



FERGUSON WELLMAN
CAPITAL MANAGEMENT



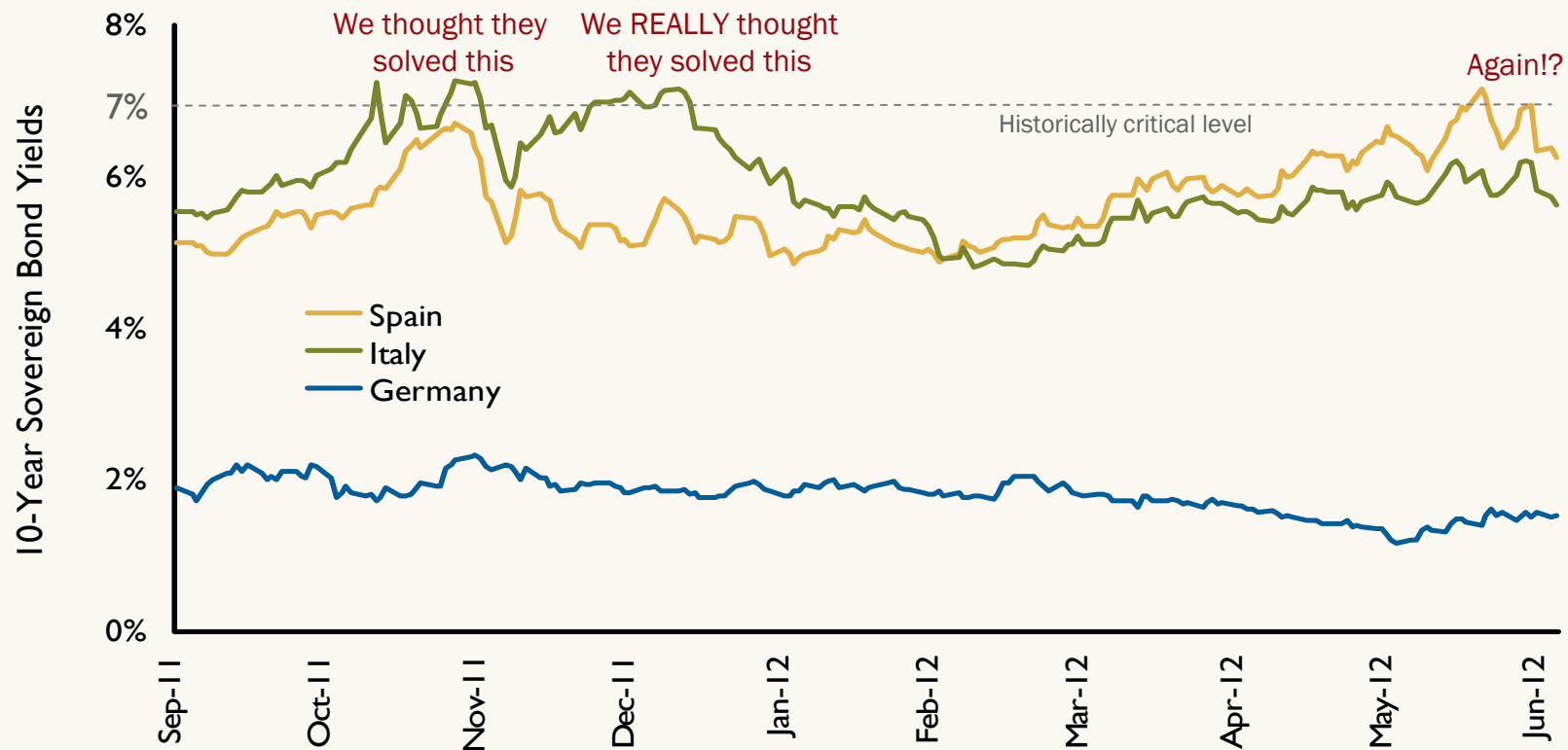
Third Quarter 2012
Investment Outlook

Groundhog Day - The
European Edition

presented by
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Chief Investment Officer



