



YEAR END GLOBAL ECONOMIC REVIEW AND OUTLOOK

JANUARY, 2011

Overview: We are cautiously optimistic about the global economy for 2011 and beyond. We expect sustained above-trend expansion and global GDP growth of about 3.5% in 2011 and 4.0% in 2012.

Global growth is rarely uniform, but the current recovery is even more uneven than usual. Developed countries should record only modest growth in 2011 because of private sector deleveraging and fiscal consolidation. Divergences from this base case are likely to be acute in the euro area, with continued above-trend growth in Germany but little or no growth in the European periphery countries. The emerging markets in Asia should again outperform as expansions in China and India continue for many years to come.

These divergent growth paths will cause central banks around the globe to pursue different policy paths. With a few exceptions, policies will remain accommodative in the developed countries. In contrast, strong recoveries already are raising serious inflation concerns among several emerging countries, e.g., China, where additions to ongoing rate hikes, credit tightening and increased reserve requirements are likely.

However, there are still downside risks facing the global economy. First, if sovereign risk contagion widens - especially to Spain - then adverse effects on euro area growth and financial conditions may increase. We expect the sovereign crisis in the euro area to be contained. Second, we expect persistently high global imbalances, with a rising current account deficit in the U.S. and only a gradual drop in Asia's aggregate surplus. There are uncertainties over the policy response of emerging markets if capital inflows increase, as well as longer-term risks of a slide to protectionism by countries with only sluggish growth and high unemployment. Third, risk assets may hit periodic weakness over concerns that government policy will not be able to successfully follow a stability-oriented path given the diverging economic trends and serious fiscal challenges. This would affect primarily the bond market but certainly stocks as well. Volatility should remain high.

But there are upside possibilities for growth too. Continued above trend global expansion, ongoing balance sheet repair, and successful monetary and fiscal measures to ensure medium-term stability could underpin price increases in risk assets and re-energize corporate appetites for expansion, reducing unemployment and increasing GDP growth even further.

United States

GDP: Overall, we expect the U.S. economy to grow 3.0-3.5% in 2011. Economic performance in Q4 of 2010 has improved, reflecting larger gains in international trade, industrial production, a strong holiday shopping season, improvements in consumer and business investment, as well as some stability in residential and commercial construction. Moreover, temporary stability in tax rates, in combination with cuts to the payroll tax, extended employment insurance and the full deduction for investment spending are likely to lift real GDP growth in 2011 by at least 0.5%. QE2 will stimulate the economy by approximately 0.3%. An improved growth outlook, low real interest

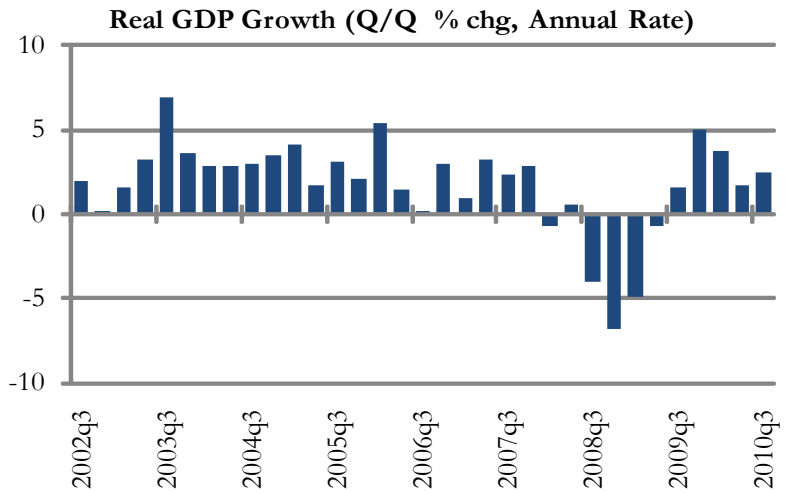


Abdur Chowdhury, Ph.D.
Chief Economist,
Capital Market Consultants



rates, and tax incentives will provide strong incentives to business to reinvest in equipment and software and increase hiring.

