Economic & Capital Market Summary

Fourth Quarter, 2008

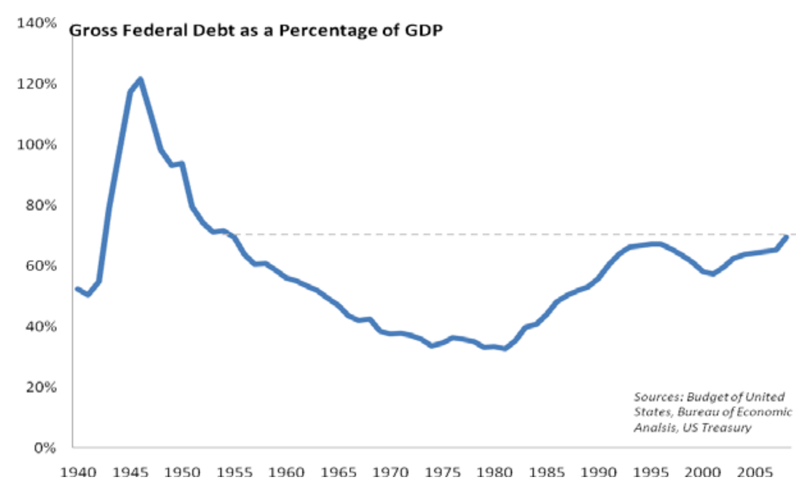
The Economy

With rising unemployment, retrenchment in global demand, tight credit and a growing budget deficit, we expect a global recession to persist through most of 2009. The recovery will be muted as any gains in consumption are offset by rising taxes to balance the bloated budget deficit.

The economy is facing severe headwinds and will struggle for much of 2009. We expect the economy to continue to contract through the first two quarters and remain flat for the remainder of 2009. We expect the recovery will be modest by historic standards and not take hold until 2010. The global financial system remains on life support and we still do not know the extent of the damage to the economy as a result of the seizing of the capital markets in September.

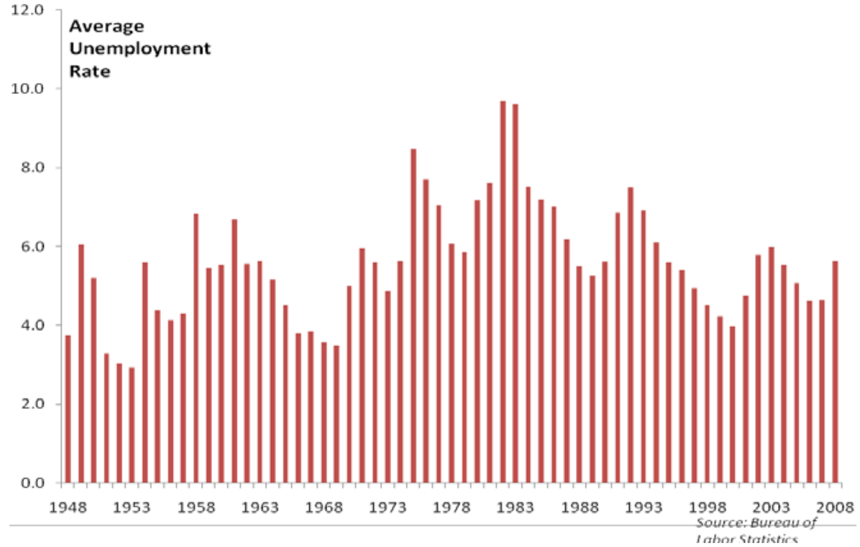
The outlook for the consumer sector, which represents almost 70% of the US economy, is bleak. Consumers are faced with declining home valuations, record levels of credit card debt and increasing layoffs. The necessary discipline required to pay down excessive levels of debt will result in economic pain through depressed consumption growth, which could potentially deepen the recession further.

The government sector eventually will get a lift from President-elect Obama's spending initiatives which are expected to rival the New Deal spending of Roosevelt's era. However, a large Keynesian-style fiscal initiative is wrought with problems. The first problem is that any economic impact will be at least into 2010 and not provide any stimulus next year. By the time his plan is passed through the legislature, programs identified for investment, guidelines initiated, applications submitted, plans made, architects, engineers and contractors hired and ground broken, it would seem to be a nine to twelve month process. Second, we are trading one problem for another problem which may be more dangerous. Deficit spending will help stimulate growth and jobs in the short run, but we will run huge deficits to finance the programs. The result will be deterioration in the dollar and a rise in interest rates to entice investors to finance our growing debt.



The total debt outstanding as a percent of GDP in the US (as well as other countries) has reached levels not seen since the end of World War II. In light of high levels of US household leverage, our abysmal savings rate and growing unemployment picture, it underscores that as a country we are living beyond our means.

The corporate sector will continue to hemorrhage jobs as global demand remains suppressed through the first half of 2009. We expect the unemployment rate to exceed 8.0% by the end of 2009 and excess capacity utilization to decline below 70%. Given the slack resources under this scenario, we believe inflation will not be a problem in 2009.



There is no doubt, in hindsight that an excessively lax monetary policy following the bursting tech bubble in 2000 resulted in two more dangerous market excesses: the housing bubble and the credit bubble. At this point, after aggressive cuts in interest rates this past year, the Fed has been unable to stave off a serious credit crunch. As long as the financial system remains in a fragile state, the Fed will keep interest rates low and money flowing through the system. However, the new administration will likely rollout an aggressive fiscal policy which may prove to be a greater factor in stimulating growth than current monetary policy.

As consumers delever their balance sheets, the government balance sheet has ballooned in size. As a result of the myriad of bail out programs the government has created, the balance sheet of the US government has ballooned from $900 billion in September 2008 to $2.2 trillion by December. Effectively the leverage in the system has been transferred from the private sector to the government sector. Growing fiscal deficits will ultimately lead to an increase in government debt. At some point, more government spending makes it harder for monetary policy to contain inflation. Perhaps the biggest problem policy makers will face is how to attract external financing to support their spending programs and then eventually to wean the country off the government spending spree.

We have crossed over into a new paradigm of increased government influence on the economy, the financial system and the capital markets. Arguably, the United States has moved from a system of capitalism to National Capitalism in which the government invests along side the private sector and provides regulatory oversight. The actions of the government in 2008, including saving Bear Stearns from collapse, taking over Fannie Mae and Freddie Mac, the massive $85 billion in loans to AIG, and loans to General Motors and Chrysler to keep them from bankruptcy represent a new form of government supported capitalism. We expect this National Capitalism to result in significant government influence and regulation over the coming years.

Gregory J. Hahn, CFA
President & CIO

Stephen P. Carr, CFA
Portfolio Manager

This report is published solely for informational purposes and is not to be construed as specific tax, legal, or investment advice. Nor is this document intended as a solicitation or an offer to buy or sell securities or related financial instruments. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. The comments are based on current market conditions. Different market conditions and assumptions could have materially different results. Neither Winthrop Capital Management nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

Winthrop Capital Management does not own securities of General Motors or Chrysler for its own accounts or the accounts managed for its clients. Winthrop Capital Management does own securities of Wells Fargo, PNC Corporation, Wachovia, Dominion, Florida Power & Light, Georgia Power, Southern Company, Cummins, General Electric, General Electric Credit Corporation, Lincoln National, Allstate, Hartford Insurance Group, Johnson & Johnson and Covidien for its own account or the accounts of its clients.