



FERGUSON WELLMAN
CAPITAL MANAGEMENT

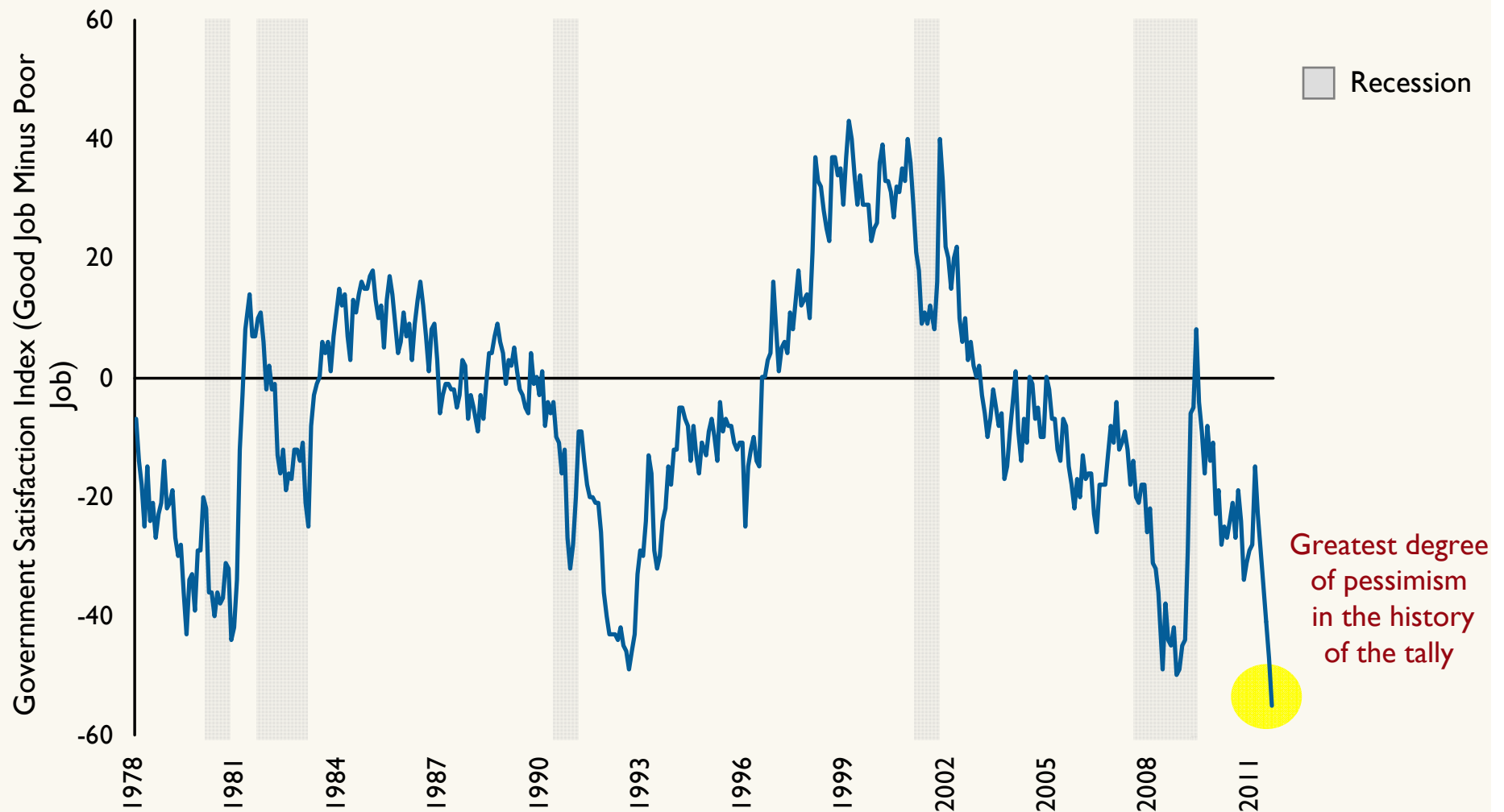
Crisis of Confidence

Fourth Quarter 2011 Investment Outlook

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- The political process on both sides of the Atlantic has damaged investor confidence
 - The level of earnings and economic growth are in question
 - The odds of a recession have increased from 10 percent to perhaps 30 percent
 - Expect continued high market volatility within a wide trading range
 - Interest rates will remain lower ... longer
 - Balanced risks dictate a "neutral" allocation to both equities and fixed income securities
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Washington is Now One of the Villains

