PERIGON

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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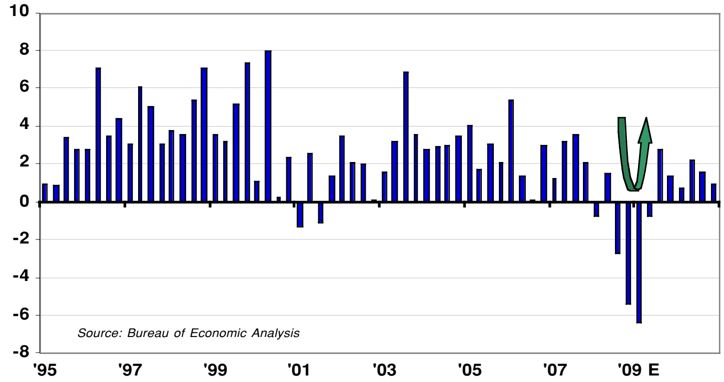
Q3 GDP GROWTH REVISED DOWN TO 2.8%

The U.S. economy increased at a revised annual rate of 2.8% in the third quarter, driven by personal consumption expenditures, private inventory investment, exports and federal government spending. Motor vehicle output (boosted by "Cash for Clunkers") added 1.45 percentage points to the Q3 change, compared to a 0.19 point contribution in Q2. So how durable is this turnaround in GDP? Federal spending rose 8.3%. PCE/Services rose only 1.0%. The economy is going to need this gap to close in order to sustain an expansion. At $12.99 trillion, the U.S. economy is still 10% smaller than it was at its peak in 2008. With unemployment at 10%, we see several more quarters of below-trend economic conditions.

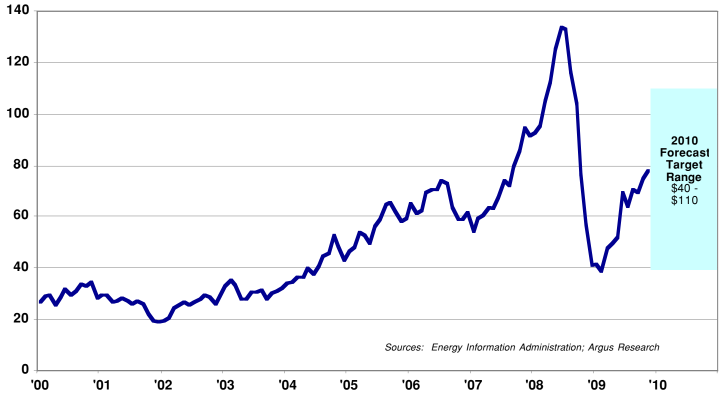
REAL GDP (%)



OIL PRICE OUTLOOK

Our estimates for the average price of West Texas Intermediate crude oil are $60 per barrel for 2009 and $68 per barrel for 2010. We look for a trading range for WTI of $33-$85 in 2009 and $40-$110 in 2010. The International Energy Agency forecasts that the worldwide demand for crude will decline by 2.2%, or 1.9 million barrels per day (b/d) in 2009. This is a rare event and highlights the severity of the global recession. We expect petroleum demand to resume its upward course by early 2010 due to global economic growth. Several factors combined recently to restore near-term stability to world oil prices. Natural gas has not acted the same, and has fallen further.Our estimates for the average wellhead price of Henry Hub natural gas are now $3.90 per mcf for 2009 and $6.00 per mcf for 2010.

OIL PRICE TRENDS
WTI SPOT PRICE ($/BARREL)



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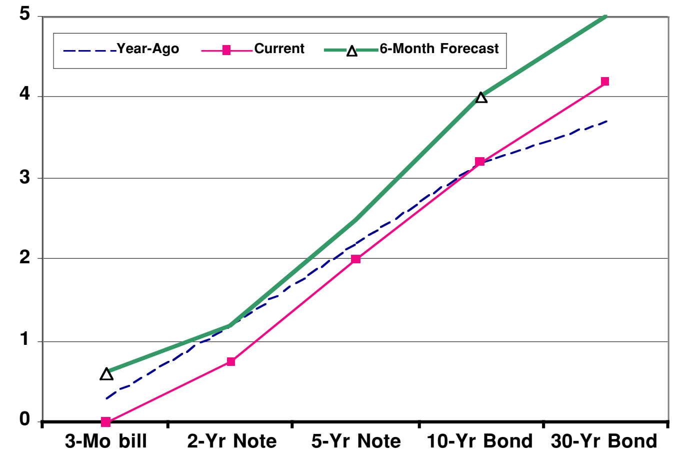
ECONOMIC HIGHLIGHTS (CONTINUED)

YIELD CURVE POINTS TO GROWTH – AND INFLATION

The upward slope of the Treasury yield curve points to economic growth, looking out 12 months. Our forecasts call for GDP to advance at a below-trend 1.0%-2.5% pace through 2010, consistent with the current curve. The challenge for the Fed will be to keep inflation at bay while nurturing the economy and reducing unemployment. We think the central bank is likely to stand pat on its low target for the fed funds rate until Q210; the market is pricing in a rate hike by October. However, trillion-dollar budget deficits and the falling U.S. dollar pose a threat to longer-dated fixed-income investments. The year-to-date total return on Treasury securities, according to Barclay's, is 6.5%, as investors have moved funds into equities. The trend may continue if inflation becomes a greater risk.