The Bond Vigilantes Pressure Spain and Italy

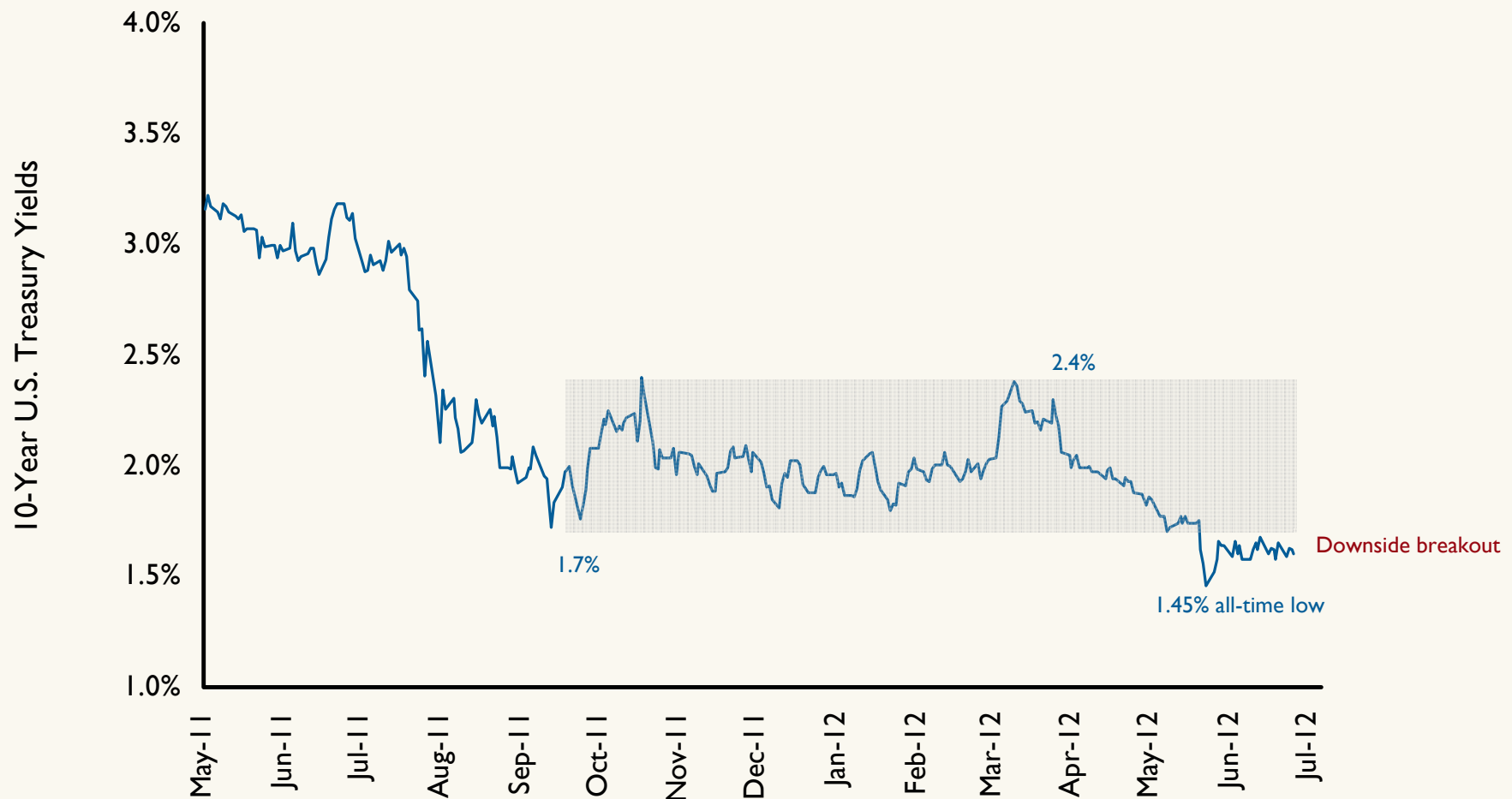


Source: Bloomberg

<u>Odds</u>	<u>Outcome</u>
75%	Unification of European banking system
50%	Establishment of a fiscal union
20%	Bank contagion among European banks
10%	Disorderly exit of one or more countries from EU



