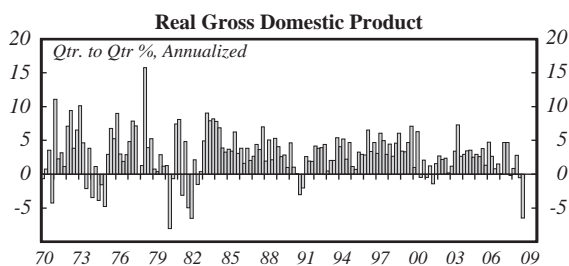


WENTWORTH, HAUSER AND VIOLICH

REVIEW AND OUTLOOK - SPRING 2009

The United States economy, as measured by Gross Domestic Product (GDP), the total output of goods and services within the U.S., fell off a cliff in the fourth quarter of 2008 and the first quarter of 2009. GDP declined at a quarterly annualized rate of 6.3 percent in the last quarter of 2008.



For the first quarter of 2009, economists are estimating a decline of 5 to 7 percent. Virtually all sectors of GDP have experienced a contraction including consumption, business fixed investment, residential investment, industrial production and exports. The only sector to experience an increase was government. Household net worth has declined for six consecutive quarters through March

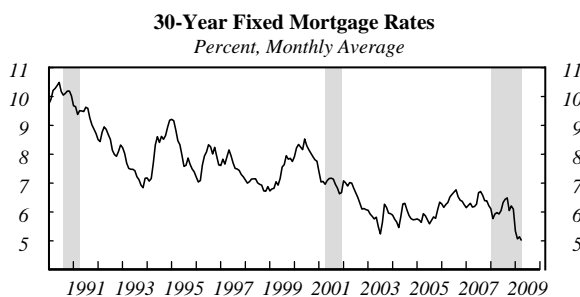
U.S. in midst of longest recession in post-WWII period.

2009 as home and common stock prices have collapsed. Non-farm payroll employment has declined for fifteen consecutive months and the unemployment rate rose to 8.5 percent in March compared to 5.1 percent a year earlier. Since the recession began in December 2007, 5.1 million non-farm payroll jobs have been lost. Corporate profits, adjusted for capital consumption allowances and inventory valuation, known as economic profits from current production, fell 15 percent in the fourth quarter compared to the prior year, the steepest decline in 28 years. March of 2009 marked the sixteenth month of the recession. The current downturn thus equals in duration the two longest recessions in the post-WWII period, those of 1973-75 and 1981-82.

Economic forecasters are looking for a contraction in GDP of about 2 percent in the second quarter of 2009. The forecasts for the third and fourth quarter of 2009 vary with some predicting a modest pick up in GDP in the second half of the year while others are forecasting a continued decline but at a decelerating rate. The International Monetary Fund (IMF) is projecting a 1.6 percent decline in GDP for the U.S. in 2009 compared to growth of 1.1 percent in 2008 and 2.0 percent growth in 2007.

Nascent signs pace of economic decline is slowing.

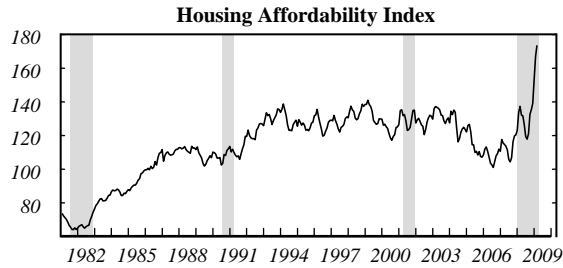
Recently released economic data is mixed but there are tentative signs that the economy may be stabilizing or the rate of descent may be slowing. Mortgage foreclosures continue to climb and housing prices continue to decline. The Case-Shiller Home Price Index declined in January, the most recent monthly release, at an accelerating rate and is 19 percent below the year earlier level. This measure of home prices has declined for thirty straight months and is 29.1 percent below its July 2006 peak. The root of the financial crises and credit freeze lies in mortgage-backed securities (MBS) and the derivative financial instruments and excessive leverage related to them. Falling home prices further exacerbate the credit problems surrounding MBS and the institutions that own them.



On the other hand, new home sales, existing home sales and pending home sales rebounded in February. The inventory of homes for sale has fallen 30 percent from the year earlier level and the level of housing starts is below the historic annual destruction or teardown rate. The thirty-year fixed-rate mortgage as of the end of March dipped to 4.61 percent, a record low, and has resulted in a sharp increase in mortgage loan activity. The

Housing Affordability Composite Index that compares median home prices with mortgage rates to compute monthly principal and interest payments shows housing affordability at its most favorable level ever. If the recent rebound in home sales persists, housing prices should stabilize.

Housing industry may exhibit some stability by year end.



and the tax credit for first-time homebuyers should provide a backdrop for a modest recovery in the housing industry as 2009 unfolds.

