

The Way Forward:
Advice for Long-Term
Investors

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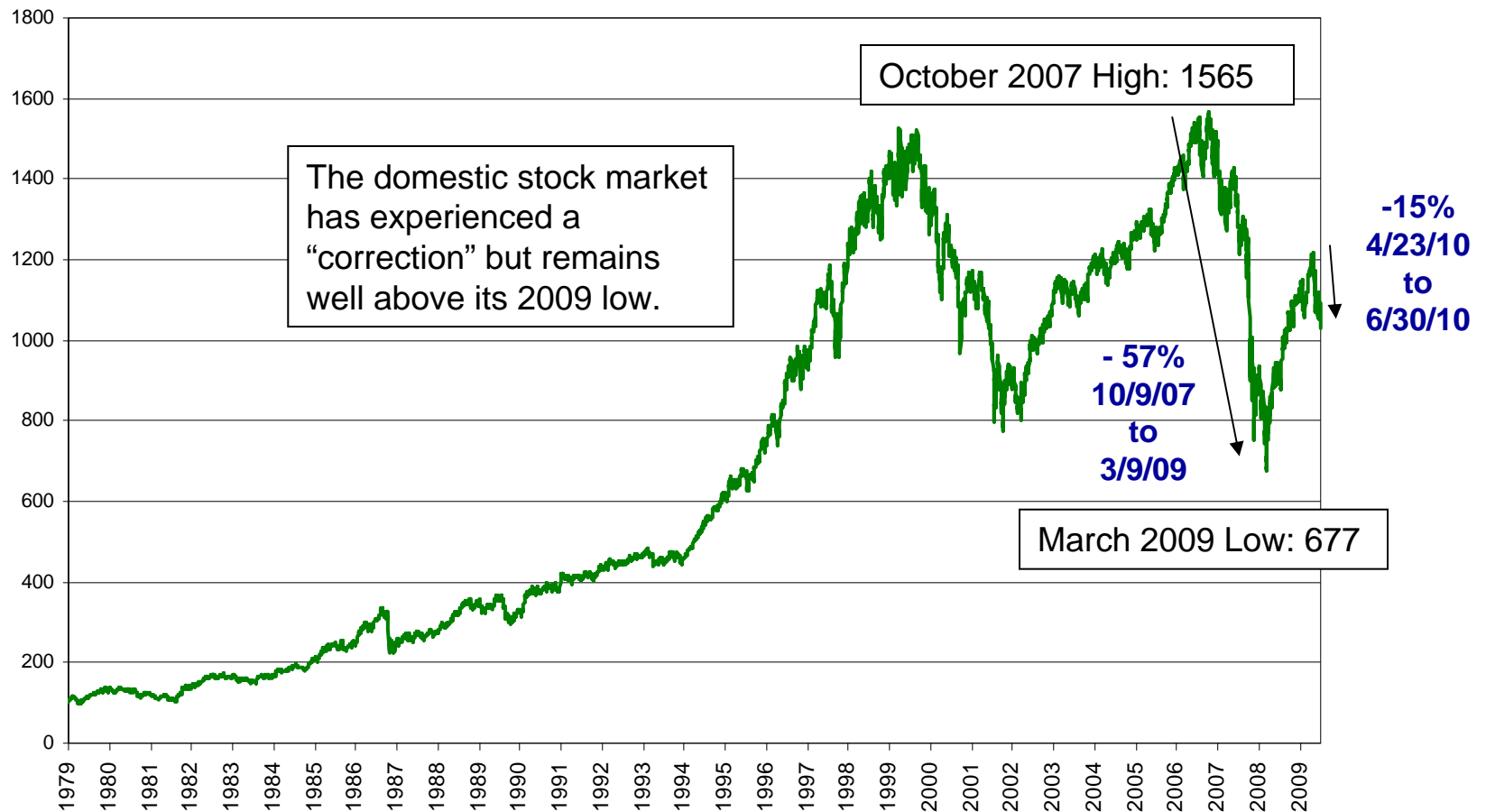
Financial Market Indices

Total Returns

	<u>1Q10</u>	<u>2Q10</u>	<u>YTD</u>
Stocks			
S&P 500 (Domestic Large Cap)	5.39%	-11.41%	-6.64%
Russell 2000 Index (Domestic Small Cap)	8.85%	-9.91%	-1.93%
MSCI EAFE Index (Developed Foreign Countries)	0.97%	-13.65%	-12.81%
MSCI European Union Index (EU Countries)	-2.90%	-17.01%	-19.42%
Bonds			
Merrill Lynch US Treasury Index (US Treasuries)	1.11%	4.72%	5.88%
Merrill Lynch US Corporate Index (US High Grade Corporates)	2.75%	3.26%	6.09%
Merrill Lynch 1-30 Yr Muni Index (US Munis)	1.27%	2.02%	3.32%

S&P 500 Index

December 31, 1979 – June 30, 2010



Source: Bloomberg

 **MORGAN ASSET MANAGEMENT**

Can the Market Climb this Wall of Worry?

- 7/1 - Iran arms Syria with radar
- 6/29 - Moody's places Spain's AAA rating on review for downgrade
- 6/16 - North Korea rejects torpedo findings, threatens all-out war
- 5/18 - Germany unilaterally bans naked short selling of certain instruments
- 5/10 - ECB announces it will buy government and private bonds
- 5/10 - EU and IMF announce nearly \$1 trillion package to support euro and vulnerable economies
- 5/6 - The "Flash Crash" results in the market momentarily losing greater than 9% of its value
- 5/2 - Greece receives a \$45 billion rescue package from the EU and IMF
- 4/27 - S&P downgrades Greece to "junk"
- 4/20 - Deepwater Horizon oil rig explodes in Gulf, killing 11
- 4/11 - Eurozone approves a €30 billion aid plan for Greece
- 3/23 - President Obama signs the Patient Protection and Affordable Care Act
- 1/14 - Greece unveils plan to cut deficit to 2.8% by 2012
- 1/4 - Greek financial website reports deficit reached 14.5% of GDP in 2009

