

## AUGUST HIGHLIGHTS

- Ben Bernanke was re-nominated to a four year term as Federal Reserve Chairman by President Obama.
- Indices crossed major thresholds to the plus-side:
  - S&P 500-1,000
  - Dow-9,500
  - Nasdaq-2,000
- Leading Economic Indicators rose 0.6%, the fourth straight monthly gain.
- August major retail results were uneven, with discounters doing well while up-market sellers continue to struggle.
- August was the 6th consecutive month of positive return for the S&P 500.

## AUGUST STOCK MARKET BAROMETER and KEY RATES



US Unemployment	9.70%
MI Unemployment	15.00%
3 Month T-Bill	0.13%
10 Year Treasury Note	3.40%
Prime	3.25%
Avg. 30 Yr Fixed Mortgage	5.27%
Avg. 1 Yr Jumbo CD	1.55%

## THE NEW NORMAL

What will our economy look like when we finally emerge from the recessionary malaise we currently find ourselves in? Will we return to the days of growing U.S. GDP (being the total amount of goods and services produced) by 5% annually without breaking a sweat? Some in the investment community believe that we will slingshot out of the economic doldrums forming a "V-shaped" recovery and return to that norm, while others believe that the process will be slower and "new normal" of 3 to 3.5% GDP growth will be the best we can expect.

Unfortunately, we are of the belief that there will be a new, less robust normal growth scenario for the U.S., at least in the short run. Gone is the era of ever abundant funding (i.e. easy credit, cheap money, elevated risk taking) to fuel our economic fire...at least for the time being. One might think that 2% difference in GDP growth isn't a tremendous issue, but those two percentage points have serious ramifications. Lower GDP growth will result in fewer job opportunities, which could permanently raise unemployment levels to a new normal of 8% instead of the 5% percent we have grown accustomed to in good times. With fewer people working there is lower demand for all of the products and services that we consume. So, instead of 16 million autos sold in the U.S. every year it could be more like 12 million. This would be the common theme for the majority of businesses and the overarching economy... a new, definitely more challenging, normal. Our Investment Philosophy fully considers these potential ramifications and it reflects in the way we manage client assets and discuss financial plans.

## EMERGING MARKETS - NO LONGER AN AFTERTHOUGHT?

With major developed countries facing an uphill battle to economic recovery, the world will have to look elsewhere for growth. Look no further than emerging / developing countries, and more specifically the BRICs (Brazil, Russia, India, China). These economies are a growth story that will shape the face of global economic development for many years to come. In the past these emerging countries relied on exporting goods to the United States and other developed nations, but now their economies can support internal consumption. As the United States has seen its middle class wane, developing countries have seen their middle class ranks surge. However, their income per capita is still miniscule in comparison to the United States, giving ample room for growth. It is expected that by 2010 half of global consumption growth will be attributed to the BRIC countries. In many of the emerging countries you can count on your hand the number of cars per 100 people, while interestingly auto sales have contributed the most to China's retail sales growth over the past six months. The emerging markets' middle class explosion appears certain to alter the dynamic of consumption, the use of world resources, and the political atmosphere.

**ABOUT US**

MBT Wealth Management Group is the Asset Management division of MBT Financial Corp., a \$1.4 Billion bank based in Monroe, Michigan. We primarily engage clients in fee-based, highly service-oriented investment accounts tailored to their specific needs. We also offer commission-based and insurance services through MBT Investments, our local brokerage option. We appreciate the support our clients have given us since 1942 in allowing us to serve their financial needs with sophisticated products and proactive service.

**2009 MARKET CHEAT SHEET - Here's all you seemingly need to know!**

- Weak data = Fed ease, stocks rally
- Consensus data = lower volatility, stocks rally
- Strong data = economy strengthening, stocks rally
- Bank loses \$4 billion = bad news out of the way, stocks rally
- Oil spikes = great for energy companies, stocks rally
- Oil drops = great for the consumer, stocks rally
- Dollar plunges = great for multinationals, stocks rally
- Dollar spikes = lowers inflation, stocks rally
- Inflation spikes = will inflate all assets, stocks rally

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**EARNINGS SURPRISES, BUT...**

The majority of publicly traded companies have reported their second quarter earnings and most have exceeded analysts' estimates. In return, the stock market has taken a euphoric run to the upside. The stock market moves primarily on expectations, and if information is released that isn't expected by the investment community there is usually price volatility.

When we look closer at the numbers that are being reported, there isn't much to be euphoric about (See table below). We can see that in aggregate the companies that have reported have seen earnings per share contract by over 40%. This is a disconcerting fact given that many corporations have cut costs in order to preserve margins, a tactic that will not hold up forever. A recovery will be apparent when we see revenue numbers stabilize and grow. The market will only reward numbers seen in the table below for so long before it again becomes wary.

**U.S. Publicly Traded Companies Second Quarter EPS Results**

Sector	Reported	Total	Growth	Positive Growth	Negative Growth	Surprise	Positive Surprise	Negative Surprise
All Securities	5312	5908	-42.41%	1805	2617	5.60%	1935	965
Energy	352	379	-65.38%	97	217	1.19%	128	107
Materials	238	261	-71.32%	56	129	35.77%	81	49
Industrials	599	691	-39.91%	156	375	14.20%	248	134
Consumer Discretionary	651	753	-33.74%	234	320	24.08%	286	125
Consumer Staples	172	201	-5.21%	89	60	5.52%	70	22
Health Care	732	799	-20.32%	397	218	-10.49%	289	126
Financials	1160	1212	-91.80%	333	736	-6.78%	386	231
Technology	848	961	-18.28%	291	376	15.78%	360	125
Telecom	73	78	-5.20%	33	30	12.98%	28	13
Utilities	120	130	-4.72%	51	61	7.30%	59	31

Source: Bloomberg

**WMG STRATEGY CORNER**

Our Investment strategy going into September 2009 continues to be conservatively biased, with an increasing tolerance for risk versus last quarter. Our equity strategy emphasizes Large Cap stocks, with specific overweighting in Materials, Energy, Technology and Industrials as cyclical stocks continue their recovery. We've underweighted Consumer stocks as we view the consumer recovery to be less robust. We maintain significant asset allocations to Small Caps, Developing Markets, and Alternatives, such as Commodities, Real Estate and other non-correlated assets.

In Fixed Income we are currently emphasizing investment-grade credits with short-to-intermediate term maturities, and we are carrying a significant allocation in high-yield and international bonds. We continue to participate in the recent bond bull market. However, we have reservations regarding the long-term sustainability of the rally and are regularly evaluating our current bond allocations. Stay tuned.

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