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Bowen, Hanes & Company
Incorporated

TO: Board of Trustees
Pension Fund for Firefighters and Police Officers, Tampa, Florida

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RE: Investment Summary

In our view, for those investors willing to broaden their horizons there are several positive catalysts that could lead to substantially higher stock prices over the next 12-18 months. Importantly, the message that the market has given us over the last several weeks has been both revealing and instructive. Since its lows in November, stocks have absorbed a barrage of negative economic and corporate news with minimal damage, which means that this dire outlook has most likely already been priced in at current levels. Of particular note was the strong turnaround staged by equities after the much worse than expected employment report for November. Also, several profit warnings from companies in a variety of industries have been met with their stock prices trending sideways to higher, another signal that the vast majority of bad news and even more has been priced into the market. This pattern is consistent with what occurred during the economic and market downturns in 1973-1974 and 1981-1982. In both these instances, when the economic and corporate news was the bleakest, stocks bottomed and the market began a new uptrend. Other catalysts include:

- Globally coordinated monetary easing in general and, specifically, quantitative easing from the Federal Reserve Board. The December minutes from the Federal Open Market Committee meeting clearly indicate that the Fed is willing to move above and beyond a zero interest rate policy and use a variety of unconventional tools to help ease the crisis.
- Falling energy and raw material costs. This will help corporate America by raising bottom line growth and expanding profit margins. It will also help consumers by acting as an economy-wide tax cut and raising disposable incomes.
- Falling labor costs. This will also help profits and profit margins.
- Falling mortgage rates. While the housing market is in for a long workout period, falling mortgage rates, combined with other government initiatives, should help stabilize the situation during 2009 and put the sector in a position to begin a recovery in 2010.
- Relatively steep Treasury bond yield curve and corporate bond yield curve. Historically, this has been a signal for an improved stock market environment looking out 12-18 months.
- Relatively wide credit quality spreads. Both corporate to Treasury spreads and investment grade to non-investment grade corporate spreads are signaling an improved economic and financial environment looking out over the next 1-2 years, which should occur as these spreads gradually narrow.

Investors should not obsess about 2009 profits, as companies are being extremely cautious in such an uncertain environment and setting the bar low. The key question they should be asking is will earnings trough in 2009 with significantly improved prospects for 2010. The goal should be to position the portfolio in companies that have a good shot at raising their guidance a year from today, as the current measures being implemented on the monetary and fiscal fronts set the stage for a ramp up in global economic activity in 2010. Thus, we continue to be comfortable with our target of 12,000 on the DJIA and 1,200 on the S&P 500 by the end of 2010. As we have mentioned previously, this forecast is predicated upon maintaining a free and open international trading system, continued coordination by global monetary authorities, and no tax increases on capital or income during the next two years. We would expect the market to begin discounting this improved outlook during the second half of 2009. In the interim, we continue to believe that we are in a base-building trading range and that stocks bottomed last November.

Regarding the impending stimulus package, it is imperative that the extraordinary measures that the Fed has implemented on the monetary front be matched by equally bold actions on the fiscal front in order to pull us out of the current deflationary doldrums, raise the velocity (or turnover) of money, and prevent the U.S. from securing her own Japanese style "lost decade." Monetary policy alone cannot solve our economic ills. It is instructive to examine the depression-era U.S. and Japan of the 1990's to determine what policies not to pursue. In both these cases, there was an aggressive expansion of the size and scope of government, with public works programs and infrastructure spending playing a dominant role. In both instances, federal spending, as a share of GDP, and the unemployment rate surged, which is not the correlation public policy officials were hoping for, while the velocity of money and economic growth rate stagnated. In fact, the benefits of government spending stimulus net out to zero or are potentially negative because of decreased output, increased debt levels, and increased future tax liabilities. So the Fed has provided us with the bullets but no weapon; and now we need fiscal policy to provide us with the gun to make the ammunition potent, thus raising the velocity of money -- not the fiscal policy of the depression-era U.S. or 1990's Japan, but one based on growing the private sector's share of the economy through increasing incentives for work, risk taking, capital formation, and investment. This can be done by reducing the tax burden on corporations, individuals, and capital. To achieve their desired impact from an incentive standpoint, the reductions should be across the board and not targeted toward those who have no federal tax burden via a refundable tax credit. The best way to help these workers would be to implement a payroll tax holiday which would raise after-tax incomes. If the federal government is going to use its balance sheet in an attempt to spur economic growth, priority should be given to reducing the tax burden and growing private sector payrolls, as opposed to expanding the government's share of GDP through public works programs. Economic history is replete with examples of policy responses that resulted in unintended consequences and did not solve the underlying problems for which they were designed. Our monetary authorities are already way out ahead of the mistakes made by the Federal Reserve Board during the great depression and the Japanese central bank during the 1990's and are moving above and beyond a zero interest rate policy. It is now time for our fiscal policy authorities to step up to the plate and

deliver a powerful growth-oriented blow that will raise velocity, private sector job growth, real incomes, and economic growth.

Notwithstanding our forecast for stocks over the next couple of years, longer term there are issues emerging that could negatively impact profits, productivity and overall economic growth. The core issue revolves around the exceedingly large and unprecedented obligations taken on by the federal government, which are only likely to accelerate over the next few years. A variety of government mandated cost increases, particularly involving healthcare and environmental issues, and new broad-based levies in the form of a carbon tax and/or a European style VAT (value added tax) will most likely be contemplated to generate revenue. These prospective developments have the potential to put the U.S. on a glide path towards higher levels of taxes and federal spending as a share of GDP and could also have implications for inflation and interest rates. With stocks serving as a discounting mechanism, it is imperative that these developments be monitored closely.

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