



CONCORD ASSET MANAGEMENT
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Market Overview & Strategy Comments: *China & the United States Move to Stabilize the World's Economies.*

China and the United States remain the world's key economies when it comes to growth engines, world trade and capital investment, and with both in the midst of slumps, it's no surprise the outlook for 2009 economic growth is not bright. This has contributed to a shaky start to the year in the stock market. We discuss what we are looking for as signals that the pessimism is fully discounted in the price of stocks.

<u>Key Statistics</u>	<u>Current</u>	<u>Change Since Previous Month</u>	<u>2009 Change</u>
Dow Jones Industrial Average *	8000.86	-8.8%	-8.8%
S&P 500 Index *	825.88	-8.6%	-8.6%
S&P 500 Ave. P/E Ratio **	10.8x	-0.3x	-0.3x
NASDAQ *	1476.42	-6.4%	-6.4%
1 Year Treasury Bill Yield	0.51%	+14 bps	+14 bps
10 Year Treasury Bond Yield	2.87%	+62 bps	+62 bps
30 Year Treasury Bond Yield	3.58%	+89 bps	+89 bps
Municipal Notes - 1 Year Yield	0.90%	-25 bps	-25 bps
Municipal Bonds - 10 Year Yield	3.45%	-65 bps	-65 bps
Reuters/Jefferies CRB Futures	\$220.37	-4.0%	-4.0%
Gasoline NY RBOB (\$ per gal.)	\$1.27	+25.9%	+25.9%
Natural Gas (\$ per MMBtu)	\$4.42	-21.4%	-21.4%
Gold (\$ per troy oz.)	\$927.30	+4.9%	+4.9%

* price only ** based on 2008 earnings estimates

The Reuters/Jefferies CRB Futures Price Index is an arithmetic average of commodity futures prices with monthly rebalancing.

Gasoline NY RBOB price excludes local, state and federal taxes (the "wholesale price").

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China and the United States remain the world's key economies when it comes to growth engines, world trade and capital investment, and with both in the midst of slumps, it's no surprise the outlook for 2009 economic growth is not bright. Still, both countries are making significant efforts to get things moving in the right direction. *For instance:*

- Both countries have undertaken significant interest rate cuts, with U.S. short-term rates now essentially zero and China cutting rates by the most in over ten years, leaving its one year loan rates at about 5% from a previous level of over 7%.
- Both countries have undertaken steps to shore up their banking systems, with massive capital injections in our country and reduced reserve requirements in China, both with the idea of creating a better lending environment.
- China announced a 4-trillion yuan (US\$600 billion) fiscal stimulus package aimed at boosting infrastructure spending and investment. Although it is still unclear whether directly related to the package or not, there has been a rebound in the key Baltic freight index and in steel demand by Chinese companies, two important leading economic indicators.
- President Obama appears likely to win approval for his \$800+ billion stimulus package aimed at creating jobs to offset announced layoffs in the private sector. Notable aspects of the proposal also include some short term measures to stabilize the economy, such as college and child tax credits, extensions on health insurance for the unemployed and tax refunds for businesses losing money.

When the world's economies grind to a halt such as they did last October, it takes time to get them going and we can't expect a drastic improvement over night. The actions listed above – stimulus packages, lower interest rates, declining commodity prices, and measures to thaw the capital markets – should eventually provide support for the world's economies. *After these measures achieve some stability, here's what we need to see to get growth going again in the U.S.:*

- Stabilized housing prices. A record drop in housing starts is good news as household formation is now many times the level of housing starts, indicating housing inventory should start to decline, aiding prices by boosting demand for existing homes. Additionally, mortgage rates for qualified investors are on the decline.
- Improvement in the international sector. China, EU, India and Latin America all need to jump start their consumer spending and business investment. Previously announced rate cuts and stimulus packages should help reverse the slide in world trade as 2009 progresses.

- The start of a new investment cycle. While governments can get things started with rate cuts and stimulus packages, corporations need to invest in themselves in order for these improvements to take hold. Business investment is what creates jobs and drives consumer spending. A new investment cycle will require increased credit availability, improvements in consumer spending and a resumption of international demand for infrastructure equipment, financial services, and aircraft and technology, among others.

