

# EQUITY MARKET OUTLOOK: QUARTERLY UPDATE

Please refer to the May 2009 PMFA research paper, "Equity Market Outlook: A Rational View," for a detailed description of our valuation process and philosophy.

## 5-Year Analysis

We provide this information to you as an update to our previously published equity research paper, "Equity Market Outlook: A Rational View" (May 2009). Please refer to it for a detailed description of our valuation process and philosophy. The following charts and graphs provide further information and update our previously published research.

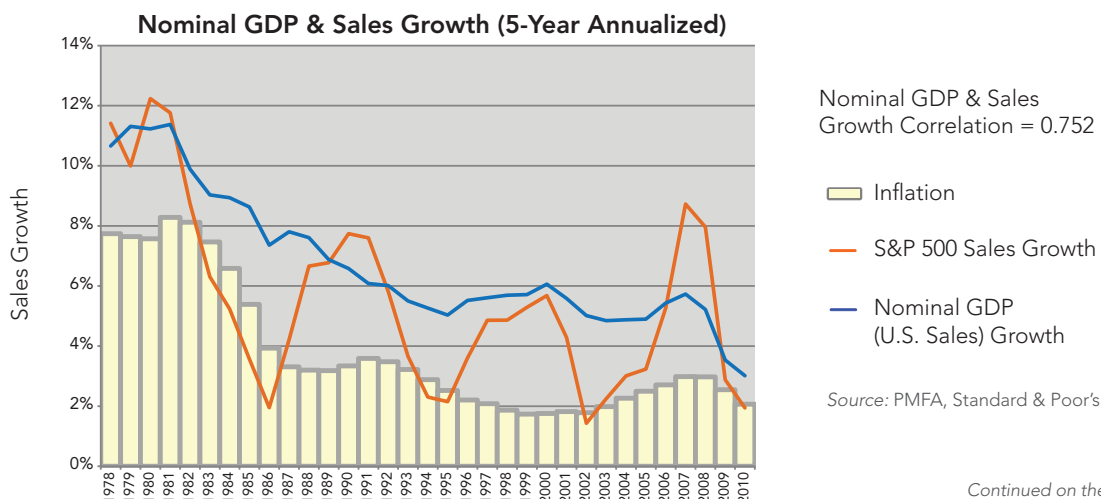
S&P 500 COMP-LTD		
Level	1320.64	30Jun11
EPS	86.95	31Mar11
Sales	981.21	31Mar11
Dividend Yield*	2.36%	30Jun11
Current PE	15.19	
Profit Margin	8.86%	

BOND YIELDS		
5-year U.S. Treasury Yield	1.76%	30Jun11
5-year BBB Bond Yield	3.43%	30Jun11

