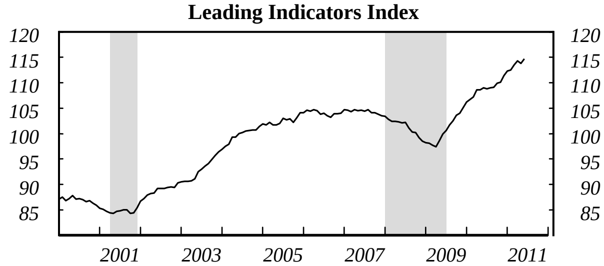
WENTWORTH, HAUSER AND VIOLICH

REVIEW AND OUTLOOK - SUMMER 2011

Leading Indicators Index



During the first half of 2011, the United States economy grew at an average annual rate of about 2.0 percent compared to 2.9 percent for all of 2010. For the first quarter of 2011, Gross Domestic Product (GDP), the total output of goods and services within the U.S., advanced at an inflation-adjusted annual rate of 1.9 percent. In the fourth quarter of 2010 GDP grew at an annual rate of 3.1 percent. Estimates for the second quarter of 2011 ended in June are for the economy to have grown at an annual rate of about 2 percent.

Estimates of growth for the second half of 2011 have been reduced by private economists and the Federal Reserve (Fed). At its last meeting in June, the Fed lowered its estimate of GDP growth in 2011 to 2.9 percent from its January forecast of 3.9 percent. The Fed's forecast for 2012 was also lowered to 3.7 percent from above 4 percent. The Fed also raised its target for unemployment to between 7.8 and 8.2 percent from its earlier forecast of 7.6-7.9 percent for the fourth quarter of 2012. The unemployment rate currently stands at 9.2 percent. The Fed acknowledged that it had underestimated the persistence of the headwinds facing the economy including the housing market, the deleveraging and pay down of debt by consumers, and financial sector weakness.

The current expansion is slow by past standards.

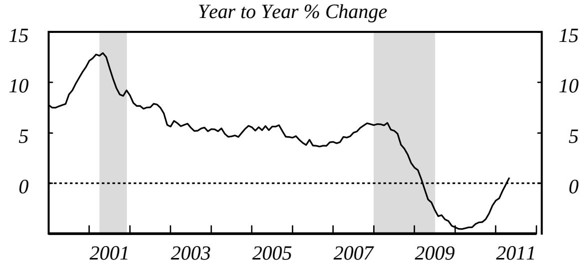
The current economic expansion which began in June of 2009 following the eighteen-month recession of 2007-2009 has been quite tepid compared to the average recovery of the same duration in the post-World War II period. Over the past two years GDP has averaged an annual growth rate of only 2.7 percent compared to double that amount for the prior 11 economic recoveries of the same length over the past 65 years.

Several transitory factors adversely impacted the first half of 2011.

There are a number of explanations for the slow pace of the current expansion. Several non-recurring factors had an impact on the first half of 2011. Extreme adverse weather within the U.S., including snow, rain, floods and tornadoes, curtailed commerce and economic activity. The nuclear accident in Japan following the earthquake and tsunami disrupted the supply chain for a number of critical products that Japanese manufacturers provide to global markets. Some economic activity may have been shifted to the fourth quarter of 2010 from the first quarter of 2011 in anticipation of higher taxes in 2011. A spike in oil prices lifted gasoline prices that may have dampened consumer spending on non-energy goods and services. Some disruption in commerce may have resulted from the revolutions in the Middle East.

Consumer Installment Credit

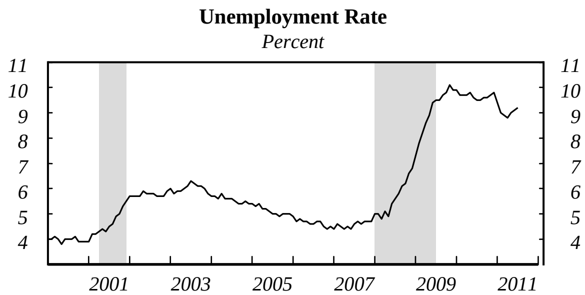
Year to Year % Change



Consumers continue to deleverage by paying down debt, particularly revolving or credit card debt. Home mortgage debt is also declining as foreclosures remain high. Whether this is a cyclical or secular trend is difficult to determine. Consumer saving is running at about 5 percent of income compared to negative rates at the peak of the past cycle.

Government regulations impede economic growth.

Beyond these transitory factors are several fundamental dynamic shifts in the structure of the American economy that may have long-term impacts on economic growth. All of these involve the role of government and its size relative to the private sector.



