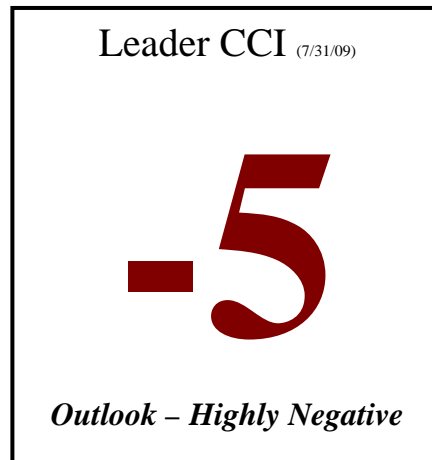


LEADER CAPITAL NEWS

July 2009

Tip of the Iceberg

The biggest question investors have right now is: will this rally hold? This question can easily be answered with Leader Capital's new Cost of Capital Index (CCI). Capital for consumers and corporations is critical; it is the life blood of the economy. We have developed the Leader Cost of Capital Index to provide an accurate illustration of consumer and corporate disposable income. The equity and credit markets are 81.1% correlated to this model and we believe that by looking at this data we can use it to predict market movements. Incomes for both corporations and consumers have become increasingly negative - in our view, the market is not far behind.



*We have developed a new index to forecast and quantify our outlook for the equity markets. By looking at disposable income and financial pressures for both consumers and corporations we are able to develop a directional index. The Cost of Capital Index (CCI) ranges on a spectrum from -5 (highly negative) to +5 (highly positive) depending on sequential changes. Going forward we will use this index as a leading indicator for credit and equity markets.

Index Concepts

Leader Capital's new Cost of Capital Index is meant to do one thing: simplify. The stability and health of consumers and corporations are littered with thousands of metrics - each with their own creative acronym. We broke it down into the simplest of business equations:

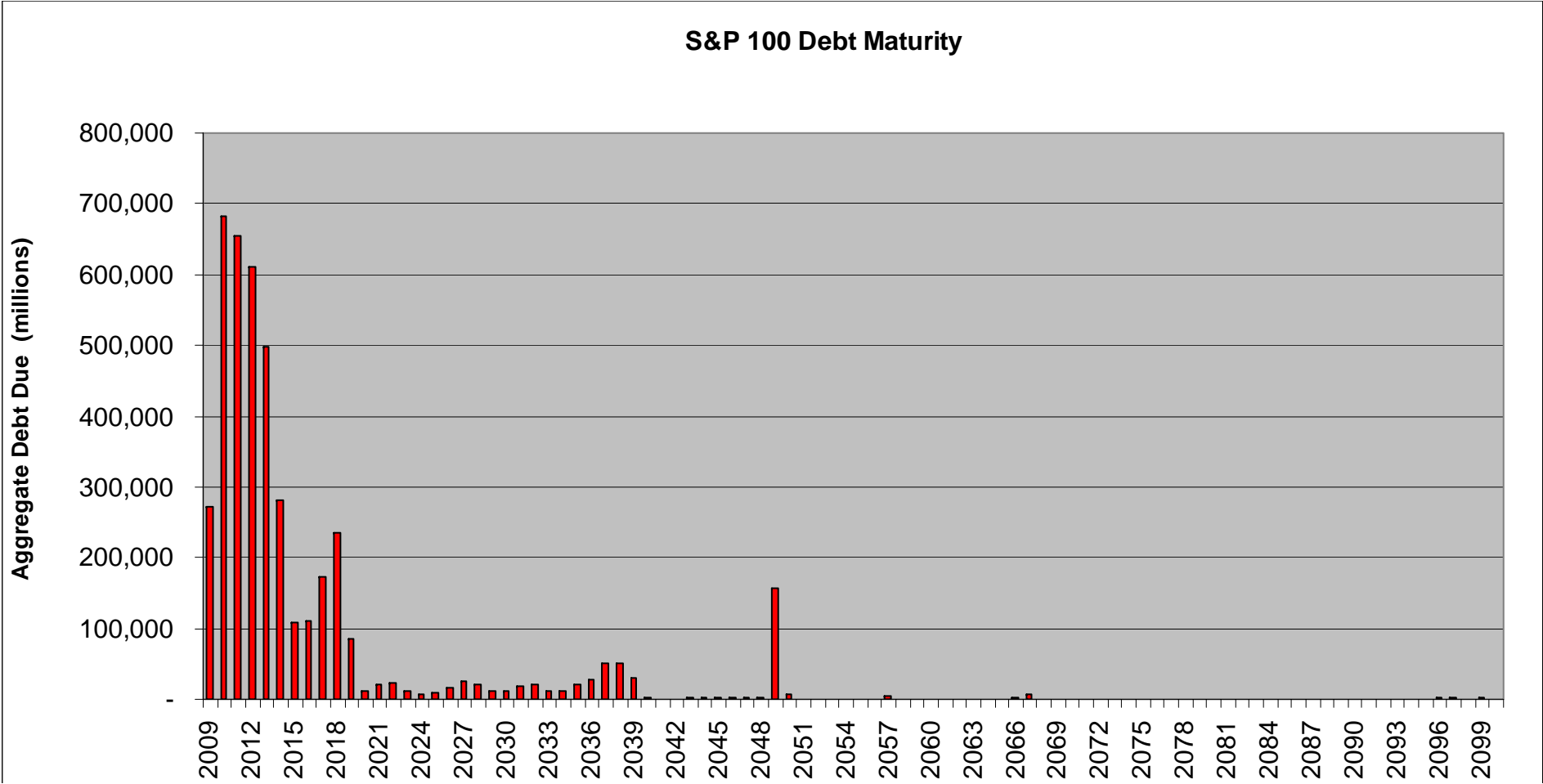
$$\text{Revenues} - \text{Expenses} = \text{Net Income}$$

