



## **Economic and Market Update**

Presented by:

**Rick Johnson**

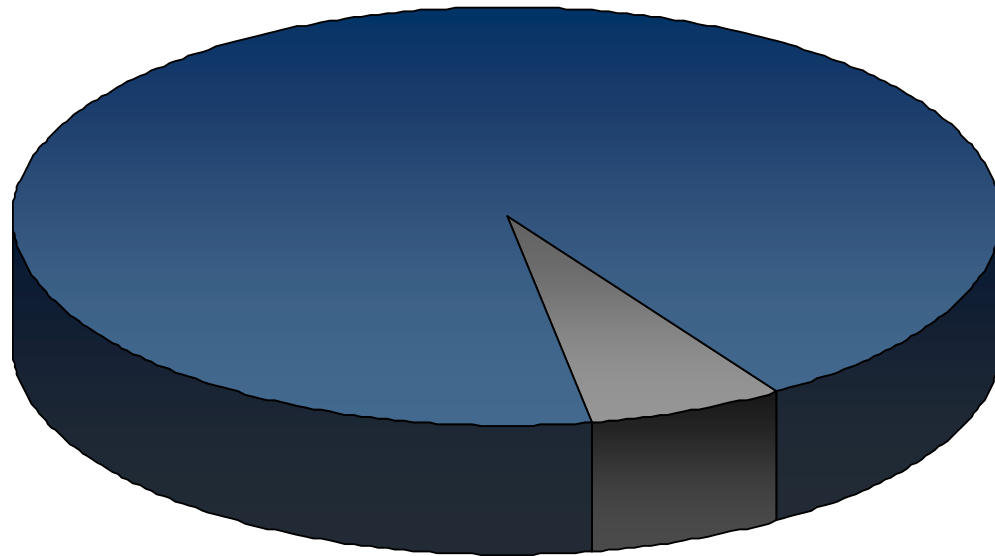
Investment Committee Chair

**Kurt Spieler, CFA**

First National Bank  
Managing Director Investments

- Rick Johnson
  - Asset Allocation
  - Active vs. Passive Management
  - Balanced Pool Returns
- Kurt Spieler
  - Economic Update
  - Market Outlook
  - Alternative Investments

## Determinants of Investment Return

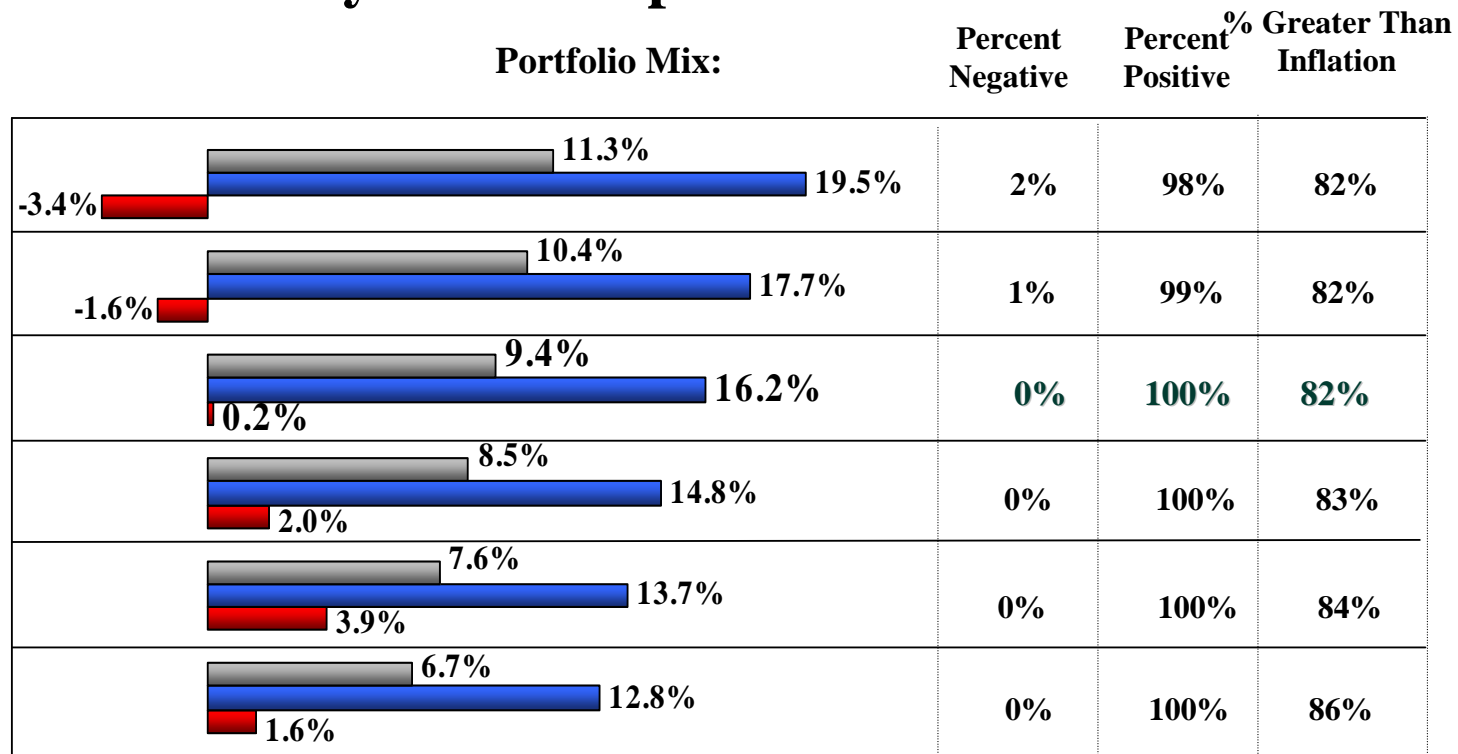


■ **Asset Allocation 93.6%**

■ **Stock Picking & Timing 6.4%**

*Sources: Virtus Mutual Funds, Brinson Advisors, Determinants of Portfolio Performance, 1986*