Right now we are seeing and feeling just the downward part of the investment cycle – a lack of credit leading to investment cutbacks leading to job cuts leading to reduced consumer spending leading to more investment cutbacks and job losses and profit drops and on and on. But despite the hopeless feeling this cycle has created, the last time we had a banking crisis in this country – 1990 to 1992 – pessimism was just as rampant. Yet, as it clearly turned out, the pessimism was overdone and in 1992 we embarked upon an almost decade long bull market and economic expansion. *Here are some quotes from the Google news archives (1992):*

- "In 1991 the average American expressed more pessimism about the future than at any time since the Great Depression."
- "The banking industry has plunged to its lowest point since the Great Depression."
- "This is the most severe economic dislocation we've had since the 1930s. Few are immune."
- "Mr. Barry, a past president of the Chamber of Commerce, said 50 For Sale signs are just the tip of the iceberg, since many bank foreclosures and repossessions do not carry signs. "It's not a recession, it's a depression," he said."
- "...the worst (retail) sales period on record since the Great Depression."
- "This recession is hitting white-collar workers more heavily than any since the Great Depression of the 1930s."

While in the short term the outlook today is as rough as it was back then due to over-investment in housing and other sectors, we are confident the steps being taken by the government and Federal Reserve will soon return us to a position where we can again focus on the secular growth prospects for our economy rather than just the current cyclical downturn. Despite the severity of the recession, the longer term positive outlook for the world's economies remains intact. As importantly, the U.S. maintains leading positions in key growth sectors such as technology, consumer goods, health care, infrastructure, telecom and energy.

We recognize that there is a great deal of skepticism regarding whether the stimulus packages can jolt this economy. This has contributed to a shaky start to the year in the stock market. But the skepticism and pessimism indicates that the bad news appears to be discounted into prices, creating buying opportunities for long-term investors. With the downturn rapidly separating the survivors and future winners from the losers, we believe our portfolios are positioned appropriately to ride out the current storm and benefit from the next upturn, both in equities as well as corporate and municipal bonds.

CORE HOLDINGS LIST FOR 2009

Source: Baseline, First Call, Value Line, Bloomberg & CAM Estimates.

