PERIGON

THE ECONOMY AT A GLANCE

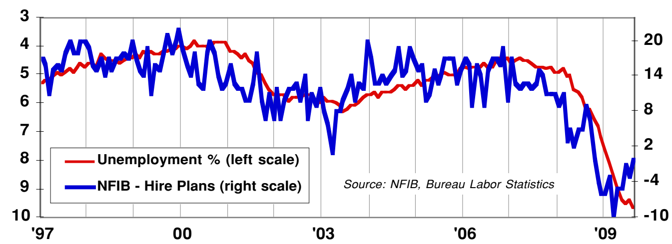
ECONOMIC HIGHLIGHTS

October 5, 2009
Vol. 76, No. 129

SMALL BUSINESS OUTLOOK IMPROVES

The economically critical small business sector registered a notable improvement during August, as the NFIB's Index of Small Business Optimism climbed 2.1 points in August to 88.6. Seven of the ten components of the index registered gains or were unchanged, which suggests the tide may be turning for the better in the small business arena. One of the more notable components was the improvement in the 'Hiring Plans' Index, to a reading of 0 from a -3 posting in July.

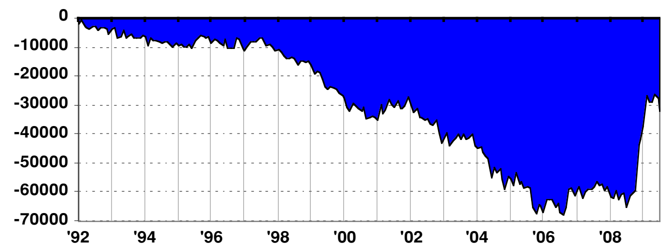
NFIB SMALL BUSINESS HIRE PLANS



TRADE DEFICIT BALLOONS

The U.S. international trade deficit widened 16.3% during July, to $32 billion — the largest percentage increase since February 1999. Once again, higher-priced crude was the culprit behind the ballooning deficit. Additional increases in the trade gap could subtract sharply from aggregate demand — something the economy simply cannot afford since households and businesses are not in any shape to contribute meaningfully to overall macroeconomic growth.

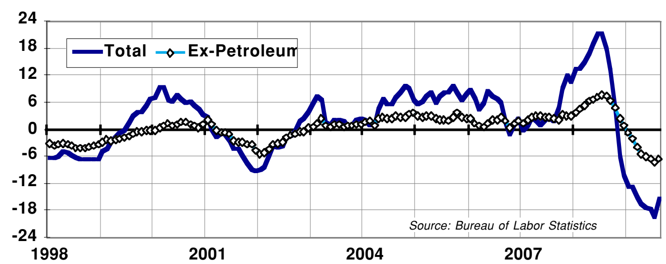
INTERNATIONAL TRADE BALANCE ($MLN.)



IMPORT PRICES JUMP

Prices of U.S. imports climbed 2.0% in August — the fifth increase in the last six months. This is clearly a function of higher-priced crude oil. Excluding the volatile petroleum component, import prices advanced 0.4% — the largest monthly increase in a year. Despite the stronger-than-expected gains, the import price situation isn't alarming as the year-over-year trend in overall import prices is still a deflationary 15%, while core, non-fuel, import price inflation fell 5.1%.over the same period.

IMPORT PRICES (Y/Y%)



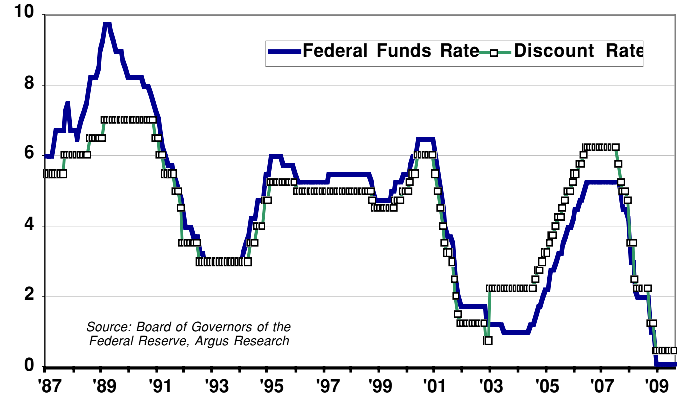
PERIGON WEALTH MANAGEMENT, LLC • 55 SECOND ST., SUITE 1900 • SAN FRANCISCO, CA 94105
TELEPHONE (877) 225-0133

