

THE CONROY REPORT

Outlook

As of October 1, 2008

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Summary

Economic Outlook

- We remain focused on underlying economic fundamentals and continue to believe that rising inflation is the main risk to the U.S. economy. Furthermore, we believe that interest rates will need to be higher to keep inflation contained.

Investment Recommendations

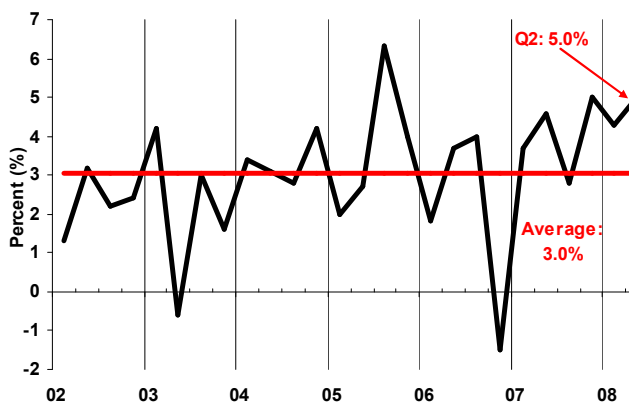
- We continue to recommend a cautious stance towards investment given the risk of rising inflation. Investment decisions should be made on fundamental factors, not just technical observations.

Economic Forecast

We advise investors to remain focused on underlying economic fundamentals during these turbulent times. The U.S. economy grew by 2.8% in the second quarter of 2008 while inflation rose by 5.0% during the same period. Economic growth and inflation appear to be accelerating with each other. We continue to believe that rising inflation is the main risk to the U.S. economy and that interest rates will need to be higher to address this risk.

We recommend that investors focus on economic fundamentals. Inflation has been at our above it's long-term rate of 3.0% for the past year and a half (see chart below). Meanwhile, the annualized rate of U.S. real GDP growth was 2.8% in the second quarter of 2008 (see chart top right). We believe this means that interest rates need to rise to protect against the risk higher inflation. The market-driven yield on the 10-year Treasury bond dropped by over 0.25% since July 1st, the date of our last publication. The regulated Federal Funds Rate remained unchanged at 2.0%. We expect both of these rates to rise as the year progresses.

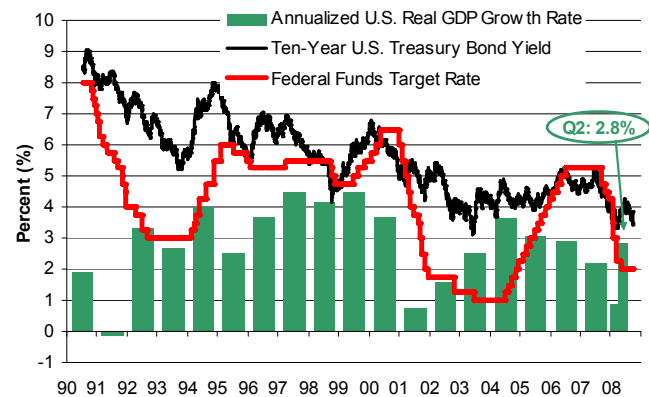
Inflation Remains High



Sources: U.S. Department of Commerce Bureau of Economic Analysis. Data series shows seasonally-adjusted quarterly changes in the Consumer Price Index on an annualized basis.

Economic Forecast (Continued)

U.S. Economic Growth and Selected Interest Rates



Sources: Federal Reserve, U.S. Department of Commerce Bureau of Economic Analysis, Yahoo! Finance.

Bond and Stock Markets

We continue to recommend a cautious stance towards investment given the risk of rising inflation. This means remaining in cash and money market investments. Last year, we expressed surprise over the continued drop in home prices and recommended, consistently since then, that investors move in to cash and short term bonds, a "flight-to-quality" that would reduce exposure to riskier assets such as medium and long maturity corporate and high yield bonds and stocks. Last quarter, we expressed further concern about financial asset pricing related to both bond market and stock markets and reiterated our recommendation to raise cash and buy only the safest money market investments.

If an investment is to be made in sectors that are riskier than cash and money market instruments, we recommend that decisions should be made on fundamental factors, not just technical observations. We recommend that investors avoid speculation in investment-grade and high yield bonds and stock markets. Our recommendation to invest in consumer-oriented stocks last quarter did well with Consumer Services, Healthcare and Consumer Goods all top performers. We believe each of these sectors outperformed Financial Services on a risk-adjusted basis.

U.S. Stock Market Sector Returns

Sector Name	YTD	1Mo	3Mo	1Yr	3Yr	5Yr
Financial Services	-13.7	-0.8	4.5	-15.8	6.4	11.1
Consumer Services	-4.5	-5.5	0.8	-5.0	9.1	11.7
Healthcare	-5.5	-6.6	0.4	-6.9	4.4	9.3
Consumer Goods	-9.7	-2.9	-1.2	-8.4	11.0	13.3
Software	-12.1	-7.6	-5.5	-7.7	6.1	9.1
Business Services	-13.1	-13.3	-7.6	-13.3	7.1	13.4
Media	-18.0	-11.7	-8.7	-26.4	0.0	4.3
Hardware	-21.2	-15.3	-13.2	-24.0	4.1	9.5
Utilities	-16.7	-9.8	-14.1	-11.7	8.8	18.0
Telecommunication	-28.4	-10.8	-16.1	-24.6	8.9	15.0
Industrial Materials	-23.8	-17.0	-21.4	-22.9	11.6	20.1
Energy	-19.3	-14.6	-25.8	-12.9	8.8	24.9

Note: Data as of September 31, 2008. Source: Morningstar.

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