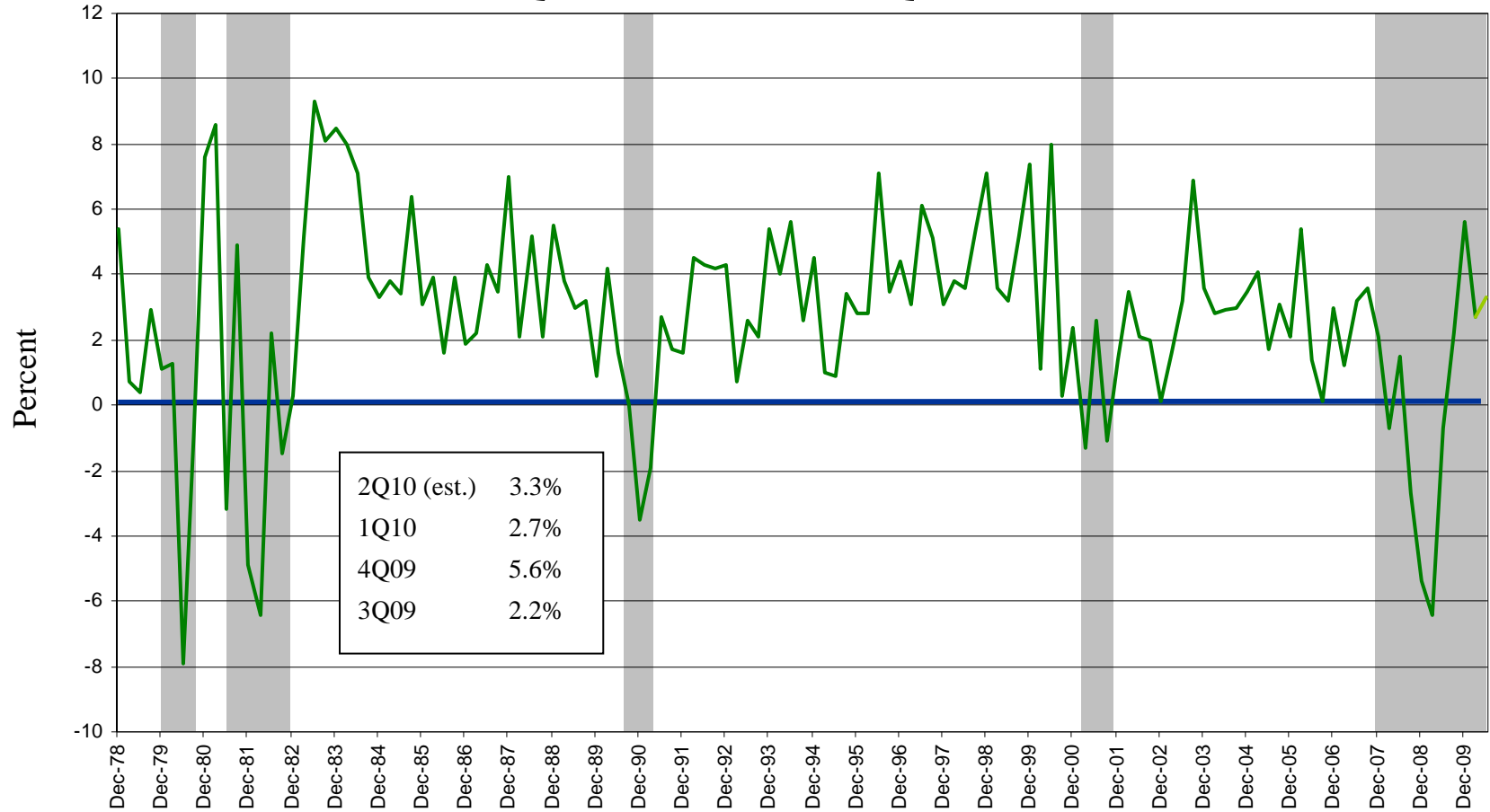
Source: Bloomberg

“To risk or not to risk,
That is the macro question.”

-Famous Investor

Change in Real GDP (% Annual)

4th Quarter 1978 – 2nd Quarter 2010



High	Low	Average	Latest
9.3	-7.9	2.7	3.3 (est.)

Source: Bloomberg

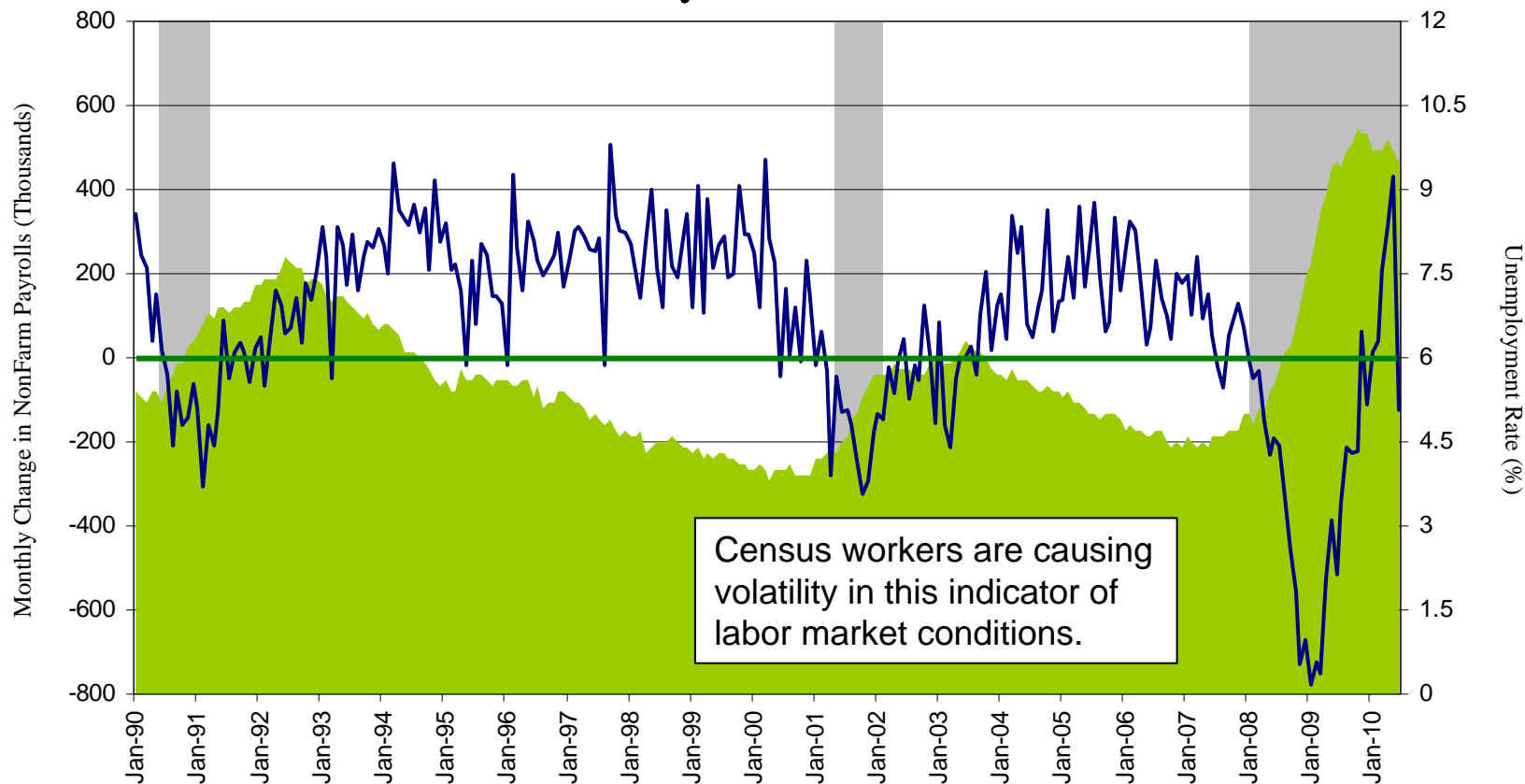
Global Economic Growth Rates

	<u>4Q09</u>	<u>1Q10</u>	<u>2Q10 (est.)</u>	<u>2H10 (est.)</u>
U.S.	5.6%	2.7%	3.3%	2.9%
Eurozone	-2.1%	0.6%	2.2%	1.5%
Japan	4.6%	5.0%	1.5%	1.9%
<u>BRICs</u>	<u>6.0%</u>	<u>9.8%</u>	<u>7.1%</u>	<u>6.5%</u>
Average	3.5%	4.5%	3.5%	3.2%
		4.0% 1H10 (est.)		