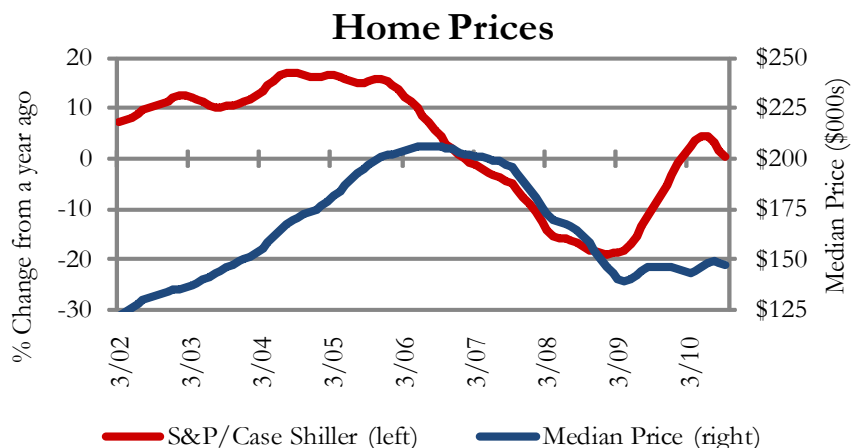
Consumer Spending: Consumer spending - representing the majority of aggregate demand in the economy - should benefit from a streak of positive employment reports by mid-2011 and rising real personal incomes. Personal income in 2010 was up 4.1% year-over-year compared to a decline of 2.1% in 2009. In part, this reflects a gain of over one million jobs as well as gains in employment in many of the higher paid professional services fields. Positive momentum in consumer spending should be boosted by tax rate stability and the two percent reduction in the payroll tax.



Meanwhile, the savings rate is around 6% while consumers continue to deleverage their credit exposure. Households continue to downsize debt and this will likely persist for several more years. Slowed consumer spending growth and deleveraging are reflected in the decline in home-equity loans. For 2011, we estimate consumer spending to pick up by about a third to 2.4% from 1.8% in 2010.

Labor Market: Although the private sector has added more than 1 million jobs in 2010, nearly 8.5 million jobs were lost during the Great Recession. Discouragement in the jobs picture comes from the fact that at current monthly job growth levels it will take at least six years to get back to pre-recession employment levels. We believe that recent clarity on federal tax policy and continued economic growth will motivate business leaders to step up hiring in 2011. However, difficult hiring conditions for state and local governments, which account for 17% of employment, will be a drag on job growth though unemployment should drift lower during 2011.

Housing: Unfortunately home sales and new home construction are not sharing in any of the good fortune evident in consumer spending. Earlier stimulus programs pulled home sales forward into late 2009 and early 2010, which are now depriving the market of the pent up demand that usually gets the recovery process rolling. The recent controversy surrounding the foreclosure process will delay the recovery even further by lengthening the amount of time it will take to clear outstanding foreclosures.



We still believe a genuine recovery in housing will begin in the second half of 2011 as stronger job growth will gradually lift home sales. Housing starts will also begin to gain momentum, breaking 700,000 in 2011. The turnaround in housing will be attributable to gains in employment, consumer income, favorable demographic trends, low mortgage rates and high housing affordability. These higher activity levels do not indicate we expect

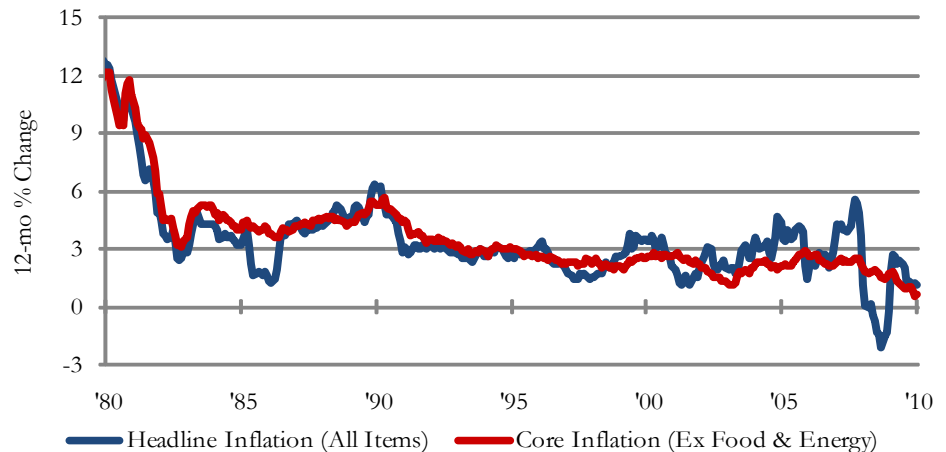


a return to the housing boom years, which were characterized by excessive liquidity and perverse incentives to own a home.

