Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary
January 2011

After a temporary slowdown last spring and summer, U.S. economic growth accelerated in the final months of 2010. The manufacturing sector rebounded strongly. Consumer spending levels surpassed the highs of 2007 due to strong private wage and salary growth combined with considerable improvement in household financial conditions. Availability of credit improved markedly in the second half of the year, and banks began lending again after a long drought. We believe economic growth will continue to strengthen, and our 3½% growth forecast for 2011 could surprise on the upside. Firms that had been reluctant to hire will add jobs at a more rapid pace as economic and political uncertainties abate. Consumer spending should remain strong as consumers have the wherewithal to buy more discretionary items, even as they continue to pare down debt. With the generation of copious amounts of cash and robust corporate profits, businesses should feel increasingly comfortable expanding payrolls, investing in equipment, making acquisitions, and returning cash to shareholders in the form of higher dividends.

Two significant developments that occurred during the second half of 2010 will continue to drive the economic expansion. First, the Federal Reserve made it abundantly clear that monetary policy would remain highly accommodative by enacting another round of asset purchases (QE2) and keeping the federal funds rate near 0% for the foreseeable future. Second, the mid-term elections shifted the administration's focus toward providing incentives for business investment and innovation in order to create more jobs. President Obama signed a new trade initiative, and the latest tax bill provides an extension of the 2003 tax rates, a payroll tax cut for employees, and incentives for businesses to make capital investments. There is also preliminary talk of a sizable reduction in the corporate tax rate in return for closing loopholes and certain deductions. We commend policy that makes U.S. firms more competitive because it lays the foundation for sustainable economic growth.

Bond yields rose in the second half of last year. The upward pressure on yields is expected to continue in 2011 as the economy strengthens, risk aversion lessens, and our government lacks the resolve to rein in spending. However, an accommodative Federal Reserve and subdued inflation should keep yields from rising too much. We expect core inflation to remain low due to unused production capacity and a deleveraging private sector. While inflationary expectations are currently under control, we are cognizant of the fact these expectations can change quickly.

Investors have favored bonds over stocks for the last three years, but recently we have seen a shift in the other direction. We believe this trend will accelerate in 2011 as investors find the very low yields on money market funds and bonds unsatisfying. Investors will also gravitate toward stocks as conviction grows in the sustainability of the economic expansion. The combination of improving GDP growth along with low inflation and historically low interest rates is highly conducive to continued gains in the stock market. We also note that current Federal Reserve policy is designed to inflate asset prices, and we believe in the adage: "Don't fight the Fed." We expect both monetary and fiscal policy to remain supportive of stocks in 2011. After strong gains in small and mid-cap stocks last year, we see considerable value in large, multinational stocks with above average yields. Barring an unforeseen shock, 2011 has the potential to be another prosperous year.

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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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