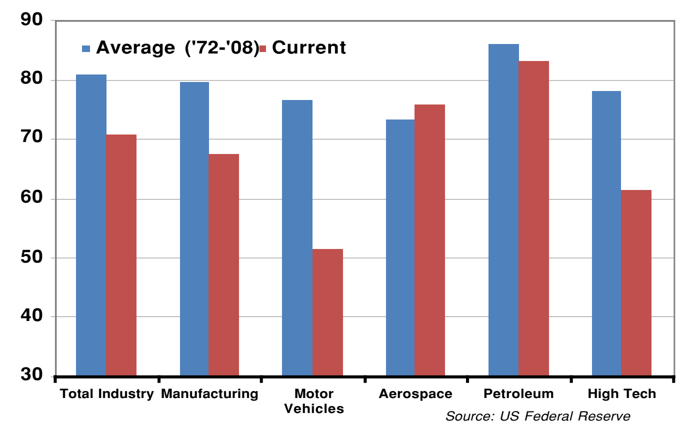
TREASURY YIELD CURVE



SLOWLY REBUILDING

One of the major questions left to answer as the recession fades is about the "new normal" for industries. Is the "new normal" for annual U.S. auto sales 10.5 million, or is the country headed back to the 16 million level. In our opinion, the current recession-wracked levels are closer to the new normal. Industries that have already adjusted to the new reality and have formed a base could be among the first to emerge as long-term investment ideas. We would include sectors such as Semiconductors (which stabilized in the mid-50s over the summer and is now up to 61%) and Petroleum (for which utilization of 83% is close to the historical average of 86%). Aerospace is also more engaged than normal, at 76% of capacity versus the average of 73%.

CAPACITY UTILIZATION BY INDUSTRY (%)

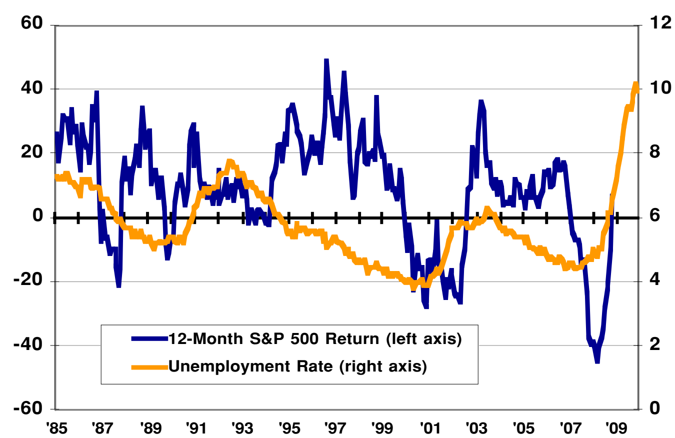


Source: US Federal Reserve

JOBS TREND IMPROVES

The U.S. Labor Department announced that the U.S. economy lost 11,000 jobs in November and the unemployment rate fell to 10.0%. The consensus was calling for a decline of 130,000 jobs. Labor also revised downward the September and October losses, improving the situation by another 180,000 jobs. Longer term, the November jobs decline accelerates a pattern of improving employment, as job losses are not as steep as they were one year ago, when Labor reported a decline of 500,000+. But there is no mistaking that the economy remains weak and the consumer sector will be under pressure in the months ahead. That said, the jobs figures are a lagging indicator, as corporate profits are starting to grow and GDP turned positive in Q3. Falling unemployment historically is a positive backdrop for stocks.

UNEMPLOYMENT & STOCK RETURNS (%)

