Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary
July 2009

In the latest quarter, the stock market and the credit markets improved considerably as investors let out a collective sigh of relief that perhaps the worst is behind us. The government has been very active since the credit crisis began. Government spending is filling the void vacated by a cautious and credit constrained private sector. Approximately 70 percent of U.S. GDP is consumption, and consumption is below-trend due to high unemployment, falling wages and benefits, and a savings rate that is ratcheting higher. Although the government is providing a welcome near term stop-gap, we wonder about the unintended, longer term consequences of heightened government involvement. The government already owns controlling interests in Fannie Mae, Freddie Mac, AIG, Citigroup, GM and Chrysler. Although President Obama professes to support free market principles, policy initiatives related to health care, energy, and financial market regulation suggest otherwise. Obama announced sweeping regulatory changes that could result in government ownership of our large financial institutions deemed “too big to fail.” The inclusion of a public option in President Obama’s Health Care Reform initiative is another example of intentions to greatly expand government. Even without passage of these proposed reforms, our country is already running an unprecedented trillion dollar deficit. Our concern arises because increased government intervention, via regulations and higher taxes, has historically suppressed economic growth potential. Innovation by the private sector is what ultimately fuels sustainable growth.

Efforts to revive the economy are having a positive near term impact. While growth has not yet returned to the U.S. economy, we are no longer experiencing the severe declines witnessed during the peak of the credit crisis. The Index of Leading Economic Indicators rose a better than expected 1.2% in May, following a 1.7% gain in April – the first back-to-back monthly increase in almost three years. Massive monetary and fiscal stimulus is making its way through the economy. The U.S. housing market continues to show tentative signs of recovery. Aided by inventory replenishment and a rebound in auto production, a cyclical recovery could emerge later this year.

Although inflation may be problematic longer term due to the expansion of our government’s balance sheet, an unwelcome advance in inflation is not an immediate concern. Resource utilization rates have typically been powerful drivers of inflation trends. Capacity utilization is around 65%, well below the 80% level considered “normal.” Companies tend to have difficulty raising prices in such an environment. The collapse in the velocity of money and high levels of unemployment are also deflationary. Although some fear the Federal Reserve may hike rates later this year, a careful reading of Chairman Bernanke’s past speeches suggests that action would be unlikely.

Throughout this economic downturn, we have stayed true to our investment philosophy by investing in financially strong and fundamentally sound companies. The knowledge and confidence we gain by conducting our own due diligence allows us to invest in companies that may be experiencing temporary earnings weakness, yet have strong long-term prospects. Skittish investor sentiment will probably lead to continued volatility through year end. We believe rebounding corporate profits, reasonable valuations, accommodative interest rates, and improving credit conditions are supportive of further stock price appreciation. With the yield differential over U.S. Treasury securities still fairly wide, high quality corporate bonds also remain attractive for income investors.

Christi Gromer Salm, CFA

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

18 JEWELERS PARK DRIVE • SUITE 200
P.O. BOX 628 • NEENAH, WISCONSIN 54957-0628
920-727-1137 • FAX 920-727-1139
sbw@sbw-invest.com • www.sbw-invest.com