LarsonAllen Financial, LLC
Member FINRA & SIPC

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LarsonAllen Financial, LLC
Market and Economic Update

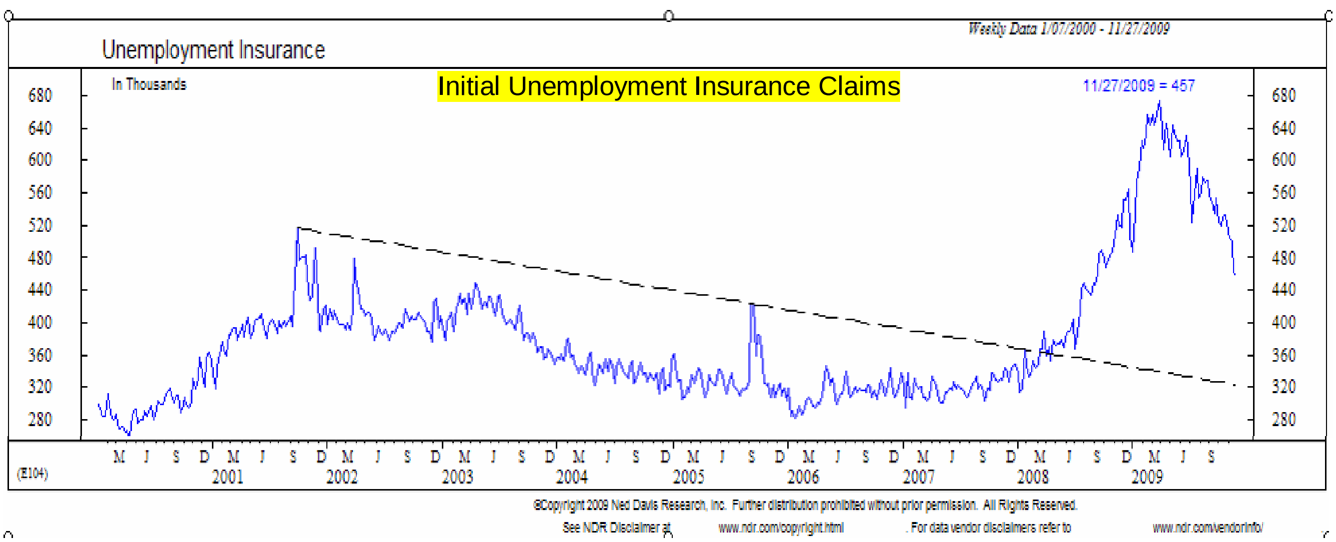
SUMMARY

Equity markets are now moving into what we believe is a consolidation period (sideways action). We expect the rate of advance in asset prices to begin to slow from the previous six months and volatility to increase. We are watching credit spreads closely as the Federal Reserve begins to take small steps in removing monetary stimulus. Any reversal in credit spreads would signal a need to become more defensive in our investment allocations.