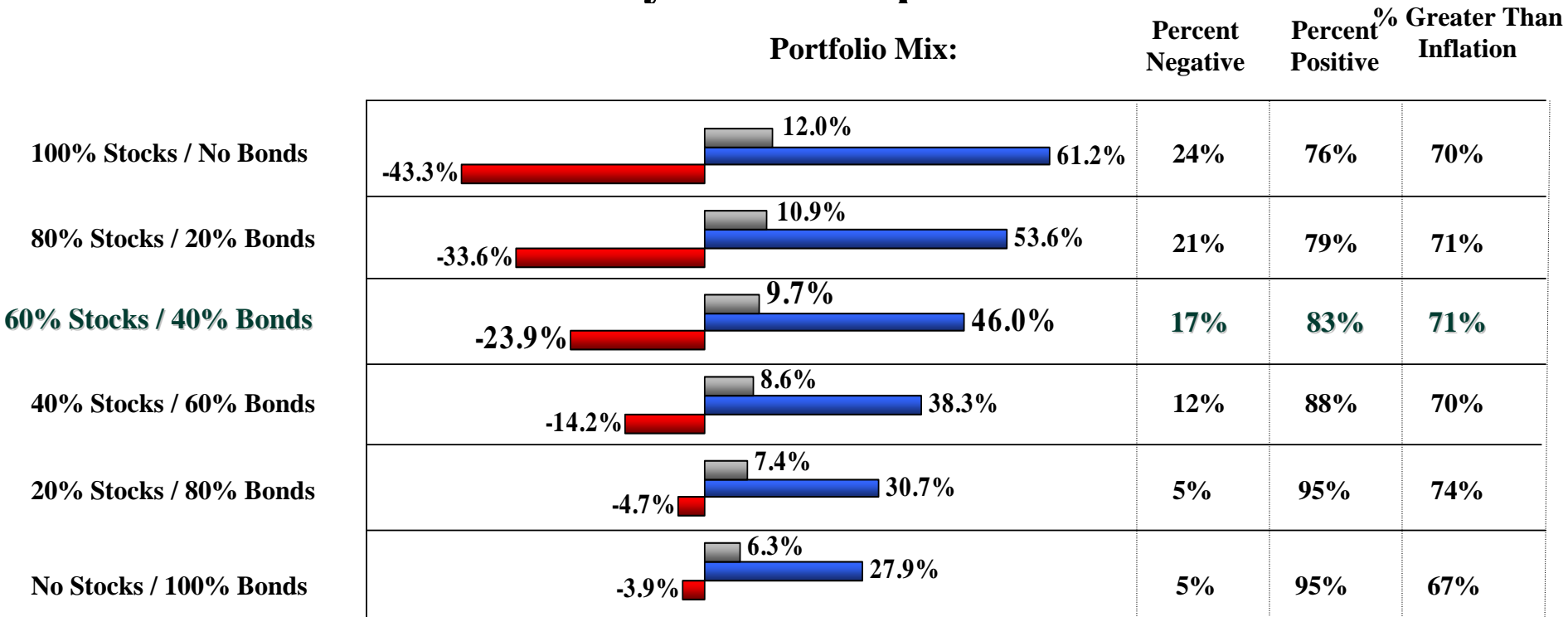
## Ten Year Returns January 1950 – September 2009



■ Worst Return ■ Largest Gain ■ Average Return

*Data: Rolling 10 year annualized returns using monthly data (597 Observations)  
 Stocks: Standard & Poor's 500 Stock Index, Bonds: Intermediate Treasury Bonds  
 Source: Crandall, Pierce & Company*