In the aftermath of the stock market bubble of the late 1990s and the corruption highlighted by Enron, Worldcom, Arthur Anderson, Tyco and a myriad of corporate scandals, Congress responded with the Sarbanes-Oxley Act (SOX). Enacted in 2002, SOX was designed to protect investors by improving the accuracy and reliability of corporate disclosures by imposing regulations, controls and standards on corporate managements, their boards and accounting firms. The legislation is highly controversial. Proponents contend that it improves the confidence of investors in the veracity of corporate financial statements. Others contend that it has placed an overly-complex regulatory burden on public companies, has driven some companies overseas and has prompted other companies to list their shares on overseas stock exchanges. The compliance costs of SOX impact smaller companies more than larger ones. One study found that companies with revenues exceeding $5 billion spent 0.06% of revenue on compliance costs while companies with less than $100 million in sales spent 2.55% of revenue on compliance costs. This impacts job growth since smaller companies are the progenitors of new employment. Critics of SOX also contend that the legislation places U.S. corporations at a competitive disadvantage with foreign companies because of its costs and mandates. In a December 21, 2008 editorial, the *Wall Street Journal* concluded that "the new laws and regulations have neither prevented frauds nor instituted fairness. But they have managed to kill the creation of new public companies in the U.S., cripple the venture capital business, and damage entrepreneurship."

Sarbanes-Oxley did not prevent the financial industry meltdown of 2008.

Indeed, SOX did not prevent the accounting, disclosure, and reporting misdeeds that led to the collapse of Bear Stearns, Lehman Brothers, AIG, FannieMae, FreddieMac, and others in 2008. Their corporate mischief was culpable in the global financial meltdown of the 2007-2009 Great Recession.

Dodd-Frank will impose large burdens on corporate America.

Undaunted by its past legislative failures, in the wake of the 2007-2009 global recession, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010. This legislation is the most sweeping change in the regulation of the financial services industry since the 1930s. The act has 2,319 pages, over 1,600 sections and contains 387 rules. A host of new federal government regulations and oversight agencies was created. The cost of implementation is estimated to fall between $3 and $5 billion over the Act's first three years. The complexity of the legislation is so great that the deadline for implementation of one section dealing with the $600 trillion derivative market was postponed from July 2011 to the end of the year. More than half of the new rules mandated by the law have yet to be written and will eventually result in tens of thousands of pages. This legislation has created great uncertainty within the business community. The only certainty is that it will increase the cost of lending, the cost of borrowing and the cost of doing business.

Obama care is the largest and most costly entitlement program in history.

The Patient Protection and Affordable Health Care Act (Obama care) signed into law in March 2010, also represents an unprecedented intrusion of the public sector into the nation's economy. The health care system within the U.S. definitely needs to be reformed in terms of cost control, access, pre-existing conditions, litigation and competition. However, the complexity of this act is confirmed by the 1,372 waivers that have been issued to companies seeking exemption. The new health care legislation contains 21 new or higher taxes and a multitude of new regulations and mandates. It increases the costs of employment. This new entitlement program, as currently structured, will place an unimaginable burden on federal finances.

Another factor that creates uncertainty and therefore impedes economic development is the temporary nature of the income tax code. The current federal tax structure is set to expire in a year and a half with taxes on income, dividends and capital gains increasing at the beginning of 2013. Calculating a projected return on investment is impossible without knowing applicable tax rates.

Taken together, these collective pieces of legislation, as well as others, have placed an incalculable burden on the economy in terms of regulation, mandates and taxes. An additional factor that weighs on business and consumer confidence is the failure of past government policies to stimulate economic activity. It started with the Bush administration's $150 billion Economic Stimulus Act of February 2008. That had no economic impact and created no jobs. In the fall of 2008 The Bush administration signed the $700 billion Troubled Asset Relief Program (TARP). Originally designed to buy mortgage-backed securities from banks and insurance companies, the money was instead used to provide liquidity to financial firms in the form of equity or loans. This may have prevented a complete collapse of the financial sector but may also have reinforced the "too big to fail" concept that may encourage excessive risk taking.

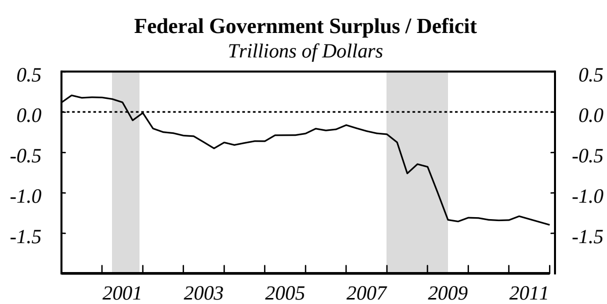
Trillions of dollars have been spent to revive the economy with little effect.

