Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary
April 2009

Although there has been universal agreement that our country must return to solid financial footing as quickly as possible, the U.S. government has lacked a clear and consistent path to this destination. The path has taken many turns because the issues are complex, and there is no ideal solution that satisfies all of the constituents (shareholders, bondholders, and taxpayers). Today's financial crisis is the biggest in recent history, whether measured by its speed, global reach, or the scale of its capital losses. There have been countless programs enacted and trillions of dollars committed in an effort to improve the health of financial institutions and restore the flow of credit throughout the economy. While much remains to be done, progress has been made on a number of fronts. With the fear of a systemic financial collapse greatly reduced, "animal spirits" are being restored as investors have become more willing to embrace risk.

After falling off sharply in the final quarter of 2008, consumer spending appears to be stabilizing. This is in spite of headwinds that include job losses, pay cuts, and the negative wealth effect from real estate and stock market declines. Recently, household budgets have been enhanced by a surge in refinance activity, brought about by a drop in mortgage rates to the lowest levels on record. Low mortgage rates have also led to better home sales activity. Although housing inventory is still high, affordability is rising with prices down about 30% on average nationwide since the mid-2006 peak. We are also encouraged by the consumer's rising savings rate. While higher savings necessarily lowers near-term consumption, it lays the groundwork for healthy capital formation, including investment in better technology, infrastructure, and education.

Inflation is not an immediate worry. Although energy prices have edged higher, oil is still below $50/barrel, down from $147/barrel last summer. With a surplus of aggregated supply over aggregate demand, companies across the board are finding it difficult to raise prices. Employees are accepting wage and benefit reductions in lieu of layoffs. At some point, market participants will worry more about inflation than deflation. The tipping point will be when we see the supply of money being created by authorities overwhelm the wealth being destroyed by asset write downs, defaults, and deleveraging. When the economy recovers, the Federal Reserve must stand ready to remove the excess liquidity in a timely manner. Since this is a difficult task to accomplish, uncomfortably high inflation remains an intermediate-term concern.

The pillars are in place for a cyclical upturn in the economy due to the substantial fiscal and monetary stimulus, improvement in the credit markets, and tentative recovery in the housing market. While gross domestic product (GDP) will clearly be negative in the first quarter, we expect steady improvement as the year progresses. Data from a series of recent economic reports, from manufacturing to durable goods to retail sales, have been better than expectations. While corporate earnings and company outlooks are still poor, worldwide manufacturing is still depressed, and unemployment continues to rise, a significant number of companies that we follow have experienced stabilization of their businesses. Economic and corporate news does not have to be wonderful for the markets to turn; all that is required is for the news to stop getting worse. Consistent-growth stocks are attractively priced, especially companies that offer productivity-enhancing solutions and cash-rich companies that have sustainable competitive advantages. We also perceive value in select corporate bonds. Our cash flow analysis leads us to conclude that embedded in these bonds is an unwarranted level of default risk, and prices should rise as the economic outlook brightens.

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To request our SEC Form ADV Part II, please contact Michael L. Wise, Chief Compliance Officer, at the address below.

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