MONETARY HIGHLIGHTS

FED KEEPS RATES UNCHANGED

As expected, the Federal Reserve kept its benchmark borrowing target range unchanged at between zero and 25 basis points, and said economic conditions would "warrant exceptionally low levels of the Federal Funds rate for an extended period." The Fed noted the improvement in economic activity, at the same time highlighting several constraining issues like "ongoing job losses, sluggish income growth, lower housing wealth, and tight credit." The U.S. economy has moved from deathbed to intensive care so some of the Fed's more extreme policy programs can be rolled back with little consequence. However, the patient is still in intensive care and the central bank should be careful not to pull the plug too quickly.

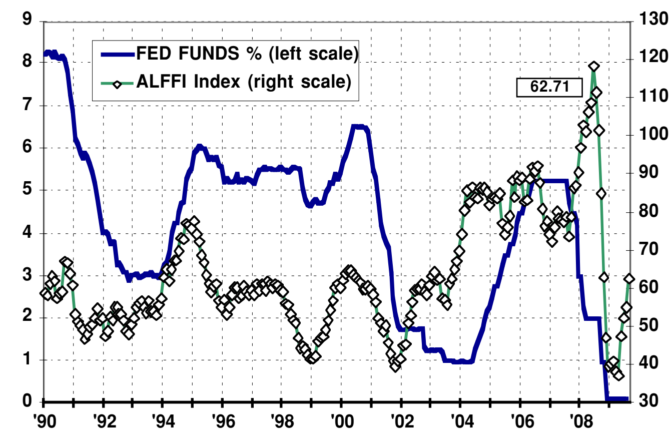
FED FUNDS RATE ACTIVITY (%)



ARGUS FED INDEX RISES

The Argus Leading Fed Funds Index (ALFFI), our internal barometer of changes in the Federal Reserve's overnight borrowing target rate, jumped by a strong 7.6 points in August, to a reading of 62.71. This is the ALFFI's highest level since October 2008 (when it was 63.15). All six of the ALFFI's components registered gains last month. We don't believe the Federal Reserve will begin to roll-up its stimulative initiatives until mid-2010, but a reasonable case may be made for doing it sooner rather than later. Currently, there are little-to-no signs of inflationary pressures in the headline indicators. However, the ALFFI, which is designed to measure price pressures at the intermediate stage of production, sees pressures starting to percolate.

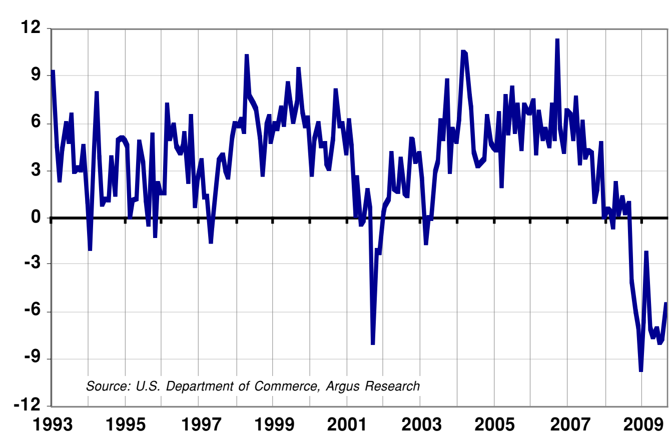
ARGUS LEADING FED FUNDS INDEX



BACK-TO-SCHOOL SALES IMPROVE

Total retail and food services sales soared 2.7% in August, propelled by a 10.6% surge in sales at motor vehicle & parts dealers. Excluding the volatile autos component, retail sales climbed 1.1%. It appears as if retailers most closely linked to back-to-school shopping fared the best. Sales at clothing & clothing accessories stores jumped 2.4% in August, while department stores saw sales increase by a similar 2.4%. The need for student computers bolstered activity at electronics & appliance stores by an impressive 1.1%. Despite this positive posting, the state of consumer affairs remains lackluster. Rising unemployment, deteriorating incomes & salaries and the exhaustion of unemployment benefit insurance for a large portion of the labor force suggest a weak spending environment.