February 1, 2009	<u>Company Name</u>	<u>Ticker</u>	<u>Recent</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>Est EPS</u>	<u>P/E to</u>	<u>Market</u>	<u>ROE</u>	<u>Div</u>
	<u>Standard & Poors 500</u>		<u>Close</u>	<u>EPS</u>	<u>EPS</u>	<u>P/E</u>	<u>P/E</u>	<u>Growth</u>	<u>Growth</u>	<u>Cap(\$mm)</u>		<u>Yield</u>
Financials:	Berkshire Hathaway Cl "B"	BRK/B	825.88	\$76.40	\$65.00	10.8x	12.7x	8%	-	7,192,233	15%	3.1%
	MasterCard	MA	2989	\$185.36	\$192.98	16.1x	15.5x	10%	1.5x	-	12%	0.0%
	Wells Fargo	WFC	135.78	\$8.61	\$10.04	15.8x	13.5x	17%	0.8x	17,548	40%	0.4%
Consumer Staples:	Coca Cola	KO	18.90	\$1.12	\$1.35	16.9x	14.0x	11%	1.3x	79,921	4%	6.9%
	Colgate Palmolive	CL	42.72	\$3.12	\$3.24	13.7x	13.2x	8%	1.7x	98,835	31%	3.5%
	Diageo Plc ADR	DEO	65.04	\$3.87	\$4.23	16.8x	15.4x	10%	1.5x	32,827	93%	2.3%
	Fomento Economico Mexico	FMX	54.34	\$4.12	\$4.27	13.2x	12.7x	8%	1.7x	33,956	40%	3.6%
	Walgreen Co.	WAG	28.15	\$1.70	\$2.00	16.6x	14.1x	19%	0.7x	10,073	14%	1.3%
Health Care:	Becton Dickinson	BDX	27.41	\$2.12	\$2.19	12.9x	12.5x	12%	1.0x	27,047	18%	1.5%
	Johnson & Johnson	JNJ	72.67	\$4.58	\$5.04	15.9x	14.4x	12%	1.2x	17,512	24%	1.6%
	Medtronic, Inc.	MDT	57.69	\$4.55	\$4.52	12.7x	12.8x	7%	1.8x	160,065	26%	3.1%
	Novartis AG	NVS	33.49	\$2.81	\$3.13	11.9x	10.7x	12%	0.9x	37,449	20%	1.9%
	Zimmer Holdings	ZMH	41.26	\$3.82	\$4.14	10.8x	10.0x	8%	1.3x	93,448	16%	3.6%
Consumer Discretionary:	Staples, Inc	SPLS	36.40	\$4.05	\$3.94	9.0x	9.2x	11%	0.8x	8,174	15%	0.0%
	Target Corp.	TGT	15.94	\$1.39	\$1.42	11.5x	11.2x	14%	0.8x	11,371	19%	2.1%
	Toyota Motor Co. ADR	TM	31.20	\$2.94	\$2.73	10.6x	11.4x	13%	0.9x	23,487	18%	1.9%
Technology:	Cisco Systems	CSCO	63.51	\$3.02	\$1.25	21.0x	50.7x	3%	16.9x	99,562	14%	4.9%
	EMC Corp.	EMC	14.97	\$1.47	\$1.40	10.2x	10.7x	14%	0.8x	87,651	24%	0.0%
	Fiserv, Inc.	FISV	11.04	\$0.77	\$0.71	14.3x	15.5x	12%	1.3x	22,223	11%	0.0%
	Google	GOOG	31.75	\$3.26	\$3.62	9.7x	8.8x	16%	0.6x	5,085	17%	0.0%
Industrials:	3M Co.	MMM	338.53	\$16.68	\$19.26	20.3x	17.6x	22%	0.8x	106,554	17%	0.0%
	ABB Ltd. ADR	ABB	53.79	\$5.17	\$4.32	10.4x	12.5x	13%	1.0x	37,306	32%	3.7%
	Danaher Corp.	DHR	13.05	\$1.57	\$1.36	8.3x	9.6x	8%	1.2x	29,789	37%	0.0%
	General Electric	GE	55.93	\$4.23	\$3.78	13.2x	14.8x	13%	1.1x	17,807	14%	0.2%
	United Parcel Service	UPS	12.13	\$1.80	\$1.27	6.7x	9.6x	9%	1.0x	127,315	16%	10.2%
Energy:	Apache Corp.	APA	42.49	\$3.53	\$3.31	12.0x	12.8x	11%	1.2x	42,285	3%	4.2%
	Petroleo Brasileiro S.A. ADR	PBRA	75.00	\$12.34	\$6.32	6.1x	11.9x	9%	1.4x	25,100	20%	0.9%
	Sasol LTD ADR	SSL	21.66	\$3.95	\$2.69	5.5x	8.1x	8%	1.0x	40,079	24%	2.9%
Telecom Services:	America Movil ADR	AMX	26.55	\$4.25	\$4.19	6.2x	6.3x	15%	0.4x	16,982	32%	5.5%
	China Mobile Hong Kong	CHL	28.51	\$2.93	\$3.33	9.7x	8.6x	21%	0.4x	49,106	46%	1.8%
Transportation:	Kansas City Southern	KSU	44.97	\$4.04	\$4.51	11.1x	10.0x	16%	0.6x	180,283	25%	3.7%
Exchange Traded Funds:	iShares MSCI EAFE Index	EFA	18.16	\$1.78	\$1.77	10.2x	10.3x	20%	0.5x	1,658	9%	0.0%
	iShares MSCI Emerging Mkts	EEM	38.70	-	-	-	-	-	-	23,150	-	2.4%
			22.65	-	-	-	-	-	-	15,605	-	2.6%

0% weighting in utilities and materials.

The above is a list of common stocks currently held in clients' portfolios. Not all stocks are held in all portfolios for various reasons. Upon request we will furnish a list of all equity recommendations made within the past twelve months. This list includes the name of the security, date and nature of the recommendation, price at which the recommendation was acted upon, and the current market price of the security. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.

Please contact Mickey Herst for a copy of the list.