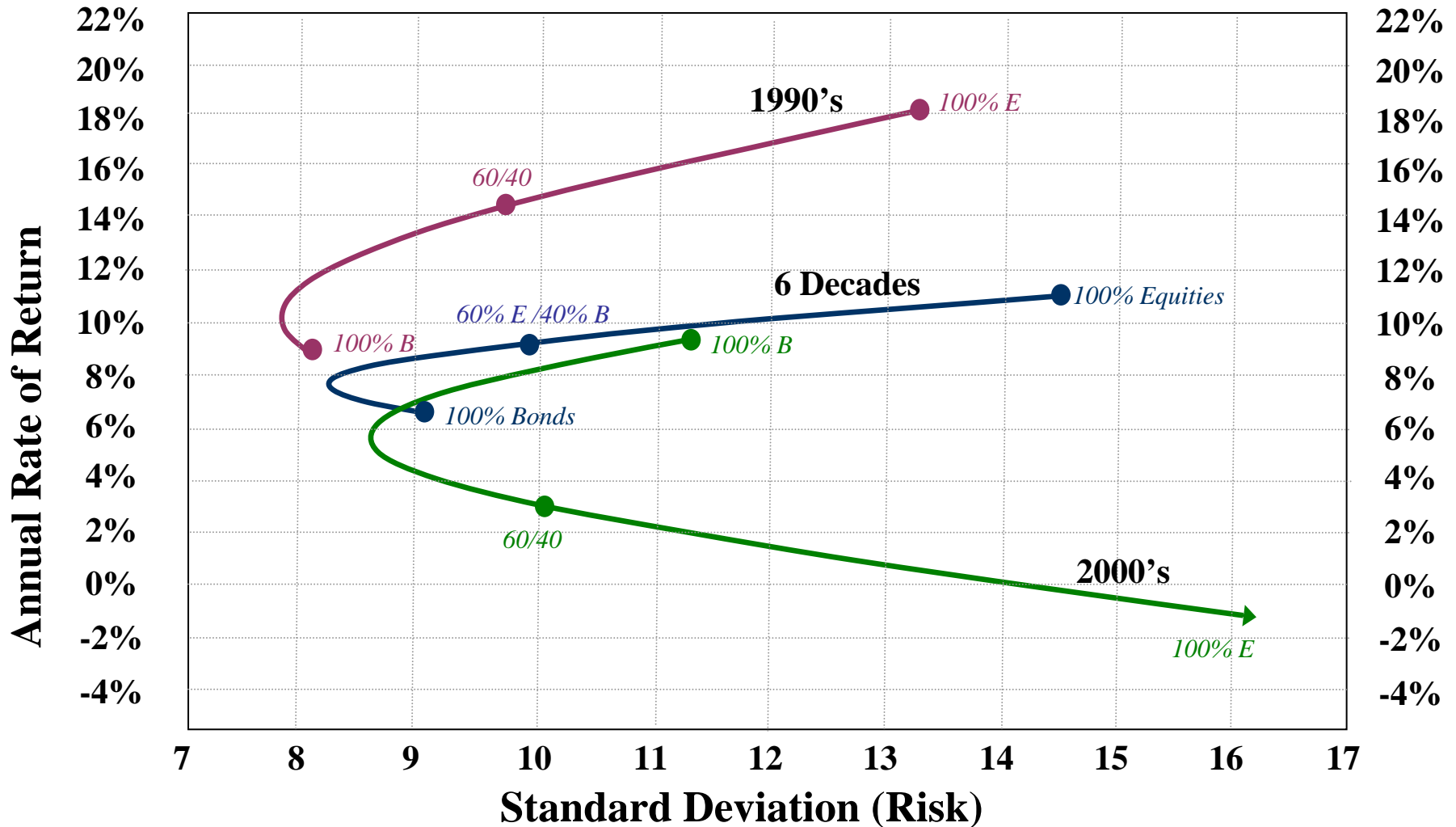
## One Year Returns January 1950 – September 2009



■ Largest Loss   
 ■ Largest Gain   
 ■ Average Return

*Data: Rolling 1 year returns using monthly data (705 Observations)*  
*Stocks: Standard & Poor's 500 Stock Index, Bonds: Intermediate Treasury Bonds*  
*Source: Crandall, Pierce & Company*

## Six Decades of Returns



Source: Crandall, Pierce & Company

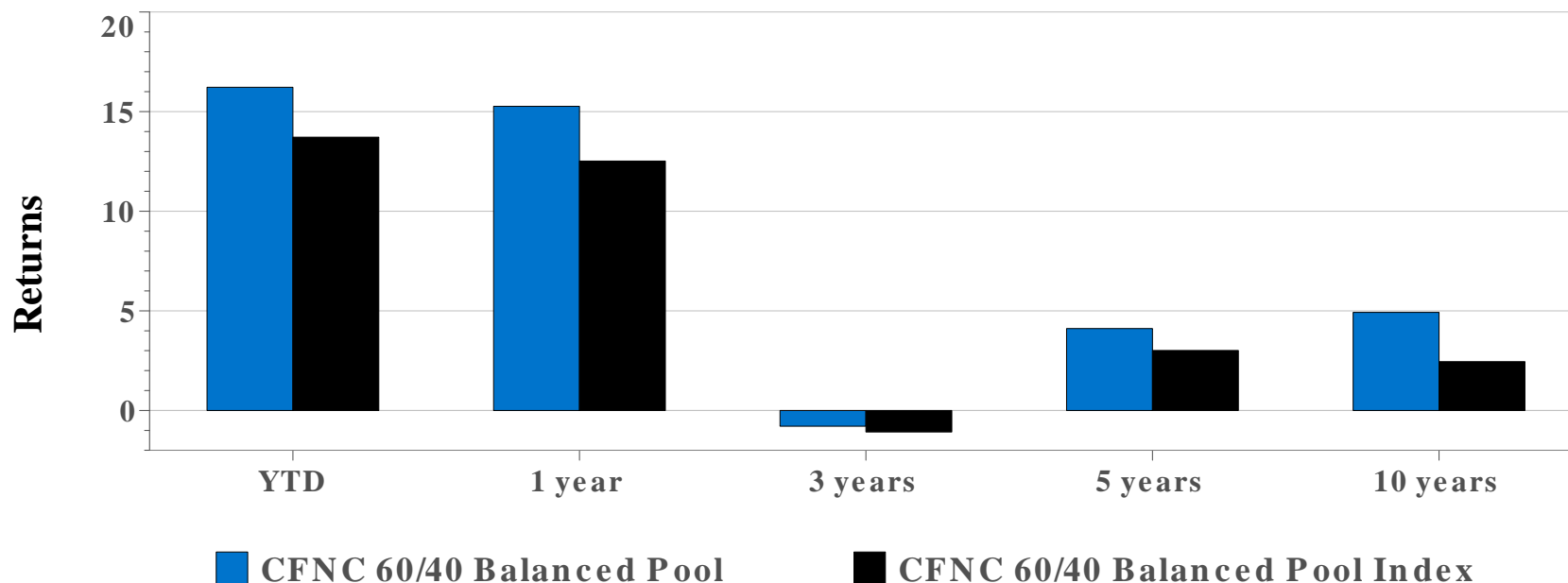
## Active Management

- Sector Mispricing
  - Stocks vs. Bonds
  - Industry Allocation
- Individual Security Mispricing
  - Stock Selection
- Diversification

## Passive Management

- Asset allocation is the key to return
- Return vs. Risk Trade-Off
  - Fair Rate of Return
- Lower Cost Strategy
- Diversification

## As of October 31, 2009



	YTD	1 year	3 years	5 years	10 years
<b>CFNC 60/40 Balanced Pool</b>	<b>16.22%</b>	<b>15.26%</b>	<b>-0.79%</b>	<b>4.11%</b>	<b>4.93%</b>
<b>CFNC 60/40 Balanced Pool Index</b>	<b>13.72%</b>	<b>12.52%</b>	<b>-1.08%</b>	<b>3.01%</b>	<b>2.45%</b>




Source: Zephyr StyleADVISOR: First National Bank.

