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### MSAM on the web:

<http://www.msam.net/>  
*Stay up to date with MSAM including the latest performance figures.*

## 2009 4<sup>th</sup> Quarter Review

The fourth quarter began with the first challenge to the market rally which started in March 2009. Market weakness in October was met with a stable and strengthening market in November and December.

After outperforming the broad market in the first three quarters of 2009, the MSAM Growth composite lagged the market on a percentage return basis during the fourth quarter. This was largely a result one of the composite's larger holdings, a technology company that had generated good returns in earlier quarters, experiencing a decline in stock price as the company revealed one of its largest customers was carrying inventory and would not be ordering from them for a couple quarters. That event aside, investment success was experienced in many other portfolio positions, especially in areas with international exposure to growth. The improving economic environment was also validated by information companies shared in their respective quarterly earnings calls during the quarter. Updated performance numbers are available on the MSAM website:

<http://www.msam.net/products.htm>.

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## Current Observations

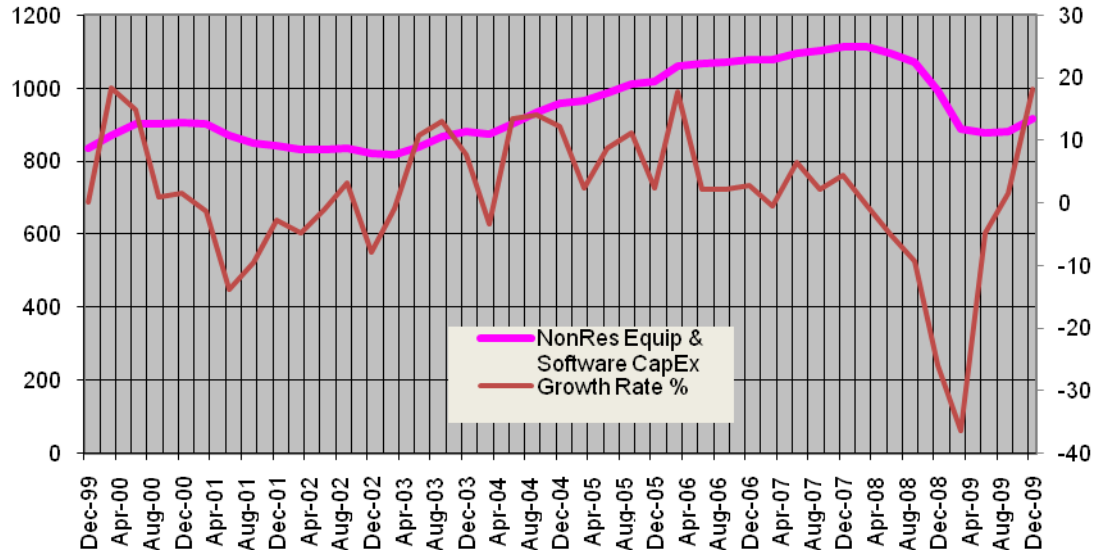
General trends are positive, yet the economic data is mixed as can be seen in the commentary we've put together for your review:

### **GDP and Capital Expenditures from Tim Hunter:**

There is no question that the US economy has picked up as was evidenced by the 5.7% increase in GDP in the fourth quarter of 2009. This upturn is expected to continue throughout 2010 with The Conference Board predicting a 2.7% increase over 2009. While this is not stellar growth, it is a considerable pick up from what we experienced last year. On a positive note, capital spending on equipment and software surged in the fourth quarter of 2010, which suggests companies are getting more confident as can be seen in the chart on the following page.

Capital expenditures reflect an improving business environment and investment for future growth

US Gross Private Domestic Investment in NonResidential Equipment & Software 1999-present (left axis) and growth rate % (right axis)



