Capital Ideas: Judith McGee, Ed Wedbush and Oregon's Top Financial Advisors

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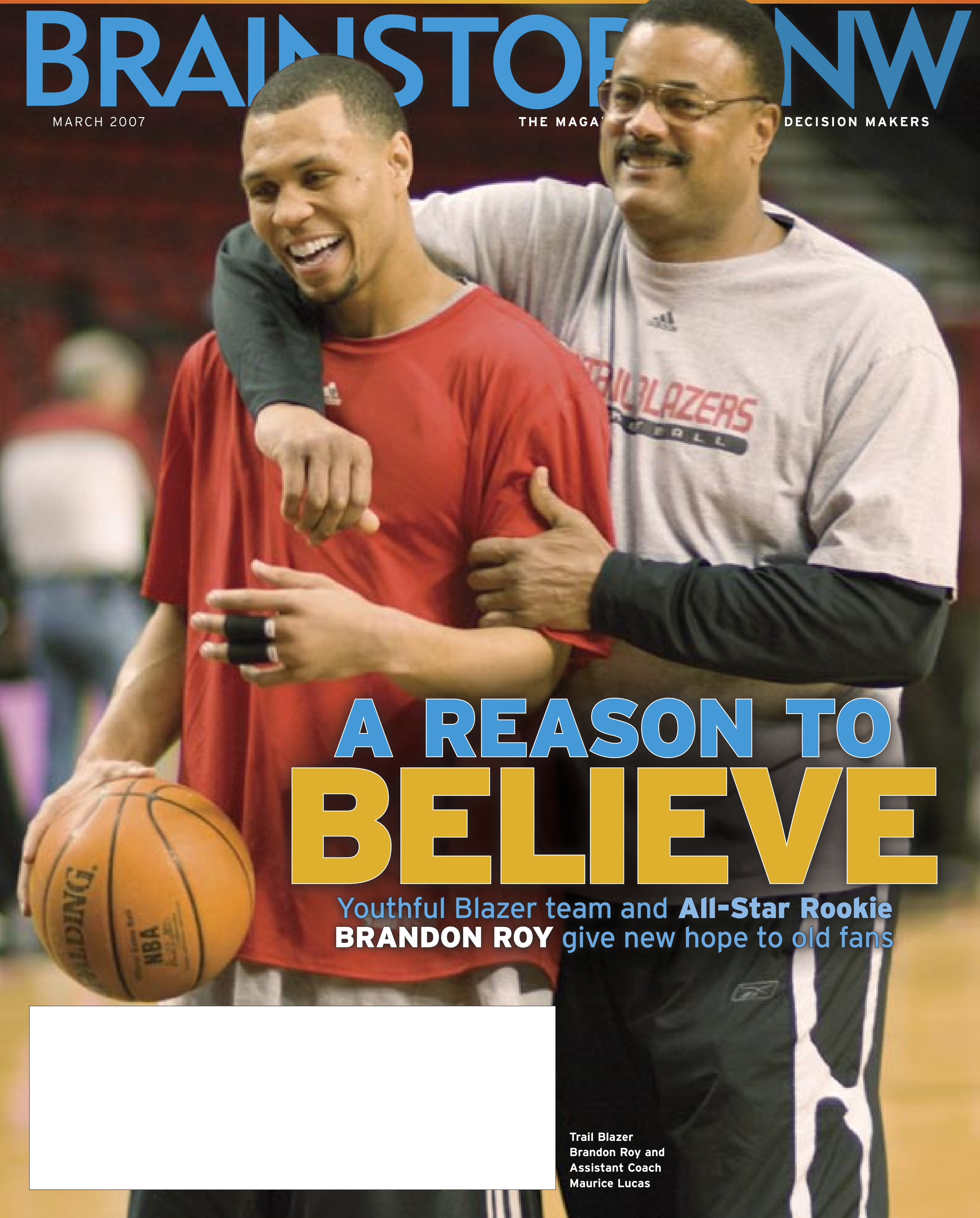


A REASON TO BELIEVE

Youthful Blazer team and **All-Star Rookie BRANDON ROY** give new hope to old fans

Trail Blazer Brandon Roy and Assistant Coach Maurice Lucas

What's in Store for 2007?

FINANCIAL ADVISORS PUT THEIR MOUTH WHERE THEIR MONEY IS

Each January, Portland-based Ferguson Wellman Capital Management, Inc., a 32-year-old investment company with $2.5 billion under their management, meet with clients to discuss the ups and downs of the market. During those meetings, they make predictions for the upcoming year and evaluate how their previous year forecast faired. There's no hiding behind numbers, no excuses for making the wrong call. And unlike some, they're willing to go on the record with their successes, failures and predictions.

2006 PREDICTION RESULTS

WHAT THEY SAID	WHAT HAPPENED
Feathers in their cap:	
Economic growth of 2.5-3 percent	2006 GDP growth: 3+ percent (estimated)
Stocks more attractive than bonds	S&P 500 up 15.8 percent, bonds up 3.8 percent
Equity returns between 8-12 percent	S&P 500 total return: 15.8 percent
Earnings decelerate	13.7 percent in 2005 and 11 percent in 2006
Close, but no cigar:	
Large cap over small cap	Large cap up 15.8 percent, small cap up 18.37 percent
Large cap over International and REITs	International stocks (EAFE) up 26.9 percent, NAREIT up 34 percent

2007 PREDICTIONS

ECONOMIC AND FIXED INCOME THEMES

✓ "Soft landing" … no recession

"The economy is headed for a soft landing," says Jim Rudd, principal and chief executive officer. "Oil prices are $20 a barrel lower than peak prices last summer and employment continues to grow, offsetting any adverse effect of the housing decline. The Fed is on hold, and we wouldn't be surprised to see interest rates modestly lower by year-end. This also means solid consumer spending, strong corporate balance sheets and a healthy stock market." Rudd is also board chair of the Federal Reserve Bank of San Francisco Portland Branch.