Source: Bloomberg/Internal Sources

U.S. NonFarm Payrolls & Unemployment

January 1990 – June 2010



	High	Low	12 mo. Avg	Latest
Unemployment	10.1	3.8	9.8	9.5
NonFarm Payrolls	508	-779	-14	-125

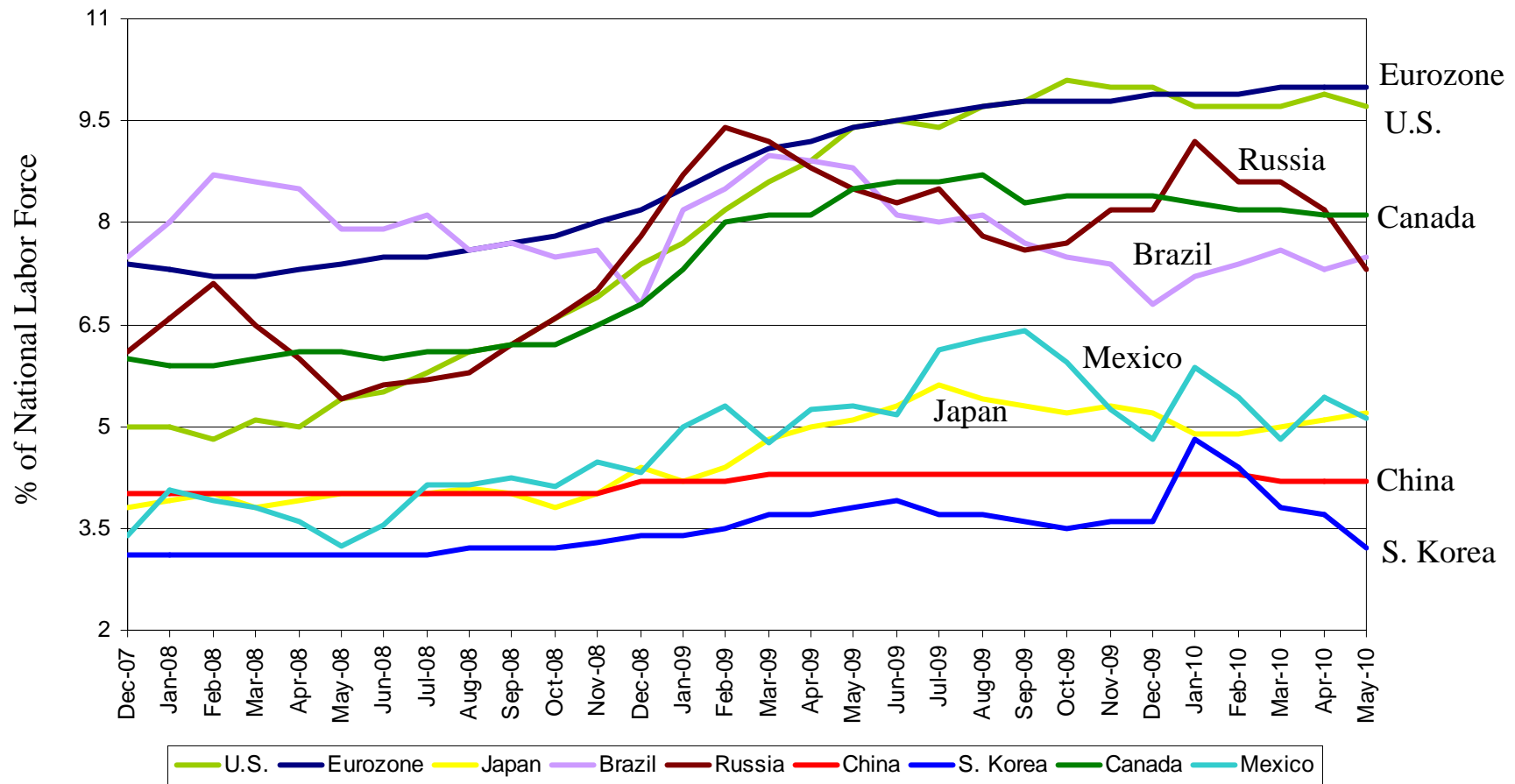
■ Unemployment — NonFarm Payrolls

Source: Bloomberg

Global Labor Market Conditions

Unemployment Rates

January 2007 – May 2010