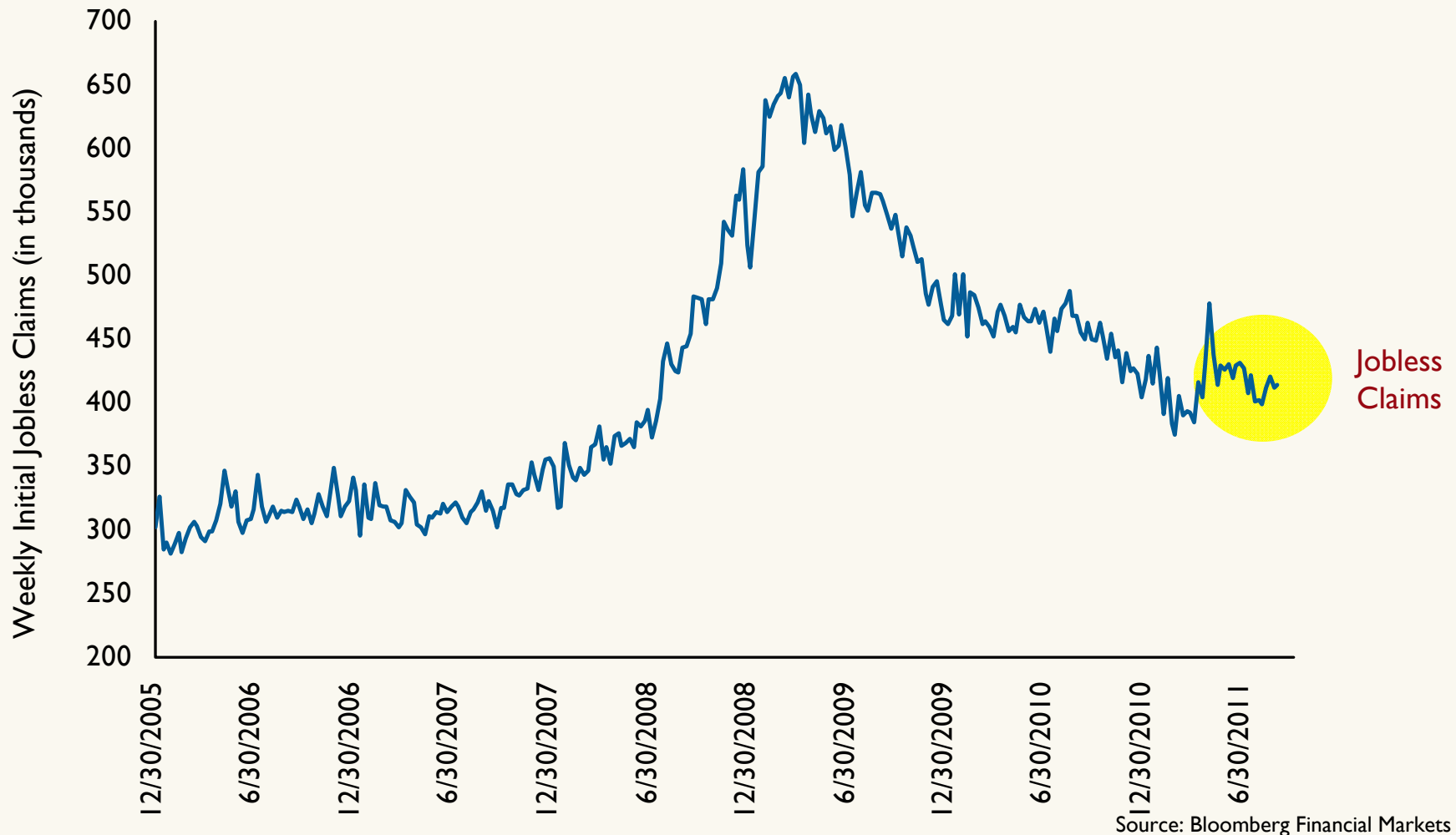


Source: University of Michigan Survey of Consumers

- Confidence has suffered after a period of regulatory hyperactivity in Washington
- Never before has an accurate market forecast been so dependent upon effective political action on both sides of the Atlantic