RETAIL SALES: CLOTHING (Y/Y%)

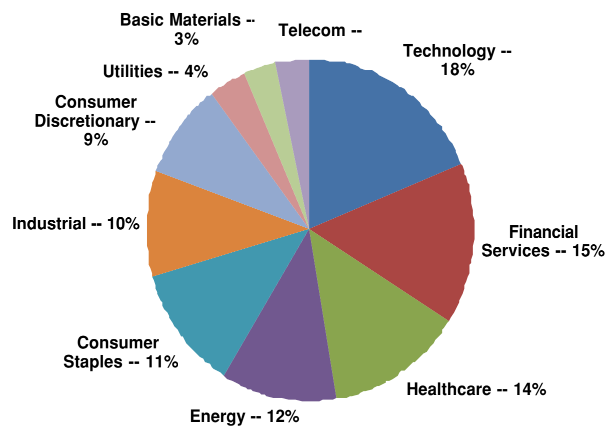


FINANCIAL MARKET HIGHLIGHTS

SECTOR REVIEW

We reduced our recommended weighting on Technology to Market-Weight from Over-Weight. The sector has soared about 40% in the year to date, nearly 1000 basis points better than its nearest rival (Materials, up about 30% year to date). In our view, investors may pause to collect profits in Technology. And, after broad-based gains off the March lows, we expect Technology to be more of a stock-pickers sector going forward — at least until market performance becomes more balanced. We have also lowered our recommended weighing in Financials from Market-Weight to Under-Weight. The sector has run up strongly, more on the conviction that it must be undervalued than on genuine demand recovery. Consumers and businesses remain under pressure, putting at risk Financial sector returns.

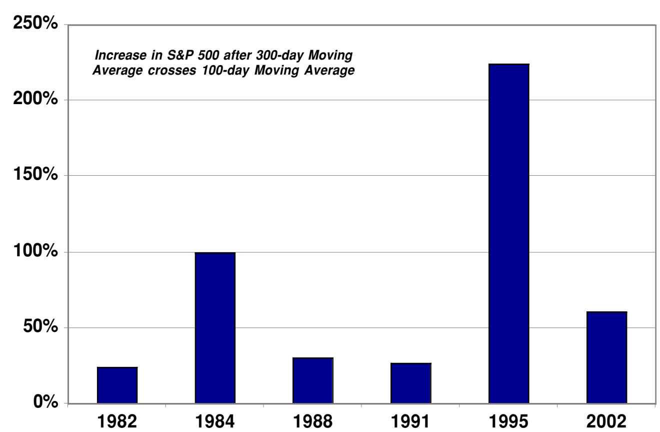
SECTOR DISTRIBUTION



A POSITIVE OUTLOOK

We raised our Long-Term technical stance to Bullish from Bearish. We raised our Short-Term stance in late March. When the 100-day moving average moves up through the 300-day MA, the market will already be in rally mode. Significantly, however, this inflection point is typically not a rally closer, but an early indicator of substantial rallies. On 10/25/82, the 100-day crossed up through the 300-day at a price of 138; the market rallied a subsequent 24% from there. On 11/12/84 it happened again at 167 in the S&P 500; the rally continued unabated for two years. The 100-day crossed up through the 300-day again in October 1988 (30% gain); in March 1991 (26% gain); and in January 1995 (six-year, 224% gain). Finally, the 100-day crossed up through the 300-day in June 2002 (four-year, 60% gain).