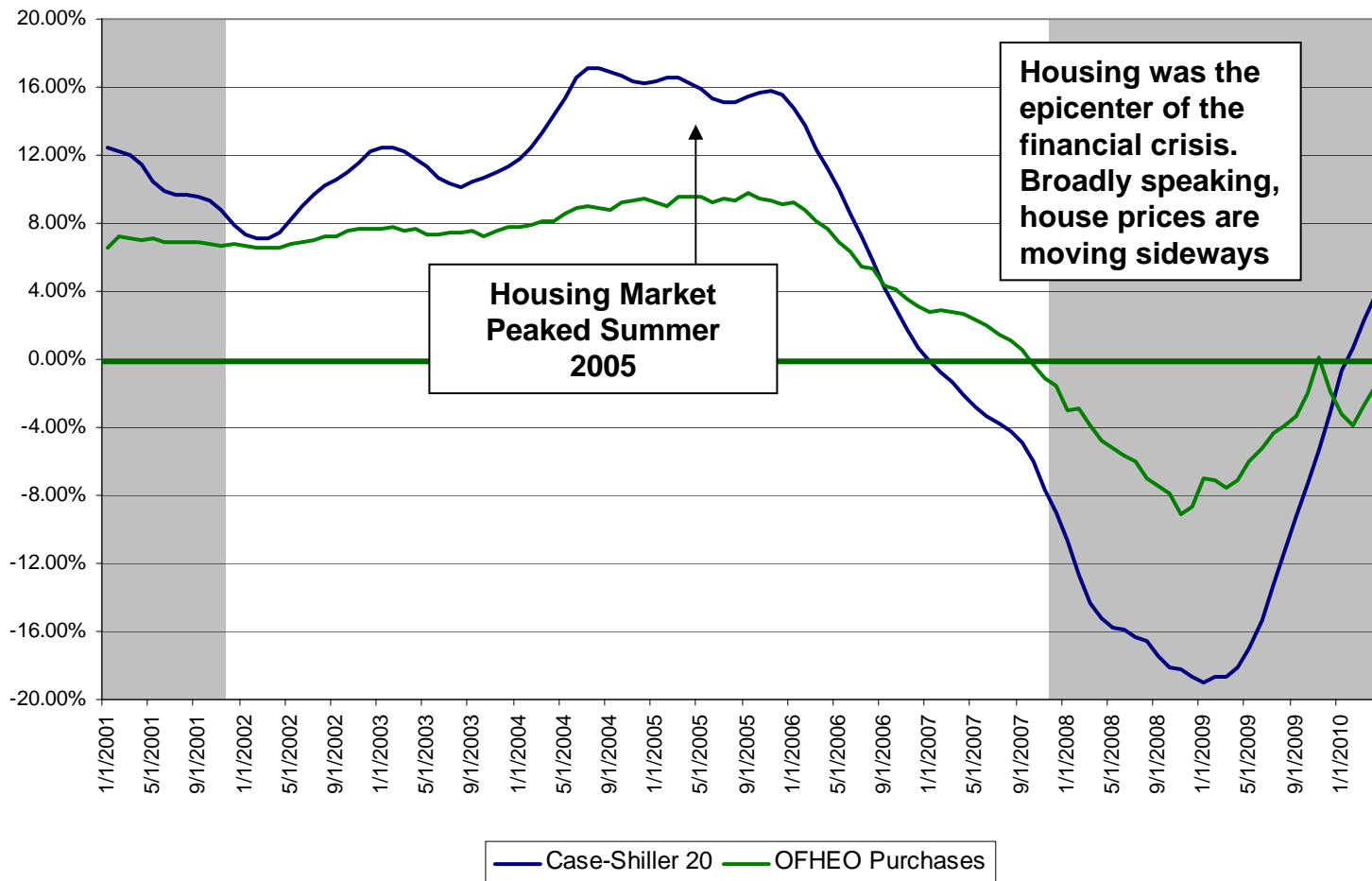


Source: Bloomberg

Case-Shiller & FHFA Home Price Indexes

Trailing 12-month % Change

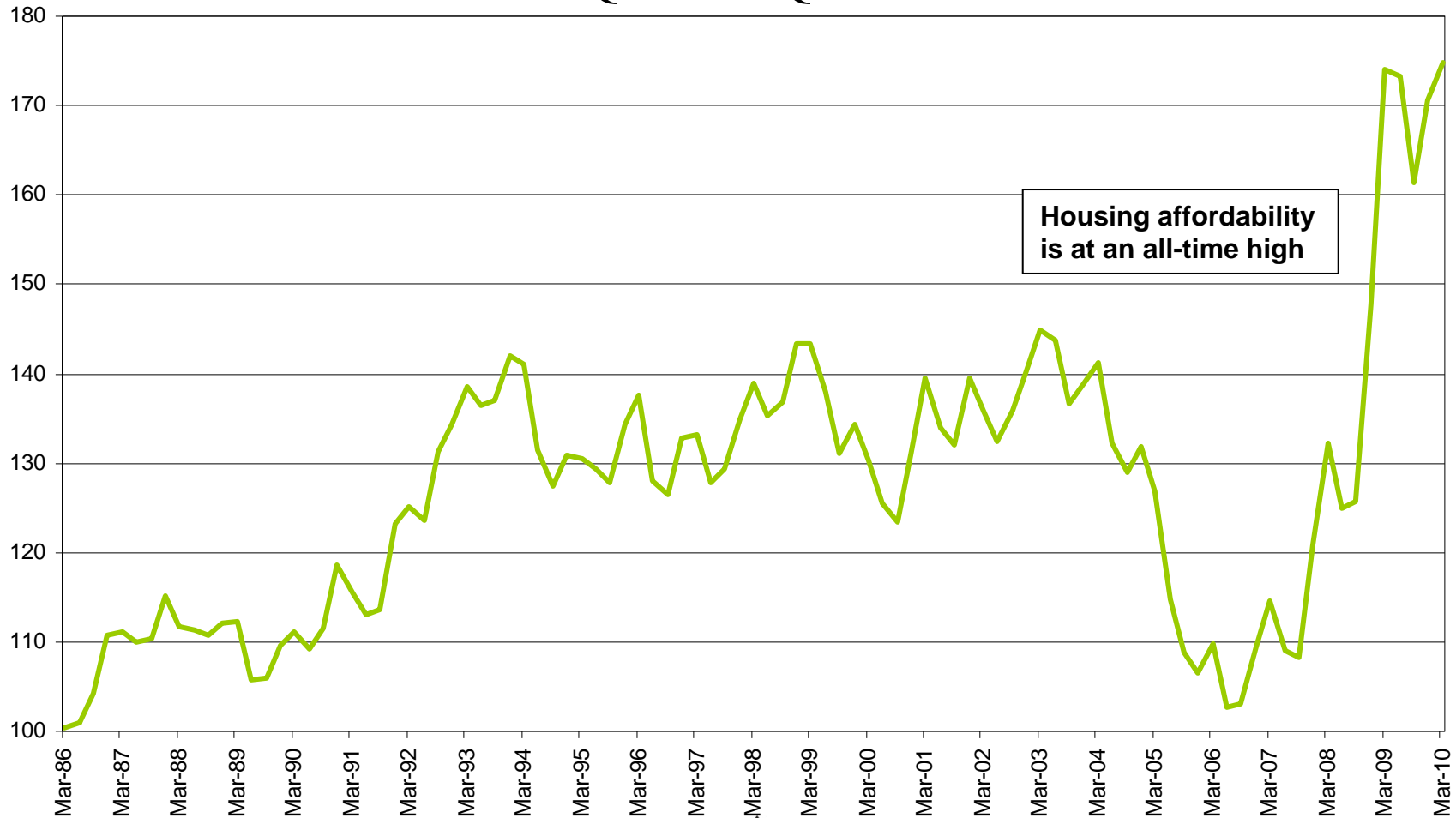
January 2001 – April 2011



Source: Bloomberg

National Association of Realtors: U.S. Housing Affordability

1Q1986 – 1Q2010



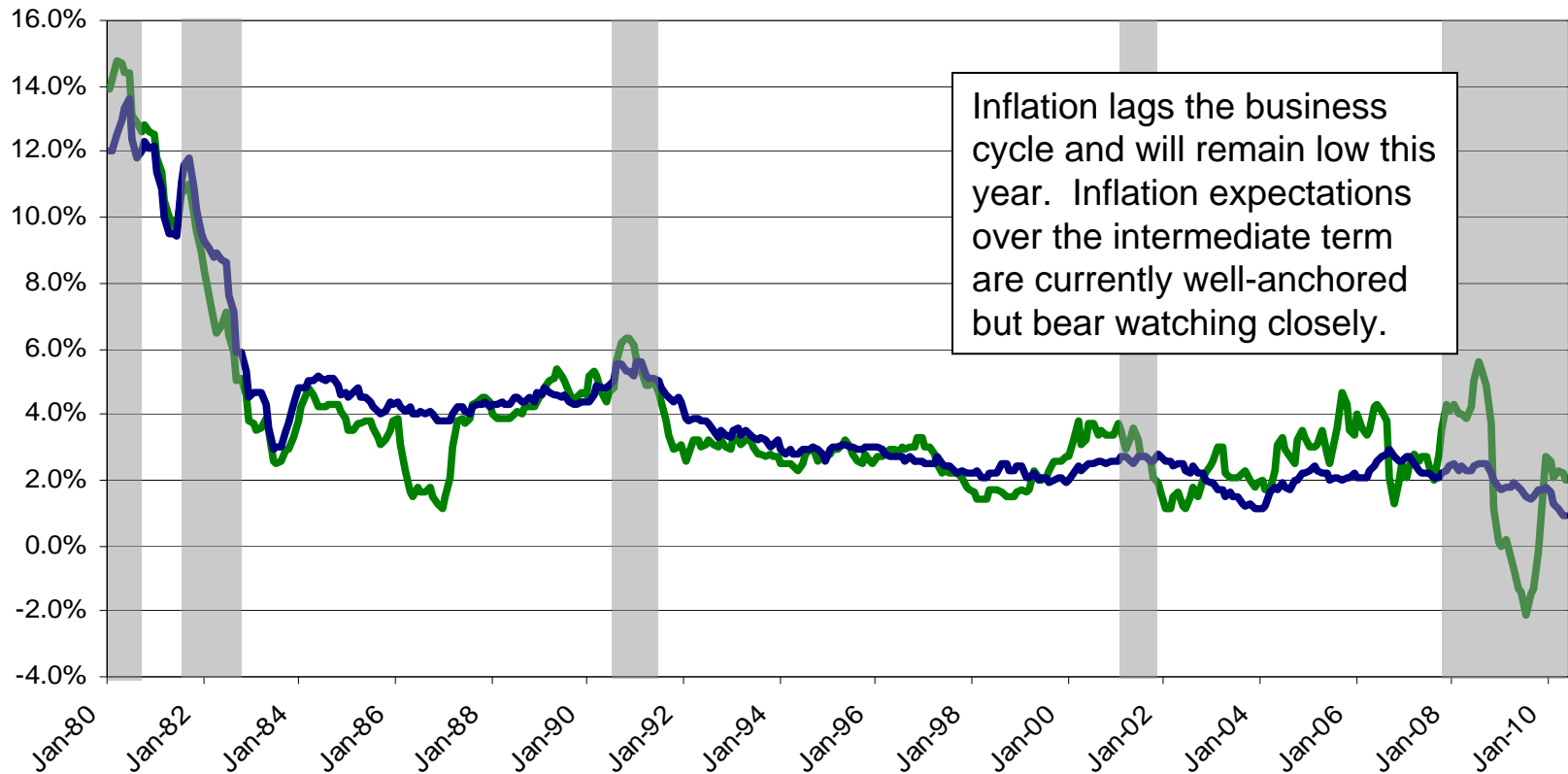
Housing affordability is at an all-time high