U.S. Treasuries Are a Global Safe Haven

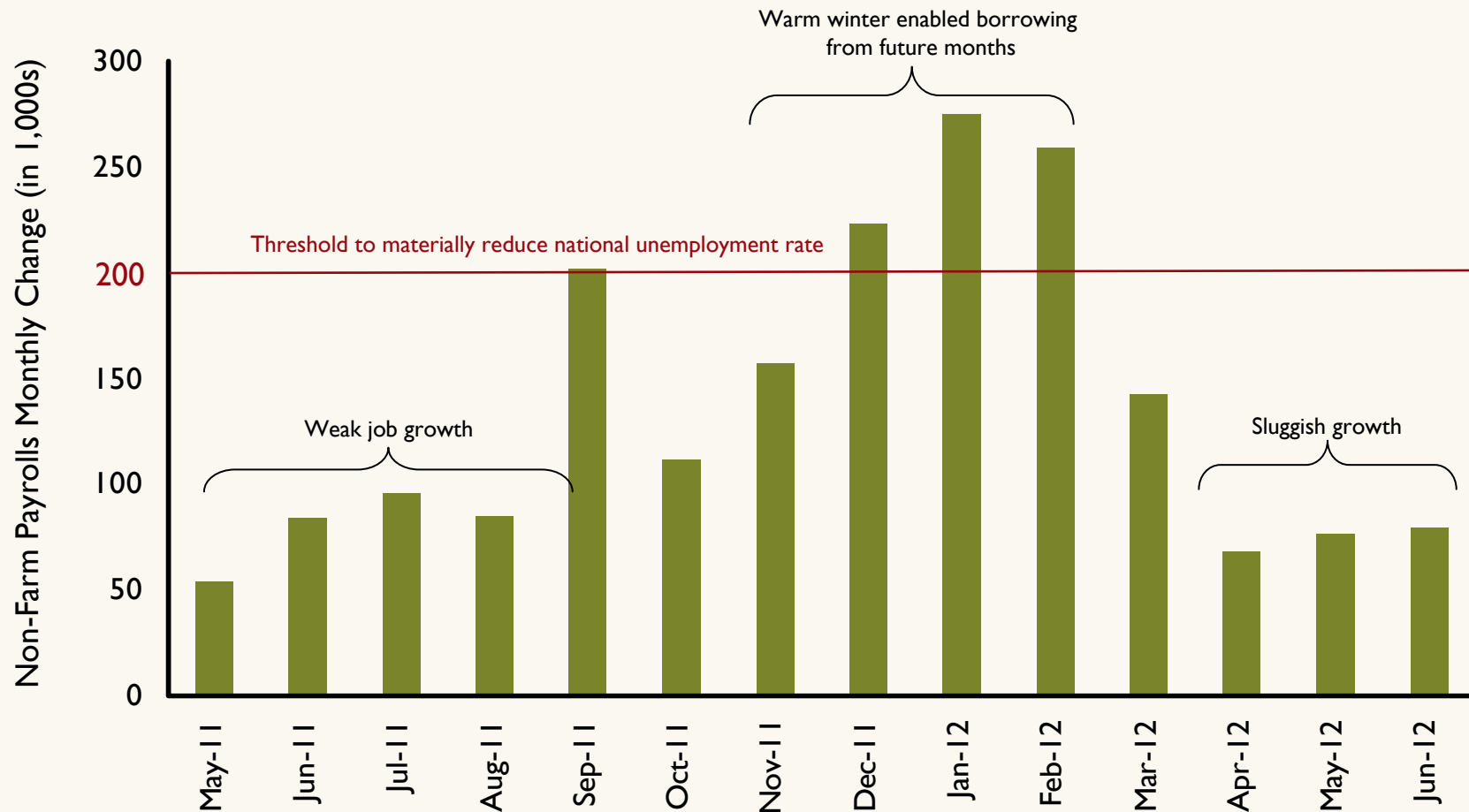


Source: Bloomberg Financial Markets

- Safe-haven flows and a lack of inflation should keep rates low
- Based on a belief that *rates can stay lower, longer* - we are maintaining a slight underweight to bonds and neutral duration