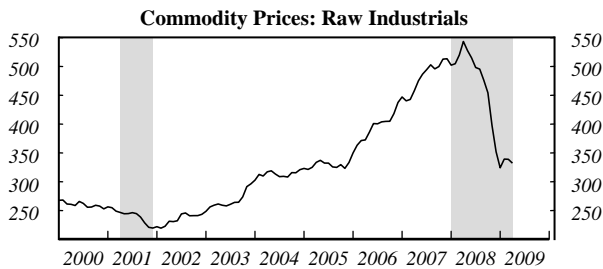
Indeed, the Federal Housing Finance Agency reported that its measure of home prices rose in January 1.7 percent from the previous month. However, this is not as broad a measure of housing as the Case-Shiller Index as it only includes Fannie Mae- and Freddie Mac-backed mortgages and excludes homes backed by sub-prime and jumbo mortgages. Lower mortgage rates, housing affordability

Recent accounting rule changes will help financial institutions.

The Financial Accounting Standards Board (FASB) in April modified its fair value accounting rules, instituted in 2007, which required financial institutions to “mark-to-market” assets held on their books. The assets in question are collateralized mortgage obligations (CMO). “Mark-to-market” accounting rules required a company to price the CMO on their books at a price that might have represented a distressed or fire sale transaction by another institution. The new accounting rule allows companies to use their own models and estimates and exercise significant judgment to determine whether a market exists or whether the input is from a distressed sale. These new rules will relieve some of the capital-ratio pressures that have vexed financial institutions over the past year and a half.

Other signs of stabilization in the economy are retail sales which rose 1.8 percent in January and fell only 0.1 percent in February after having fallen in each of the final six months of 2008; durable goods and factory orders which rose in February for the first time in six and seven months respectively; consumer spending which in January and February was above the level of the fourth quarter, and the ISM Manufacturing Survey Index which rose in each month of the first quarter to a level of 36.3 after having fallen in each of the last six months of 2008. While an index reading below 50 signals a contraction in manufacturing activity, the past three month index numbers suggest that manufacturing activity is not declining as rapidly as in the second half of 2008. The ISM Non-Manufacturing survey for the past four months ending in March also suggests that the rate of contraction has stabilized.

Commodity prices may have bottomed.



The surveys of consumer confidence and sentiment of the economy, while still at very low levels, ticked up in March. The Baltic Dry Index, an indicator of maritime transportation costs for major raw materials appears to have bottomed. Movements in this index correlate to global trade and global economic growth. Commodity prices appear to have reached a trough as crude oil, copper, scrap steel and

Common stocks tend to bottom 4-6 months prior to the end of recessions.

other raw materials are above their earlier lows. The Consumer Price Index (CPI) rose in February by 0.4 percent dispelling fears of an eminent deflationary spiral. Inventories have been slashed at every level of the production and distribution chain. Business inventories were liquidated at an annualized rate of 14.1 percent in the first quarter of 2009. Thus, any increase in demand from the various stimulus packages should quickly transfer to production. Finally, common stock prices have rallied in the past month. Common stocks in the past have tended to bottom about four to six months prior to the end of recessions. While one or two months of more favorable economic indicators do not set a trend, they are hopeful signs.

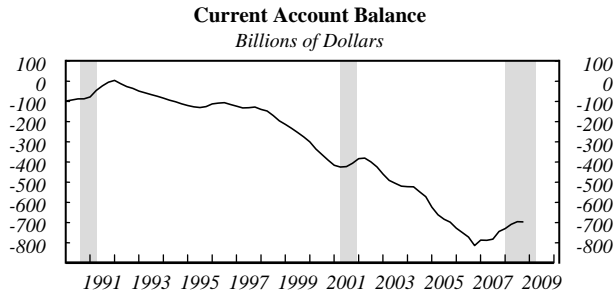
Global economy to experience its first downturn in post-WWII period.

The global economic outlook continues to worsen. This is not surprising since the U.S. is the world's largest importer. In 2008, U.S. imports totaled \$2.2 trillion, an amount that exceeded the total GDP of all but six countries in the world. To put this in perspective, Russia's GDP in 2008 was \$1.78 trillion. Lower consumption in the U.S. has a negative impact on foreign export-dependent economies. Indeed, one of the imbalances of the past decade was the high level of

Export-reliant countries hard hit as U.S. consumption declines.

The U.S. government has responded to the financial crisis with massive bailouts and stimulus packages.

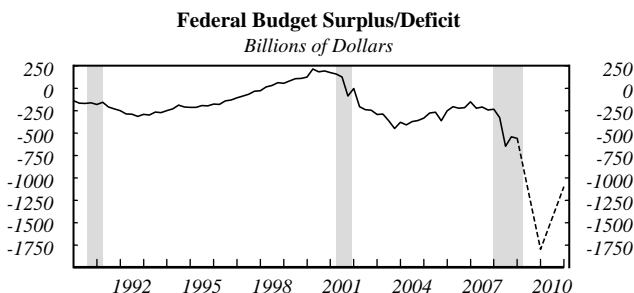
Government spending and deficit projections raise the specter of inflation in future years.



consumption in the U.S. spurred by financial institution and consumer leverage, home equity draw-downs and declining savings resulting in imports exceeding exports that together with other international flows is known as the current account balance. To satisfy this excessive demand, many foreign economies became imbalanced as their growth became reliant on exports at the expense of internal domestic demand.