Source: Bloomberg/National Association of Realtors



CPI & Core CPI (YoY % Change)

January 1980 – May 2010



	High	Low	Average	Latest
CPI	14.8	-2.1	3.7	2.0
Core	13.6	0.9	3.8	0.9

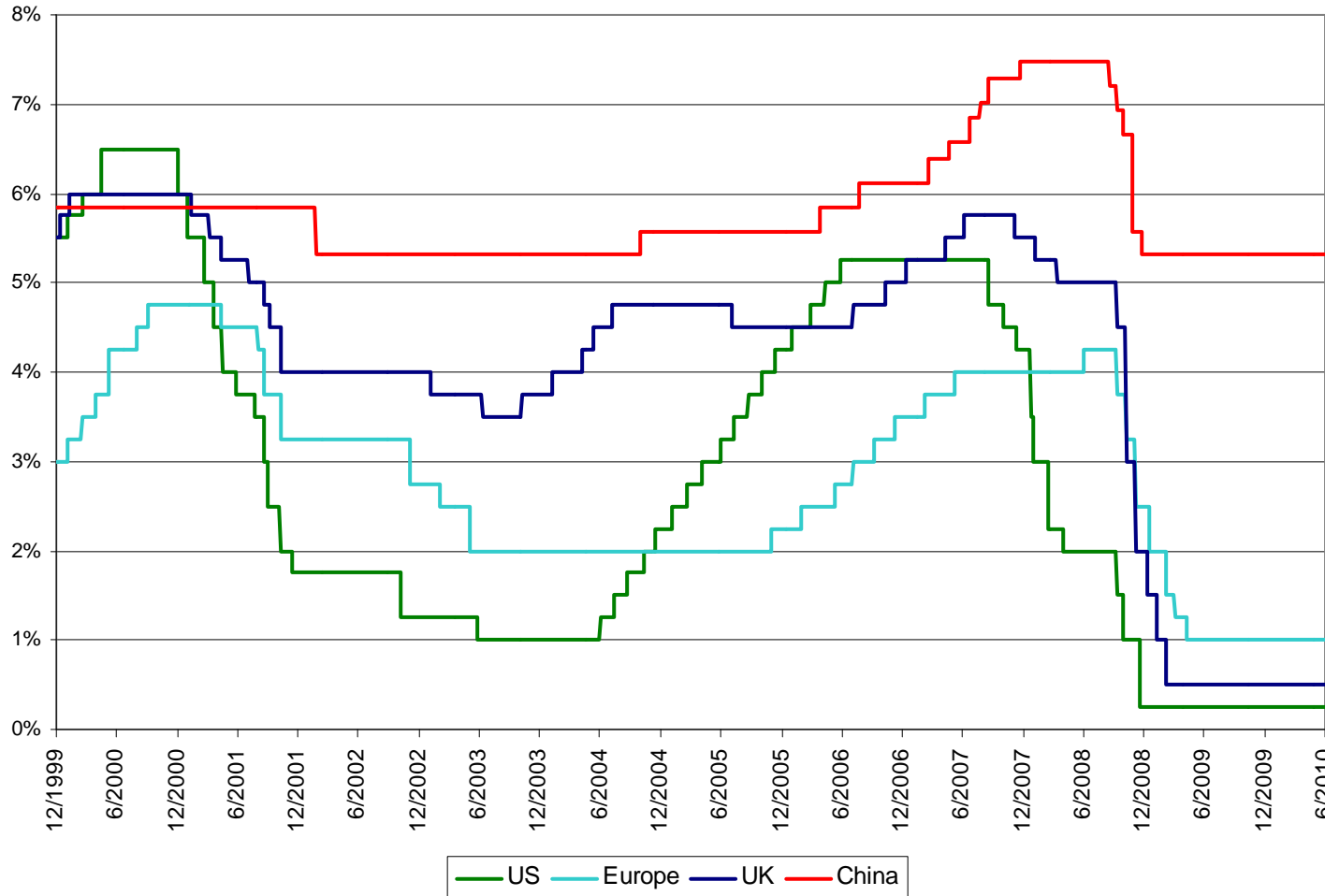
— CPI — Core CPI

Source: Bloomberg

Economic Policy Response

Central Bank Benchmark Rates

December 31, 1999 – June 30, 2010

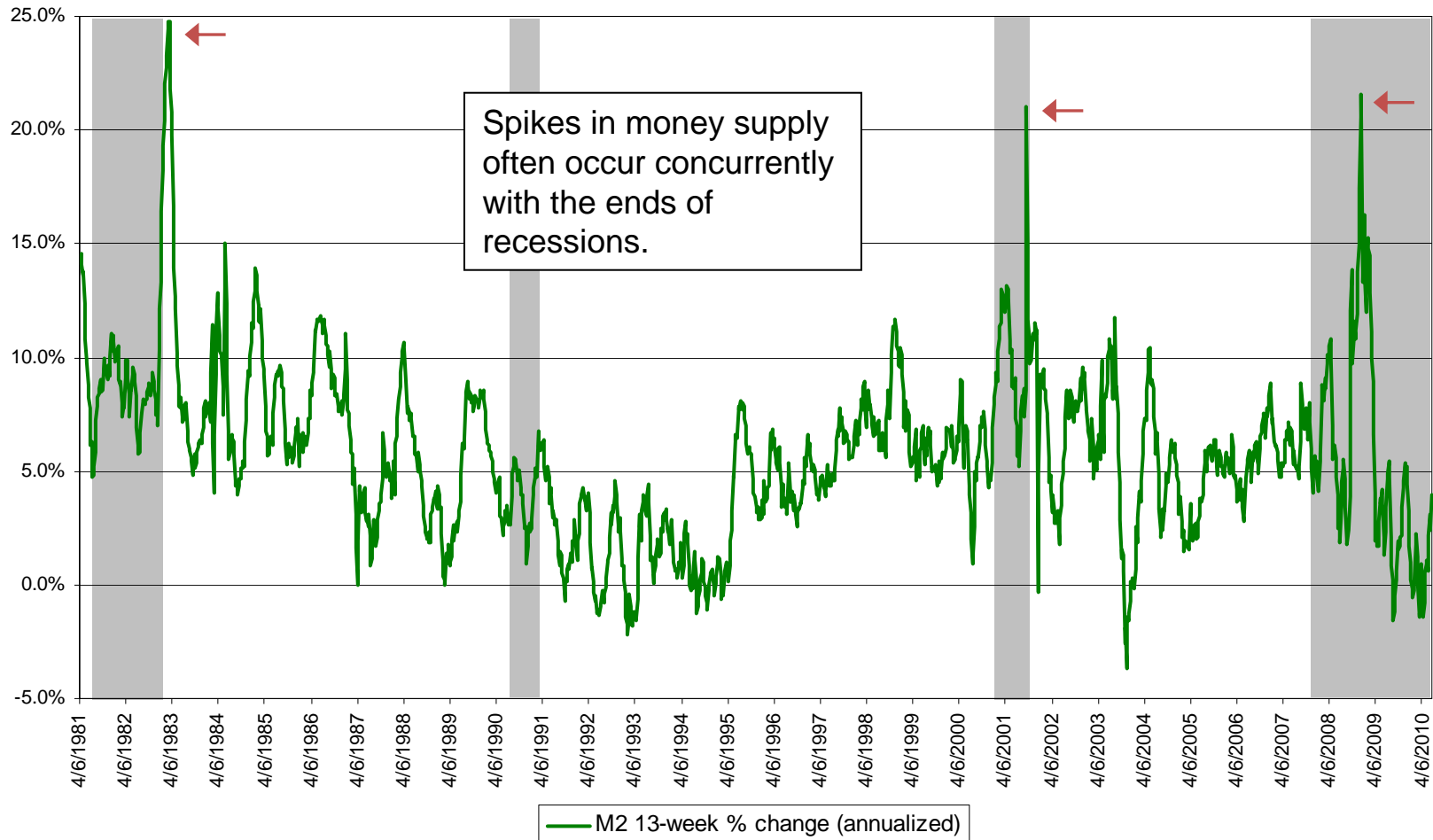


Rate cuts since beginning of 2008:
US: 7 for 400bp
UK: 8 for 500bp
EU: 6 for 300bp
PRC: 5 for 216bp

