THE CONROY REPORT

Quarterly Outlook
As of October 1, 2009

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Summary

Economic Outlook
GDP shrank less in Q2 than in Q1, brightening the bleak picture for the U.S. economy. However, the risk of depression remains and unemployment is very high.

Investment Recommendations
We continue to recommend money market instruments. However, longer term bond yields are starting to look attractive now.

Economic Forecast

The U.S. economy continued to contract in the second quarter of 2009, but only by -1.0%. This decrease in the amount of domestic economic activity compared to last quarter, was a smaller decrease than in the previous quarter. The data brightens the bleak picture for the U.S. economy. However, the risk of a depression remains as growth remains negative. In addition, the unemployment rate is very high. Stock markets continued to rebound and bond yields moved higher in response to the more encouraging growth numbers.

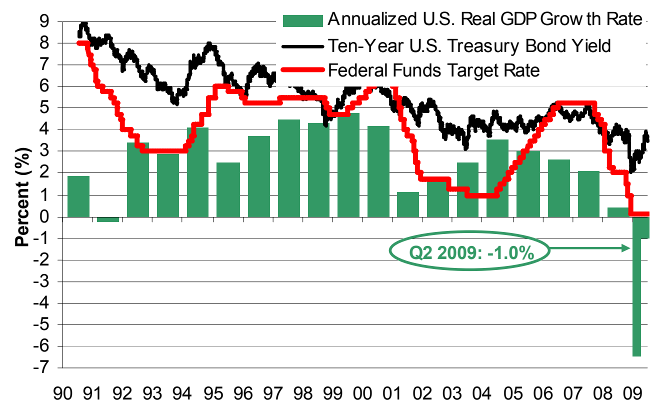
We continue to recommend that investors play it safe with their investments, meaning money market instruments mostly. Recommended securities include Treasury bills and notes up to two years in maturity, bank certificates of deposits, money market instruments and, if nothing else, cash in the bank. However, longer term bond yields are starting to look attractive.

The U.S. economy shrank in the second quarter of 2009 by an annualized change of -1.0% (see **Green** bar in Chart 1). This is encouraging when compared to contractions in the fourth quarter of 2008 and first quarter of 2009, which were around negative 5-6%. It is too early to say whether or not the economy will avert a recession, but markets took the news with stock markets continuing to rise and bond yields also moving higher (see **Black** line in Chart 1). This market activity can often be interpreted as there being an improved sentiment towards U.S. economic prospects. While government stimulus is playing a major role, the Federal Reserve can not lend much assistance in adjusting its benchmark borrowing rate (see **Red** line in Chart 1).

Interested readers can turn to periodic news releases from the Bureau of Economic Analysis for information on U.S. GDP: “The decrease in real GDP in the second quarter primarily reflected negative contributions from private inventory investment, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and exports that were partly offset by positive contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, decreased. The much smaller decrease in real GDP in the second quarter than in the first primarily reflected much smaller decreases in nonresidential fixed investment and in exports, an upturn in federal government spending, smaller decreases in private inventory investment and residential fixed investment, and an upturn in state and local government spending that were partly offset by a much smaller decrease in imports and a downturn in PCE.” – Bureau of Economic Analysis, 8/27/09 news release.

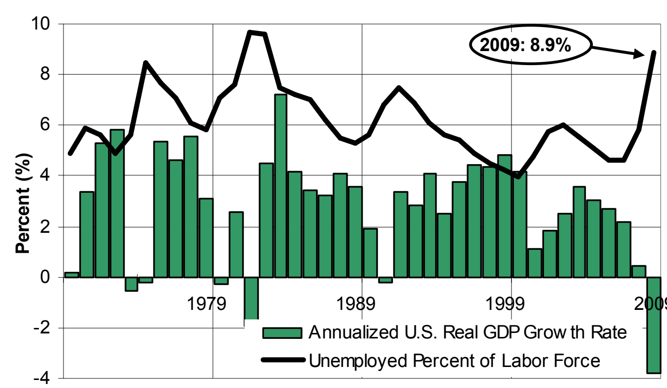
The U.S. unemployment rate continued to rise and is nearing 10%. The seasonal unemployment began the year at a high level of 7.6% and has risen to 9.7% in August (see **Black** line in Chart 2). Unfortunately, while the economy has been shrinking, the unemployment rate has been rising. Looking at Chart 2, which graphs the U.S. employment rate relative to economic growth, we can see that the divergence in these two measures has never been wider than during the period shown.

Chart 1. The U.S. Economy Continued to Contract in the Second Quarter of 2009, But at a Slower Rate



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 Rate is Rising as Growth Slows



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

We continue to prefer money market instruments. Interest rates are back on the rise and we believe they will continue to rise along with inflation, government spending and regulatory stimulus. When rates rise, better investment returns will be found in short term securities, so this is where we advocate investors to stay. We do note, however, that higher rates signal greater confidence in the future prospects of the U.S. economy and stock markets have done better recently. In addition, yields offered by some relatively safe 5, 10 and even 30 year bonds are considerably higher now and look more attractive.

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