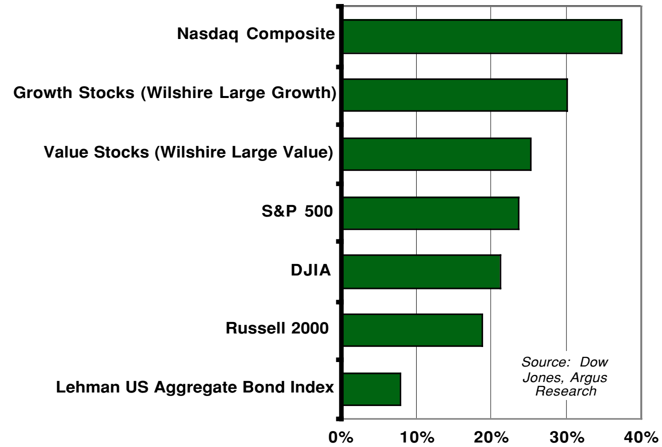


FINANCIAL MARKET HIGHLIGHTS

NASDAQ LEADS PERFORMANCE DERBY

For most of the year, the Nasdaq Composite has led the way, as investors focused on prospects for resumed growth in global economies, led by investments in productivity enhancing high-tech services. But the market is rife with anomalies this year. Although Growth stocks lead Value stocks and the S&P 500 is outperforming the Lehman U.S. Aggregate Bond Index (suggesting investors are favoring riskier securities), Small-caps are lagging Large Caps. Last year, only the bond index was in positive territory. Next year, we anticipate that equities can continue to trek higher, though perhaps not to the same degree as in 2009, as the dollar remains weak and the U.S. economy recovers. Bonds are expected to continue to lag in 2010, particularly if inflation expectations perk up in the second half.

INVESTMENT RETURNS 2009



PERFORMANCE OF LARGE-CAPS VERSUS SMALL-CAPS

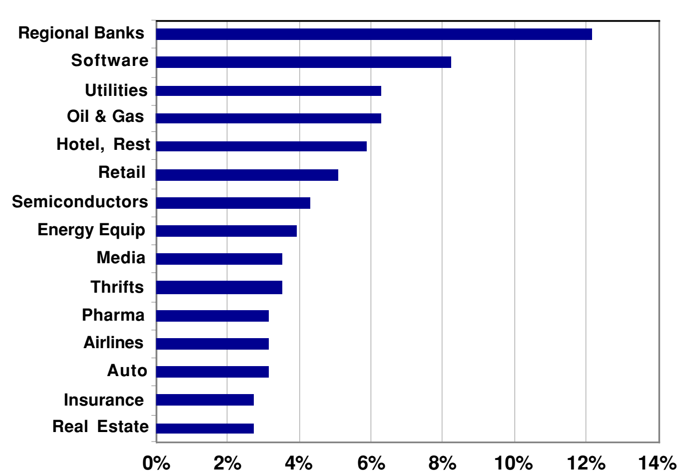
We have followed the relationship between the Russell 1000, which measures the performance of large-cap stocks, and the Russell 2000, which measures small-cap stocks. At the peak in late 1999, the Russell 1000 was 60% higher than the 2000. After some weak years for large-caps, however, that premium turned into a discount of as much 10% early in 2006. Now, the two indices have pulled close to even and have stayed that way over the past few years. However, large-caps still look more attractive on the basis of the most common valuation measures. Versus small-caps, large-caps also tend to get more business from overseas and have stronger balance sheets. Given the still-shaky state of affairs in the U.S. economy right now, we think investors will continue to favor large U.S. multinationals.

LARGE-CAP/SMALL-CAP PERFORMANCE RATIO

REGIONAL BANKS STILL ATOP THE RISK LIST

Each month, we run a series of Red Flag screens designed to identify which stocks could be under most financial stress. The screens capture price trends, Z-scores, credit outlooks and insider selling, among other factors. After we run the screens, we group the data by industry to determine which sectors may be under the most pressure. The screens for November identified a high number of Regional Banks at risk for bankruptcy, or at the least consolidation. The risk profile remains elevated for Energy companies, including Utilities, as oil prices have been volatile and in light of the Dubai debt crisis. The riskiest Tech sectors appear to be Software and Semiconductors. Consumer sectors under pressure in the current economic environment include Leisure, Retail, Media & Auto.

RED FLAG INDUSTRIES



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Mon. 12/7	Consumer Credit	October	-$14.8B	-$10.0B	-$9.7B	N/A
Wed. 12/9	Wholesale Inventories	October	-0.9%	0.1%	-0.5%	N/A
Thur. 12/10	U.S. Trade Balance	October	-$36.5B	-$32B	-$36.7B	N/A
Fri. 12/11	Import Price Index	November	0.7%	0.2%	1.3%	N/A
	Advance Retail Sales	November	1.4%	1.5%	0.4%	N/A
	Retail Sales ex-autos	November	0.2%	0.7%	0.5%	N/A
	Business Inventories	October	-0.4%	0.1%	-0.3%	N/A
	U. of Michigan Confidence*	December	67.4	68.0	68.9	N/A

Next Week's Re eases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
Tue. 12/22	Real GDP	Q3	2.8%	3.0%	N/A	N/A
	Existing Home Sales	November	6.10M	6.10M	N/A	N/A
	GDP Price Index	Q4	0.5%	0.5%	N/A	N/A
Wed. 12/23	Personal Income	November	0.2%	0.2%	N/A	N/A
	Personal Spending	November	0.7%	0.7%	N/A	N/A
	New Home Sales	November	430k	450k	N/A	N/A
Thu. 12/24	Durable Goods Orders	November	0.6%	1.0%	N/A	N/A

** Preliminary*
*** Advance*
^Final