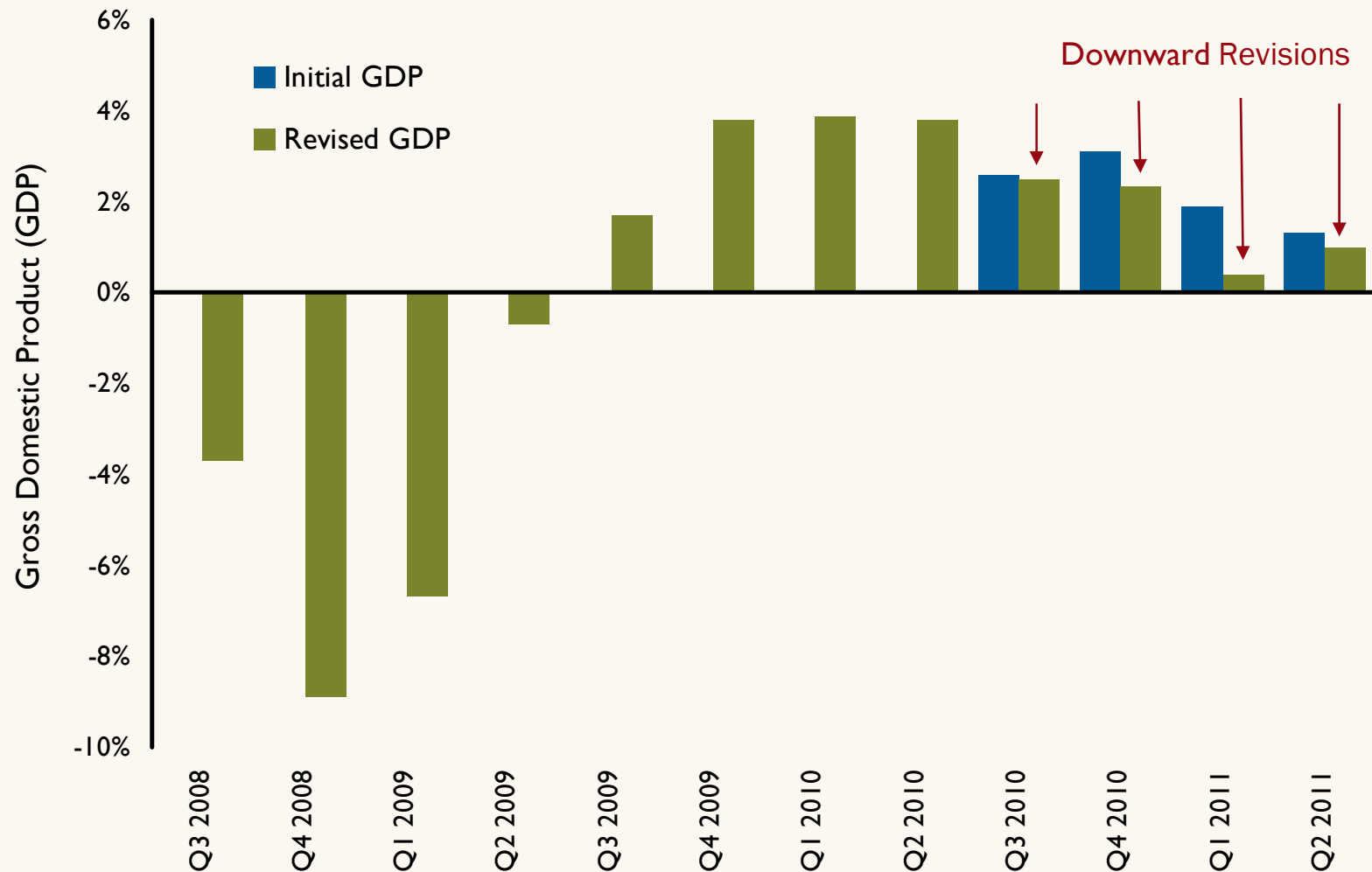
The Recovery Has Stalled



- Unfortunately, unemployment remains persistently high at 9.1 percent in September
- The debt ceiling debate in August ended any hope of a material improvement in employment in the second half of the year
- Despite record profitability and the fact that the size of the economy is larger today than it was at its prior peak, 7 million fewer Americans are employed today than were at the prior peak