In February 2009, the Obama administration signed the $785 billion Recovery Act, subsequently raised to close to $1 trillion. Economists argue whether or not this played a role in dampening the depth of the recession. Approximately one-third of the stimulus went to the states. These funds have been spent and only postponed the needed reforms of states' fiscal policies. State and local governments have been laying off workers for the past several months. Whether or not the stimulus created or saved jobs is debatable. The unemployment rate rose in the ensuing seven months from 8.2 percent to 10.1 percent as "shovel ready jobs" failed to materialize.

The Fed's policies carry future inflation risks.

The Federal Reserve in the meantime has purchased close to $2 trillion of mortgage-backed securities, U.S. government securities and government agency securities. Most of these purchases, in a practice called quantitative easing, have been financed by crediting the reserve accounts of member banks at the Fed. These excess reserves can be used by the banks to make loans at the approximate rate of $9 of loan for every $1 of reserve. This potential loan growth has future inflationary implications, creating additional uncertainty.

Government policies have undermined business and consumer confidence.



The large federal budget deficit, estimated at $1.6 trillion this fiscal year and exceeding 10 percent of GDP, and the explosion of outstanding federal debt, totaling close to 100 percent of GDP have eroded public confidence in the ability of our elected officials to manage the nation's affairs.

Other actions of the government during the financial crisis have undermined confidence in the rule of law and private property rights. In orchestrating the bankruptcy of General Motors and Chrysler, the government placed unsecured creditors ahead of secured creditors, upending 150 years of bankruptcy law. The National Labor Relations Board recently ruled that Boeing could not open a factory in South Carolina because it would violate the 1947 Taft-Hartley Act. The NLRB contends that the plant was located in South Carolina, a non-union state, as retribution against the union for not signing a no-strike contract. This issue will be decided in the courts, but it serves to explain why companies open plants outside the U.S.

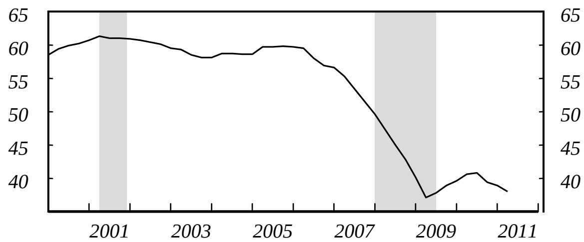
All of these actions by the Federal Government and the Federal Reserve have undermined the confidence that consumers and businesses alike have in our institutions. They have created uncertainty with regard to the purchasing power of the dollar, the cost of future employment, the return on invested capital, mandates on normal business operations and general intrusion of the federal government into the private sector.

Housing remains weak.

The housing market, residential fixed construction, represents just 2.2 percent of GDP, and has fallen from over 6 percent in 2006. Virtually all measures of housing remain weak. Foreclosures, mortgage delinquencies, existing and new home sales and prices are bouncing along the bottom in one of the most depressed housing cycles in history. The Case-Shiller Home Price Index fell in the latest month to a new cycle low. Home prices have declined 31.8 percent from their April 2006 peak. Given the large number of mortgage resets due in 2011 and 2012, the outlook for home prices remains bleak. Approximately one-quarter of existing home sales are foreclosures. Thirty-eight percent of homeowners who have second mortgages owe more than their homes are worth. Eighteen percent of homeowners who have only first mortgages are underwater. Altogether, 22.7 percent of homeowners have negative equity in their homes.

Owners' Equity as a % Household Real Estate

Percent



The decline in home equity impacts employment.

Homes represent the largest asset class for Americans. In the first quarter of 2011, the equity in homeownership totaled 22 percent of all household assets, exceeding pension reserves, deposits, stocks and mutual funds. Since 2006 home equity has fallen \$6.6 trillion, from \$22.7 trillion to \$16.1 trillion. Home mortgage liabilities have fallen from over \$10.6 trillion in 2007 to \$9.99 trillion due mainly to foreclosures. Thus the equity in homes has fallen from about 60 percent to 38 percent. This has an important impact on employment. Over 70 percent of net new employment comes from small business. Small business formation is often financed by home equity loans. The decline in home equity combined with tighter mortgage lending standards will impact employment growth for the foreseeable future which in turn will impact overall economic growth.

SUMMARY

Virtually all economic indicators point toward continued economic expansion within the United States in the period ahead. Economic and employment growth will be slower than in past periods due to the headwinds created by government policies regarding regulation, mandates, rules, taxation and overall barriers to free market capitalism. The sovereign debt issue in several euro-zone countries remains a concern and all parties are working to prevent defaults that would present systemic risks to the global financial markets. The global economy remains robust and will benefit U.S. exporters. Corporate profits are at a record level and equities appear reasonably valued.

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