For the consumer we looked at a household's gross income and then subtotaled both variable and fixed expenses (mortgage payment, phone bill, electricity) working our way down to the bottom line. For corporations we looked at the S&P 100, analyzing their balance sheets and their income statements.

Debt Structure

A factor that is giving us cause for great concern is that 62% of corporate debt is due to mature in the next four and half years (see Chart 1, 2). It is not necessarily the total that is concerning, but the massive amount maturing in the near term and the current lack of liquidity in the credit markets. As this debt matures it will be refinanced at significantly higher rates, impacting the bottom line in a negative manner. As corporations, consumers and municipalities compete for dollars, borrowing costs will go up significantly. Specifically, as large corporations match assets and liabilities going forward we believe the average cost of capital will rise almost 235 basis points. For example, if General Electric (G.E.) pays 235 basis points more for its debt, its costs will rise approximately \$14 billion annually; GE is projected to earn only \$11 billion this year. Last fiscal year, average net income for corporations in the S&P 100 was approximately \$2.8 billion while interest expense was \$2.9 billion. As companies reduce work forces and look for additional cost reduction, **unemployment will trend upward towards 16%**. Companies need to de-leverage their balance sheets going forward as interest expense will begin to consume most of their bottom lines (the consumer needs to de-leverage as well). This is not an easy task in an environment of declining asset values and higher costs of borrowing. It will take time for this process to occur and restructuring will get more expensive as credit scores and ratings decrease. We believe net income for corporations will fall an average of 43% as a result of this refinancing, which will be reflected in the credit and equity markets. In addition, there will be a number of dividend cuts and earning disappointments.