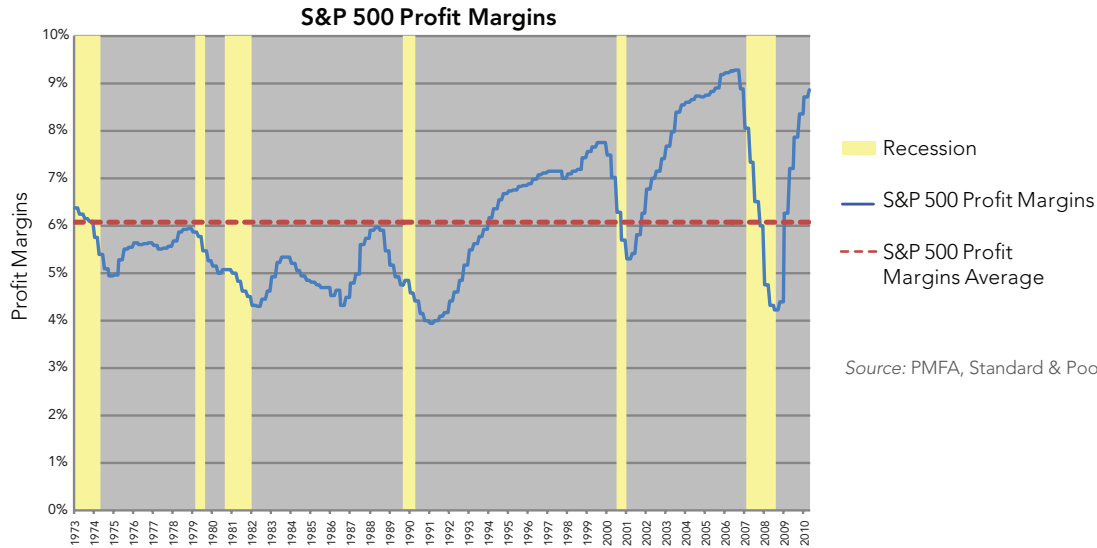
5-Year Annualized S&P 500 Sales Growth	Estimated Total Returns For 5 Years Ended 06/30/2016											
	Ending P/E Ratio: 10				Ending P/E Ratio: 16				Ending P/E Ratio: 22			
	S&P 500 Profit Margin				S&P 500 Profit Margin				S&P 500 Profit Margin			
	4.0%	6.0%	8.0%	10.0%	4.0%	6.0%	8.0%	10.0%	4.0%	6.0%	8.0%	10.0%
0.0%	-19.2%	-12.6%	-7.5%	-3.4%	-11.5%	-4.2%	1.4%	5.9%	-5.8%	2.0%	7.9%	12.7%
2.0%	-17.6%	-10.9%	-5.7%	-1.5%	-9.7%	-2.3%	3.3%	8.0%	-3.9%	4.0%	10.0%	14.9%
4.0%	-16.0%	-9.2%	-3.9%	0.4%	-8.0%	-0.4%	5.3%	10.0%	-2.1%	6.0%	12.1%	17.1%
6.0%	-14.5%	-7.5%	-2.1%	2.2%	-6.3%	1.4%	7.3%	12.1%	-0.3%	8.0%	14.2%	19.3%
8.0%	-12.9%	-5.8%	-0.3%	4.1%	-4.6%	3.3%	9.3%	14.2%	1.6%	9.9%	16.3%	21.5%
10.0%	-11.3%	-4.1%	1.5%	6.0%	-2.8%	5.2%	11.3%	16.2%	3.4%	11.9%	18.4%	23.7%

\*Divided yield does not include share buyback yield

Source: PMFA, Standard & Poor's Compustat, Bloomberg



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- Earnings growth is affected by both sales growth and overall profit margins. Sales growth has historically been positively correlated with nominal growth of gross domestic product (GDP) on a 5-year annualized basis, although significant differences have occurred. Corporate profit margins, which are crucial to equity returns in the short term to intermediate term, are affected by recessions, interest rates, labor costs, productivity, and commodity price shocks.
- Based on earnings of \$86.95, the S&P 500's price/earnings (P/E) ratio on June 30, 2011 was 15.19, slightly below its long-term average of 15.70. Future P/E ratios may be affected by many factors, including anticipated growth rates, inflation, and interest rates.
- As of June 30, 2011, the price level of the S&P 500 was approximately 1321. In order for the S&P 500 to generate returns in excess of 10%, either profit margins or P/E ratios would need to be supported at levels above their long term averages. If the next five years produce sales growth, profit margins, and P/E ratios that are similar to long-term averages, then it is reasonable to expect that the total return for the S&P 500 will be below average.

#### Past performance does not guarantee future results.

All investments include risk and have the potential for loss as well as gain.

Data sources for peer group comparisons, returns, and standard statistical data are provided by the sources referenced and are based on data obtained from recognized statistical services or other sources believed to be reliable. However, some or all information has not been verified prior to the analysis, and we do not make any representations as to its accuracy or completeness. Any analysis non-factual in nature constitutes only current opinions, which are subject to change. Benchmarks or indices are included for information purposes only to reflect the current market environment; no index is a directly tradable investment. There may be instances when consultant opinions regarding any fundamental or quantitative analysis may not agree.

The "Estimated Earnings" and "Estimated 5-Year Total Returns for the S&P 500" charts indicate expected levels based on estimated various sales growth, profit margins, and price/earnings ratio combinations. Also incorporated is the estimated dividend yield based on the current dividend yield. The estimated dividend yield assumes that current dividend rates will remain unchanged during the 5-year period. No guarantee is made or should be implied that such levels and returns can be achieved. The expected returns are hypothetical.

As such, any performance results have many inherent limitations. No representation is being made that any account will or is likely to achieve performance similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical performance does not involve financial risk, and no hypothetical calculation can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses (and incur account drawdowns) or to adhere to a particular investment position in spite of trading losses are important issues which can also adversely affect actual results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program, method, or system, which cannot be completely taken into consideration with hypothetical performance results.

The average dividend yield was calculated using actual monthly dividend yields for the time periods specified. "Other" includes the affect of reinvestment of dividends and compounding of this reinvestment.

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