Source: Bloomberg

Money Supply

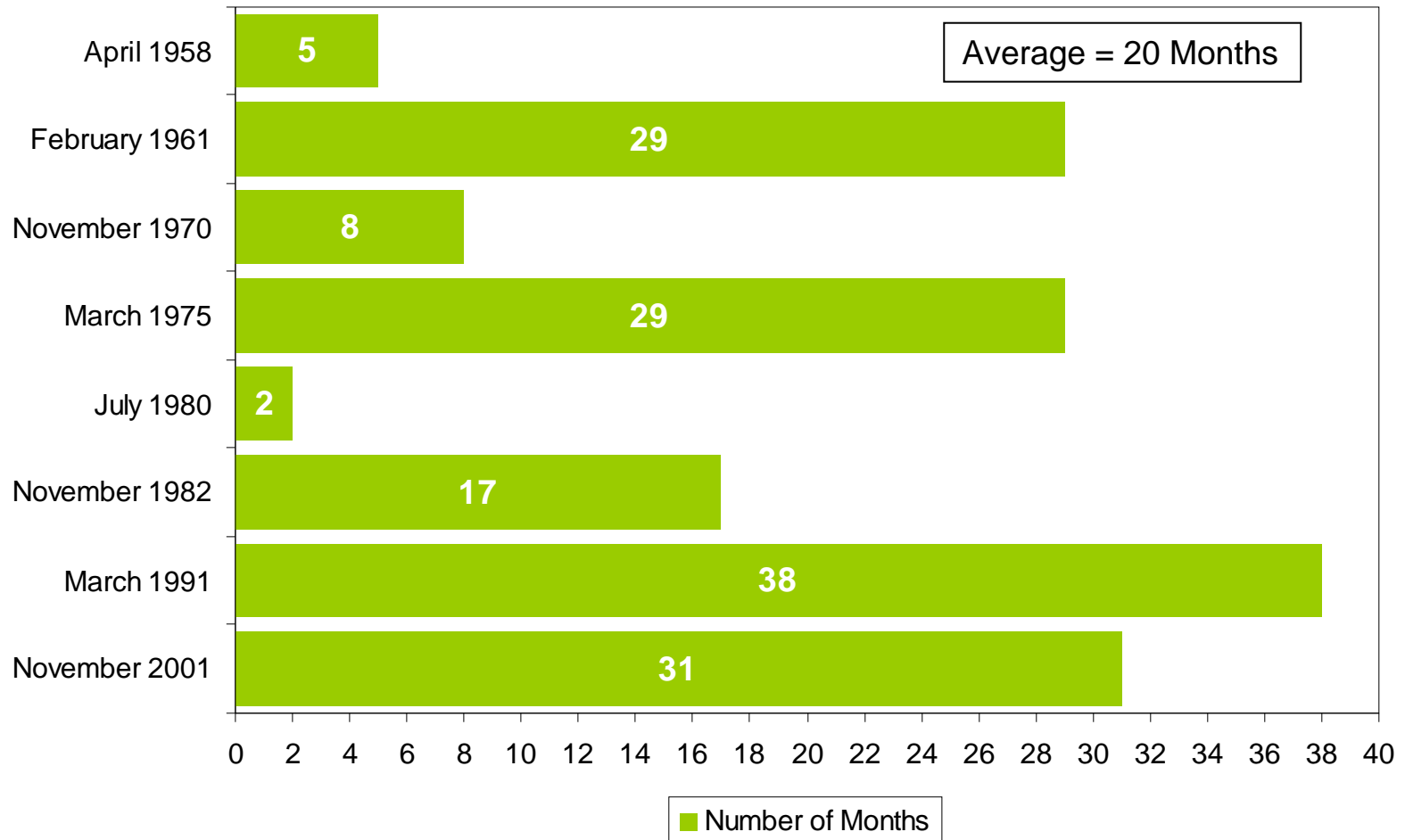
April 6, 1981 – June 21, 2010



Source: Bloomberg/ISI Group

Federal Reserve Policy

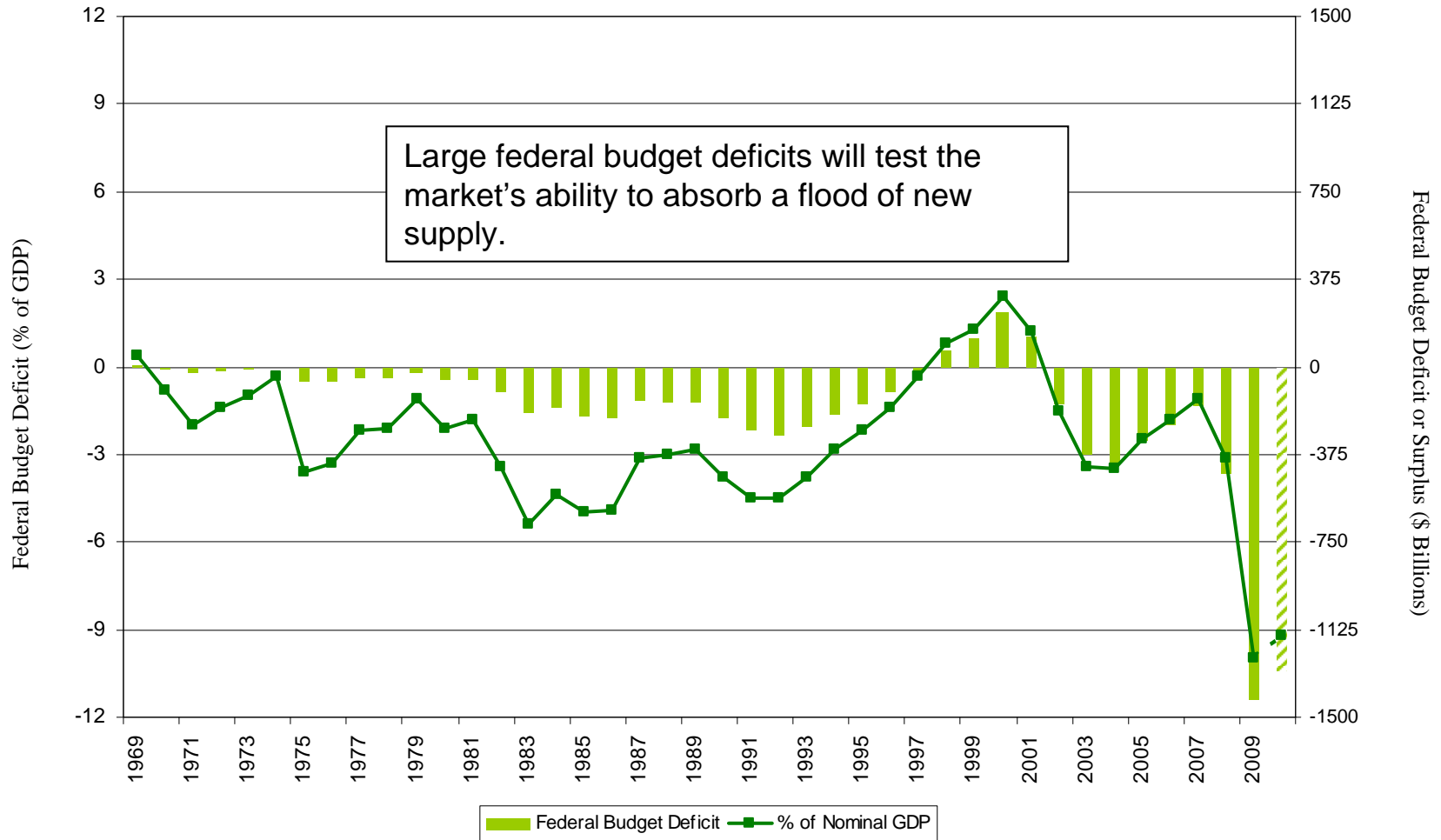
Length of Time between Recession End & First Tightening



