WELCH & FORBES LLC

JANUARY 2011

ECONOMIC OUTLOOK

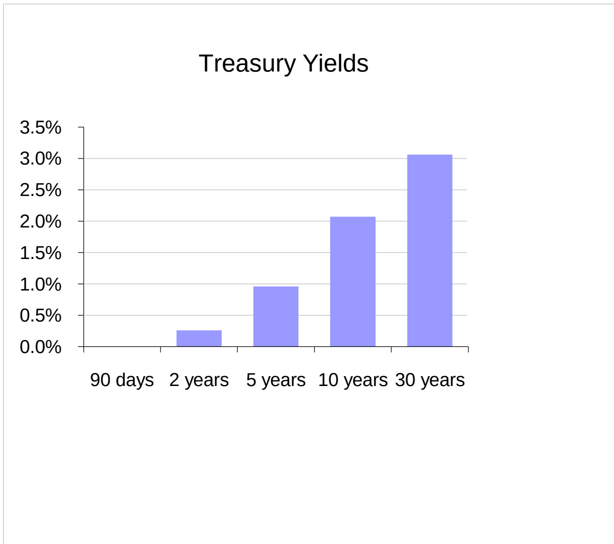
- Third quarter GDP growth was revised downward to an annual rate of 1.8%, the strongest quarter this year, following growth of 0.4% and 1.3% in the first two quarters. Consumer spending has been tepid, but holiday shopping in the fourth quarter appears to have been brisk. Jobless claims dropped and exports and business investment increased in the third quarter, allaying concerns of another recession. We expect a modest fourth quarter pickup and, looking ahead, we anticipate moderate GDP growth of 2-3% in 2012.
- Profits among companies in the Standard & Poor's 500 stock index climbed16% in the third quarter, despite the anemic pace of economic growth. The pace of U.S. manufacturing grew in December as a range of industries, from automobiles to food and beverage products to petroleum and coal, showed strength. There are positive signs from employment and housing, as well. The National Association of Realtors reported that its index of pending home sales rose in November to its highest level in more than a year and a half. The unemployment rate fell to 8.5% in December, its lowest level since February 2009.
- As the Euro celebrates its tenth anniversary, the currency finds itself at the center of a financial crisis. The single currency gave economic weight and monetary stability to Europe and is now the world's second largest reserve currency. But European economies are struggling under the weight of indebtedness, and increasing austerity measures will challenge economic growth. Most economists are forecasting a recession in Europe for 2012. This will impact U.S. exports, but fortunately only about 14% of S & P 500 company sales come from Europe. U.S companies will continue to find opportunities elsewhere in the world, where developing economies are growing and there is appetite for our consumer and industrial goods.
- We may have exited 2011 with an economic whimper, but December brought two notable deaths. Vaclav Havel, a writer and Czech dissident, was involved with negotiations that brought about the end of 40 years of Communist rule and a peaceful transfer of power. Havel served 14 years as president of the Czech Republic and impressed Western leaders as an important political thinker. The Czech Republic became the first post-communist country to receive an investment-grade credit rating by international credit institutions. In contrast, North Korea's leader, Kim Jong-il, was known for turning his starving, isolated nation into a nuclear power. Such is the nature of North Korea that Kim's death was kept secret for two days. North Korea is technically still at war with South Korea and the United States. Little is known about Kim's named successor, his youngest son, Kim Jong-un, and North Korea has warned the world not to expect any change in the country's policies.

Investment Review

- The stock market closed a tumultuous year very near where it started. The Dow Jones Industrial Average rose 5.5%, the S & P 500 was unchanged, and the Nasdaq Composite declined by 1.8%. In a year that saw a near nuclear disaster in Japan, political stalemate and a U.S. credit rating downgrade, 400 point swings in single stock market sessions, and near bankruptcy of some European nations, the performance of blue chip stocks can be considered a victory.
- Foreign markets were less successful against the volatile backdrop. In 2011, the U.K.'s FTSE 100 was off 5.6%, Germany's DAX fell 15%, and France's CAC lost 17%. Emerging markets declined as the growth of star economies of China and Brazil slowed from breakneck rates. The MSCI Emerging Markets Index declined 20%.
- The IPO market slowed in 2011, despite prominent offerings such as Zynga, LinkedIn, and Groupon, all of whose year-end prices were below prices on their first day of trading. Initial public offerings in the U.S. numbered 1,243 and raised $160 billion, the slowest year for both number and dollar volume since 2009. The stock market's tremendous volatility made it difficult for companies to optimally time launches and sustain share prices.

Key Investment Statistics

	12/30/11	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	12,218	12,811	10,655	5.5%
Nasdaq Composite	2,605	2,874	2,336	-1.8%
S & P 500 Stock Index	1,258	1,364	1,099	0.0%
2010 Operating EPS Estimate	$97.00			
P/E on 2009 EPS	12x			
2011 Operating EPS Estimate	$103			
P/E on 2010 EPS	13x			
Dividend Yield	2.1%			
Yields on U.S. Treasury Obligations				
90 days	0.00%			
2 years	0.26%			
5 years	0.96%			
10 years	2.07%			
30 years	3.06%			
CPI: Trailing 12 Months	3.4%			
Crude Oil: Price Per Barrel	$99	$114	$76	
Gold: Price Per Ounce	$1,520	$1,895	$1,318	
Natural Gas: Price per MM Btu	$3	$5	$3	



Source: Bloomberg LLC, Thomson Financial, U.S. Commerce Department, Bloomberg Businessweek, IHS iSuppli