CAPITAL INVESTMENT Advisors, Inc.

December 3rd, 2010

The Capital ReCap

ReCap

Economic Activity

- Manufacturing activity jumped in seven of eight regions. (+)
- Consumer confidence moves to 54.1; largest rise since May. (+)
- Existing home prices slide 0.7% in September. (-)
- ISM manufacturing index falls slightly, nonmanufacturing rises slightly. (-,+)
- Initial jobless claims jump 26K, nearly wipe out previous declines. (-)
- Pending home sales jump 10.4% to highest level in 6 months. (+)
- Nonfarm payrolls increase by 39K. (+)
- Unemployment rate rises to 9.8%. (-)

Equity Activity

- WMT offers $2.3B for exposure to South America through MassMart.
- PEP has bought OAO Will-Bill-Dahn, a Russian dairy and juice maker, for $5.4B
- UNH is expecting a drop in bottom line, despite a rising top line figure.
- MRK named Kenneth Frazier new CEO.
- CAH expanded to China via an acquisition of Zuellig Pharma China.
- Cyber Monday was reported to have seen a 20% increase in sales from last year.

Inside the Numbers

Despite some slightly disappointing employment numbers on Friday, the market rallied last week. The S&P 500 was up close to 3% on the week.

We received a bundle of economic data on the week as well. We saw manufacturing activity rise in all but one region. We also saw growth accelerating in six of the eight regions.

On the services side we saw a slight rise in the ISM nonmanufacturing index, continuing to suggest growth within the sector. We saw a slight drop in the ISM manufacturing index. Despite the drop the index continues to confirm steady growth within the sector.

This past week we also received some of the retail numbers from the heavy shopping on Black Friday and Cyber Monday. The reports all showed gains in the majority of aspects when compared to last year. According to Ned Davis Research the number of shoppers in stores and online rose 8.7% over the past shopping weekend.

On the employment front we saw a better than expected ADP private sector employment number reported on Wednesday. But we received a weaker set of numbers from the Labor Department on Friday. The consensus estimate from NDR was for payrolls to expand by 144,000, the actual figure showed that payrolls expanded by 39,000. While the unemployment rate jumped to 9.8%, we saw that some of this was due to the fact of people coming back into the work force.

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The Capital Course

(All data used within The Capital Course was provided by Ned Davis Research)

A lot of recent discussion surrounding investments has been focused on the aspect of investing within the international markets and also how the international markets will impact domestic corporations' bottom lines.

The recent surge of M&A activity between domestic and foreign corporations (PEP and OAO Will-Bill-Dahnn, WMT and MassMart, CAH and Suellig Pharma, GSK and Nanjing MeiRui Pharma) brought back a question we have been asking for awhile: how much are corporations really depending on foreign sources for profit growth? These recent acquisitions give insight into how these domestic corporations feel cash is best utilized for future growth.

As of the end of the 3rd quarter, corporations have been getting a little more than 23% of their profits from foreign sources. What is interesting about the percentage right now is that the contribution from foreign sources is actually down from its peak of 36% in the quarter ending December 2008.

The difference between the contributions from foreign countries today compared to the peak of the past recession seems to make sense. As our domestic economy strengthens one would expect to see more profits flowing to the corporation from within our borders, thus pushing down the percentage contribution from foreign sources.

Let's break this down even further. The majority of corporations' profits are from domestic sources (>50%). Thus, as the domestic countries economy gets hurt, executives will focus more of their attention overseas. In the meantime the overall profit of the corporation will likely be hurt, because of the drag from domestic sources. So, even if foreign sources just continue to contribute the same amount to a corporation's profit, the percentage contribution will rise because of a decreasing denominator (overall corporate profits).

Despite seeing a downward trend in the contributions from foreign sources today compared to the tumultuous times of 2008 and early 2009, we are seeing an increasing amount of contribution during like time periods. Looking at how much foreign sources contributed to the overall bottom line following the tech boom compared to today, we can see an upward trend. This seems as a more fair comparison due to the similarity in times, as they were both recovery periods.

From 2003-2005 we saw foreign sources contribution to corporate profits within a range of 15.17%-18.25%. Since the bottom of the current recession we have seen the contribution from foreign sources range from 23.14%-30.67%. So, during these similar recoveries we have seen an increasing percentage contribution from foreign sources. Also, over this past decade we have seen overall corporate profits almost double, thus eliminating the theory that this contribution increase is due to slow profit growth.

What this means for us as investors is that continuing to allocate towards companies that receive a high percentage of their profits from overseas will ultimately reap rewards for portfolios. We continue to see greater dependence on these foreign countries for profit growth. And should we see another correction within the markets, these foreign sources should be even more instrumental to corporate profits.