Commercial Real Estate: The second half of 2011 should see contributions to growth from this sector (at last). Operating fundamentals for all major property types are either improving or showing signs of stabilizing. Leasing has picked up, rents are rising or stabilizing and sales have increased. Demand for high quality properties in choice locations remains exceptionally strong, which has helped pull prices higher for non-distressed deals. There are still plenty of troubled projects that need to be disposed of, however, and prices for distressed projects are likely to fall further once lenders finally adjust their real estate portfolios. In addition to rebuilding their payrolls, businesses are restarting stalled projects, such as building-out retail and distribution networks, which should be a positive for the commercial real estate market.

Inflation: Inflation remains well below the level consistent with the Federal Reserve’s target which has led to a series of unconventional monetary policies such as quantitative easing. Concerns about rapid inflation in the near-term have been overstated by some, but the long-term picture is certainly more complicated given the massive amount of liquidity in the banking system currently. Nonetheless, high unemployment, unused capacity combined with private sector deleveraging and restrained access to credit does not support a forecast of short term rising inflation. “Core” inflation should rise only about 1% in 2011. The Fed’s massive expansion of the money supply weakened the dollar and led to a surge in dollar-denominated commodity prices. Due to slack consumer demand, producers have been unable to pass these costs on to their customers, resulting in some moderating forces in corporate profit growth.

Inflation (CPI)



Monetary and Fiscal Policy: Monetary policy will remain highly accommodative through all of 2011. Risk tolerance among banks is recovering slowly, while lending standards and the willingness to extend credit, especially for mortgages, are just beginning to thaw. The need for structural fiscal reform will become more pressing as this recovery matures and private sector credit needs clash with large Federal deficits, leading to higher real interest rates.

Outlook for the U.S.: Data releases over the last few months have helped increase our confidence that the U.S. economy is firmly in recovery and will grow in 2011 at an increased pace of about 3.0%-3.5%. Growing private sector demand for goods and services suggests the recovery has moved beyond temporary measures of government stimulus, though a meaningful recovery in the housing market and the unemployment rate are still unfortunately two to three years away. Corporate profits should still remain quite strong in 2011 given the cost cutting measures taken in recent years and accelerating economic growth, despite absorbing higher input prices.



Euro Economy

The sovereign debt crisis will likely affect economic and market developments in this region over the next few years. In order to bring government budgets back on a sustainable path, all euro area countries - but particularly the peripheral nations - will have to tighten fiscal policy in 2011 and probably longer. We expect these measures will have a negative impact on economic growth for the euro area on average and will contribute to a large divergence in 2011 and 2012 between the fiscally-strained periphery countries (e.g. Greece, Ireland) and the healthier core countries (e.g. Germany). Such an environment of overall weak domestic demand should result in low inflation. We expect interest rates to remain unchanged until 2012. However, if credit growth or increasing inflation expectations unexpectedly emerge, the ECB might act to raise rates.

We expect that, in addition to Greece and Ireland, Portugal will have to seek funding from the other euro area members. Eventually, as we have previously said, some kind of sovereign debt rescheduling or restructuring is likely to happen with the peripheral European nations. We believe this is a “when” not an “if.”

BRIC Countries

China: China’s economy keeps running at an impressive speed. Despite a mild deceleration in Q3, Chinese GDP is on track to expand 10.5% during 2010. Economic activity is vibrant. Chinese monetary authorities have taken policy actions already to prevent their economy from overheating due to large credit growth and booming real estate markets; more such actions may be on the way.

We expect China to initiate major “rebalancing” reforms in 2011 pursuing a slower GDP growth target, promoting domestic demand, increasing fiscal spending on social security and healthcare in order to elevate household income and speeding up the pace of urbanization to achieve balanced growth across regions. Finally, the service sector will be deregulated to absorb excessive liquidity and lift investment.

Still, there are risks for China in 2011. First, if the inflation comes in higher than expected, policy authorities could overreact with stronger policy measures and cause a sharp slowdown later in the year or in 2012. Second, if global liquidity were to spark inflation and asset bubbles, foreign policy reversals could burst asset bubbles in China. Third, a trade war and a resulting export slowdown could trigger higher bankruptcies and social unrest. While not necessarily high probabilities, these are risks worth monitoring.