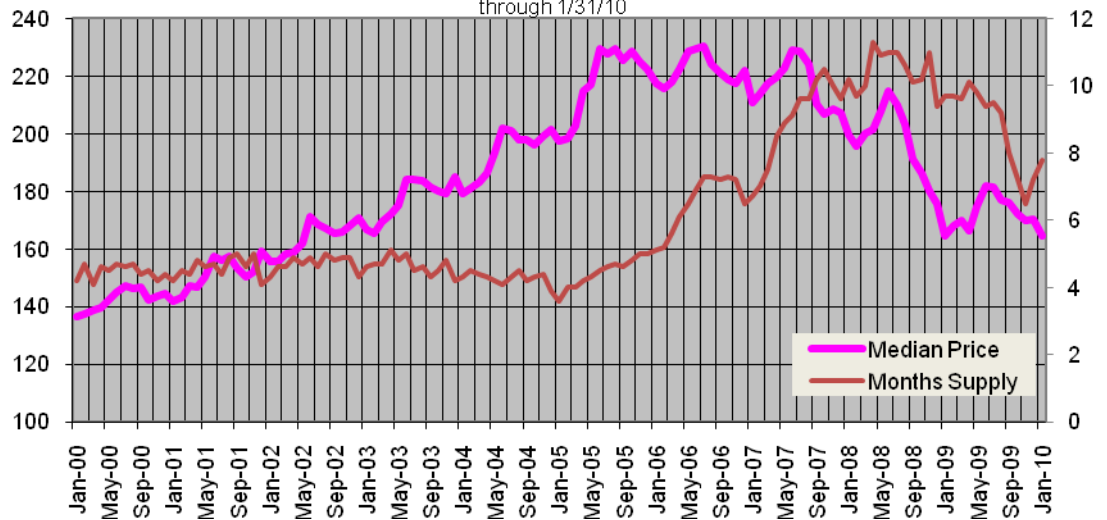
Source: Bloomberg, Bureau of Economic Analysis

### Home Sales and Median Prices from Kevin Rice:

Existing-home sales jumped 13.9% to a seasonally adjusted annual rate of 6.03 million in the fourth quarter from 5.29 million in the third quarter, and are 27.2% above the 4.74 million-unit level in the fourth quarter of 2008. Distressed property accounted for 32% of fourth quarter transactions, down from 37% a year earlier.

Current real estate statistics show market is stabilizing but is still fragile

US Existing Home Median Sales Price (left axis) vs. US Existing Home Sales Months Supply (right axis) through 1/31/10



Source: Bloomberg, National Assoc. of Realtors

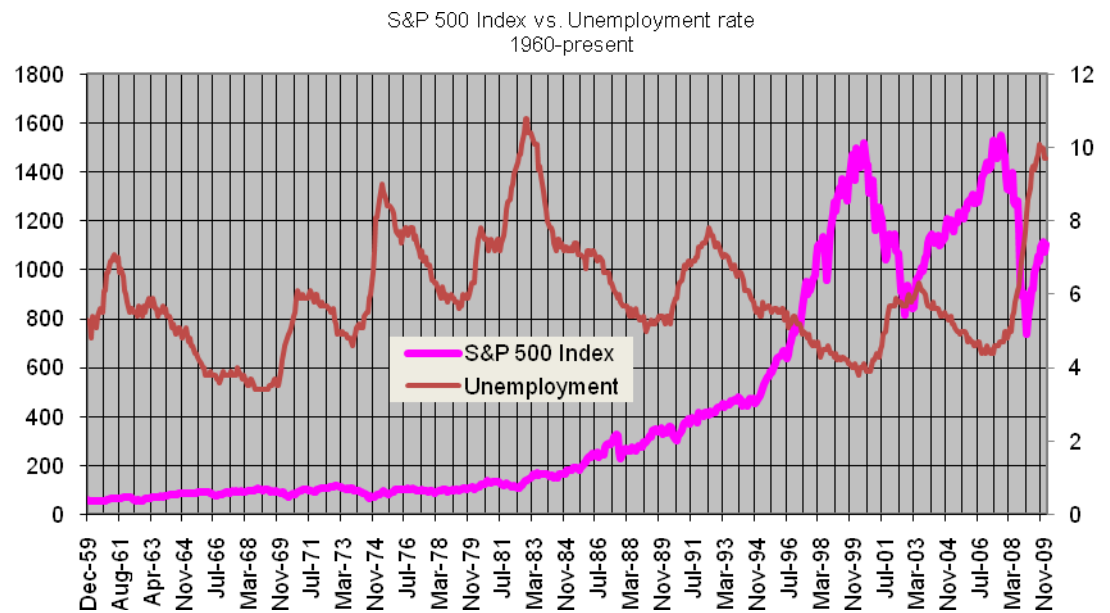
The national median existing single-family price was \$172,900, which is 4.1% below the fourth quarter of 2008. This price decline is the smallest in over two years. With the spring selling season just around the corner and the continued availability of tax credits for home buyers, we will likely see a modest seasonal pickup in the median home price and a continued drop in supply of homes for sale.

