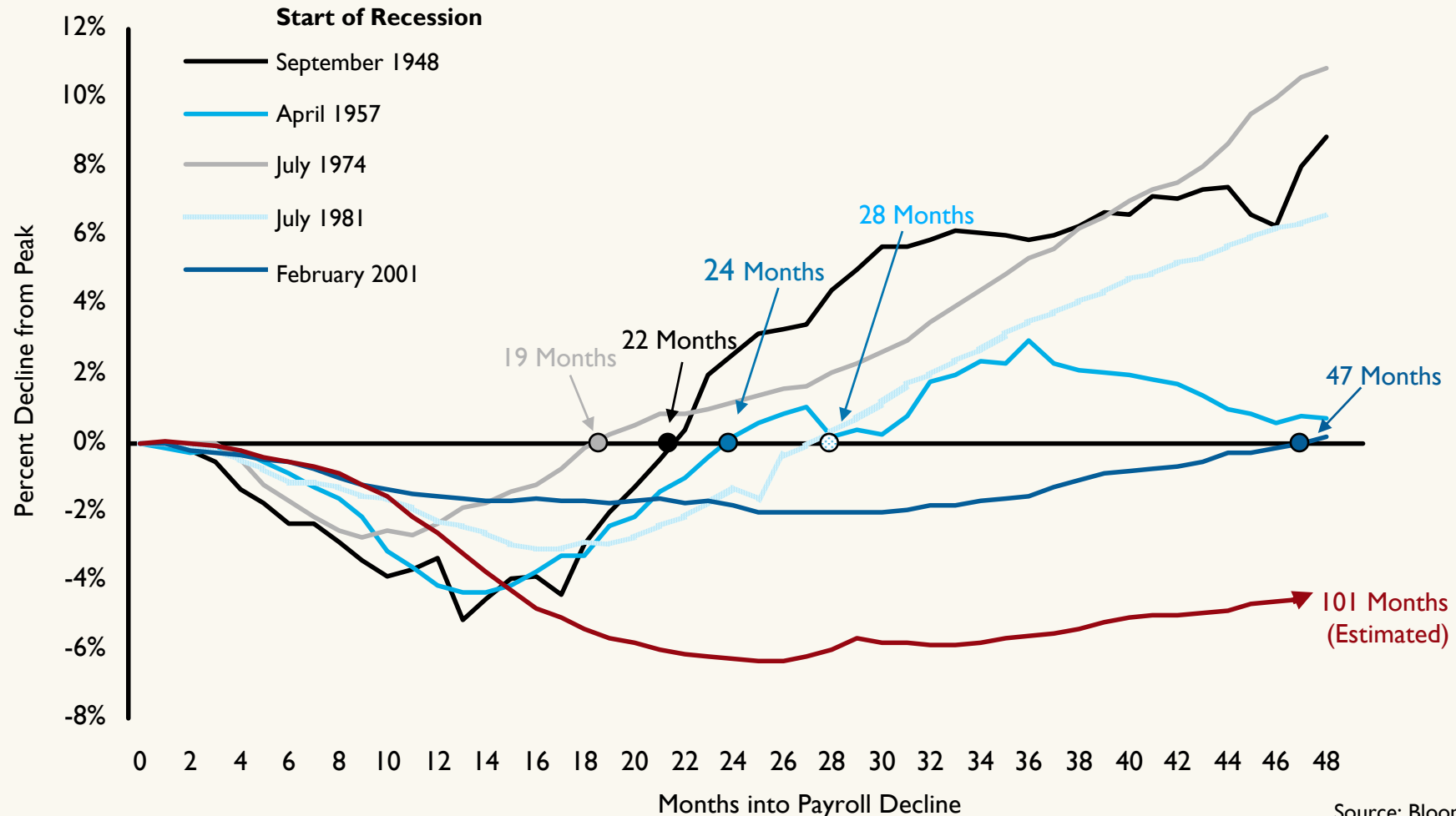
Source: Bureau of Labor Statistics

- Jobs have been added consistently ... but the pace is too slow to make a rapid change in the unemployment rate (8.6 percent)



The Great Recession

Non-Farm Payrolls (Recessions Since WWII)