Getting Closer to Recession

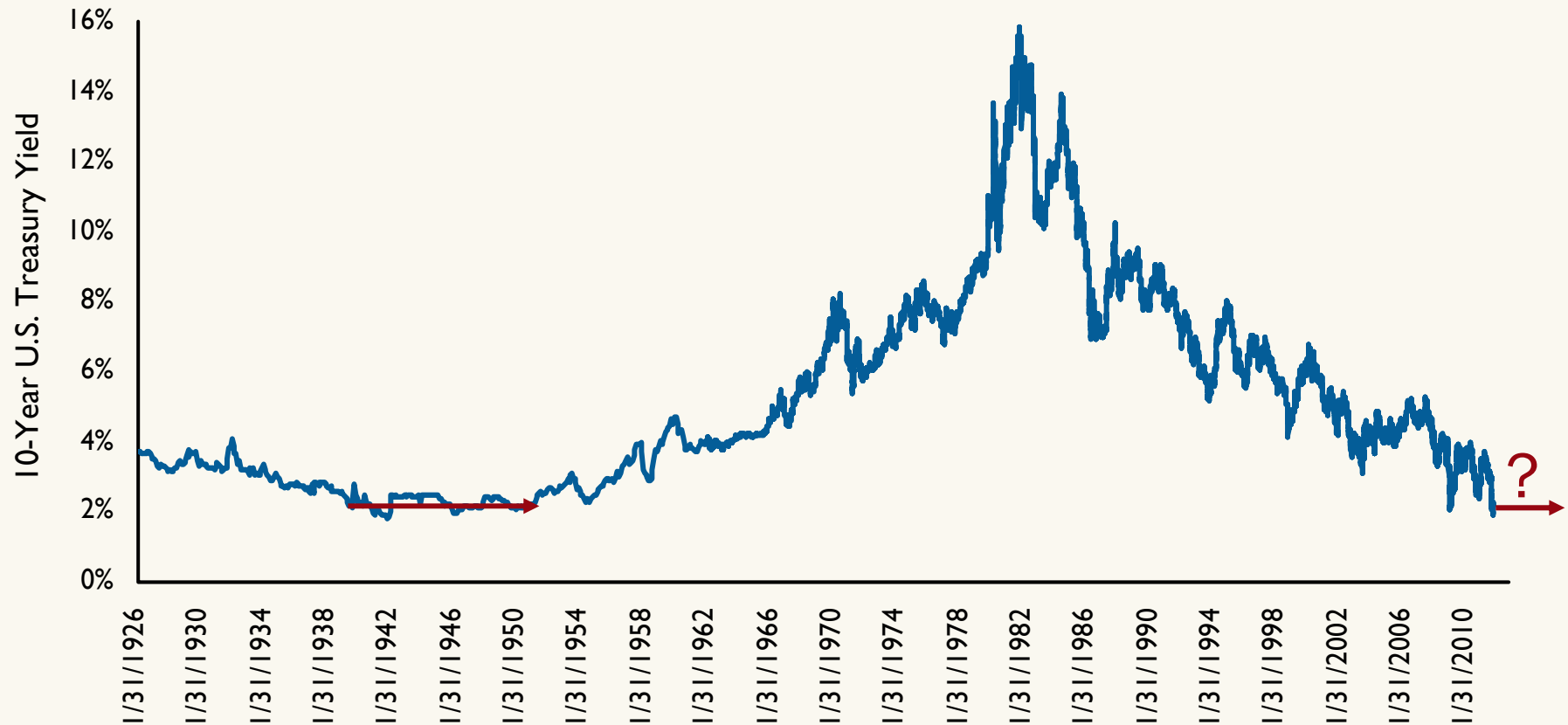


Source: ISI Group

- Combined GDP growth rate for first half of 2011 was an anemic (“stall speed”) 0.8 percent
- Major downward revisions call into question the strength of the economy and have increased the odds of a recession