This table provides hypothetical results based on historical performance of a blend of the DFA and IM&T portfolios from October 1, 1999 through June 30, 2006.  
Actual pool results from July 1, 2006 through October 31, 2009

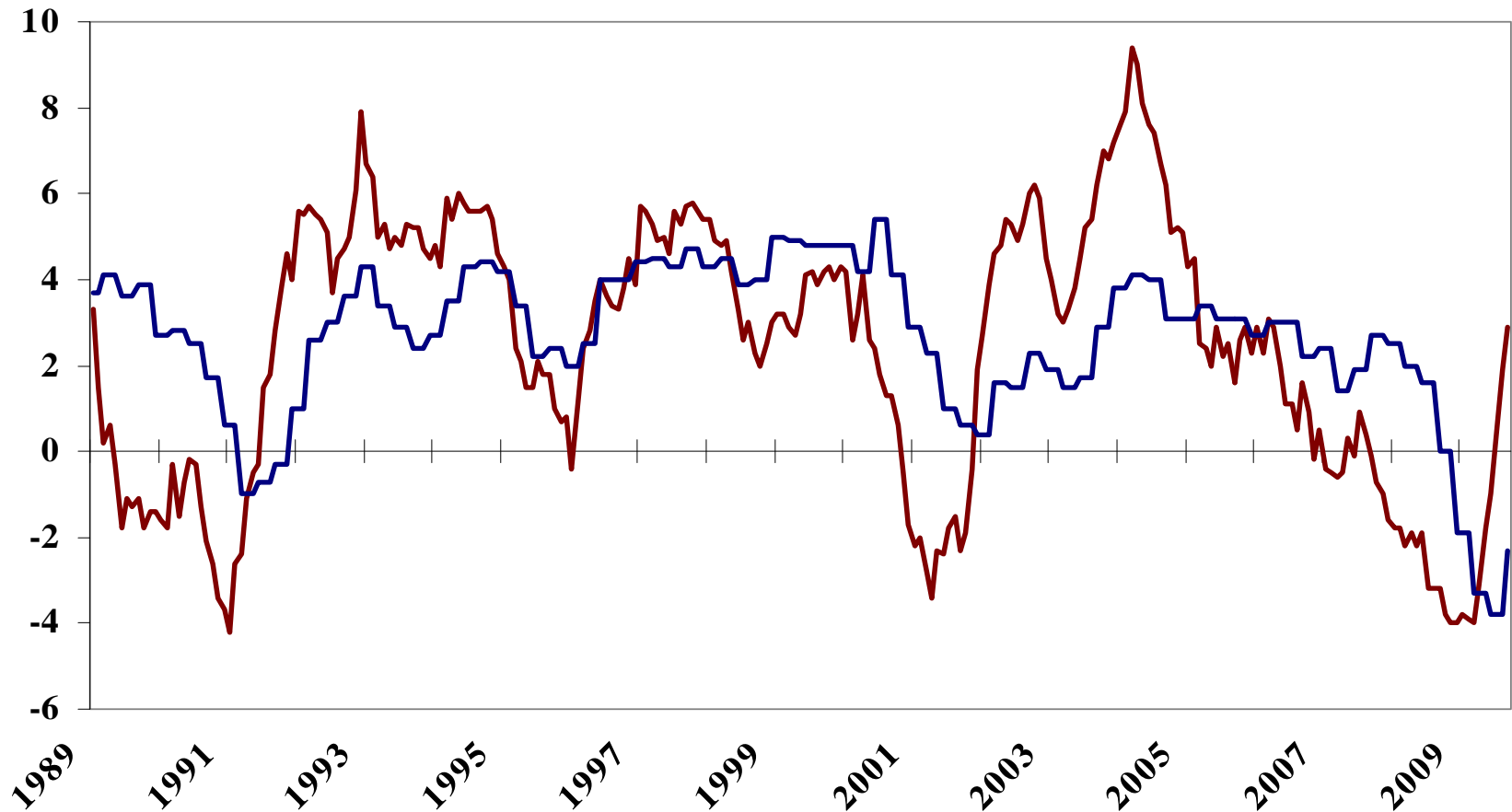
Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency • Not guaranteed by the bank • May go down in value

**2008**

**2009**

- Financial Crisis       Banking Recapitalization
- GDP -6%       2<sup>nd</sup> Half 2009 GDP +3%
- DJIA 11/30/08 8,829       DJIA 11/27/09 10,310 (+17%)