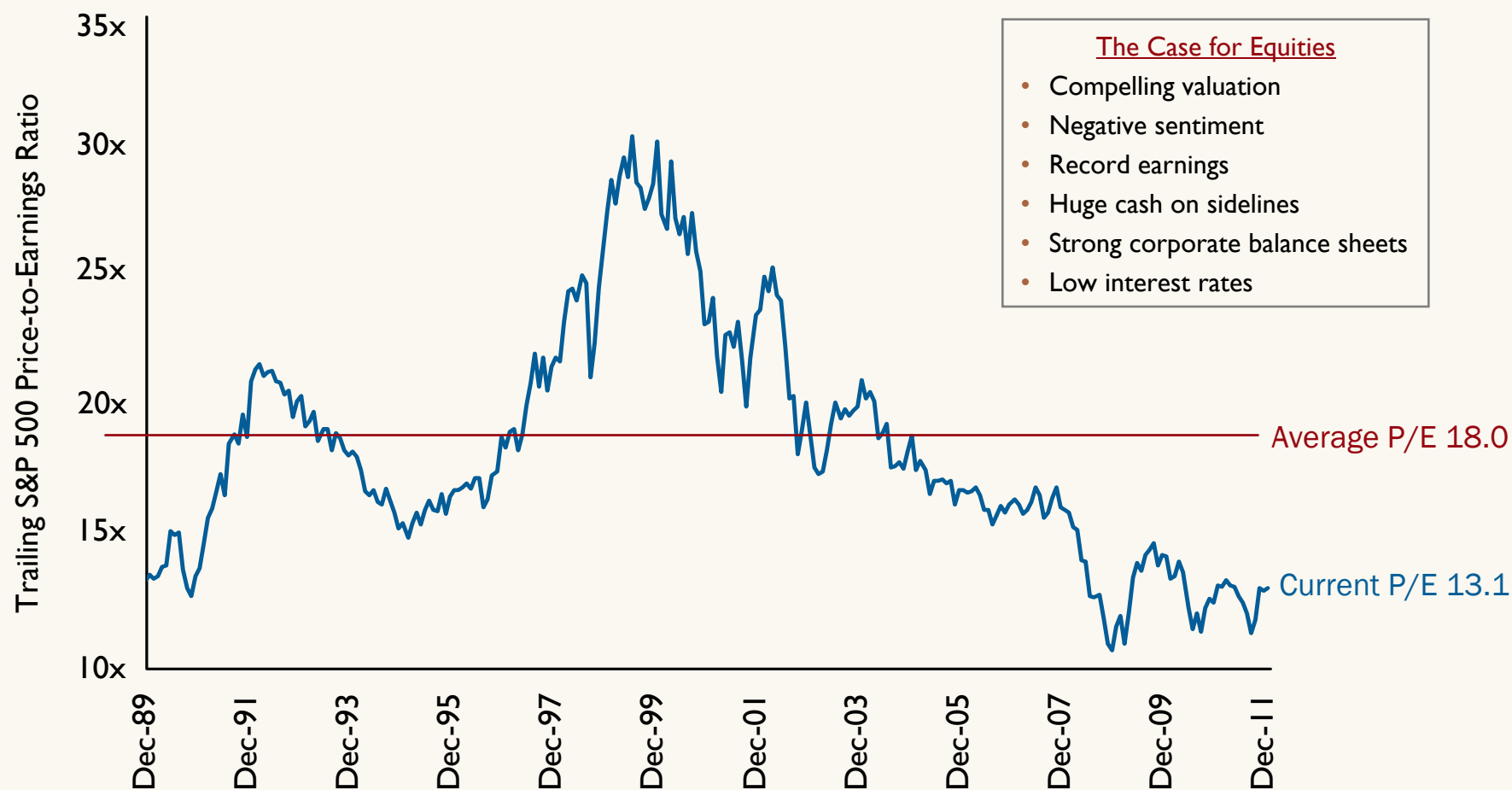


Source: Bloomberg

- Since August of 2008, state and local governments have cut 650,000 jobs ... this trend is far from over
- In contrast to the public sector, the private sector has been adding jobs since February of 2011
- At this pace, it will take another 54 months (May 2016) to replace the job losses of this cycle
- Slow employment and modest economic expansion translates to low interest rates