India: Growth has recovered to near pre-crisis levels with fiscal year 2011 GDP likely to come in at 8.4% and rise further to 8.6% in 2012. Trends in consumption in rural India have been supported by the government’s employment program as well as a good harvest, while urban consumption reflects pent-up demand and growing consumer confidence. An increase in government infrastructure investment and modernization is likely. While headline inflation may decline from the current 8.5% levels to about 6% in 2011, we expect the Reserve Bank of India to increase rates in 2011 due to high food and commodity prices. We expect the Indian Rupee as a result to continue to strengthen against the U.S. dollar in 2011.

Russia: In the absence of significant increases in oil prices, we expect Russia’s annual economic growth to stay below 4.5% in the medium term. Growth in 2011 will be driven by a post-crisis recovery in investment and moderate consumption growth, supported by credit expansion. We expect inflation to average 8% in 2011 and fall to about 6% in the medium term. Given the modest growth rate, we do not forecast interest rate increases in the near future. At the same time, we believe balance of payments inflows into Russia will moderate and the ruble will become more flexible - and increasingly more dependent on domestic real rates. Recent research has shown that the breakeven oil price for the federal budget will remain near US \$100/bbl. and therefore we



expect the government's Oil Reserve Fund to be fully depleted by the end of 2011. The authorities plan to use the Welfare Fund only to finance future pension fund deficits, which they expect to increase to about 10% of GDP in the coming years. With both the parliamentary and the presidential elections coming up soon, we do not expect any major structural reforms in the country.

Brazil: While most of the world is consumed with debt and unemployment, Brazil is trying to figure out how to manage an economic boom. It was the last country to enter the Great Recession, the first to leave it, and is now poised to overtake France and Britain as the world's fifth-largest economy. We expect real GDP growth of 4.5% in 2011, down from 7.6% in 2010 due to the impact of the rate tightening cycle.

We expect the central bank to tighten monetary policy in 2011 as CPI continues to increase to about 5.5% in 2011, significantly above the mid-point target of 4.5%. The government will find it hard to achieve its 3.3% target of deficit-GDP ratio unless substantial spending cuts take place. This scenario should continue into 2012 when growth will be on a more sustainable path. There are some downside risks including restrictive monetary and fiscal policies that could exacerbate macroeconomic imbalances (higher inflation and a wider current account deficit) leading to a weaker currency and above-range CPI inflation in 2012.

Global Outlook: As the U.S. recovery wavered and Europe was immersed in its acute sovereign debt difficulties, China, India and Brazil's continued economic expansion propelled the global economy into positive growth territory in 2010. This strong performance will continue to have a positive impact in 2011. However, the two main influencers of global economic performance in 2011 are likely to be the evolution of Europe's sovereign debt situation and the success of policy makers across emerging markets to manage the complex trade-off between high growth and rising inflation.

Conditions and the confidence in our outlook have improved substantially from this time last year. While there are plenty of risks to be concerned about and to monitor, the U.S. economy, by far the largest in the world, is mending itself. The election and recent Lame Duck policy decisions in Washington have resolved some uncertainties. Corporate profits are at record highs, corporate balance sheets have been managed conservatively throughout the recession and now the U.S. is poised for moderate, but real organic private sector GDP growth. The most important data points that are key indicators of future economic health are related to labor conditions; this fact has not changed for a number of quarters and we don't expect its importance to change anytime in the near future.

What's New @ CMC?

We are pleased to announce that **Ali Gardo** has joined CMC as a Research Associate. Ali is a 2006 graduate of the University of Wisconsin-Madison and is a Level III CFA candidate. Ali will be assisting senior investment analysts in conducting manager and mutual fund searches and due diligence for institutional clients as well as other client projects...CMC has now moved to new and expanded offices; however, we are still located at the same address and on the same floor in Milwaukee.

CMC's topical economic writings were published on *Horseshmouth.com* in both November and December. *Horseshmouth.com* offers a 60 day free trial...CMC also will be published in the January-February issue of the *Investment Management Consultants Association Investments and Wealth Monitor*. The article entitled, "When to Fire an Investment Manager," was written by **Jolie Keller**, CFA, **Richard Iwanski**, CFA and **Barry Mendelson**, CIMA.

We are pleased to welcome MJM401k as a new client. MJM is an independent SEC registered investment advisor and pension consultant located in Phoenix, Arizona.