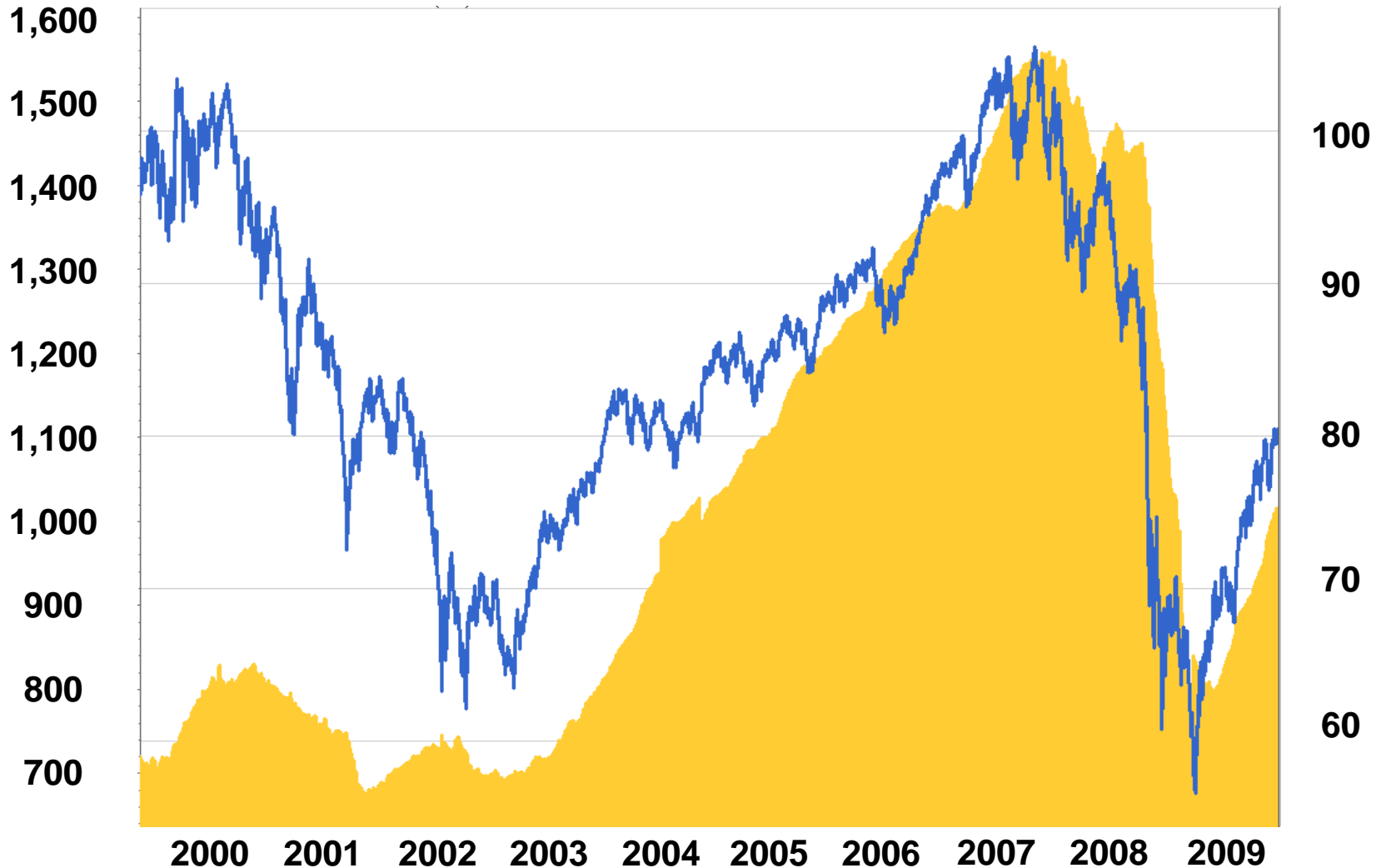
## US Leading Economic Indicators US Real GDP



Sources: Conference Board, Bureau of Economic Analysis (Bloomberg) (LEI YoY%, Real GDP YoY%SA, Chained 2005 Dollars)

# Stock Market Outlook

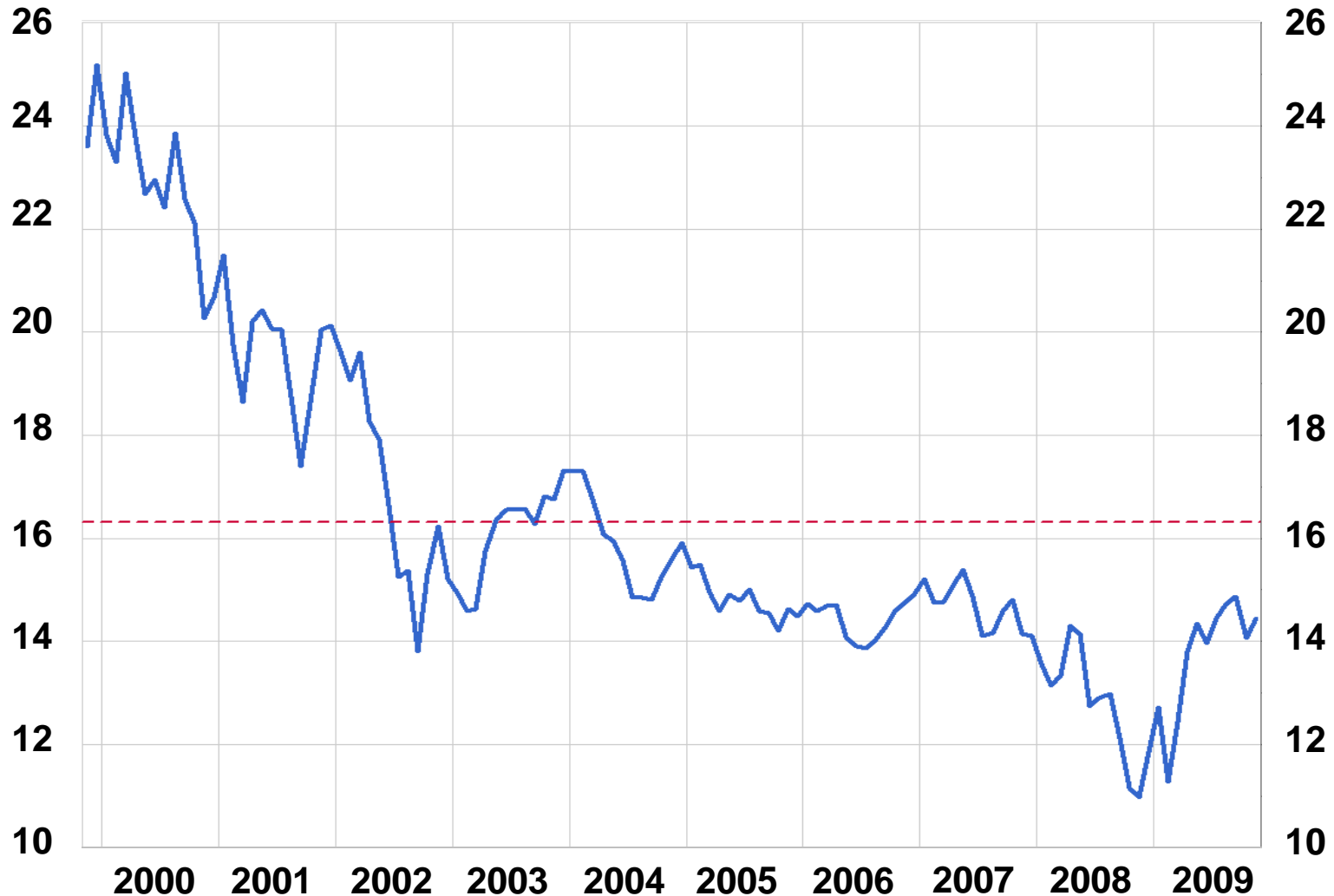
## S&P 500 Index Price and Forward Earnings