## Outlook on Unemployment from Daphne Lopes:

Unemployment has fallen from 10.1% in October 2009 to 9.7% in January 2010, which is a positive sign. In the last jobless report on March 5, 2010, we saw jobless claims fall by 29,000 to 469,000.

An increase in productivity levels in the non-farm business sector at an annual rate of 6.9% was observed in Q4 of 2009. This improvement has resulted in a decrease of unit labor costs by 4.7% from the same quarter of 2008, which was due to layoffs and reduced working hours of employees. There is concern this reduction in unit labor costs may affect consumers' confidence, which may eventually translate into a slower GDP growth of the economy, currently expected to be at approximately 3% for the year 2010. However, on a positive note, there has been an overall improvement in hiring in services, manufacturing and temporary positions. Job additions will continue this quarter. But we expect it to be slow as companies continue to hire cautiously while their businesses recover.

Historical Stock Market trend vs. Unemployment rate

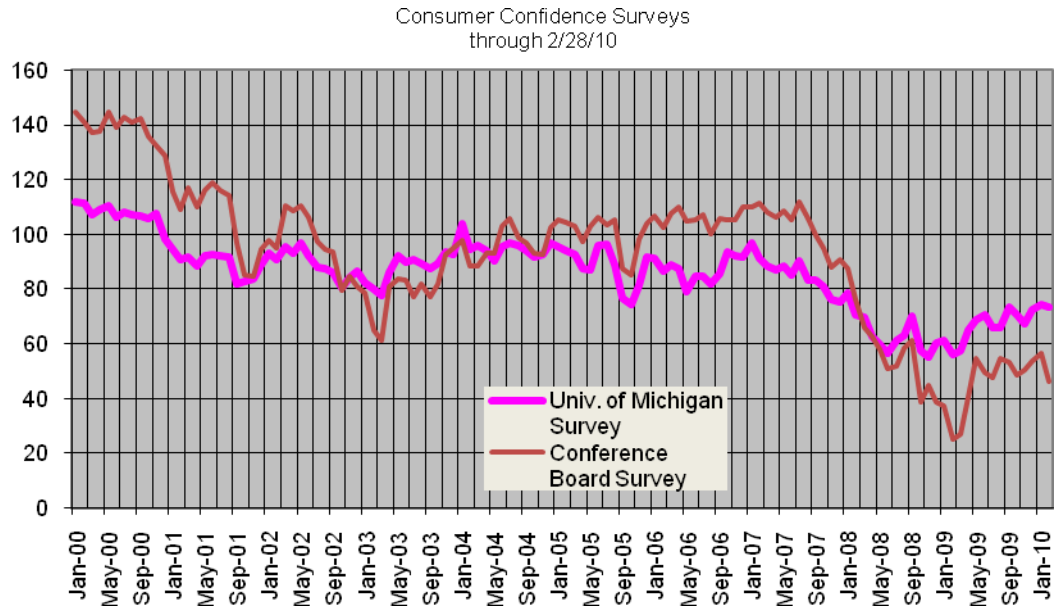


Source: Bloomberg, US Department of Labor

## Consumer Confidence/ Manufacturing from Nikhil Mahajan:

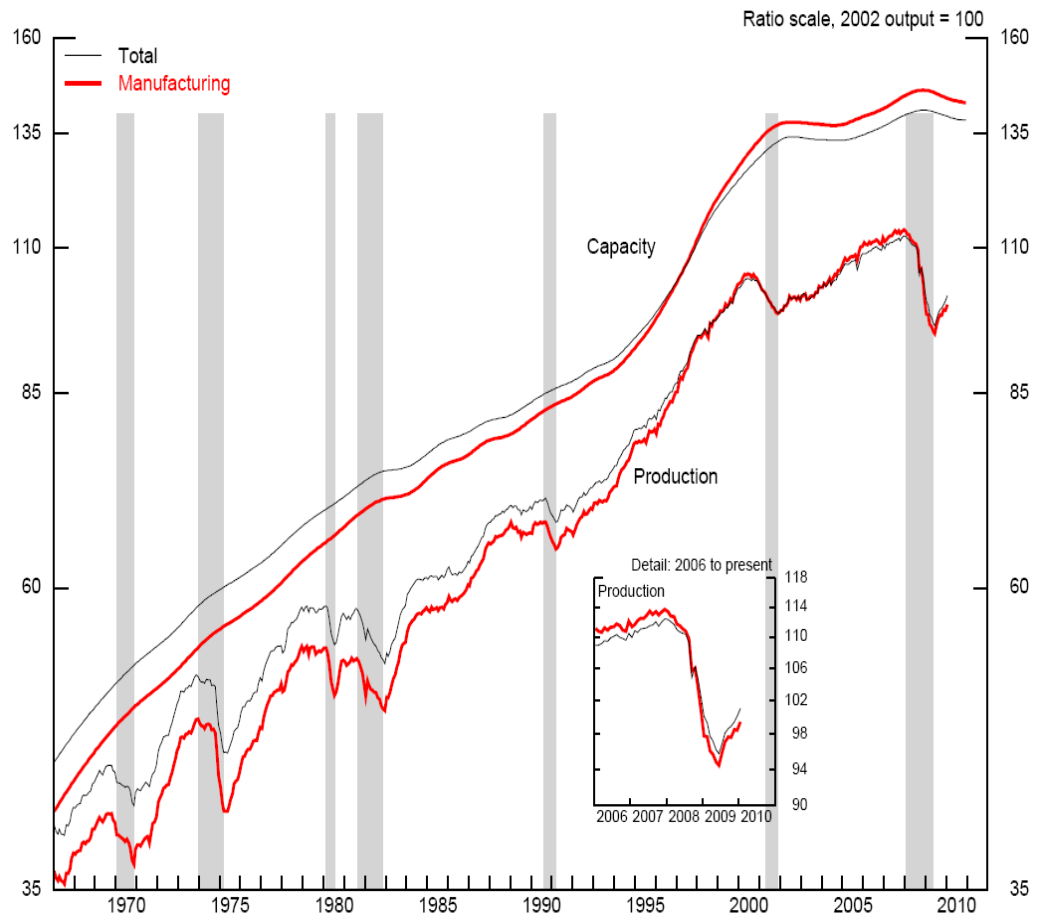
Although improving, consumer confidence indices remain at subdued levels. This reflects the realities of a mediocre recovery for jobs in the near term.

Consumer confidence is stable, but still at a low level



Source: Bloomberg, University of Michigan, Conference Board

Industrial Production figures reflect an improving economic environment



Source: Federal Reserve

Industrial data gives a fair picture of the state and direction of the economy post recession. After a gain of 0.7 percent in December, industrial production increased 0.9 percent in January. Although industrial activity is improving, it still lags behind the rate required to bring the unemployment down by more than a couple of percent in the near