The CMC Efficient Frontier



Index Performance as of December 31, 2010											
	1 Month	QTD	YTD	1 Year	5 Year		1 Month	QTD	YTD	1 Year	5 Year
Russell											
3000 Growth Index	5.68	12.26	17.64	17.64	3.88	International Equity - Broad Market	8.11	6.65	8.21	8.21	2.94
3000 Index	6.78	11.59	16.93	16.93	2.74	MSCI EAFE	7.15	7.36	19.20	19.20	13.11
3000 Value Index	7.92	10.92	16.23	16.23	1.45	MSCI Emerging Markets	4.71	8.00	24.24	24.24	NA
1000 Growth Index	5.51	11.83	16.71	16.71	3.75	MSCI Frontier Markets	7.35	8.82	13.21	13.21	3.98
1000 Index	6.68	11.19	16.10	16.10	2.59	MSCI AC World	7.85	7.25	11.60	11.60	5.29
1000 Value Index	7.89	10.54	15.51	15.51	1.28	MSCI AC World ex USA	5.53	6.72	19.93	19.93	13.19
Mid-Cap Growth Index	6.24	14.01	26.38	26.38	4.88	MSCI AC Asia ex Japan					
Mid-Cap Index	6.92	13.07	25.48	25.48	4.66	International Equity - Country Region					
Mid-Cap Value Index	7.55	12.24	24.75	24.75	4.08	MSCI Brazil	7.17	3.55	6.81	6.81	23.01
2000 Growth Index	7.59	17.11	29.09	29.09	5.30	MSCI BRIC	4.72	3.81	9.78	9.78	18.07
2000 Index	7.94	16.25	26.85	26.85	4.47	MSCI BRIC	-0.71	0.70	4.83	4.83	20.58
2000 Value Index	8.31	15.36	24.50	24.50	3.52	MSCI China	8.40	4.56	4.49	4.49	3.45
Standard & Poor's						MSCI Europe	7.61	2.21	20.95	20.95	17.79
S&P 500	6.68	10.76	15.06	15.06	2.29	MSCI India	7.62	12.13	15.59	15.59	15.59
Consumer Discretionary	4.17	12.63	27.66	27.66	4.32	MSCI Latin America	6.37	6.06	14.89	14.89	19.83
Consumer Staples	4.23	6.11	14.11	14.11	7.68	MSCI Russia	11.10	16.50	19.40	19.40	4.50
Energy	8.99	21.48	20.46	20.46	8.31	Fixed Income					
Financials	10.73	11.57	12.13	12.13	-10.65	BC Aggregate Bond	-1.08	-1.30	6.54	6.54	5.80
Health Care	4.48	3.64	2.90	2.90	1.84	Merrill Lynch 3-month T-Bill	0.02	0.04	0.13	0.13	2.43
Industrials	7.74	11.81	26.73	26.73	3.16	BC Government	-1.62	-2.34	5.52	5.52	5.45
Information Technology	5.26	10.24	10.19	10.19	5.02	BC Credit Bond	-1.01	-1.86	8.47	8.47	5.98
Materials	10.36	19.03	22.20	22.20	7.48	BC High Yield Corporate Bond	1.81	3.22	15.12	15.12	8.91
Telecommunication Services	7.80	7.34	18.97	18.97	6.64	BC Muni Bond	-1.94	-4.16	2.38	2.38	4.09
Utilities	3.09	1.09	5.46	5.46	3.90	BC TIPS	-1.55	-0.65	6.31	6.31	5.33
Other U.S. Equity						BofA ML Global Broad Market Ex USD	2.99	-1.44	4.78	4.78	7.27
Dow Jones Industrial Avg	5.33	8.04	14.06	14.06	4.31	BofA ML Global Broad Market	1.15	-1.38	5.61	5.61	6.64
MSCI USA	6.69	11.01	15.45	15.45	2.44	BofA ML Emerging Market Credit	2.16	2.23	22.07	22.07	9.48
Wilshire 5000 (Full Cap)	6.68	11.65	17.87	17.87	3.21	Alternative Investments					
						HFRI Equity Hedge	3.46	7.17	13.39	13.39	5.38
						HFRI Equity Market Neutral	1.08	2.56	6.84	6.84	2.99
						NAREIT Equity REIT Index	4.67	7.44	27.94	27.94	3.03
						DJ-UBS US Commodity Index	10.69	15.79	16.83	16.83	1.18