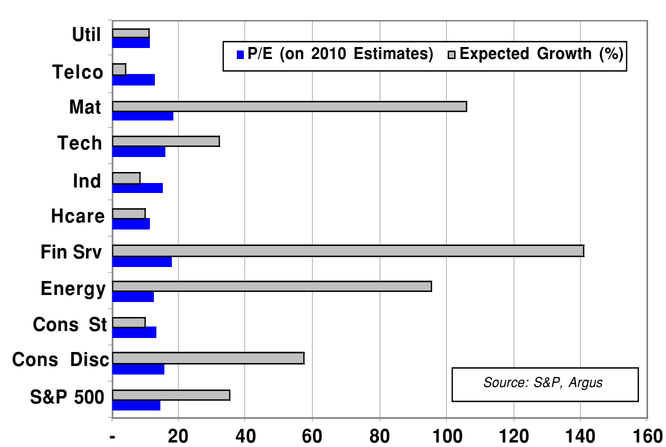
TECHNICAL POWER



GROWTH AT A REASONABLE PRICE

For 2010, the consensus is calling for EPS to climb 35%, and the P/E multiple applied to that growth is only 14-times. Of course, the 35% growth comes after two dismal years and reflects a rebound. But even adding in 2008 figures and averaging, we calculate a PEG ratio of 1.2. By sectors, the most attractive in terms of PEG appears to be Financial Services. That said, we recently downgraded our rating in Financial Services to Under-Weight, as we suspect the market has already discounted much of the earnings recovery. We look for outperformance from Industrials (which aren't expected to grow earnings too fast next year and could surprise on the upside) and from Energy (which is expected to deliver exceptional growth but does not yet have high valuations).