Chart 1: Aggregate Debt Maturity



LCCMX - LCCIX

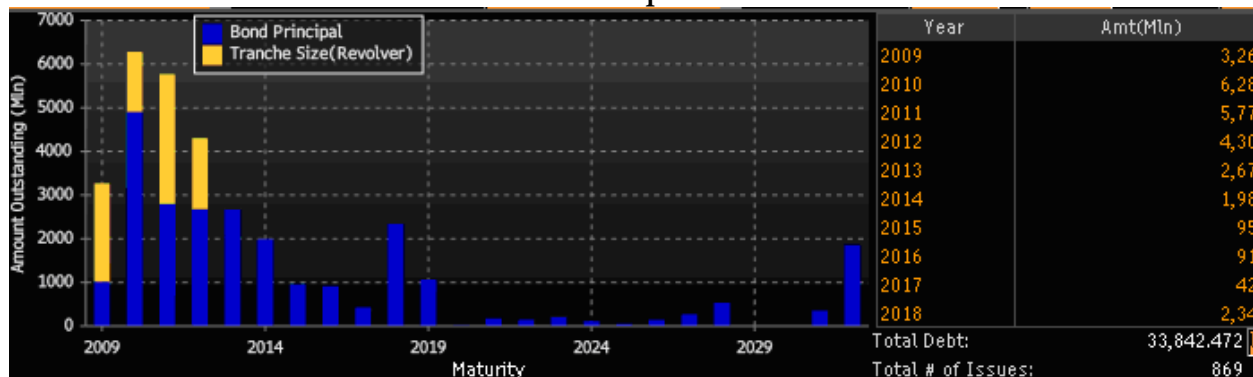
(Leader Short Term Bond Fund)

July 31st, 2009

The information herein has been obtained from sources which we believe to be reliable, but we do not guarantee its accuracy or completeness.

Chart 2- Individual Debt Distribution:

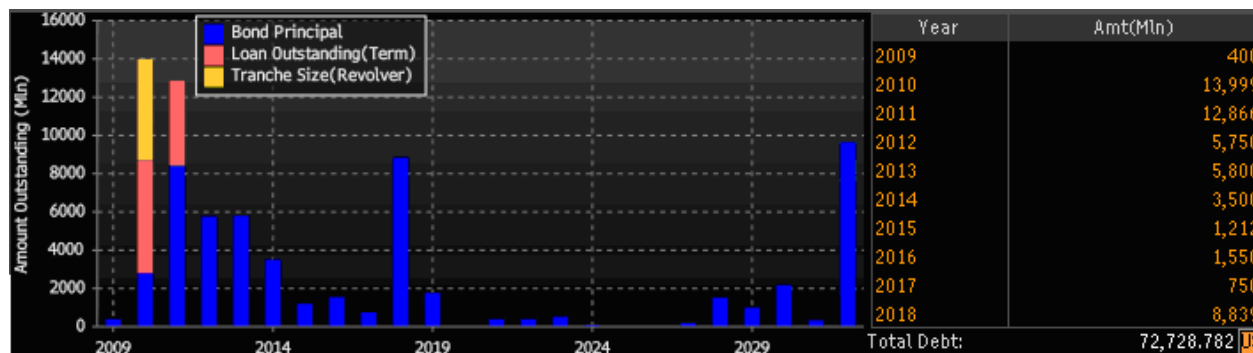
CAT – Caterpillar Inc.



GE – General Electric Company



VZ – Verizon Communications Inc.