Slower Growth = Low Rates

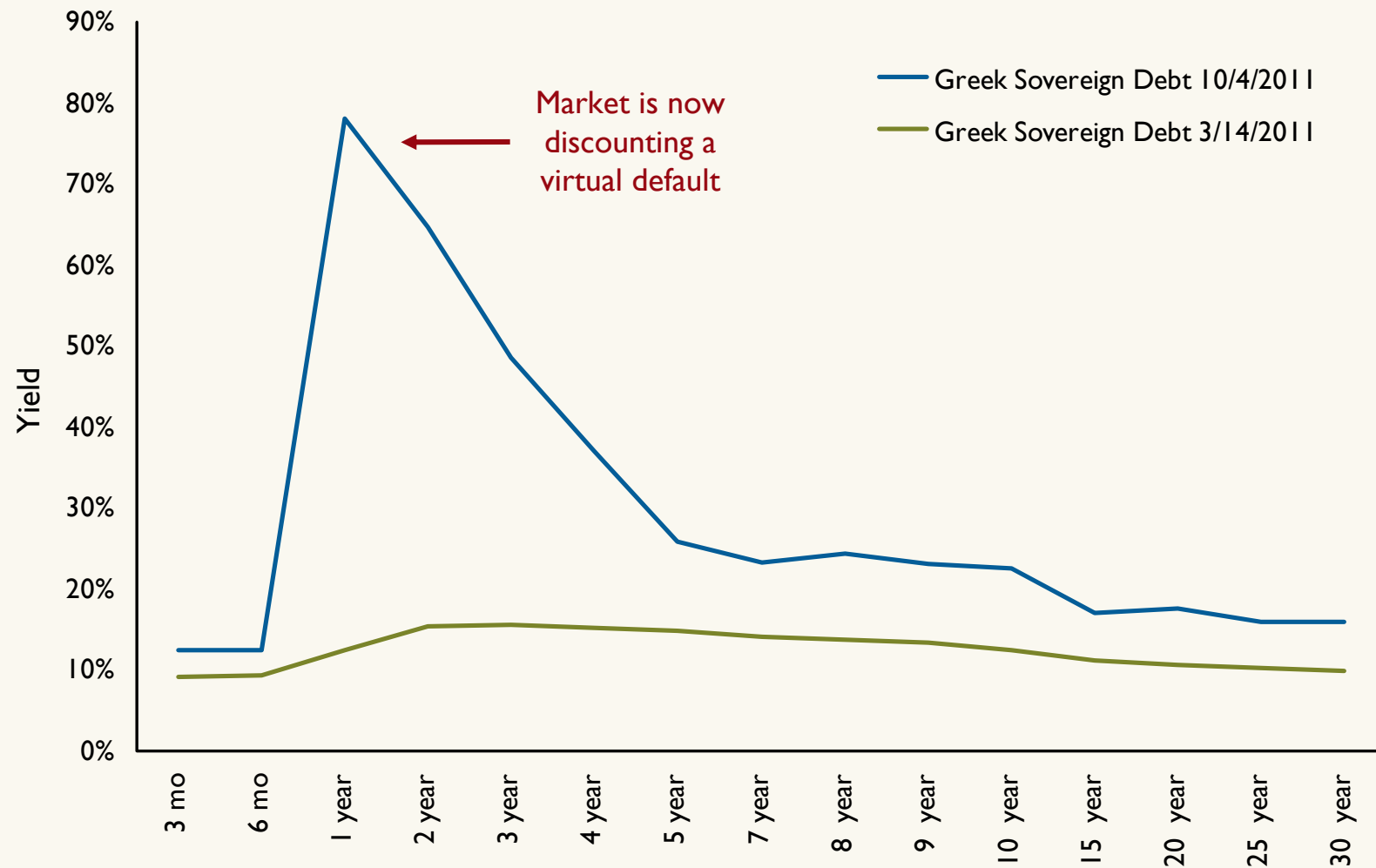


Source: Bloomberg Financial Markets

- Rates can remain low for extended periods. The 10-year U.S. Treasury remained below 2.5 percent, from 1939 to 1951
- The Fed's "Operation Twist," Greek default, or European recession could make interest rates move lower
- Conversely, an idle Fed and Europe containing its debt problems could send rates higher
- Regardless of the scenario, rates should remain comparatively low for some time to come
- We are targeting a duration that is neutral to its benchmark for fixed income portfolios



