

Quarterly Insight

Johnson Private Client Group | Johnson Trust Company | Johnson Institutional Management



Fourth Quarter 2009

Letter From The President

What a year it has been. A year ago, when the calendar turned to a new year, we experienced the worst period for stocks since the 1930s. The roller coaster ride only continued in 2009, with stocks falling more than 20% further by early March. Fortunately, the market bounced back strongly, rising about 60% since then. Many have asked me if I've seen anything like it during my career. In some ways, the answer is no. The worldwide crack in the financial structure was unprecedented. In other ways, it's not so new. I've seen several market declines of 50%, and the emotional response by investors is not unusual.



Timothy E. Johnson, Ph.D.

A time of panic tests an investor's tolerance for risk, and the beginning of this year certainly qualified as one of those periods. When the outlook is the bleakest, the desire to throw in the towel is only human nature. History tells us, however, that stocks typically bounce back nicely after severe pullbacks, and fortunately, that proved true again this year. Those who maintained a disciplined, non-emotional approach to investment strategy were able to recoup a good deal of the stock losses that occurred in 2008.

Nevertheless, stocks still need to rise almost another 40% to return to October 2007 levels. While the results of 2009 have been encouraging, we are at the same time glad to close the books on the last decade from an investment standpoint. We saw the implosion of the tech bubble, the tragedy of 9/11, and most recently, the deepest economic decline since the Great Depression. The end result is the worst ever calendar decade for stocks. On the bright side, the stock market is down less than 1% annualized despite these events, which is a testament to the resiliency of our economy and markets.

As we head into 2010 and into a new decade, we recognize that we're not completely out of the woods. But as the saying goes, it's not unusual for the market to "climb the wall of worry." We believe there are still attractive opportunities in this market environment and that patient investors will be rewarded over time – even if the recovery is sluggish. As we manage portfolios, we continue to emphasize proper asset allocation, diversification, and quality, which we believe will achieve good long-term results for our clients.

Our firm continues to be very healthy. We've never experienced a decline in the number of clients served, and the number of new clients added in the past year has been very affirming. We completed last spring an acquisition of Mead Adam, a firm with offices in Dayton and Columbus, which provides exciting opportunities to expand our market presence and help more clients. Also, in a day and age when many companies are laying off employees, we actually made several strategic hires, which will further strengthen our position in the future. We're also pleased with our growing commitment to the community, with our employees involved in over 60 non-profit organizations.

We are grateful for your confidence and the opportunity to serve your investment and broader planning needs. We wish you the best in the coming year. ♦

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TOTAL RETURN

Quarter Ending December 31, 2009

	4Q 2009	2009
S&P 500	6.0%	26.5%
Dow Jones Industrial Average	8.1%	22.7%
NASDAQ	7.2%	45.4%
Russell 2000	3.9%	27.2%
MSCI EAFE (International)	2.2%	32.5%
REITs	9.4%	28.0%
Barclays Aggregate Bond Index	0.2%	5.9%

Market Update

More than ten years after initially crossing the 10,000 threshold, the Dow Jones Industrial Average surged past this milestone once again during the fourth quarter. But, after reaching the lofts of 14,000 and the depths of 6,500 in the interim time period, there was much less fanfare and investor enthusiasm this time around.

Investors are reminded by this achievement that stocks have gone virtually nowhere, on balance, in more than a decade. While diversification into smaller and mid-sized companies and many foreign stock markets has helped bring about some portfolio growth, investors eye this mark with a bit of skepticism and worry that retrenchment may again be on the horizon.

Careful examination comparing the investment environment of 1999 with today reveals many contrasts that suggest the current market rise may actually be more sustainable. The nearby table illustrates the fundamental backdrop actually favors the current market in several key ways. Unlike 1999 we are currently entering the early stages of economic and earnings recovery which

would justify the recent market rise and potentially lead to further gains. While there are many concerns to deal with and the financial system is still not operating normally, the market appears to be discounting much of this. Despite more than a 60% rise since hitting a decade-long low earlier this year, stocks appear fairly priced currently with a PE ratio half its value ten years ago.