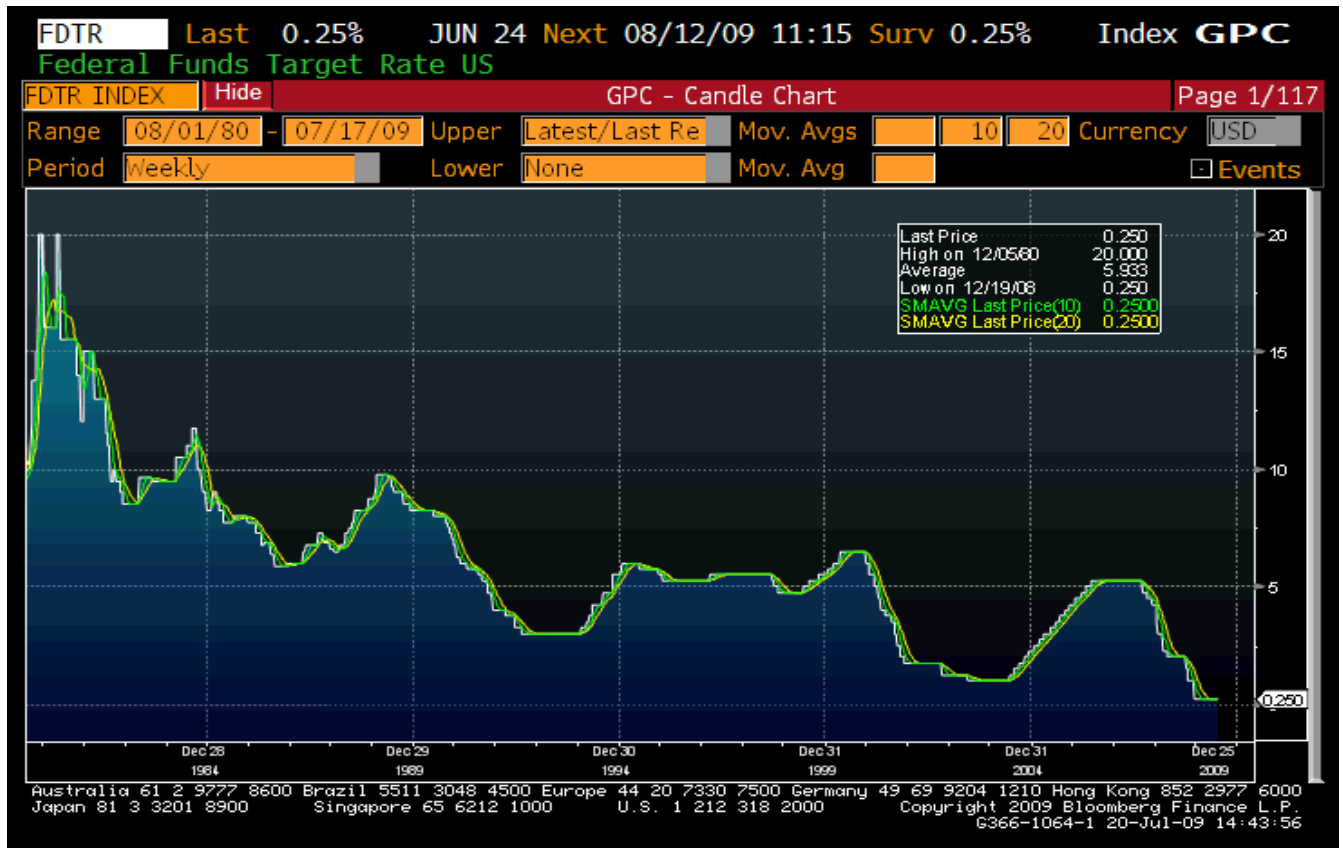


*Source: Bloomberg

Interest Rates

As companies merge/sell assets in 2010 and 2011 in order to cut costs, we will return to a healthier scenario in 2012. Obama's re-election is also in 2012, which is why we believe the Fed will begin raising rates now as they will want to be at the end of the Fed funds cycle when Obama comes up for re-election. In addition, it is not likely the Fed will want to pay our

Chart 3 - Historical Fed Fund Rates:



*Source: Bloomberg

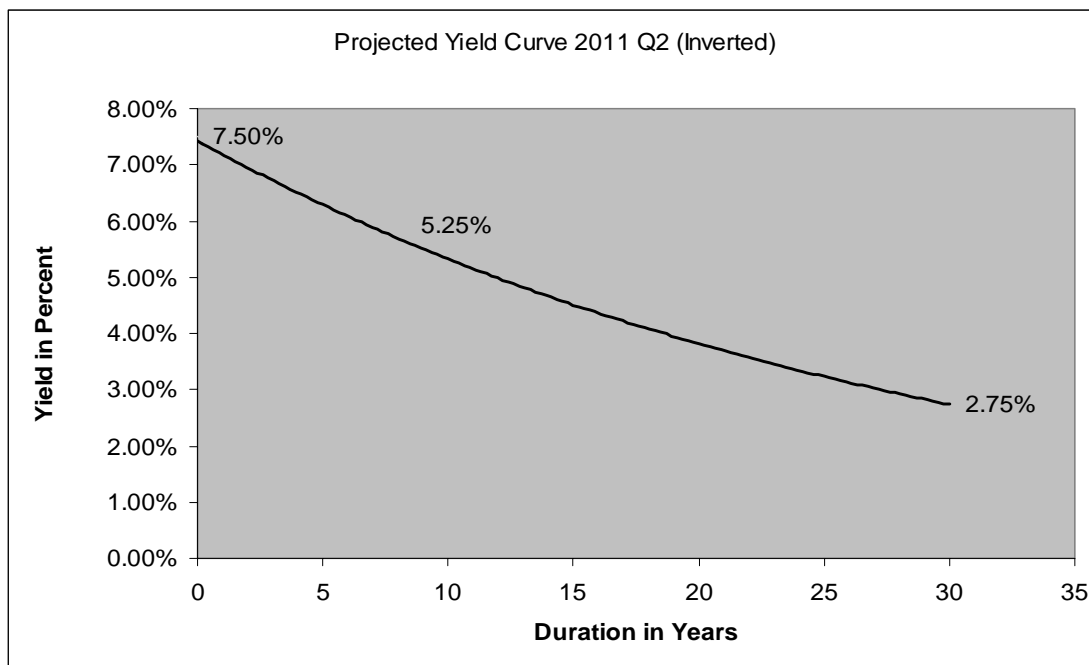
trading partners off with cheap dollars - rather they will support the currency by increasing Fed funds to 7 ½ % over the next 20 months. The current presidential trip to China and Charles Plosser's comments on "increasing rates" gives us additional confidence in our projections. It will be the weak dollar and **the threat** of inflation that starts Fed funds upwards (See Chart 3). The good news is that most commodities are being traded in U.S.

dollars. However the bad news is the U.S.A. is also highly subject to inflationary pressures. The Fed must raise rates to stop inflation and to finance our next stimulus plan, health care, Afghan war, etc. It will take much more action from the Fed due to the severity of this credit cycle and our expanding deficit going forward. Stay tuned for the second stimulus attempt, which will not work either.

Summary

The United States and the world are heading toward a downward spiral in pricing and upward spiral in borrowing costs. These two factors will drive consumer/corporate spending lower and earnings lower...much lower. We believe corporate earnings will be approximately 43% less by the end of 2010 and the markets correspondingly. The cost of refinancing corporate America will be between 235 and 800 basis points, depending on company health. We will see a significant increase in the number of Chapter 11 and Chapter 9 filings as part of this cost restructuring. Consumers will get relief on their biggest expense (mortgage payment), but not until mid 2010 when the 30 year moves to 2.75%. Based on our proprietary models and technical analysis, we predict an inverted curve (see Chart 4).

Chart 4 – Projected Yield Curve



Forecasts

<u>Event</u>	<u>Time</u>
DOW – 6300	4 th Quarter (2009)
DOW – 4300	2 nd Quarter (2011)
Fed Funds 7.5%	2 nd Quarter (2011)
Gold - \$700.00	2010
Oil – \$33.00/bbl	2010
Unemployment – 16%	2010
30 Year Treasury 2.75%	2010

Good News

2012 should begin a new bull market
Rising interest rates will provide income to savers
Costs will ultimately drop farther than incomes
Efficiency/GDP will become positive in 2012

Overall Recommendation/Allocation

90% fixed income (70% short term bond funds)
10% equities
0% foreign



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