Source: FactSet Market Aggregates: S&P 500 Index Price and Next 12 months EPS

Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency Not guaranteed by the bank • May go down in value

## S&P 500 Forward Price / Earnings Ratio

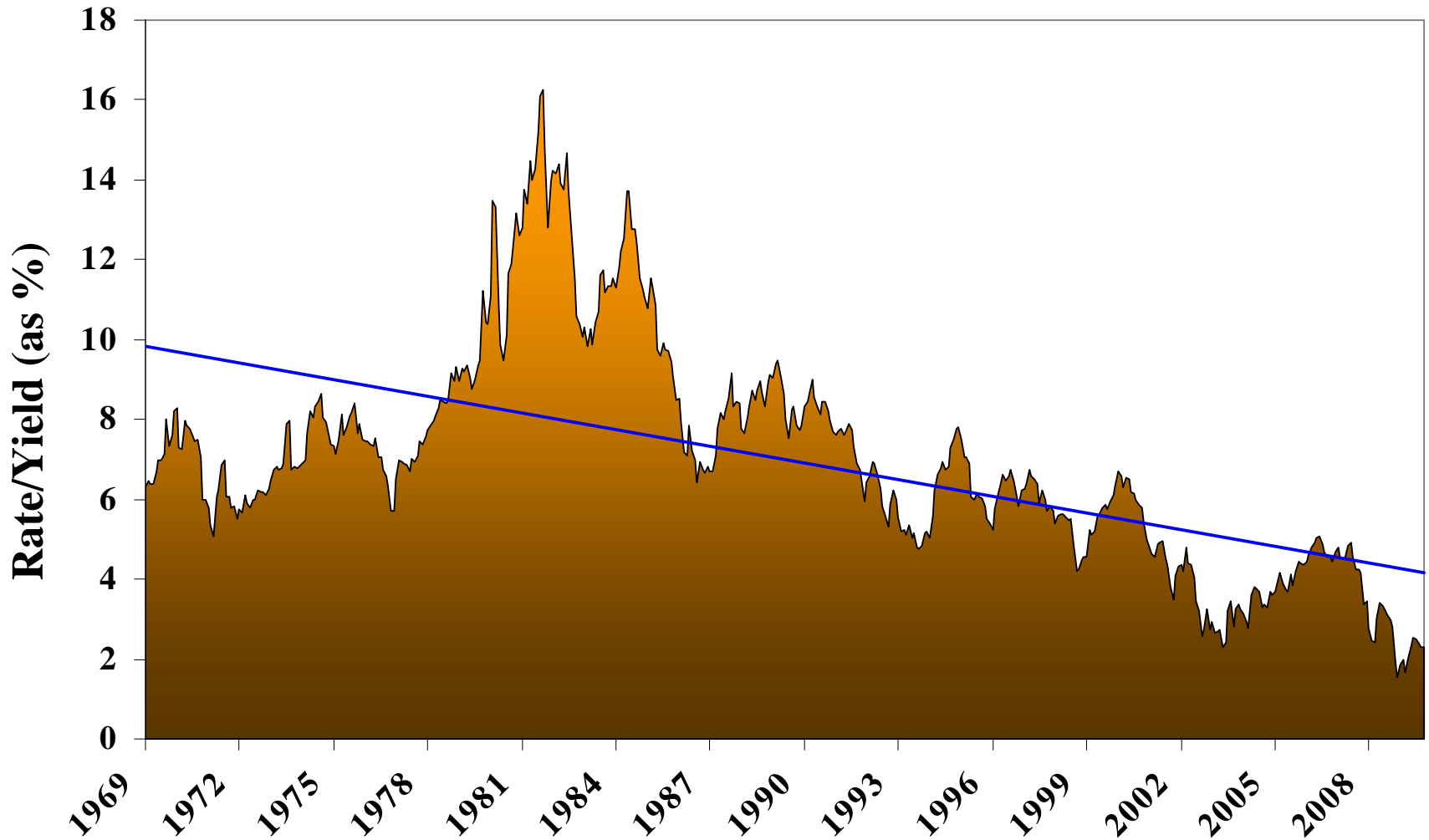


Source: FactSet Market Aggregates

Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency Not guaranteed by the bank • May go down in value