Job Growth Remains Sluggish

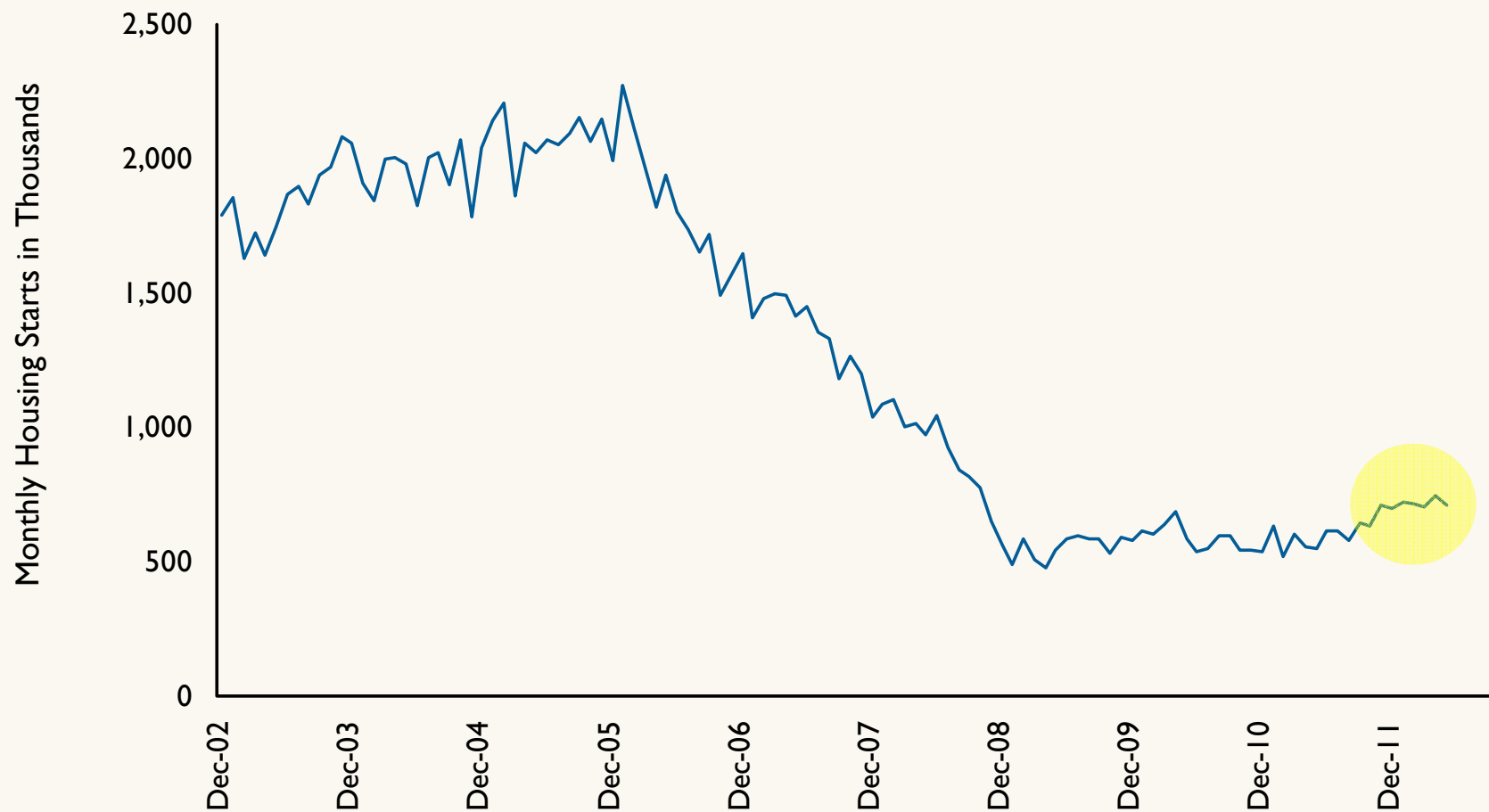


Source: Bureau of Labor Statistics

- Employment is the single most important economic indicator
- A monthly gain in excess of 200,000 jobs is the threshold for materially reducing the national unemployment rate
- “Corporations are cash rich and confidence poor.” - Nick Pinchuk, Snap-On Tools CEO