Source: Bloomberg

U.S. Federal Budget Deficit

FY 1969 – FY 2010

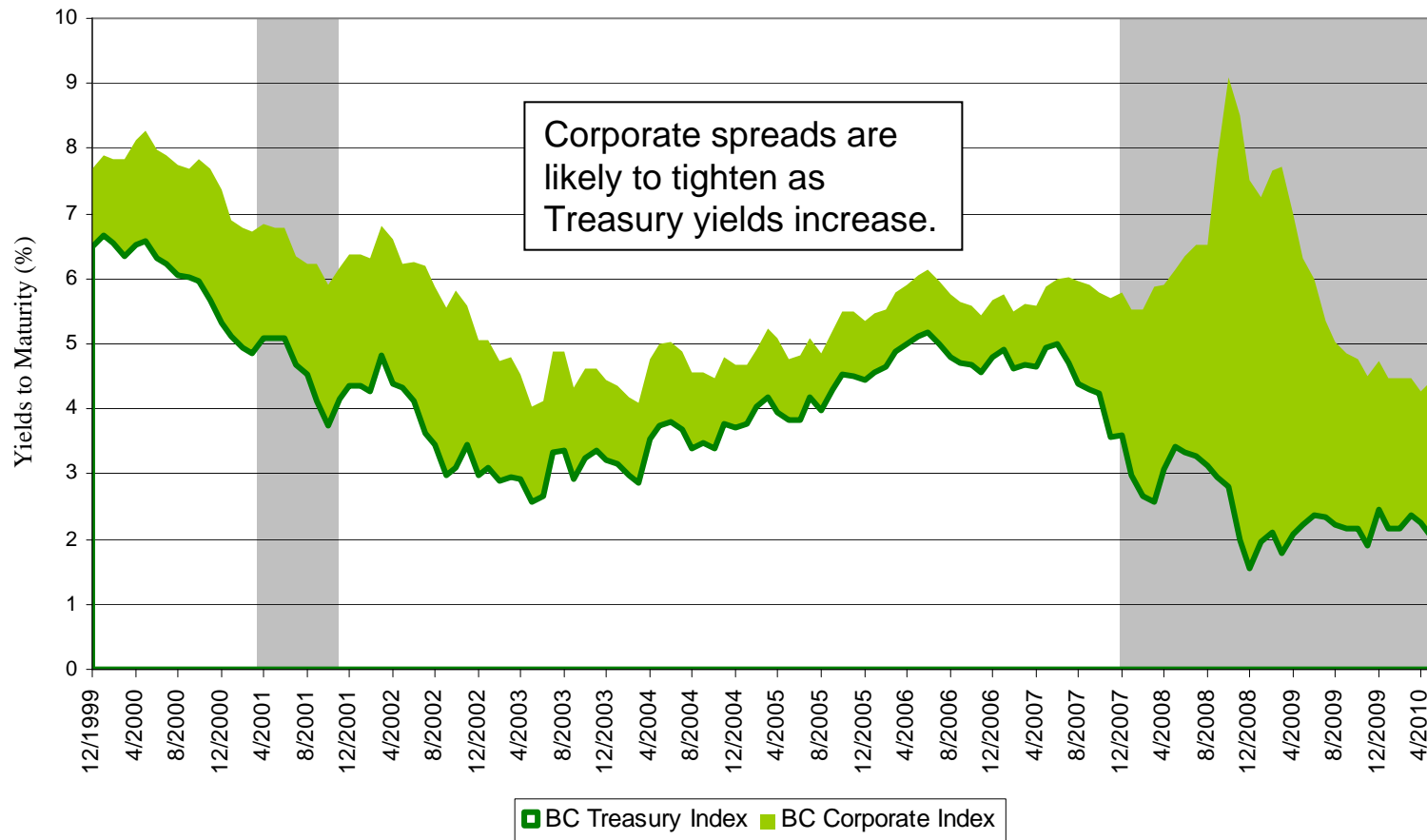


Source: Bloomberg/Internal Sources/CBO



U.S. Investment Grade Corporate & Treasury Yields

December 1999 – May 2010

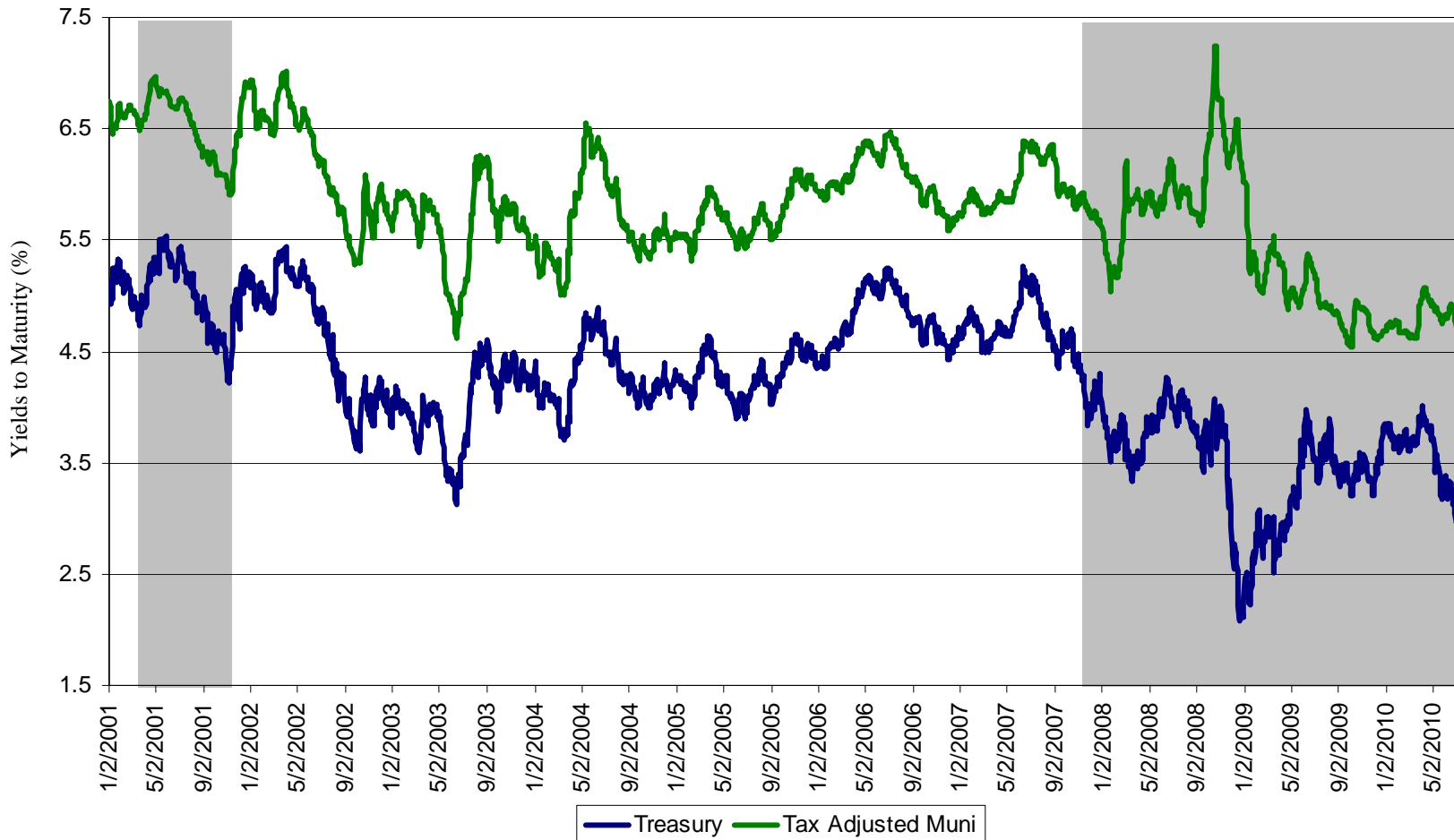


Source: Bloomberg/Barclays Capital

10-year AAA Municipal & Treasury Yields

Assumes 35% Tax Rate

January 2, 2001 – June 30, 2010

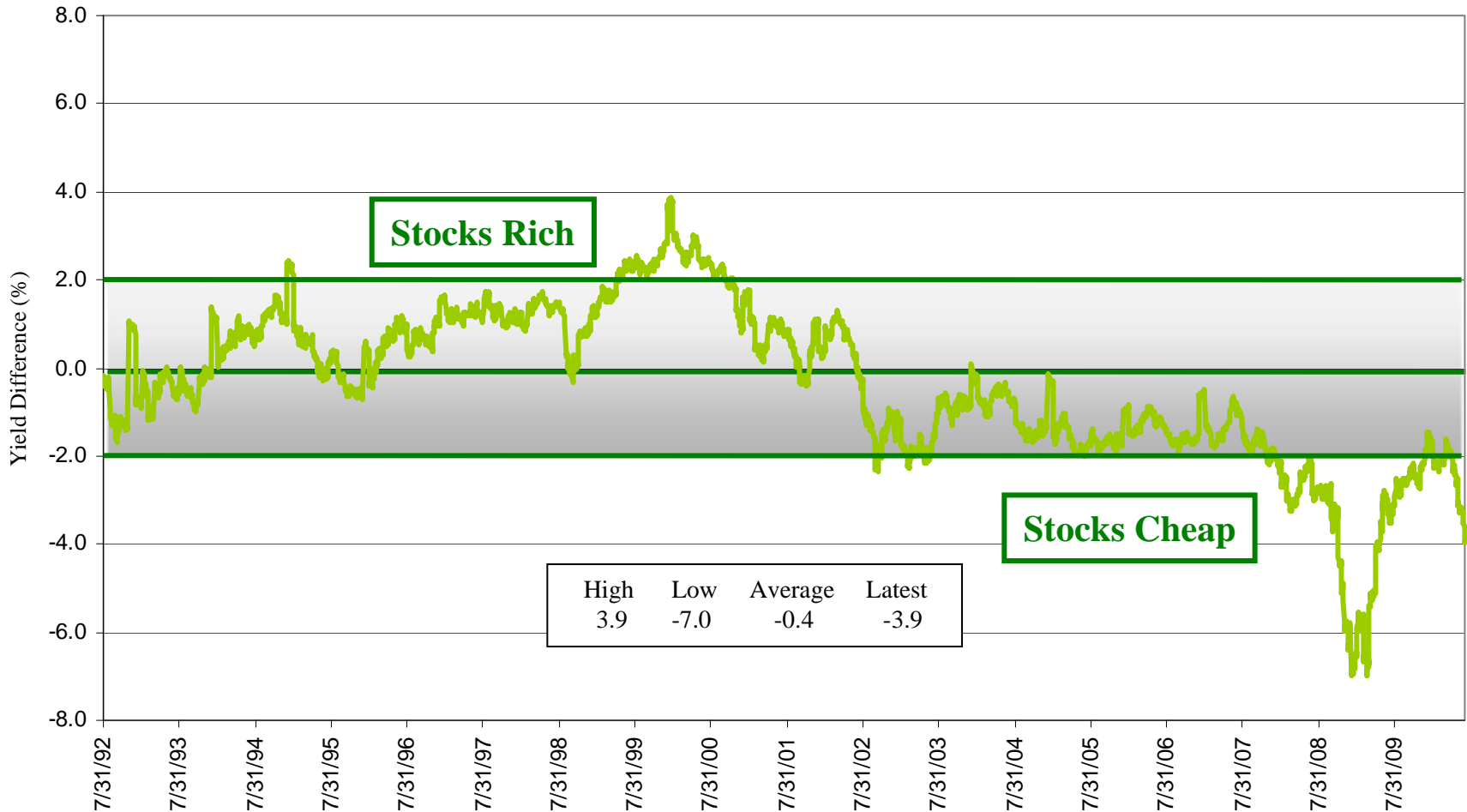


Source: Bloomberg

U.S. Fed Model Valuation Indicator

10 Year Treasury Yield - S&P 500 Earnings Yield

July 31, 1992 – July 2, 2010



Source: Bloomberg/FactSet

Standard and Poor's 500 Index

	<u>Current</u>	<u>20-year Average</u>
P/E Ratio	14.4x	18.2x
P/B Ratio	1.9x	3.0x
Dividend Yield	2.1x	2.1x

Source: FactSet

Economic Summary & Conclusions

- U.S. and other developed economies face serious challenges.
- The economic problems are well-known and reflected in market prices.
- Developing economies have become a larger factor for global growth.
- Valuations will reward long-term investors for taking risk.

Source: Internal Sources

Q & A