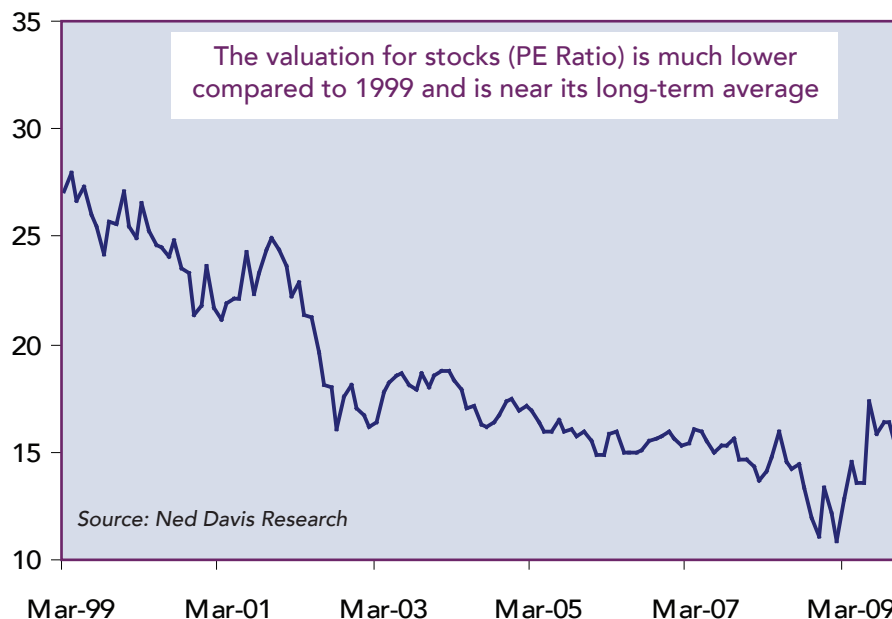
The rise in stocks this year has largely been fueled by excess liquidity pumped into the markets by the Federal Reserve. During this phase valuations in stocks typically increase from an undervalued low point and this has already happened. The next phase is normally driven by earnings gains as the economy begins to improve. After declining for more than two years, earnings for U.S. companies are now poised to rise. Current consensus expects a 27% increase in S&P profits in the coming year. Historically, once the economy stabilizes and profits begin to grow, earnings will rise for more than six years by an average cumulative increase of nearly 120%. This is often accompanied by transition in leadership from cyclical and more risky stocks to stable growth companies. *We anticipate that a shift toward quality investing will take place during 2010 even as returns rise more slowly.*

Even though the broad market provided limited returns over the past ten years, diversification into additional assets and to several stock sectors has been additive to investors. As can be seen in the chart (on page 3), diversification into energy stocks has been most beneficial to investors. Higher oil prices driven by global demand has been key to this sector's performance. Other segments of the market have also been positive and helped to boost returns within a volatile, but essentially flat market. Included in this are bonds which provide diversification benefits to investors through greater stability and income, clearly enhancing returns to investors in recent years.

(continued on page 3)

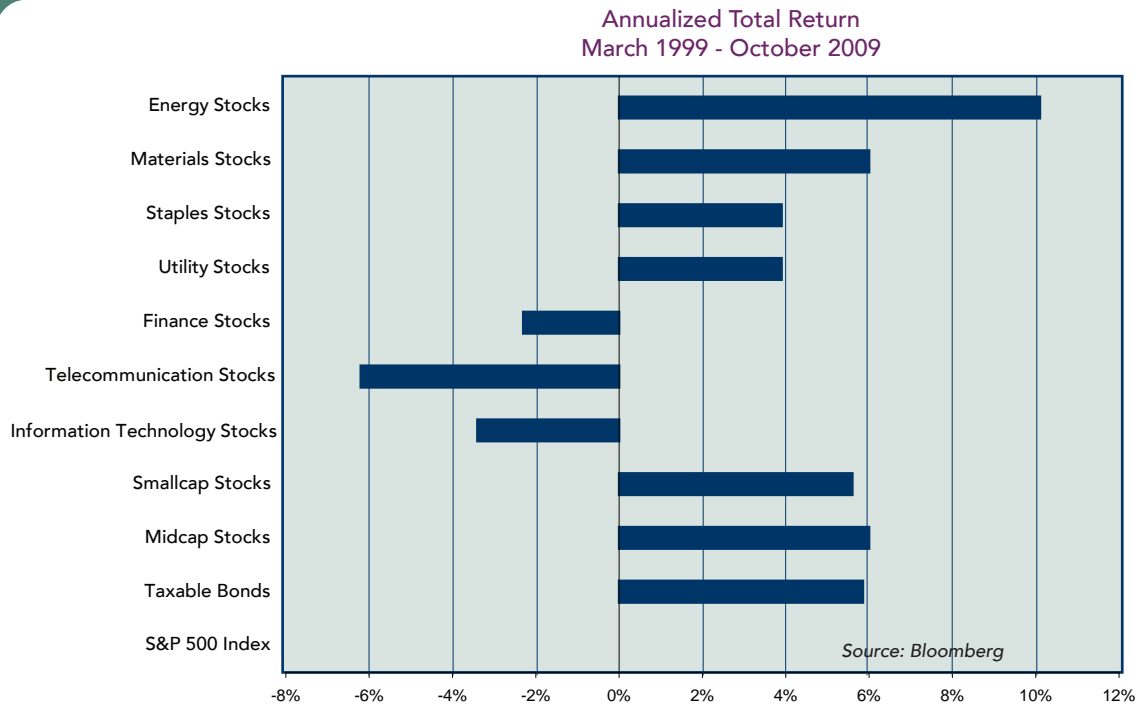
Comparing Investment Environments as the Dow Jones Industrial Average Crosses 10,000