Housing Is Now Adding to GDP Growth

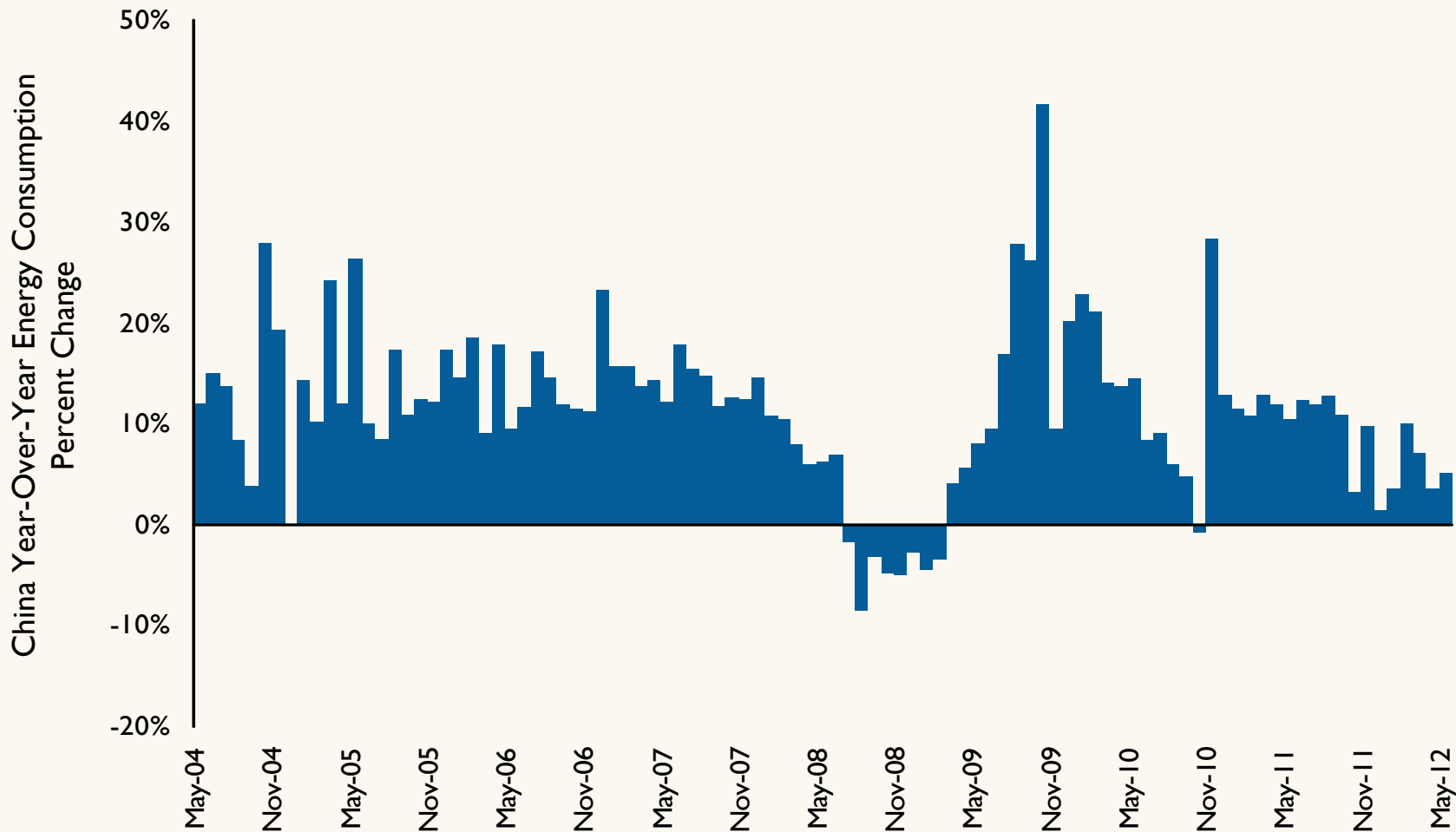


Source: Bloomberg

- Aided by low rates and the lack of new construction in recent years, housing is now modestly contributing to GDP growth
- We see the housing recovery as an emerging theme in coming years