SECTOR OUTLOOK



THE ARGUS ECONOMIC OUTLOOK

September 29, 2009

	2007 A				2008 A				2009 E				2010 E			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Real Gross Domestic Product	1.2	3.2	3.6	2.1	-0.7	1.5	-2.7	-5.4	-6.4	-1.0	**2.2**	**-0.1**	**1.8**	**1.7**	**1.0**	**1.1**
Annual:				2.5				-1.8				**-1.3**				**1.4**
Personal Consumption	3.7	1.1	1.9	1.2	-0.6	0.1	-3.5	-3.1	0.6	-1.0	**0.3**	**0.1**	**0.5**	**1.9**	**1.2**	**0.9**
Goods	4.0	0.2	3.1	3.0	-5.1	-0.5	-7.7	-10.0	2.5	-3.4	**-0.4**	**1.4**	**1.9**	**1.7**	**1.3**	**0.4**
Durables	5.5	2.1	5.2	5.5	-8.9	-5.7	-11.7	-20.3	3.9	-5.8	**6.0**	**-4.3**	**-3.3**	**7.3**	**3.7**	**1.5**
Non-Durables	3.1	-0.8	2.1	1.8	-3.0	2.2	-5.6	-4.9	1.9	-2.2	**0.2**	**1.2**	**1.6**	**2.4**	**2.2**	**2.3**
Services	3.6	1.6	1.3	0.3	1.8	0.4	-1.3	0.5	-0.3	0.2	**0.2**	**0.6**	**0.8**	**0.8**	**0.4**	**0.4**
Gross Domestic Investment	-6.0	5.7	0.8	-7.7	-7.4	-10.4	-6.9	-24.2	-50.5	-24.4	**16.5**	**-3.9**	**7.6**	**3.5**	**2.1**	**0.5**
Fixed Investment	-2.6	3.6	-0.4	-4.2	-6.2	-2.7	-8.3	-20.2	-39.0	-13.5	**-19.8**	**-3.8**	**0.7**	**0.8**	**0.8**	**1.3**
Non-Residential	4.2	11.4	9.6	6.7	1.9	1.4	-6.1	-19.4	-39.2	-10.9	**-8.3**	**-5.0**	**2.5**	**0.2**	**0.3**	**1.1**
Structures	15.6	22.7	26.5	11.2	6.7	14.5	-0.1	-7.2	-43.6	-15.1	**2.4**	**-4.8**	**1.0**	**3.0**	**4.4**	**0.8**
Equip. & Software	-0.4	6.5	2.2	4.4	-0.5	-5.0	-9.4	-25.9	-36.4	-8.4	**-7.7**	**-5.1**	**3.2**	**-1.2**	**-1.6**	**1.3**
Residential	-16.2	-12.8	-22.4	-29.5	-28.2	-15.8	-15.9	-23.2	-38.2	-22.8	**-12.0**	**1.2**	**-5.8**	**3.3**	**2.5**	**1.9**
Change in Pvt. Inventories	14.5	23.3	29.8	10.3	0.6	-37.1	-29.7	-37.4	-113.9	-159.2	**-30.0**	**-30.0**	**-5.0**	**5.0**	**10.0**	**7.0**
Net Exports																
Exports	3.5	5.2	18.5	14.5	-0.1	12.1	-3.6	-19.5	-29.9	-5.0	**-5.1**	**3.3**	**2.7**	**3.3**	**4.3**	**5.8**
Goods	3.0	6.3	14.8	12.4	4.2	14.0	-1.7	-25.5	-36.9	-7.0	**-5.0**	**2.6**	**3.0**	**3.4**	**4.7**	**7.7**
Services	4.8	2.7	27.1	19.2	-8.9	7.7	-7.7	-4.3	-13.6	-1.0	**-4.1**	**4.7**	**2.0**	**3.0**	**3.5**	**2.1**
Imports	4.3	-0.5	3.7	-3.6	-2.5	-5.0	-2.2	-16.7	-36.4	-15.0	**-6.6**	**-2.5**	**-3.9**	**4.1**	**4.7**	**5.6**
Goods	5.0	-1.0	2.8	-3.8	-3.5	-4.6	-3.7	-19.6	-41.0	-16.5	**-5.7**	**-3.1**	**-4.0**	**4.2**	**4.1**	**3.8**
Services	0.3	2.1	8.7	-2.9	3.0	-7.0	6.0	-0.9	-11.5	-9.0	**-9.6**	**0.4**	**-3.6**	**3.7**	**7.1**	**13.1**
Gov't Purch.of Goods & Svcs.	0.0	4.4	3.9	1.6	2.6	3.6	4.8	1.2	-2.6	6.4	**2.2**	**-2.3**	**-1.1**	**0.6**	**0.1**	**2.4**
Federal	-5.1	7.4	9.3	2.7	8.2	7.8	13.2	6.5	-4.3	10.9	**4.7**	**-3.2**	**0.4**	**1.9**	**1.9**	**3.3**
National Defense	-7.6	8.6	10.0	0.5	8.2	7.0	19.8	3.8	-5.1	13.3	**3.1**	**-5.3**	**-1.1**	**0.8**	**0.6**	**2.2**
Non-Defense	0.4	4.9	7.9	7.6	8.0	9.7	0.1	12.6	-2.4	6.2	**8.4**	**1.2**	**3.6**	**4.2**	**4.6**	**5.5**
State & Local	3.1	2.6	0.9	1.0	-0.5	1.2	0.1	-2.0	-1.6	3.6	**-0.1**	**-1.6**	**-2.1**	**-0.3**	**-1.0**	**1.8**
Final Sales of Domestic Prod.	1.8	2.9	3.4	2.8	-0.5	2.7	-2.9	-4.7	-4.1	0.4	**-2.3**	**-0.1**	**1.0**	**1.4**	**0.8**	**1.2**
Final Sales to Dom. Purch.	2.0	2.1	1.9	0.4	-0.9	0.3	-2.7	-4.9	-6.4	-1.2	**-2.3**	**-0.8**	**0.2**	**1.5**	**0.9**	**1.3**
Addendum:																
Nominal GDP	5.5	6.0	5.3	4.5	1.0	3.5	1.4	-5.4	-4.6	-1.0	**4.3**	**2.0**	**4.4**	**5.7**	**5.0**	**4.7**
Personal Con Exp Deflator	3.7	3.2	2.3	5.1	3.7	3.9	4.7	-5.0	-1.5	1.3	**1.9**	**1.8**	**1.9**	**1.9**	**2.2**	**2.6**
GDP Price Deflator (implicit)	4.2	2.7	1.6	2.3	1.9	1.8	4.0	0.1	1.9	0.0	**2.2**	**2.2**	**2.5**	**4.0**	**4.0**	**3.6**

Richard Yamarone, Director of Economic Research