

## OUR 2008 FOURTH QUARTER MARKET SCORECARD

<b>Economy</b>	<b>Negative</b>	The U.S. economy officially entered a recession in December 2007. GDP declined at an annual rate of -0.5% in the third quarter of 2008 down from +2.8% during the second quarter. Indications were for sharply negative GDP during the fourth quarter 2008 as consumers retrenched and dramatically cut back spending. <sup>1</sup>
<b>Employment</b>	<b>Negative</b>	Unemployment increased to 7.2% in December with a sharp loss of 524,000 jobs. The number of unemployed persons increased by 3.6 million since the start of the recession in December 2007 to 11.1 million. Total employment declined with the civilian labor force at 143.3 million employed persons. <sup>2</sup>
<b>Productivity</b>	<b>Positive</b>	Labor productivity continued strong in the third quarter and increased 1.5% in the business sector and 1.3% in the nonfarm business sector. However, productivity declined by -2.7% for manufacturing (primarily nondurables) due to an increase of 7.6% in unit labor costs. This was driven by higher hourly compensation and a decrease in output. <sup>3</sup>
<b>Housing</b>	<b>Negative</b>	The housing market continued to be problematic, but there have been some increases in pending sales in California and Florida. In November, existing home sales declined -8.6% from October and were down -10.6% from 2007. Interest rates on most mortgages were near historic lows (excluding Jumbos) and many existing homeowners began refinancing. <sup>4</sup>
<b>Consumer</b>	<b>Negative</b>	The Consumer Confidence Index in December fell to an all-time low of 38.0 (1985=100) down from 59.8 in September. This dramatic decline reflects the rapid and steep deterioration of economic conditions in the fourth quarter. Consumers were pessimistic about future business conditions, labor markets, and income gains. <sup>5</sup>
<b>Liquidity</b>	<b>Neutral</b>	Actions taken during the fourth quarter by the Treasury, Federal Reserve, and FDIC to protect the economy recently began to improve liquidity. Some Federal Reserve Bank Districts reported that government actions improved liquidity and slowed deposit outflow. Others reported weakening loan demand. Credit standards rose across the nation. <sup>6</sup>
<b>Inflation</b>	<b>Positive</b>	Headline inflation (including energy & food) declined -10.2% (annualized) over the past three months ending in November and increased 1.1% over the past twelve months. Falling energy prices drove the decline in the overall index. Core inflation (excluding energy & food) increased just 0.4% for the past three months and 2.0% for the year. <sup>7</sup>
<b>Interest Rates</b>	<b>Positive</b>	On December 16 <sup>th</sup> , the Federal Reserve cut interest rates dramatically to establish a target range for the federal funds rate of zero to 0.25% and cut the discount rate to 0.5%. The Fed cited that they will employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. Longer term rates also declined. <sup>8</sup>
<b>Earnings</b>	<b>Negative</b>	S&P 500 operating earnings declined year-over-year by 23.6%. Earnings were broadly impacted by the recessionary economy and write downs by financial companies. In our opinion, profits might bounce in late 2009 if the economy improves aided by low interest costs and slow wage growth. Write downs could slow. <sup>9</sup>
<b>Valuations</b>	<b>Positive</b>	Stocks looked undervalued historically and relative to bonds as the S&P 500 earnings yield was 3.6% above the 10 year Treasury yield. The trailing P/E ratio for the S&P 500 was 17.1x and forward P/E ratio was 12.4x. versus a 20 year average of 22.5x as of 12-31-08. We thought large caps looked attractive. We felt municipal and high yield bonds appeared undervalued. <sup>10</sup>
<b>Investment Returns</b>	<b>Negative</b>	During the fourth quarter and full year 2008 most equity indices were negative. The S&P 500 declined -37.0% for the full year. Most international stock indices performed worse. US Treasuries, Mortgage Backed, Barclay Aggregate Indices, and cash equivalents generated positive returns. Other fixed income indices were negative. <sup>11</sup>

*Important disclosures on back page.*

Sources:

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| 1 Sources: National Bureau of Economic Research & Bureau of Economic Analysis | 2 Sources: Bureau of Labor Statistics         |
| 3 Sources: Bureau of Labor Statistics   | 4 Sources: National Association of Realtors   |
| 5 Sources: The Conference Board   | 6 Sources: Federal Reserve Bank Beige Book    |
| 7 Sources: Bureau of Labor Statistics   | 8 Sources: Federal Reserve Board of Governors |
| 9 Sources: J.P. Morgan  | 10 Sources: J.P. Morgan                       |
| 11 Sources: Wall Street Journal and J.P. Morgan                               |   |

The prices of small and mid cap company stocks are generally more volatile than large company stocks. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds. Past performance is not a guarantee of future results.

The price/earnings (P/E) ratio is the price of a share of a stock divided by earnings per share, usually calculated using the latest year's earnings. The Russell 2000 Index consists of the smallest 2,000 securities in the Russell 3000 Index. This is the Frank Russell Company's small capitalization index that is widely regarded in the industry as the premier measure of small capitalization stocks. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The Russell Midcap™ Index measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The S&P 500 (a registered trademark of the McGraw Hill Companies) is an unmanaged, index of common stock. The indices are presented to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index.

The MSCI Emerging Markets Index (EMF) is a free float-adjusted market capitalization index that is designed to measure equity market performance. As of May, 2005, the index consisted of the following 26 developed market country indexes: Argentina, Brazil, Chile, China, Columbia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey, and Venezuela.

The Consumer Confidence Index (CCI) is a unique indicator, formed from survey results of more than 5,000 households and designed to gauge the relative financial health, spending power and confidence of the average consumer. The index started in 1985 at 100 and is normalized based on the Consumer Confidence level when it began.

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