Chinese Economy Is Slowing

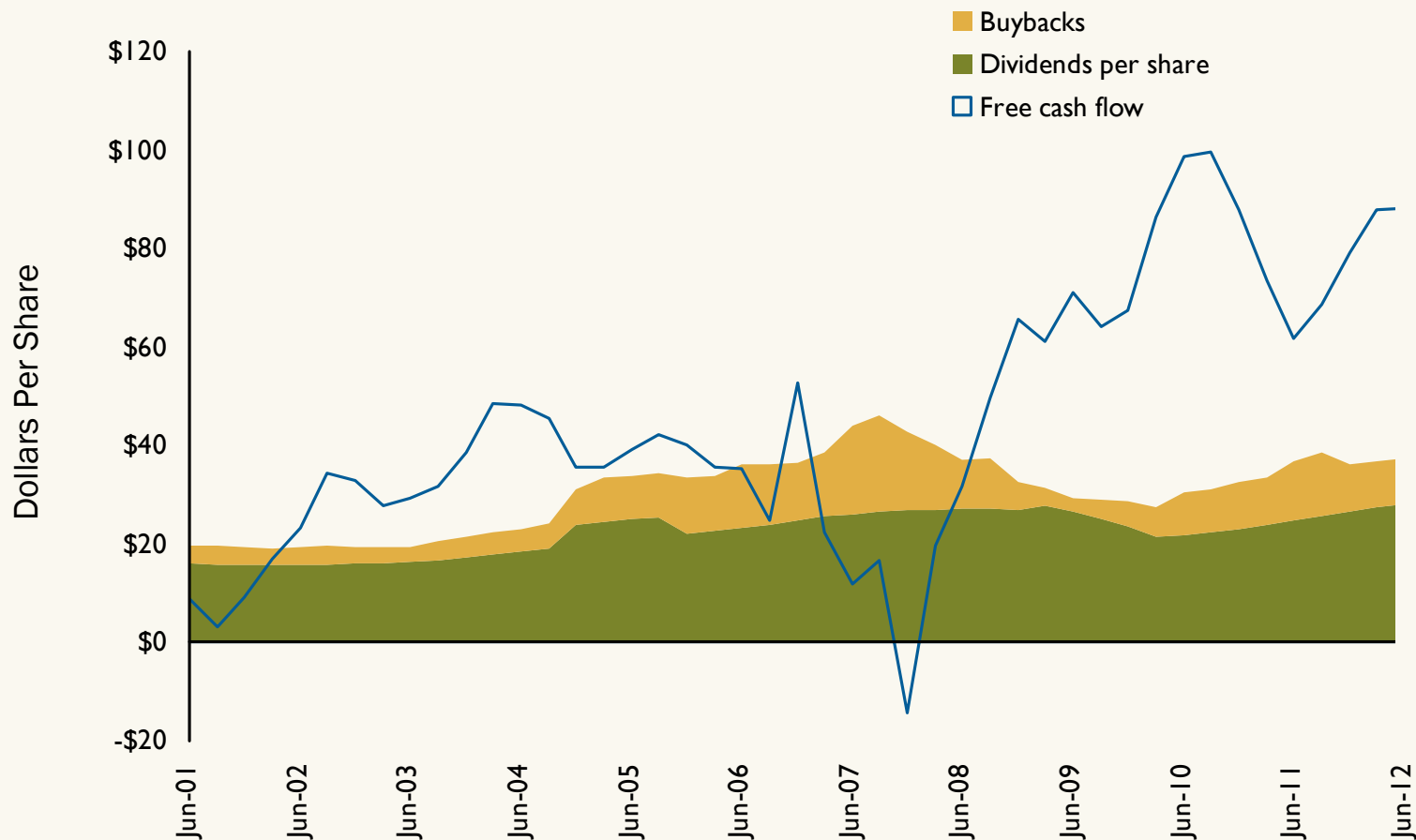


Source: FactSet

- Energy consumption is one of the best real time indicators for China's (actual) rate of economic growth
- We expect China to continue both fiscal and monetary stimulus over the next 12 months to get their economy back on a 7 to 8 percent growth path ... therefore, avoiding a "hard landing"



