THE CONROY REPORT

Quarterly Outlook
As of January 1, 2011

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Summary

Economic Outlook
We forecast a 2% annual growth rate of the U.S. economy in 2011. The growth will be supported by an "all hands on deck" approach with positive contributions from all components of GDP, one that moves beyond just government stimulus. With the unemployment rate still around 10% attention must be placed on jobs.

Investment Recommendations
We reiterate our recommendation for low risk investments such as short term fixed-income investments.

Economic Forecast

The U.S. economy is expanding and the recession has ended. Real GDP grew by 2.6% in the third quarter of 2010, following a growth of 1.6% in the second quarter and 3.7% in the first quarter (see **green bar** in Chart 1). Last quarter we expressed our belief that the U.S. economy would continue to grow in 2010. We believe the fourth quarter will also be a period of growth.

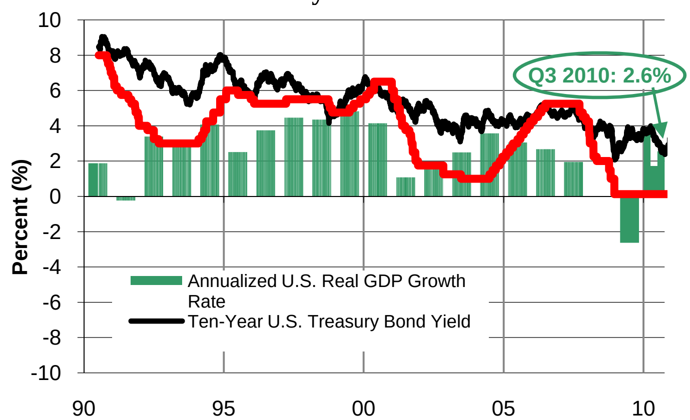
Looking forward to 2011, we forecast a modest 2% growth rate for U.S. economy. On the positive side, the government continues to provide ample stimulus to growth. These efforts met with initial success with above trend growth in the first quarter of 2010. However, there appears to be diminishing returns. With the influx of dollars being printed by the government to back the stimulus, the U.S. Dollar is weakening and this is coming under increasing scrutiny at home and abroad. The weaker currency could result in higher exports, but this is a small component of GDP. We continue to believe that sustained economic growth will require the private sector do its part, along with the government, to address the country's high level of unemployment.

Attention must be placed on jobs. The U.S. unemployment rate remains around 10% with a recent reading in November of 9.8% (see **black line** in Chart 2). The unemployment rate stayed at this level throughout 2010, which is very high on a historical basis. With decreasing effectiveness through government efforts and diminished willingness by and ability of consumers to bail out the economy, this effectively leaves the domestic private sector as the determining variable in the GDP equation.

The Bureau of Economic Analysis stated that the increase in real GDP in the third quarter of 2010 "primarily reflected positive contributions from personal consumption expenditures, private inventory investment, nonresidential fixed investment, exports, and federal government spending." This type of report is encouraging, suggesting that an "all-hands on deck" is developing to generate further economic activity.

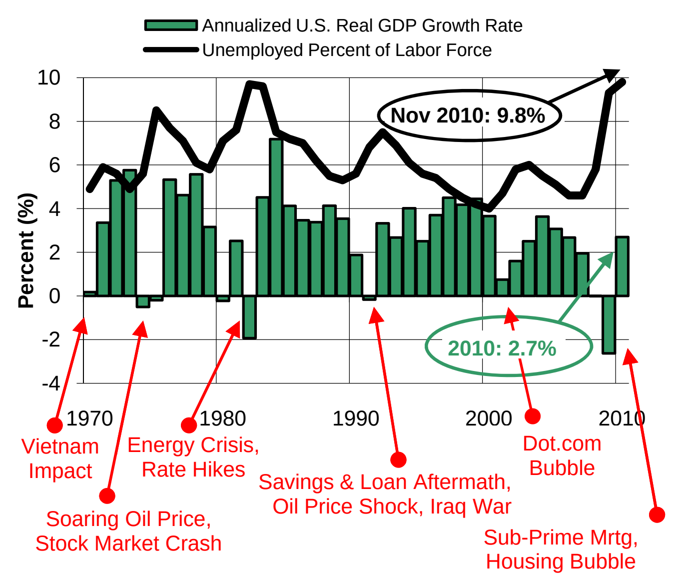
We reiterate our concern about rising interest rates due to inflation pressure. With modest growth, plenty of reasons for caution and our expectation for interest rates to rise, we believe this bodes well for our ongoing investment strategy to buy low risk investments such as short-term fixed-income securities.

Chart 1. The U.S. Economy Has Grown So Far This Year



Sources: Federal Reserve, U.S. Department of Commerce Bureau of Economic Analysis, Yahoo! Finance. U.S. Real GDP Growth Rate in chained 2005 dollars.

Chart 2. Unemployment Remains High



Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor, Bureau of Labor and Statistics. Seasonal unemployment rate.

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