	March 1999	December 2009
Economy	In the late stages of an economic growth cycle and nearing recession	At the end of a recession and just about to enter into recovery
Corporate Earnings	Corporate profits were at a peak level and approaching a period of decline that would last nearly two years	At the end of a deep profit recession with growth widely expected to resume during the current quarter
Stock Valuation	Most valuation measures were very high with no room for improvement. PE ratio overvalued at 27.1	Valuation about half what it was during 1999 and near historical averages. PE ratio fairly valued at 15.1
Equity Market	Very narrow market as technology stocks led the market with very few other sectors rising in price	Much more broad stock rally with all sectors advancing in price and over 80% of stocks rising in value



Foreign stock markets have provided only a modest return advantage over the decade, but at times have also been greatly beneficial. *Going forward, we continue to advocate broad diversification into businesses that benefit from global growth, especially in the developing economies.* Large, multinational businesses and industries that benefit from global reflation will be positive to investors, as will investing directly into international companies through index-tracking securities and mutual funds. In

2010 only 16 cents of every dollar in global growth will come from the U.S. compared to about 50 cents thirty years ago. This requires global thinking when building a portfolio. ♦



March 1999 and October 2009 are the two periods that the Dow Industrials crossed the 10,000 level

Estate Tax Update

As we enter this new decade, to the surprise of many estate planning professionals, there is no federal estate tax. It is fully expected that Congress will act to extend the estate tax retroactive to January 1, 2010. Most commentators expect a return to the \$3.5 million per person exclusion amount of 2009.

We will stay abreast of developments on this important topic and promptly alert our clients to any changes in law.

2010 Roth IRA Conversions

2009 Prior Law:

- Upper income taxpayers, those with adjusted gross incomes of more than \$100,000 (single or married) are not eligible to convert from a Traditional IRA to a Roth IRA
- Income tax due on the conversion is to be paid in the year the conversion is completed

2010 Tax Law:

- Starting in 2010, taxpayers with a modified adjusted gross income of more than \$100,000 will also be eligible to convert from a Traditional IRA to a Roth IRA
- Those who convert in 2010 can spread tax liability out across 2011 and 2012

What makes a Roth IRA different than a Traditional IRA?

- Tax-free growth and distributions after age 59 1/2
- Non-deductible contributions
- No mandatory distribution age
- Principal contributions can be withdrawn at any time without penalty
- Income limitations for Contributions: Phase outs start at ~ Single \$105,000, Married Filing Jointly \$167,000

Who should consider converting?

- Those who believe their tax rates will be higher or unchanged in the future
- Those who have non-IRA assets to pay the conversion tax
- Those with a longer term time horizon which allows more time to earn back the tax payment
- Those who have made non-deductible contributions in the past. Only investment earnings and deductible contributions will be taxed upon conversion

Please call your Portfolio Manager if you have questions.



“We make a living by what we get,
but we make a life by what we give.”

- Winston Churchill

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community involvement



Steve Eklund, CFA - Managing Director of Private Client Group, was recently named Director of Planned Giving for Ronald McDonald House as well as serving on their Board of Trustees.



Sandy Appel - Institutional Associate, was recently selected to serve on Cincinnati Children's Hospital's Family Advisory Council, an advisory committee for CCHMC, to promote the concepts of family-centered care.



Michael Barnes, Esq. - President, Johnson Trust Company, has recently been named Chairman of the University of Cincinnati Foundation Gift Planning Committee. Michael also serves on the board of Cincinnati Playhouse in the Park and the Planned Giving Committee of the Cincinnati Zoo.



Jon McCann, CFA - Director, Private Client Group, serves on the Board of Directors for the Cincinnati Opera and has recently been named to the Opera's Governance Committee. Jon also serves with the Cincinnati Symphony Orchestra, Cincinnati Christian University, Warren County Foundation, and Ohio Valley Goodwill.

about us

Established in 1965, Johnson Investment Counsel, Inc. is Greater Cincinnati's largest independent wealth management firm, managing more than \$4.0 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services. We are over 90 employees strong and are honored to serve over 60 non-profit organizations.

divisions

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- Johnson Trust Family Office Services
- Wealth Advisory Services
- Financial Advisory Services

Johnson Trust Company
Johnson Institutional Management

services

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