Stocks Are Cheap, but Cheap Is Not a Catalyst

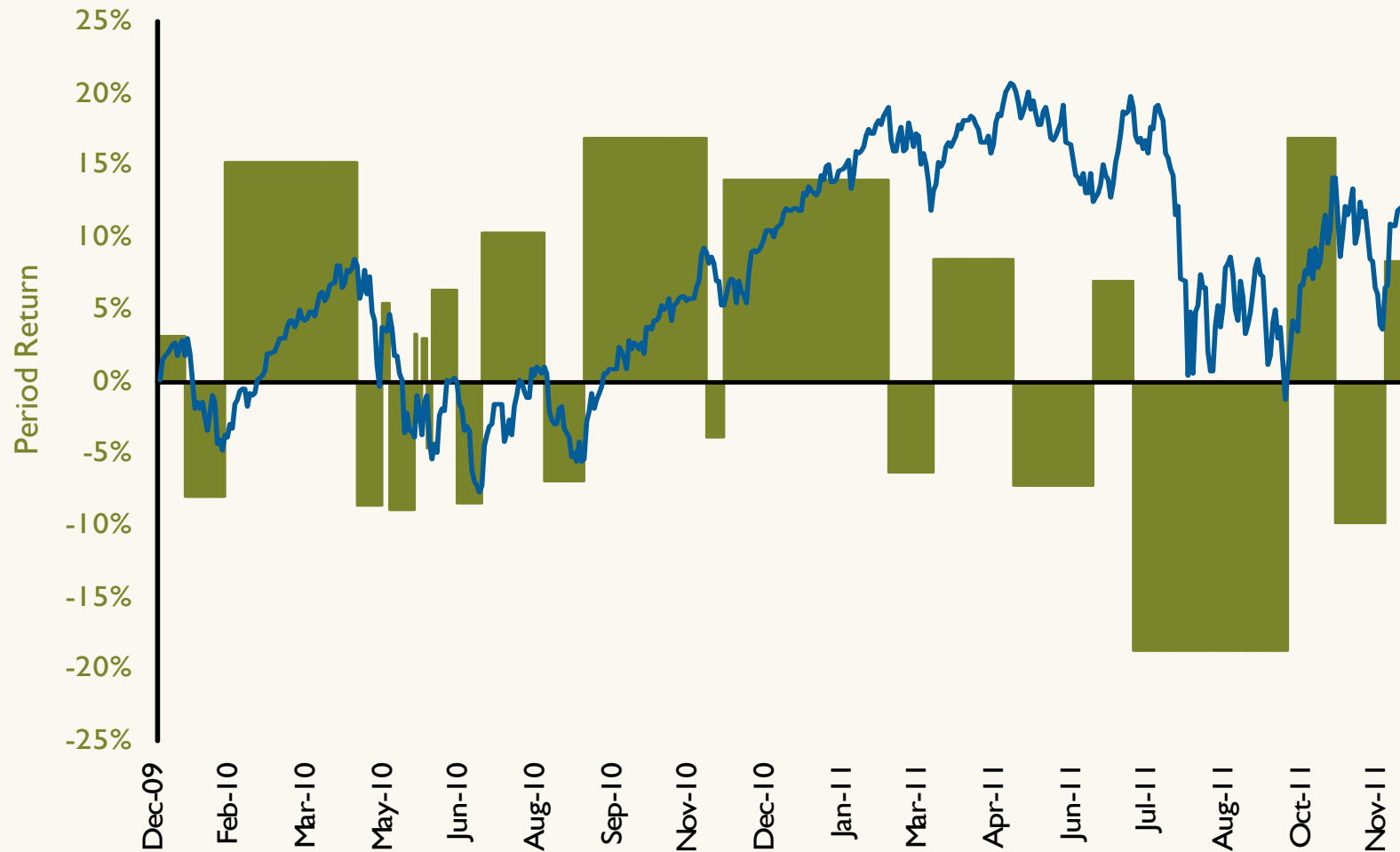


Source: Baseline

- We expect continued high volatility within a wide trading range
- Corporate earnings should remain healthy, but PE multiples may remain challenged if economic malaise persists
- Emphasis upon defensive sectors such as healthcare, utilities and technology among the cyclical sectors
- Focusing on companies growing their cash flow and returning it to share holders through dividends and/or share repurchases



Volatility-Induced Fatigue ... Must Be Present to Win



Source: S&P

- The S&P 500 has experienced 32 trading days of 2 percent +/- moves since August ... 41 percent of the trading days!
- Volatility associated with "risk-on, risk-off" trade has caused investors to pull capital from what they perceive as an unrewarding asset class
- Though it may not feel like it to most investors, the S&P 500 is up 17 percent over the past 24 months



2012 Capital Market Outlook

Macro

- Elevated volatility and high market correlations to continue
- Slowing growth in emerging mkts ... recession in Europe but not in U.S.
- Policy error on both sides of the Atlantic poses the greatest market risk
- No inflationary pressure and interest rates should remain low
- Turbulent but modestly positive year for equities

Risks

- Hard landing in China
- Disorderly breakup of the EU
- Crisis of confidence in domestic political leadership