Schaper, Benz & Wise
INVESTMENT COUNSEL, INC.

Economic and Market Summary
April 2010

The U.S. economy is in the early stages of recovery, and momentum behind the advance is strong. During the financial panic, companies cut production, employment, and investment severely. Inventories fell far below already weak final sales. Employment experienced the deepest two year decline in the post-war period. Business investment fell below maintenance and depreciation. In response, the government provided a heavy dose of monetary and fiscal stimulus to offset the contraction in the private sector. As momentum from the stimulus starts to fade later this year, the private sector is poised to sustain the recovery. After some hesitancy earlier in the year, confidence has been steadily improving. Inventories are being replenished, and consumers are feeling increasingly comfortable buying non-discretionary items. The combination of improving demand and deep expense reduction has led to explosive profit growth. The profits are being deployed into business investment, such as computers, software, and machinery, and the hiring of additional workers to meet rising demand. While unemployment is still high at 9.7%, the private sector added 123,000 jobs last month, the largest increase since May 2007. Private payrolls have increased in each of the last three months. At the same time, the average workweek has been moving up steadily. The increase in total hours worked has resulted in strong gains in wage and salary income, giving consumers the wherewithal to spend. After rising at about a 2% annualized pace in the second half of 2009, consumer spending is on track to advance more than 3% in the latest quarter. We continue to expect 2010 GDP growth to be in the 3% to 4% range, fueled by healthy personal consumption expenditures and private domestic investment.

The possibility of a sovereign debt default in Greece has put the spotlight on the public debt of countries worldwide. Greece is important because hundreds of billions worth of its debt is owned by European banks, and these banks are still highly leveraged. With trust quickly evaporating, the government has had to raise rates considerably to attract buyers of its debt. Could that scenario play out in the U.S.? The U.S. is unique in that the U.S. dollar is the world's reserve currency. For the time being, our country can print more dollars to fund its growing debt burden. At some point, the U.S. must deal with its higher fiscal deficits and trillions in unfunded entitlement liabilities. The path we are on is unsustainable. Having more tax revenue diverted toward non-productive activities lowers the economic growth rate of our country. Like Greece, we could see interest rates move upwards as demand for our debt fails to meet the burgeoning supply.

Over the past 12 months, the consumer price index (CPI) has risen 2.1%, while core CPI (ex food and energy) has been decelerating. In February, core CPI advanced 1.3% year-over-year, the smallest increase in six years. Because we are experiencing both low inflation and high unemployment, the Federal Reserve will likely be on hold for some time. In our opinion, the Federal Reserve would rather err on the side of creating too much inflation rather than risk tightening early and having the economy slip back into recession. We find the current low level of bond yields unappealing. Until yields move high enough to provide adequate compensation for inflation and credit risk, we remain cautious on bonds.

Stocks continue to look reasonably valued, despite the 70%+ move in the S&P 500 index since the March 2009 bottom. The S&P 500 index is back to a level first attained in 1998 and is trading at 15x estimated 2010 earnings per share. Our positive outlook for stocks is based upon attractive fundamental drivers which include accommodative monetary policy, subdued inflation and robust corporate profits in the year ahead.

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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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