# Bond Market Fundamentals

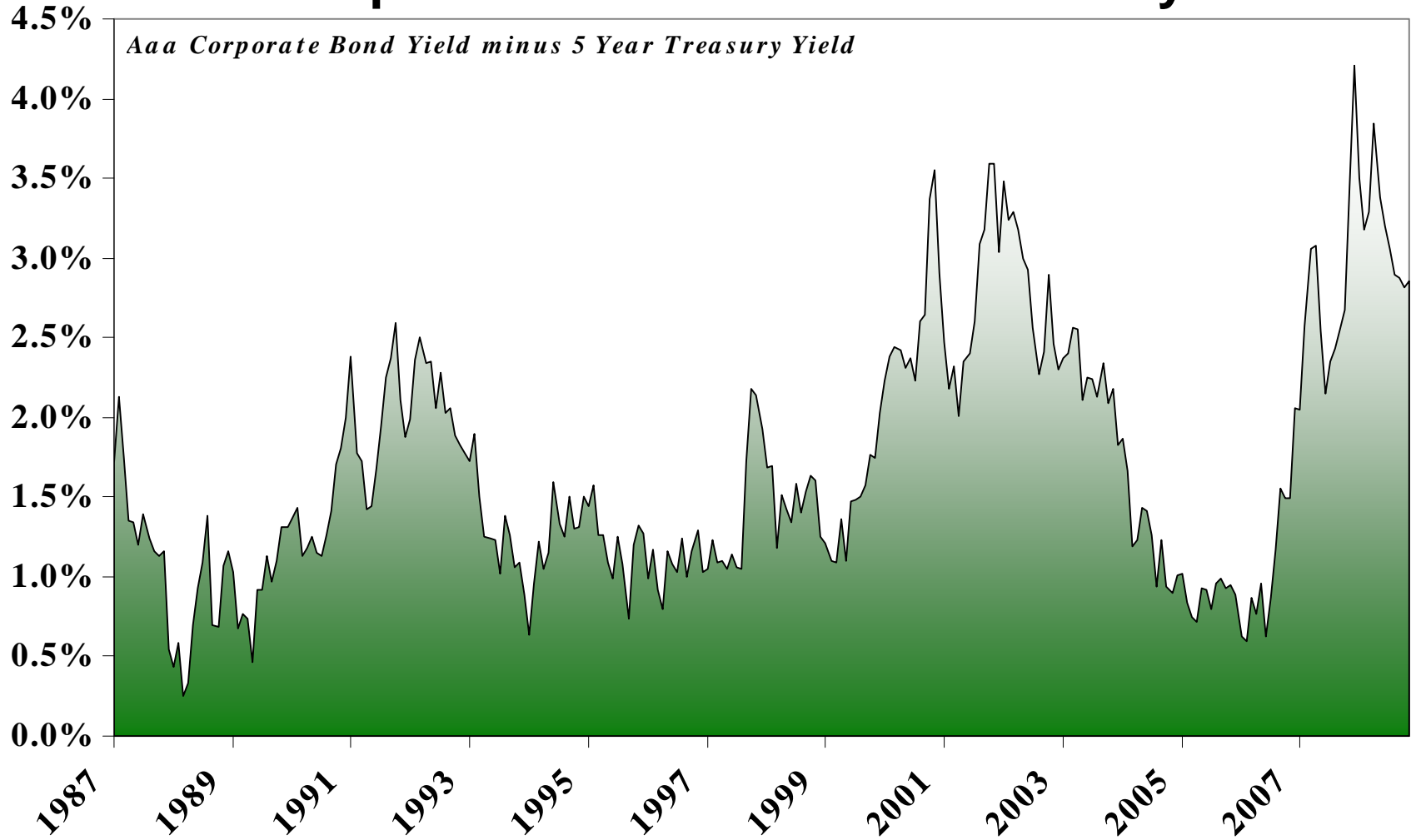
# 5 Year Treasury Yield



Source: Bloomberg Indices

Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency Not guaranteed by the bank • May go down in value

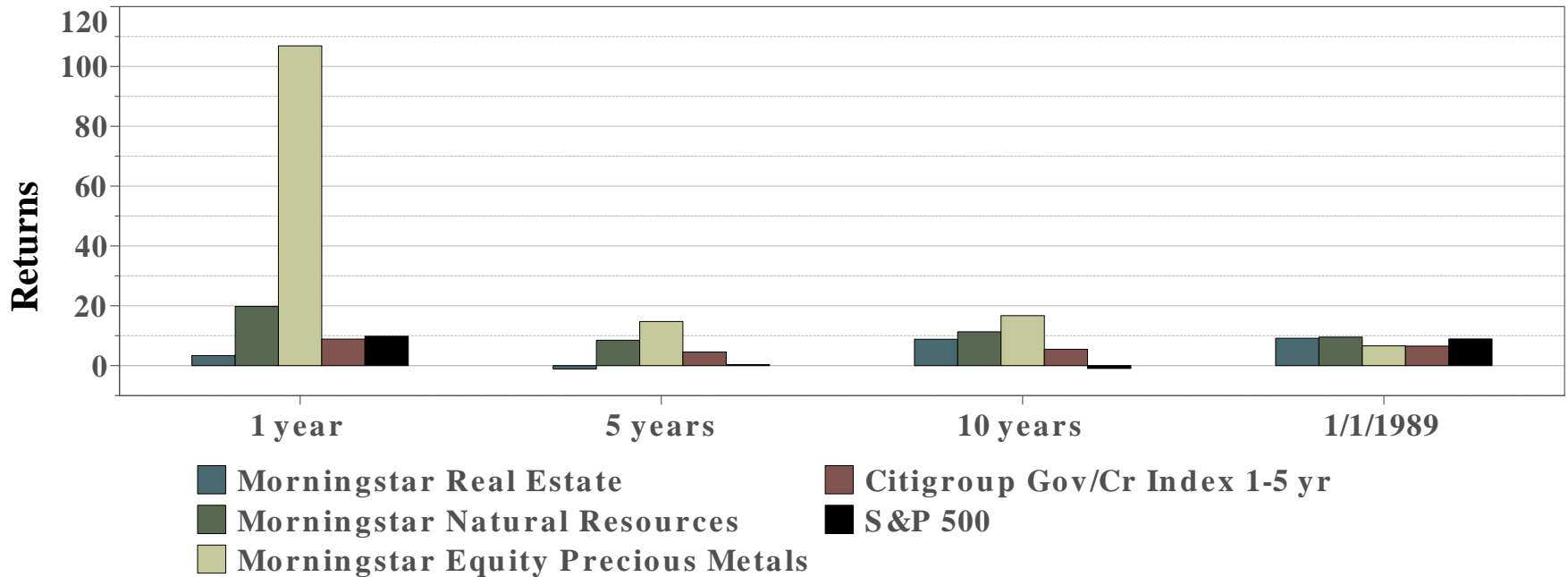
## Aaa Corporate Bond vs. 5 Year Treasury Yield