ECONOMIC UPDATE

The employment picture begins to show signs of recovery

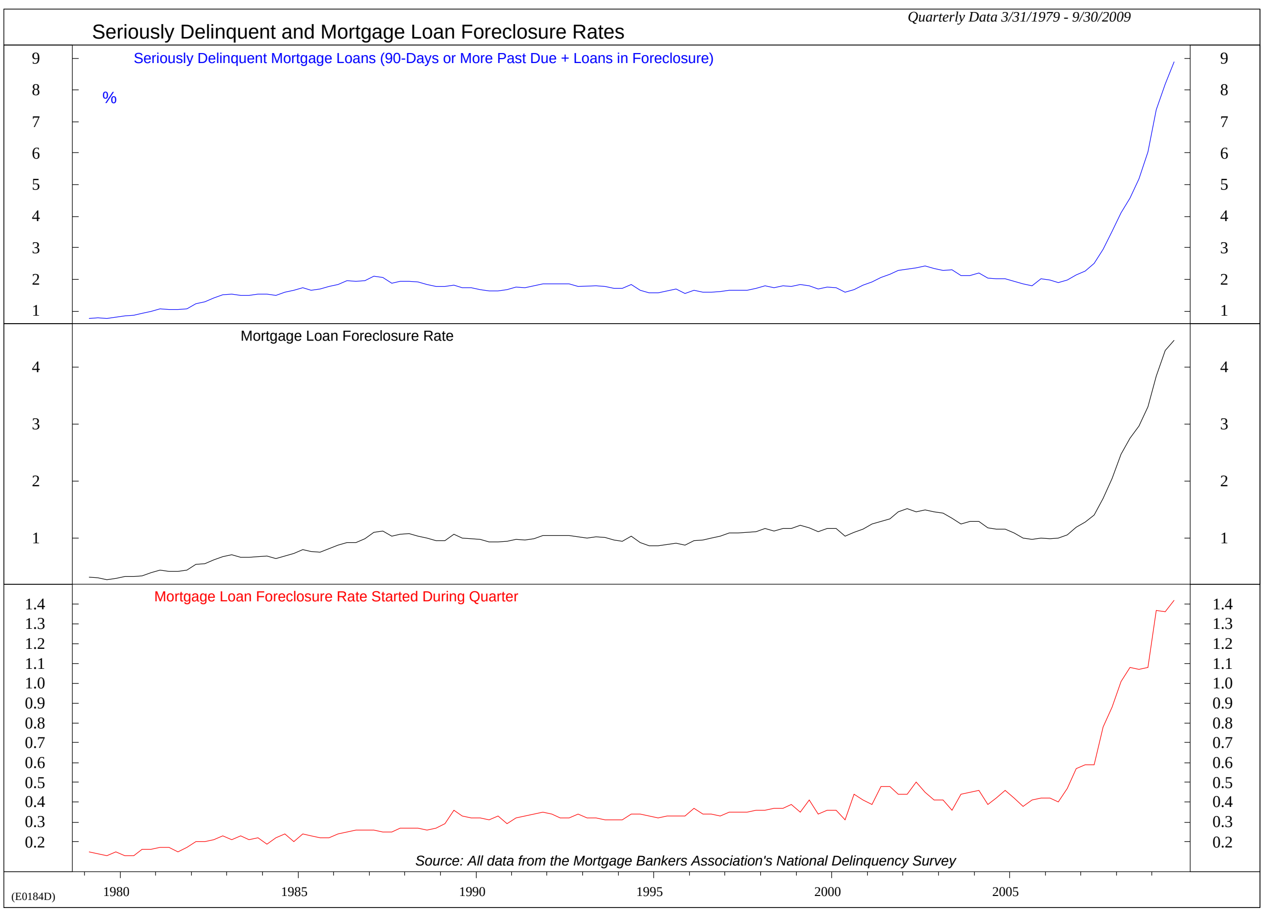
Employers shed fewer workers than expected in November. Net job creation/deletion came in at -11,000 which is much better than the -125,000 consensus estimate by leading economists (source: Bloomberg). Net job creation appears to be close at hand as exports, inventory rebuilding and government stimulus support demand. Employment will be an important factor in providing support for a sustained economic recovery. We maintain that unemployment may stay stubbornly high for a number of years. History shows that debt-induced recessions have a much longer recovery period than garden variety recessions. In addition, the debt financed growth since 2001 created overcapacity in several industries. Businesses have been quick to adjust to the new level of demand by slashing payrolls. The worst of the job cuts appear to be behind us but we expect new job creation will be a slow and uneven process.



Residential housing foreclosures remain high

Foreclosure activity remained at record levels in October. It is estimated that 25 percent of households with a mortgage are in a negative equity position and 14 percent of households are at least two months behind on their mortgage payments (source: Finance My Money). The government is pressuring financial institutions to provide more loan modifications to keep people in their homes, but banks have been slow to accommodate Washington's wishes. We expect to see renewed pressure from Washington on this matter throughout the next few weeks and months.

The Case Schiller home price index is now showing a bottoming process in housing prices across the country. We expect this recovery in housing prices to moderate for the near term as new foreclosure supply adds to an already bloated housing supply. Existing homes sales have been brisk thanks to the first time home buyer credit of $8,000 and a new $6,500 credit for existing home owners that are step-up buyers. We expect the high-end housing market ($1M+ value) to stay depressed for some time as the jumbo loan market remains challenging and the high-end buyer remains in hibernation.