The World Trade Organization (WTO) is forecasting a decline in world trade of more than 9 percent in 2009, the most pessimistic report on global trade in its 62 year history. The Organization for Economic Cooperation and Development (OECD) is forecasting the global economy to decline by 2.75 percent in 2009, the first decline since World War II. These forecasts have worsened with the passing of each month. In February, Japanese exports fell 49 percent from the year earlier period. Japanese GDP declined at an annual rate of 12.1 percent in the fourth quarter of 2008, almost double that of the U.S. The latest forecast is for Japan's GDP to fall by 2.6 percent in 2009. China's exports, which account for more than a third of its economic output, also tumbled in February by 26 percent from a year earlier. The IMF is projecting China's GDP to expand by 6.7 percent in 2009 compared to 9 percent in 2008. The world's largest exporter is Germany at \$1.47 trillion. Exports represent 39 percent of Germany's GDP. The OECD projects Germany's GDP to decline 5.3 percent in 2009. All of the developed countries of the Group of 7 (G-7), Canada, United Kingdom, France, Germany, Italy, Japan and the United States are projected to have negative GDP growth in 2009. The only countries that the IMF is forecasting to have positive GDP growth in 2009 are China, Brazil, Turkey, South Africa, Saudi Arabia, Indonesia and India.

In response to the financial crisis and the recession, the U.S. Treasury, the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) have offered up a dizzying menu of alphabet soup acronyms to try and address the problems: TARP, TALF, TLSE, CPFF, MMIFF, TLGP, PPIIF, etc. These programs are designed to stabilize the financial markets and the economy by infusing liquidity through either loans or equity into bank holding companies, insurance companies, auto companies and their suppliers and mortgage giants Fannie and Freddie; buy and guarantee commercial paper from corporations; guarantee checking account and money market fund deposits; purchase securitized mortgage-backed assets from the financial institutions that hold them; join with the private sector in purchasing consumer asset-backed securities involving credit cards, auto loans, student loans and other consumer financing, and buy U.S. Treasury securities, known as quantitative easing or debt monetization. Some of these programs are open-ended. The commitment to date could be as high as \$4 trillion. In addition, Congress has approved an economic stimulus package totaling \$787 billion that is intended to promote aggregate demand.



Falling tax receipts and increased spending will result in a federal budget deficit in fiscal 2009 to end in September of \$1.8 trillion, the largest in history and about 12 percent of GDP, the largest since 1945. The federal budget for fiscal 2010, now making its way through Congress, projects a deficit of \$1.1 trillion or about 8 percent of GDP. That means the issuance of almost \$3 trillion of government bonds over an 18 month period.

There are obvious inflationary implications to such massive spending and attendant deficits as the Fed may have to support the Treasury bond market by buying some of these offerings. When the Federal Reserve buys an asset, a U.S. Treasury bond, it buys it from a member bank that acts as a dealer or broker. The Fed does not pay cash or write a check to the member bank dealer

that sells the bond. Instead, the Fed credits the bank's reserve account at the Fed. The bank can then lend approximately 90 percent of that reserve credit, keeping about 10 percent at the Fed as a reserve against the loan. The loan, to ABC Company, is then deposited in ABC's bank and that bank can then reserve 10 percent and loan out the remaining 90 percent. This is called the multiple expansion of bank credit as each succeeding loan and deposit is filtered through the banking system. Since the narrow definition of money is currency and demand deposits, money is created, or some would say printed, when the Fed buys a Treasury security that results in bank loans. The Fed has monetized the Treasury bond. When the Fed sells a Treasury security, it debits the reserve account of the dealer bank and the money supply is contracted. This is a simple explanation of a very complex subject.

Other countries also responding with monetary and fiscal stimulus actions.

Other countries are also responding to the global financial crises through aggressive monetary and fiscal policies. These coordinated efforts on the part of world leaders will help to stabilize the global economy in the short run with inflationary implications in the long run.

SUMMARY

While the economy faces many hurdles, there are signs that the contraction in GDP may be stabilizing and that an upturn may occur by the latter half of 2009. This will help to stabilize the global economy. Over the next couple of quarters, the Fed will keep interest rates low and inflation will be contained. If this scenario proves correct, the stock markets will have bottomed in the early part of March.

In the longer-term, the various government programs to rescue the auto, insurance, banking, and other industries, together with the stimulus spending, will result in a greater intrusion of the government in the private sector, more government regulation, higher taxes, barriers to capital formation and inflation. These are significant headwinds to returning to historic rates of sustainable economic growth.

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