future. It appears the growth recovery will be slow. But in an environment that still does not provide any significant risk adjusted returns on capital for investors in other asset classes like money market instruments, capital should continue to flow into projects to support economic growth in areas such as technology, distressed securities, and industrials.

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## 2010 1<sup>st</sup> Quarter Preview

The 1<sup>st</sup> quarter began with a strong rally in January only to weaken later in the month and in February as sovereign debt issues surrounding Greece and worries about slower GDP growth tempered investor sentiment. However, evidence of investment by business in equipment and software as noted in Current Observations above, among other things, brought buyers back in the market in late February and in early March.

With the backdrop of an improving economy, albeit a slow one, we continue to focus research on investment for the future: industry and technology primarily. This enables us to position your portfolios in the stock of companies that have a business model in place to generate returns and buy them at a reasonable price. As a point of reference, Argus Research highlighted earlier in the week in a research report that businesses are currently only using around 72% of their capacity. The historical average over the last 50 years was 80%. In the last economic recovery it took some 5 years to get back to the 80% capacity utilization level. As economic growth begins to get stronger, we will continue to be positioned in companies that will benefit from that improved strength. We look forward to continuing our work for you in the 1<sup>st</sup> quarter of 2010 and beyond.

### Contact Us

Ron Medley  
rmedley@msam.net

Tim Hunter

Kevin Rice

Daphne Lopes

Nikhil Mahajan

13537 Barrett Parkway  
Drive, Suite 300  
Manchester, MO 63021  
800-628-6002, x3003  
Fax: 314-909-0606  
<http://www.msam.net/>