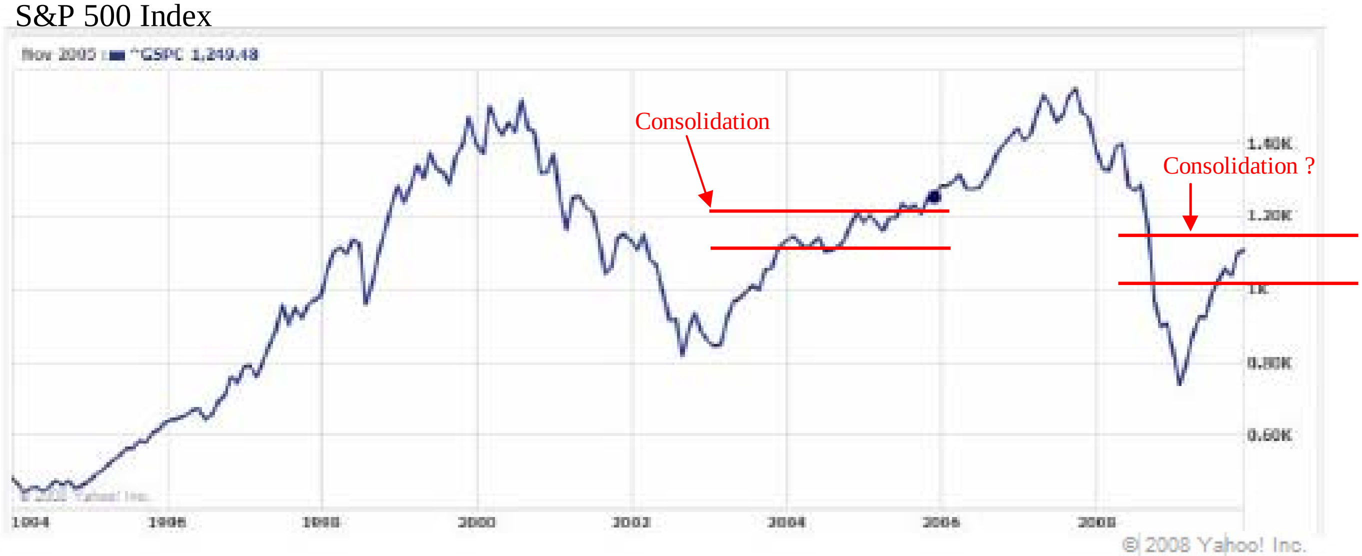
Commercial real estate issues

Dubai World's request to delay debt service payments on $60 billion of commercial real estate may be the beginning of the next wave of real estate lending issues. Expect to see more significant write downs within the balance sheets of commercial banks over the next 24 months. We will discuss this in greater detail in future issues.

Equity and debt markets move into a consolidation period

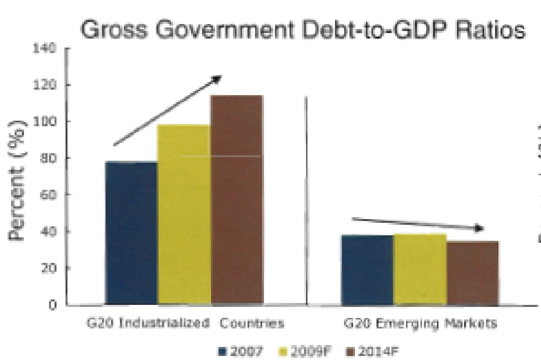
Equity markets are now moving into what we believe is a consolidation period (sideways action). We expect any rate of advance in asset prices to begin to slow from the previous six months advance. We will be watching credit spreads closely as the Federal Reserve begins to slowly withdraw their monetary policy. We believe that interest rates may remain low for an extended period of time as the Federal Reserve attempts to avoid a deflationary trap. Through monetary stimulus, the Fed is attempting to artificially induce demand to create supply/demand equilibrium in major economic markets. Unfortunately, the number of suppliers far exceeds current demand creating a disinflation/deflationary environment.

S&P 500 Index

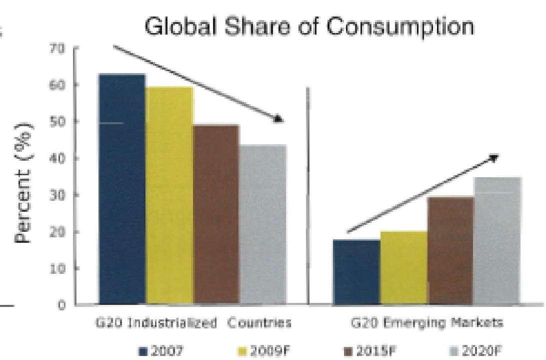


A new risk begins to brew within G20 nations

We have witnessed unprecedented government stimulus from central banks around the world. This stimulus does not come without a cost. Many advanced economies around the world are moving into dangerous territory as it relates to sovereign debt/GDP levels. As advanced economy balance sheets continue to erode over the next five years at an unprecedented pace, it has the potential to create the next bubble. We will be monitoring this risk very closely. Expect to see books and articles flooding the market in attempt to educate the public about the historical demise of fiat currencies.



Industrialized countries are expanding their indebtedness at an unprecedented pace …



…even as their share of global economic activity declines precipitously.

SOURCE: IMF, PIMCO, Credit Suisse As of August 31, 2009

CONCLUSION

After a big recovery in equity and bond prices, we believe the stock market is at or above fair value. The stock market can remain above fair value for an extended period as long as monetary policy remains accommodative. We continue to see strong demand for income instruments (bonds, high dividend equities, preferred stocks, closed-end bond funds, etc.) as investors seek cash flow. The supply/demand imbalances in housing and commercial real estate will take years to correct. The employment picture and retail sales are improving, but we expect these improvements to be muted. We need to begin focusing on the new risks being created around the world—balance sheets of advanced economies that have implications for both stocks and bonds. Investors will need to understand and manage these new risks accordingly.

This Market and Economic Update is prepared by LarsonAllen Financial, LLC. If you have any questions, please call 1-888-925-2926 and ask to speak with a Senior Wealth Advisor.