THE CONROY REPORT

Outlook
As of January 1, 2009

ConroyServices@gmail.com
www.ConroyServices.com

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.

- We expect consumer spending, a major driver of the U.S. economy in recent years, to play less of a role going forward. Large amounts of accumulated debt are finally being addressed by consumers.

Investment Recommendations

- We continue to recommend a cautious stance towards investment given the risk of rising inflation.

- Our stock market strategies did well in 2008. Our caution towards stocks mid-way through 2008 preceded their precipitous fall during the later half of the year. Our preference for consumer-oriented stocks was profitable as these were the best performing sectors in the U.S. equity market during the year.

Economic Forecast

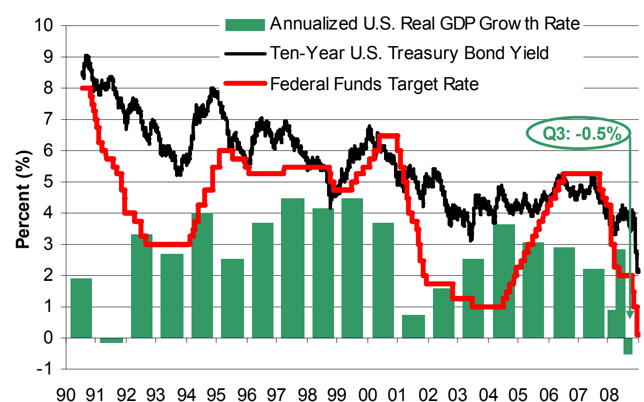
Regulatory and market driven rates need to be higher to curtail rising inflation in the U.S. and these higher rates will only begin to be realized as investment in the U.S. economy returns. If the consumer is struggling to reduce debt as prices are rising amidst a recession, what sector of the economy will provide the necessary investment to generate growth? Will it be increased government or corporate spending, or is it possible that we enter a period of stagflation, a state of prolonged slow economic growth coupled with high inflation?

The U.S. economy shrank in the third quarter of 2008 by 0.5%, the first quarterly annualized contraction since 2001 (see **green columns** on Chart 1). During the fourth quarter, the Fed reduced the target range for the Federal Funds rate to between 0% and 0.25% (see ***red line*** on Chart 1). Meanwhile, investors continued to reduce risk and sought safer investments such as the ten-year U.S. Treasury bond whose yield dropped to around 2% at year end (see ***black line*** on Chart 1).

We believe the main risk to U.S. economy continues to be high inflation. Inflation jumped dramatically in the third quarter of 2008 to an annualized rate of 6.7% (see ***black line*** on Chart 2), more than two times the usual range of around 3.0%. We believe the low level of interest rates may induce borrowing to make purchases in one or more segments of the economy with the potential to create a new bubble in asset pricing just as the low level of rates earlier this decade led to escalating housing prices.

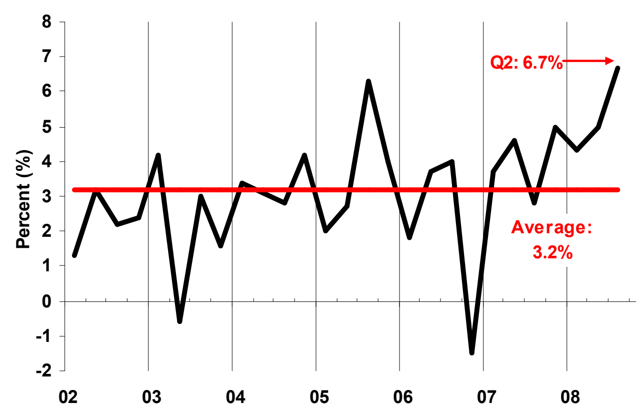
We expect consumer spending, a major driver of the U.S. economy in recent years, to play less of a role going forward. Consumers may finally be addressing high levels of accumulated debt. This could be a forced change, referring to high consumer default rates and increasingly stringent borrowing constraints, or an optional one; consumers may be reducing debt instead of investing, particularly in light of precipitous asset depreciation. While consumer debt has been mounting for many years, there are signs of deleveraging over the past year. For example, the Fed reported that consumers' debt obligations fell relative to disposable income over the past year.

Chart 1. U.S. Economic Growth and Interest Rates



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

Chart 2. Inflation Remains High



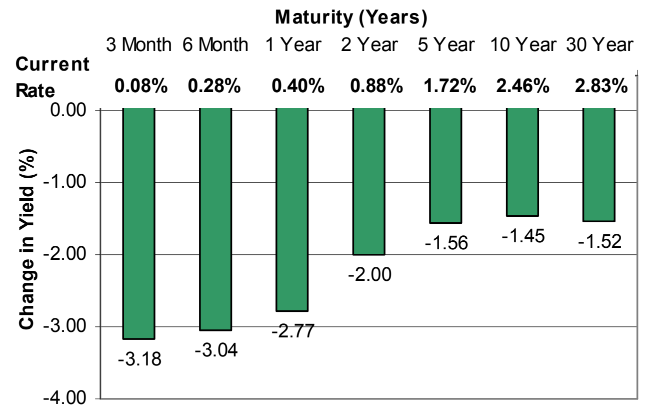
Sources: U.S. Department of Commerce Bureau of Economic Analysis. Data series shows seasonally-adjusted quarterly changes in the Consumer Price Index on an annualized basis.

Government Bonds

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. 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.