✓ Housing market corrects but does not crash

Reduced mortgage equity withdrawals are expected to remove 2.7 percent from consumer spending in 2007 or 1-1.5 percent from the GDP.

"The residential real estate market has clearly entered a recession. We expect an orderly unwinding of the excesses of the last five years. We also believe that this process will take somewhat longer to fully reach equilibrium than the consensus currently expects. However, the longer this process progresses without any serious, unmanageable or unpleasant bi-products, the more investors will become comfortable with the fallout from this unfolding story," says Dean Dordevic, principal.

✓ Healthy employment offsets weakness in housing

With employment (and wages) growing, it is unlikely that consumers will stop spending.

✓ Moderating inflation keeps Fed on hold

"The economy appears to have enough resilience to weather the impacts of housing weakness and high energy costs. The Fed funds rate is not at a level that has historically brought on recession. Accordingly, housing, oil and previous rate hikes by the Fed should collectively slow, but not halt, the economic expansion. Once substantially all indicators point to a slower economy and reduced inflation pressures, the Fed will ultimately lower rates. Reduced inflation fears should also allow bond yields to move modestly lower, thus providing a constructive backdrop for bond investors in 2007," says Marc Fovinci, principal, and Mike Knebel, senior vice president.

✓ Bonds return more than their yield

EQUITY MARKET THEMES

✓ Valuations still reasonable

✓ Opportunity for multiple expansion

"We believe that the more positive and constructive tone of the market that emerged in the second half of 2006 may continue into at least the first half of next year," said Jason Norris, senior vice president. "It is clear that stocks have underperformed their own financial performance and have not fully discounted the very powerful bull market in earnings growth of the last few years. Ironically, while the distortions in the past have been more negative in nature (i.e., P/E contraction), the distortions going forward might very well be of a more positive variety (i.e., P/E expansion). This powerful discounting mechanism could become its own mirror image as 2007 progresses."

✓ Emphasis on steady and accelerating earnings growth

✓ Favor large cap and international equities

"Supported by attractive valuations, the current state of the economic cycle, and generally aided by a weak dollar, large cap equities should outperform small cap equities," says George Hosfield, principal and chief investment officer.

"A weak U.S. dollar and improved returns in Europe and Japan have enabled international companies to outperform their American counterparts by 65 percent since early 2003. One of the main themes running through our international portfolio is leveraging growth in the emerging markets. We continue to believe that the reforms in Japan have placed the world's second largest economy on a path of sustainable growth. With many foreign growth rates exceeding that of the U.S. and further dollar weakness anticipated, we would not be surprised if international equities outperformed domestic equities this year," says Ralph Cole, senior vice president.

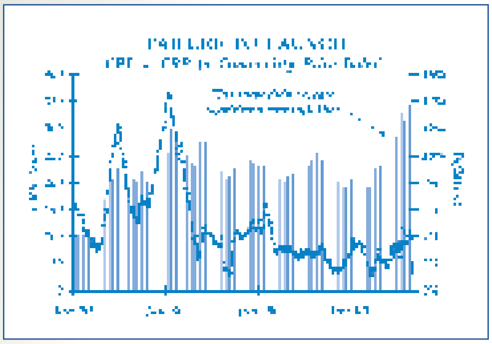
✓ Total return less than 2006

2007 CAPITAL MARKET OUTLOOK

FORECAST

✓ GDP growth: A little slower (2-2.5 percent)

✓ Inflation: Trending lower



Courtesy Jason Trennert, Strategas Research Partners

"Last year, the inflation-adjusted Goldman Sachs Commodity Index decisively pierced the twin previous peaks last seen in the mid-1970s and early 1980s," says Lori Flexer, senior vice president. "The corresponding peaks in the core Consumer Price Index (CPI) were in excess of 11 percent and 13 percent, respectively. Despite higher levels of inflation-adjusted commodity prices, the core CPI this time around barely cracked the 3 percent level.

"In the past, commodity and labor markets were much more highly correlated. That is, at about the time that a manufacturer was running out of a commodity, he was also most likely running out of labor. In this instance, commodity prices were providing information about both the commodity market and the labor market simultaneously. With markets becoming increasingly globalized, this link is now broken," says Flexer.

✓ Yield curve: Inverted but no recession

"These are ingredients (high oil prices, a slowdown in housing and tight Federal Reserve policy) for both lower long-term interest rates and for an inverted yield curve. An inverted yield curve is certainly not a perfect indicator of a pending recession. In fact, while inverted yield curves have preceded all recessions, recessions have not followed all inverted yield curves," says Fovinci and Knebel.

✓ Bond returns: Coupon plus (5-7 percent)

✓ Corporate earnings: Decelerating growth (5-8 percent)

✓ Equity returns: Lower than 2006 (7-10 percent)

✓ Stocks vs. bonds: Favor stocks

"Though a stable-to-declining interest environment should provide a favorable backdrop for bonds, the resulting P/E multiple expansion may benefit equities to an even greater degree. As such, we still believe stocks will outperform bonds over the next year, but the differential will be less than what was realized in 2006," says Hosfield.

RISKS

✓ Dollar crash rather than an orderly decline

✓ The worst is not yet over for housing □