Source: Moody's Investors Service (Bloomberg), Bloomberg Indices

Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency Not guaranteed by the bank • May go down in value

## As of October 31, 2009



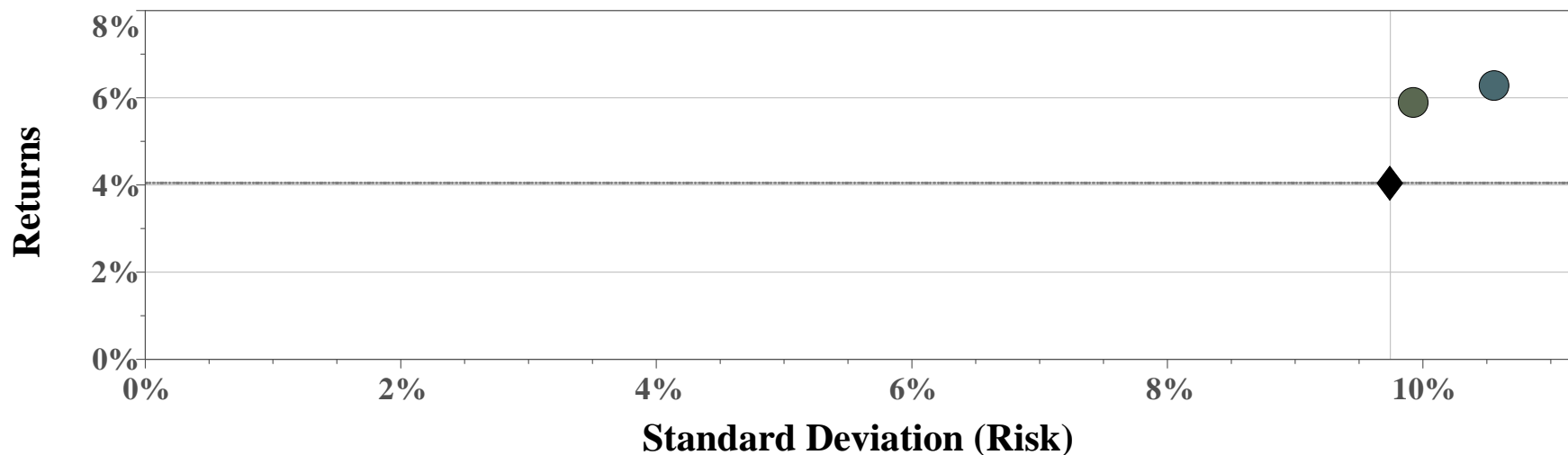
	1 year	5 years	10 years	1/1/1989
Morningstar Real Estate	3.34%	-1.16%	8.81%	9.14%
Morningstar Natural Resources	19.76%	8.47%	11.30%	9.50%
Morningstar Equity Precious Metals	106.91%	14.74%	16.71%	6.58%
Citigroup Gov/Cr Index 1-5 yr	8.86%	4.52%	5.45%	6.51%
S&P 500	9.80%	0.33%	-0.95%	8.90%

Source: Zephyr StyleADVISOR: First National Bank.

Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency • Not guaranteed by the bank • May go down in value

# Impact: 10% Alternative Allocation

**01/01/1998 – 10/31/2009**



- 90% CFNC Bal Pool, 10% Alternative
- CFNC 60/40 Balanced Pool
- ◆ 60% S&P 500, 40% Citigroup Bond

	Return	Std Dev	Beta vs. Market	Alpha vs. Market	Sharpe Ratio
90% CFNC Bal Pool, 10% Alternative	6.28%	10.56%	1.0038	2.23%	0.2900
CFNC 60/40 Balanced Pool	5.87%	9.92%	0.9684	1.92%	0.2672
60% S&P 500, 40% Citigroup Bond	4.05%	9.74%	1.0000	0.00%	0.0848

Source: Zephyr StyleADVISOR: First National Bank.

Not a deposit • Not FDIC insured • Not insured by any Federal Government Agency • Not guaranteed by the bank • May go down in value

- CFNC Balanced Pool performed well in a difficult market environment
  - Diversification
  - Low cost investment strategy
- Expected returns of 7-8% over next 10 years based on current market valuations
- Investment Committee – Evaluating alternative investments for prudent allocation in 2010