Tremendous Amount of Free Cash



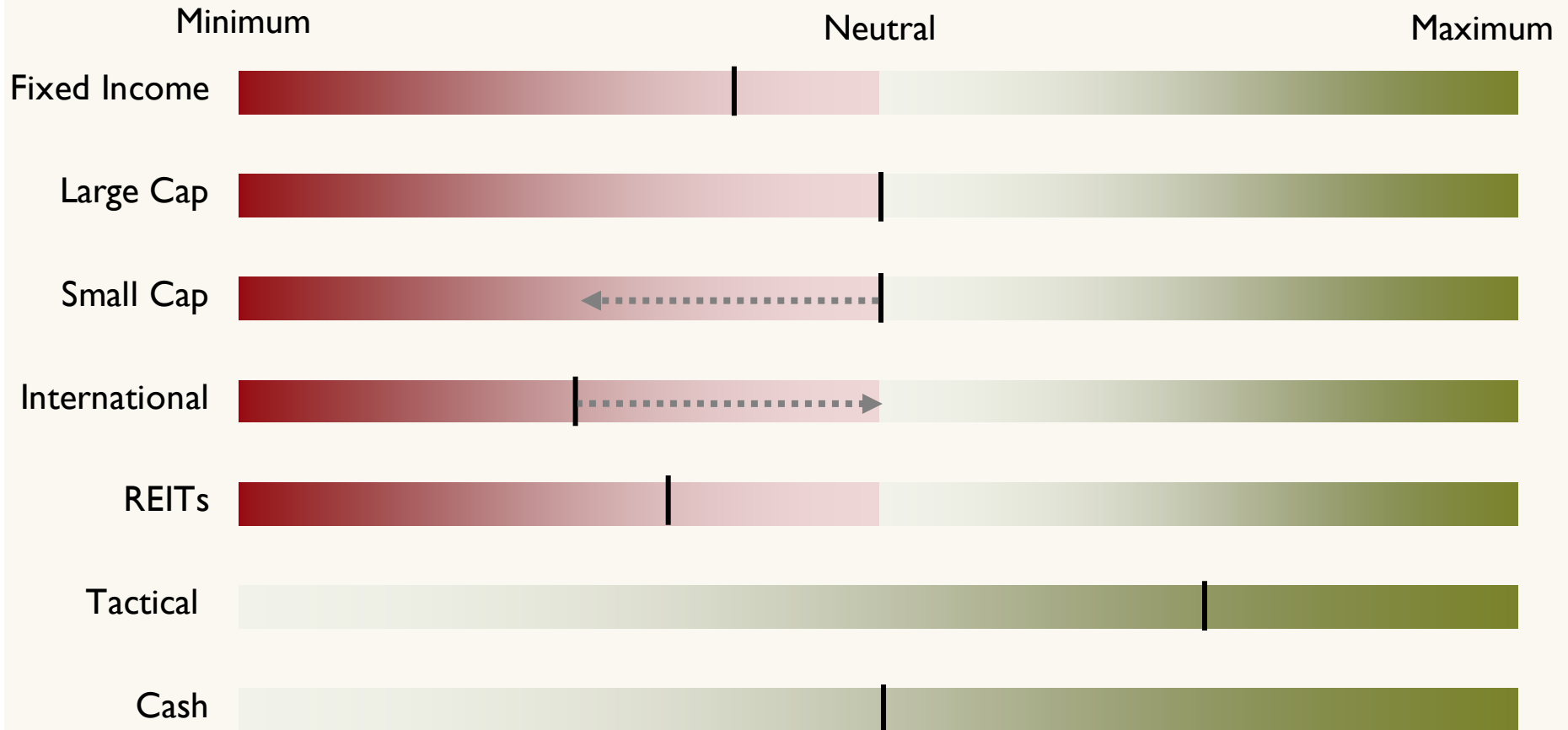
Source: Strategas

- Free cash may be peaking but dividends have a long way to go
- With free cash flow near record levels, corporations have plenty of room to raise dividends and increase share buybacks in the coming years
- Our multi-factor model screens for companies that *reduce* shares outstanding through buyback programs
- Stocks yields are attractive relative to other asset classes at this time



Target Asset Allocation

Potential 2012 Directional Moves – “Must be Present to Win”



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



Capital Market Outlook

Macro

- The domestic economy continues to sluggishly move ahead
- Slowing growth in emerging mkts ... recession in Europe but not in U.S.
- Interest rates should stay lower ... longer
- EU is not out of the woods, but expect movement towards a banking union
- Market volatility likely to remain elevated

Risks

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