Yields changed dramatically in the U.S. Treasury securities market during 2008 (see **green columns** on Chart 3). At the short end of the yield curve, 3-month, 6-month and 1-year Treasury Bills ended the year with yields below 0.50% , about 3% lower than where they were at the start of 2008. The 2-year Government bond yield ended the year at 0.88% a full 2% lower than where it started the year. At the medium and long-end of the yield curve, the 5-year, 10-year and 30-year government bond yields dropped by about 1.5% each. We believe that individual investors who locked in high short-term bond yields did well during the year and we continue to recommend short-term investments despite the low level of rates.

Chart 3. Treasury Security Yields and One Year Changes As of January 2, 2009



Source: U.S. Department of Treasury.

Municipal Bonds

We believe saving will become a key driver of investment decisions in 2009 and that municipal bonds may receive greater attention. The interest that is earned when owning a municipal bond is often exempt from one or more tax authorities, including those at the state and federal level. Furthermore, as government bond yields are now so low, as discussed in the previous section, investors will look elsewhere in the fixed rate bond market.

Taking a cursory look at current yields, it appears that municipal bonds are still one segment of the fixed rate bond market that still offer competitive yields. Our data shows that after adjusting to a taxable equivalent yield, 10-year double-A rated Municipal Bonds yield around 5.75%, which is 0.75% more than 10-year double-A rated *Corporate* Bonds.

Investment-Grade and High Yield Corporate Bonds

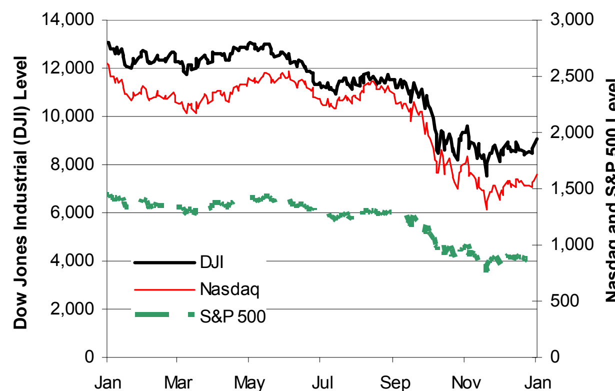
The current economic landscape does not appear to be favorable for corporate profits. Given our belief that corporate default rates will be on the rise, we believe better investment opportunities may be found elsewhere in the market.

For investors that are committed to these bonds, however, we continue to favor short-dated (2-year and below) corporate bonds and those in the highest-rated, AAA and AA sectors.

U.S. Stock Markets

Our caution towards equity markets mid-way through 2008 preceded their precipitous fall in markets during the later half of the year. Similarly, our recommendation to invest in consumer-oriented stocks within the market during the year was an outperforming strategy with Consumer Services, Healthcare and Consumer Goods all top performers (see Table 1).

Chart 4. U.S. Stock Market Sector Performance in 2008



Source: Yahoo! Finance,

Table 1. U.S. Stock Market Sector Performance in 2008

Sector Name	1-Year
Consumer Services	-11.1
Healthcare	-14.4
Media	-21.9
Consumer Goods	-22.2
Utilities	-26.4
Business Services	-27.9
Telecommunication	-28.6
Software	-30.6
Energy	-33.9
Financial Services	-34.9
Hardware	-36.6
Industrial Materials	-37.5

Note: Data as of January1, 2009.
Source: Morningstar.

DISCLAIMER
Conroy Services provides investment information which is intended to educate investors and help them evaluate potential investment opportunities and market conditions. Conroy Services disseminates information in this report to those who wish to receive it without any fee or cost. We endeavor to obtain independent verification of factual statements before presenting them, but we cannot assure their completeness or absolute accuracy. No one affiliated with Conroy Services is a registered investment advisor.

Investing in the public investment markets is risky and market conditions change regularly. Readers should consult with professional investment advisors and conduct their own research before acting on information provided by Conroy Services. We encourage our readers to invest carefully and study the educational information available at the web sites of the Securities and Exchange Commission ("SEC") (www.sec.gov) and the National Association of Securities Dealers ("NASD") (www.nasd.com).

Comments in this report are the observations of Conroy Services. We cannot guarantee the success of any action taken in reliance on statements made in this report.

Forward Looking Statements
Information in this report may contain "forward looking statements". Examples of forward-looking information are statements relating to the future anticipated direction of interest rates; economic activity; relative market performance; the industry; plans for future expansion; various business development activities; planned capital expenditures; future funding sources; anticipated sales growth; and potential contracts. Many forward looking statements are based on historical data. While historical data may be informative, it should be understood there is no guarantee that past performance will be indicative of future results. These and similar forward statements are subject to a number of known and unknown risks and uncertainties outside our control that could cause actual operations or results to differ materially from those anticipated.

The cautionary statements made in this document should be read as being applicable to all related forward-looking statements wherever they appear on this report or in other communications.

Risks Involved
Conroy Services shall not be liable for any direct, indirect, incidental, special or consequential damages resulting from the use of this publication and any other publications or resulting from unauthorized access to or alteration of users' transmissions or data. Information provided by Conroy Services is for information purposes only, and is neither a solicitation to buy nor an offer to sell securities. All assembled information provided is for informational purposes only and is not intended to be used as the sole source of information on a company.

Buying and Selling of Shares
Affiliates of Conroy Services may buy, hold, or sell shares, of mentioned securities, in the open market without notice. Affiliates of Conroy Services may sell securities in the event that these shares rise in value.

We recommend that all investors do your own due diligence, and to consult your financial advisor.