Greek Crisis Coming to a Head

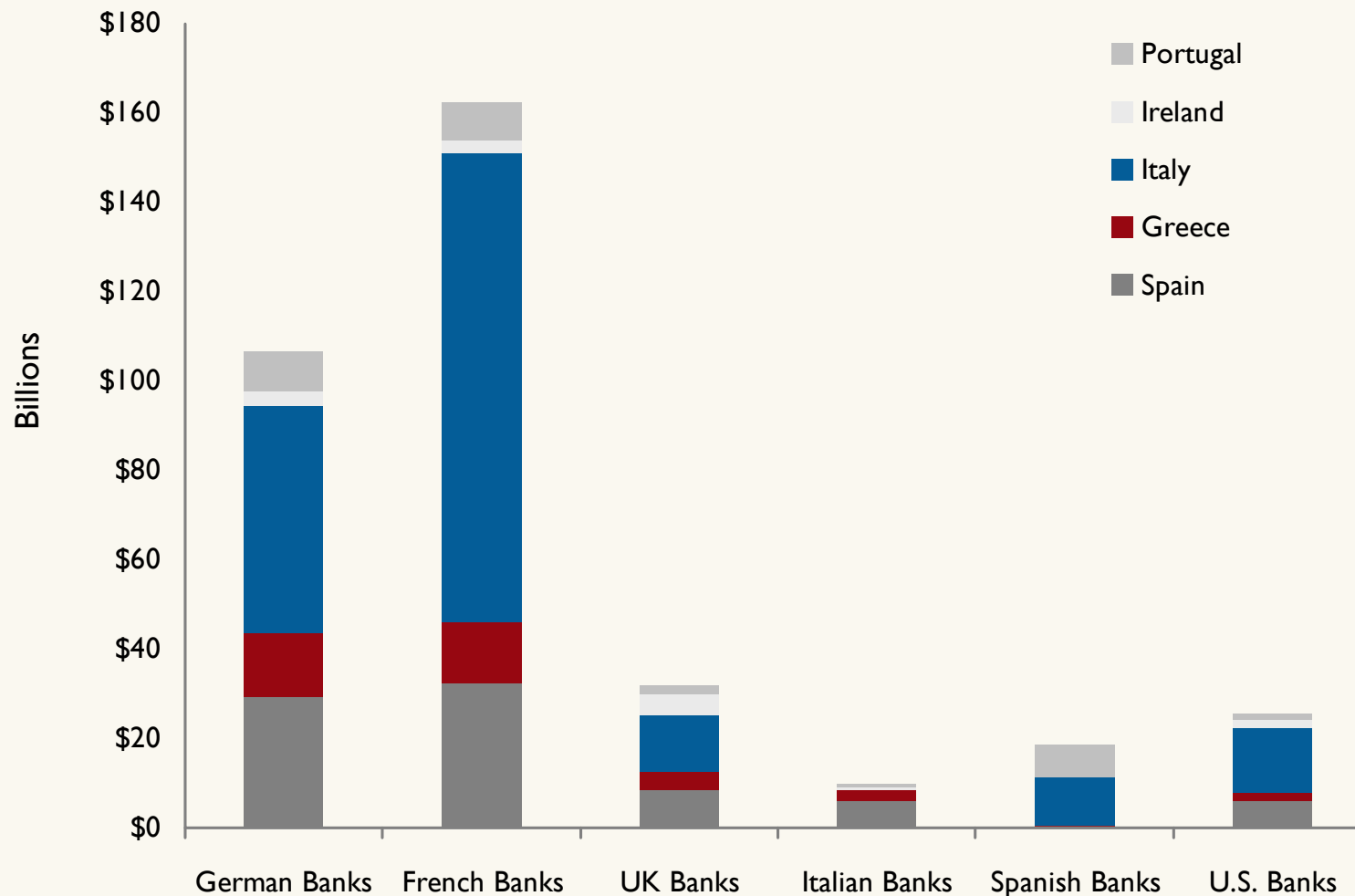


Source: Bloomberg Financial Markets

- The yield curve suggests that Greece is at the doorstep of a liquidity crisis



Greece is only a Small Part of the Problem

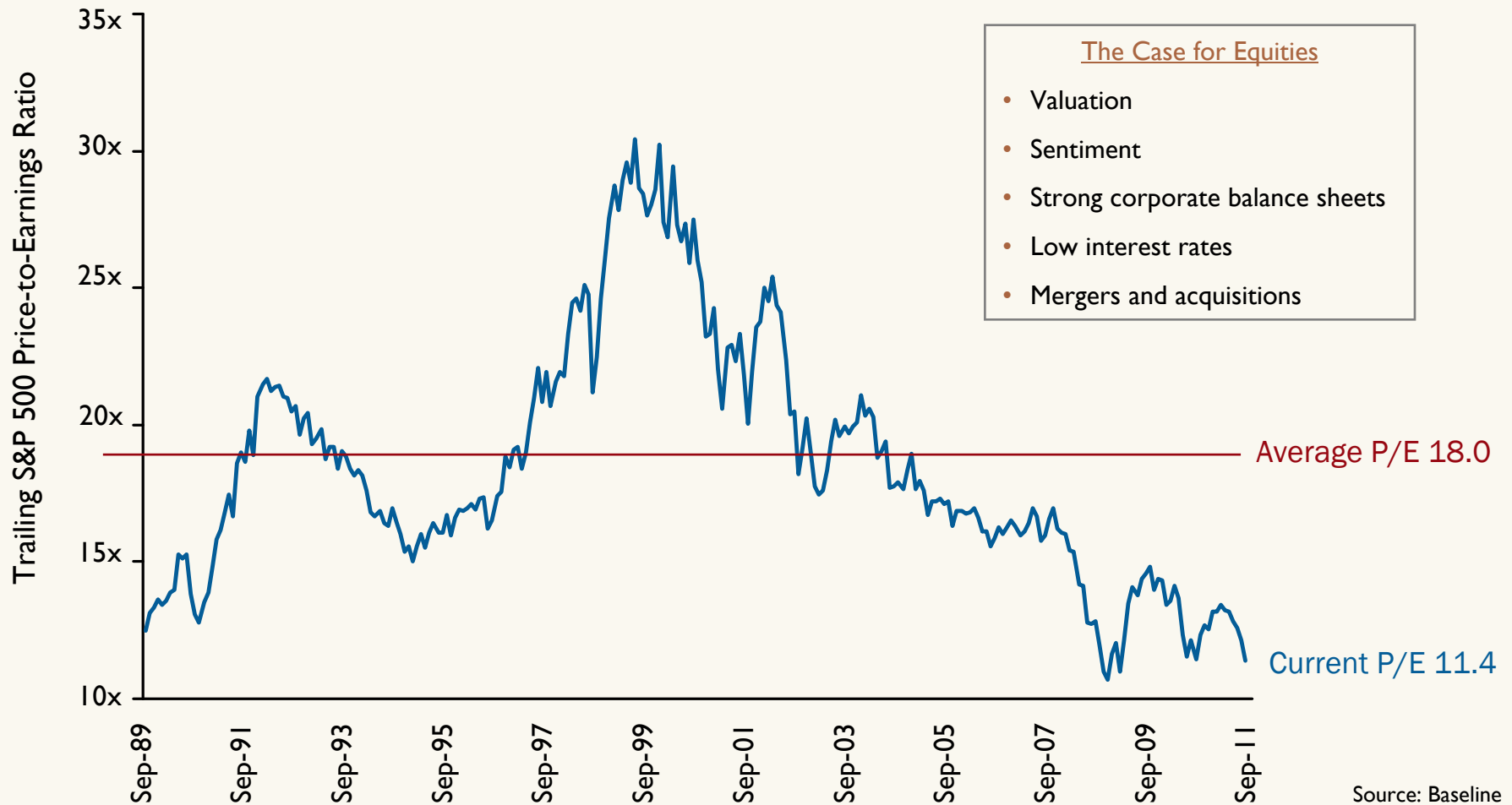


Source: Strategas

- Much larger problem for European banks than U.S. banks
- Unlike the financial crisis in 2008, sovereign debt issues are primarily centered in the European banks
- Ferguson Wellman does not own any European financial institutions



Stocks Are Cheap, but Cheap Is not a Catalyst



- We expect continued high volatility within a wide trading range
- Though corporate earnings remain healthy, PE multiples continue to trend downward reflective of a protracted economic malaise
- We favor high dividend payers and are emphasizing defensive sectors such as healthcare, utilities and technology among the cyclical



Fourth Quarter Capital Market Forecast

Favored Themes

- Neutral allocation to both stocks and bonds
- High-dividend yield over low-dividend yield
- Emerging markets over developed markets
- Neutral duration fixed income structure

Risks

- Continued policy uncertainty (fiscal and regulatory)
- Sustaining growth in emerging economies (i.e., China)
- Eurozone crisis and deteriorating global growth
- Structurally high unemployment