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EVERGREEN VIRTUAL ADVISOR (EVA)



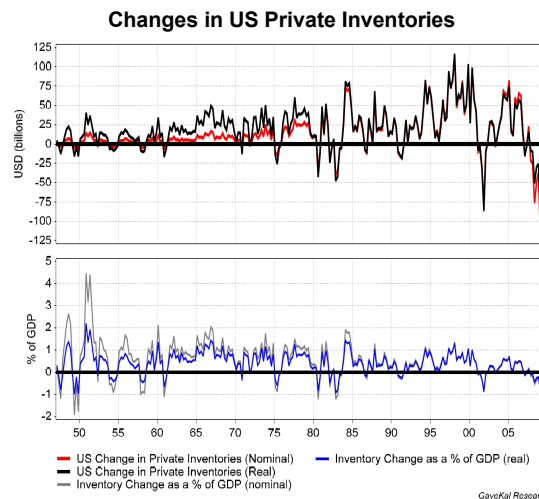
EVERGREEN
CAPITAL MANAGEMENT

October 16, 2009

*“The fool wonders. The wise man asks.”
Benjamin Disraeli, former British prime minister*

Points to Ponder

1. Those calling for a surprisingly strong economic recovery often cite the immense inventory drawdown of the last few years. Yet, even though the decline has been precipitous in dollar terms, this liquidation has not thus far been as steep on a percentage-of-GDP basis as seen in several past recessions.



2. The unemployment report that came out earlier this month was unquestionably disappointing. Perhaps most discouraging was the fact that the unofficial Household Survey, historically better at revealing turning points, indicated that 1.2 million jobs were lost in just the last two months.

3. According to a recent Citigroup report, bond markets began rallying some three months before the explosive stock surge started last March, consistent with expectations expressed late last year in several EVAs.

4. Those who are calling for a continuation of inferior US stock market returns rarely address the reality that the 2000s have already surpassed the 1930s as the worst decade ever for equity returns.

5. Millions of Americans certainly need the stock market to perform well in the years ahead; according to a Harvard University study, 60% of US workers do not have enough savings to fund their retirement.

6. There continues to be growing evidence that many European banks have not adequately reserved for the on-

A Century of Investing Compound Annual Rates of Return

	Stocks	Bonds	Bills	Inflation
00s	-3.1	8.3	2.9	2.6
90s	18.2	8.8	4.9	2.9
80s	17.5	12.6	8.9	5.1
70s	5.9	5.5	6.3	7.4
60s	7.8	1.4	3.9	2.5
50s	19.4	-0.1	1.9	2.2
40s	9.2	3.2	0.4	5.4
30s	-0.1	4.9	0.6	-2.0
1926- June '09	9.6%	5.5%	3.7%	3.0%

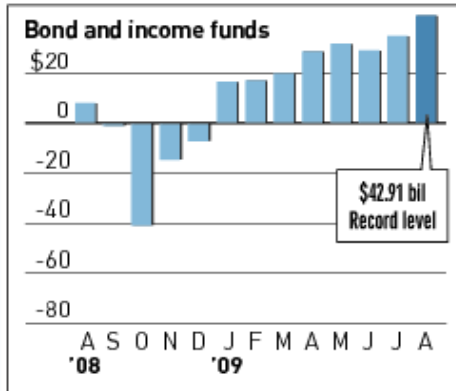
GAMCO Investors, Inc. Source: Ibbotson Associates as of June 30, 2009 800-GABELLI www.gabelli.com

slaught of loan write-offs they are facing. According to a recent Barclay's Capital piece, however, the US banking system's losses are running at just 55% of the rate assumed in the government's comprehensive stress test.

7. Underscoring how popular bonds have become with investors, 90% of all mutual fund deposits went into bond funds in August. This is a record and continues the ascending trend of inflows seen this year.

Tracking Mutual Fund Sales

Net new cash flow after redemptions and exchanges, in billions



8. Since 1970, a buy-and-hold portfolio comprising 60% stock and 40% bonds has achieved a 9% per year return, nearly as high as the 9.5% produced by an all-stock portfolio but with far less risk.

9. Expanding on this concept, by using a more diversified portfolio of seven equally weighted asset classes (adding in real estate investment trusts, US small stocks, commodities, international stocks, bonds, and cash) and annually reallocating these back to their starting weights, a 10.2% return was realized. Furthermore, volatility was reduced by more than 40% versus an all-stock portfolio.

10. A number of European countries are looking at adopting the shale extraction technology used so successfully in the US to dramatically expand our natural gas supplies. As a result, appraisals of global gas reserves are soaring, with estimated increases ranging from 20% to over 100%.

11. The financial crisis has received most of the blame for the intense recession from which the world is now emerging. While there is no doubt it was a prime cause, the impact of the ballistic move by oil prices last year should not be underestimated.

Economic Drag of Oil Prices

U.S. Petroleum Imports as a % of GDP



12. Expectations seem modest about material contributions from alternative energy sources such as wind and solar. However, in California alone there are 35 large-scale solar plants on the drawing boards, with generation potential of 12,000 megawatts (roughly equal to 10 nuclear plants).

13. The popular belief is that interest rates are very low, but *The Financial Times* recently ran an article pointing out that real—or inflation-adjusted—interest rates in the US, Japan, and Europe are 4%. This is actually higher than for most of the past decade.

David Hay | Chief Investment Officer | Evergreen Capital Management, LLC

Our Current Likes & Dislikes

<i>We Like</i>	<i>We're Neutral On</i>	<i>We Don't Like</i>
High quality preferred stocks yielding 7%-9%	Intermediate Treasury notes	Most cyclical resource-based stocks
Publicly-traded pipeline partnerships yielding 7%-9%	Long-term municipal bonds (with strong credit ratings)	Longer-term Treasury bonds
Investment grade corporate bonds	3-year to 5-year FDIC CDs	Emerging stock markets
International developed markets	High yield (junk) bonds	Small Cap Value
Intermediate municipal bonds (with strong credit ratings)	Large Cap Value	
Gold & gold-mining stocks	Mid Cap Value	
Emerging bond markets	REITs	
Large Cap Growth	Cash*	
Mid Cap Growth		
Small Cap Growth		

* This item was moved from the *We Don't Like* category to the *We're neutral On* category this week.

For information regarding sources referred to and used in this article, please contact Kim Harlan at: kharlan@evergreencapital.net

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