Capital Markets Commentary

4th Quarter 2009

In the fourth quarter of 2009, the U.S. stock market posted single-digit percentage gains across-the-board, as investors continued to buy stocks and steer away from most fixed income segments as well as cash equivalents. The S&P 500 Index gained 6.0% in the fourth quarter, slightly ahead of the Russell Midcap Index's gain of 5.9%, and ahead of the Russell 2000 Index of small cap stocks, which gained 3.9%. The gains in the fourth quarter continued the positive momentum displayed in the second and third quarter of 2009. Of course, this comes after a painful string of six consecutive quarterly losses.

Large cap growth equities significantly outpaced their value counterparts, as the Russell Top 200 Growth Index returned 8.4% vs. 3.8% for the Russell Top 200 Value Index. A similar pattern was shown in the Midcap area of the U.S. equity market, although not quite as dramatic, as the Russell Midcap Growth Index returned 6.7%, better than the Russell Midcap Value Index, which returned 5.2%. Small cap growth stocks gained slightly more than their value counterparts, as the Russell 2000 Growth Index gained 4.1%, which was ahead of the Russell 2000 Value Index, which posted a 3.9% gain in the quarter.

For the year 2009, stocks finished with solid gains, as the S&P 500 gained 26.5%, its best calendar year performance since 2003, when it gained 28.7%. The Russell Midcap Growth Index was the best performing domestic equity segment, up 46.3%. In fact, all nine major domestic equity categories gained more than 20% for the year, with the exception of The Russell 1000 Value Index, which gained 19.7% for the year. Value investors' returns were inhibited by Financials and Utilities, which underperformed other sectors. The technology-laden NASDAQ Composite Index raced ahead 43.9%. Most of the NASDAQ Composite's outperformance, as shown in the chart to the right, occurred in the recovery subsequent to the sell-off in the first quarter of 2009.

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Source: Bigcharts.com

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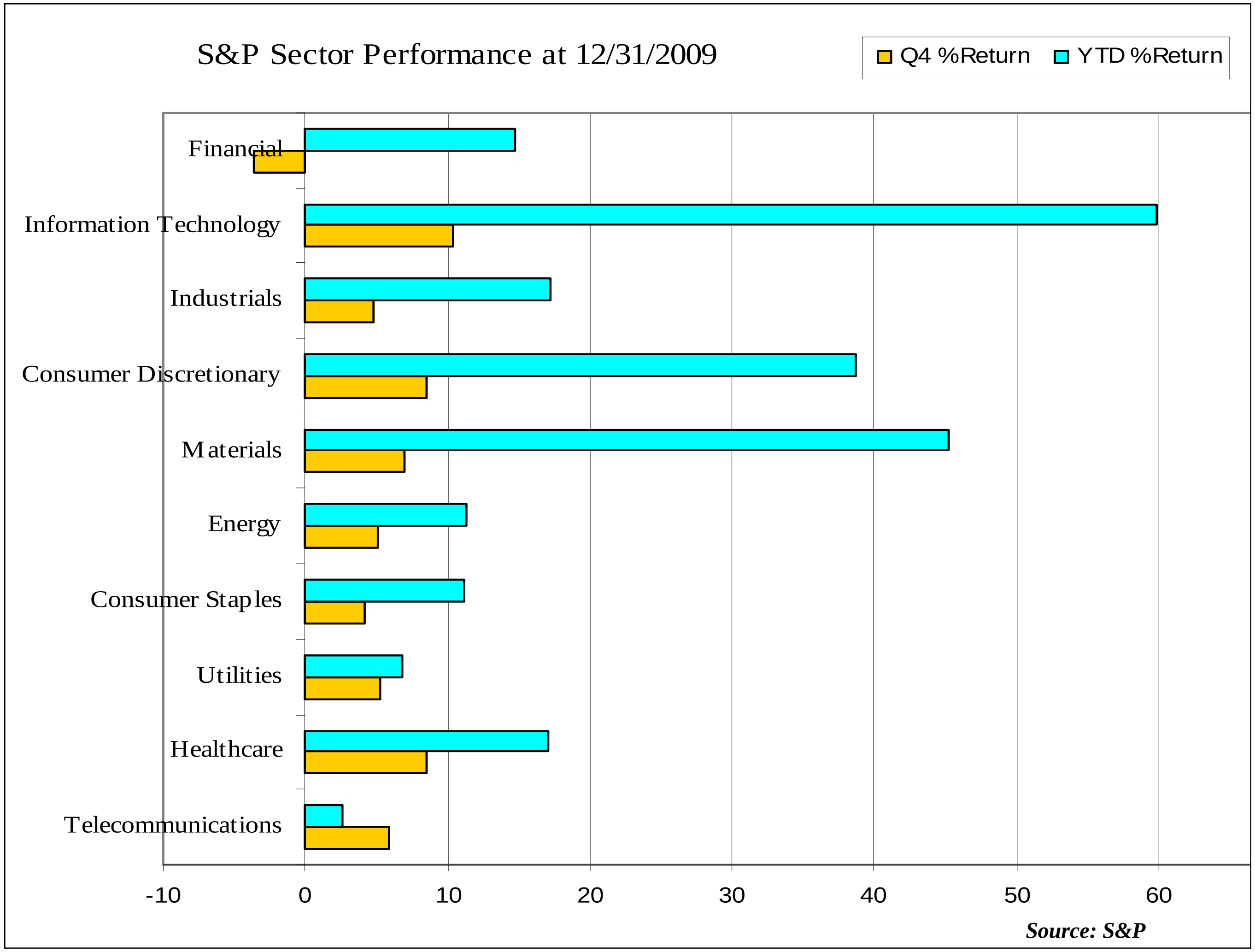
Stock Market Sector Performance



Reviewing the performance of individual equity market sectors, all ten of the stock market sectors in the S&P 500 Index except for Financials gained in the fourth quarter. The leading performers were Information Technology, Consumer Discretionary, and Healthcare, each up more than 8.5% for the fourth quarter. Laggards in Q4, other than Financials, included Consumer Staples and Industrials, which gained no more than 5%.

For calendar year 2009, all ten S&P 500 sectors exhibited positive returns. Only the Telecommunications and Utilities sectors gained less than 10% during 2009. The strongest performing stock market sector, by far, was Information Technology, up approximately 60% in the last twelve months. Materials and Consumer Discretionary were also very strong performing sectors in 2009, each gaining more than 38%.

Stock market volatility remained high during 2009 according to Standard & Poor's, as it was the year with the sixth greatest number of trading days with moves in the S&P 500 Index of at least 1% in either direction. This follows 2008's showing as the fifth most volatile year since S&P 500 Index statistics have been tracked, dating back to 1926. However, The CBOE Volatility Index, or VIX, began 2009 near the 40 level, but by year-end had declined to near 20, a level not seen since before the Lehman Bankruptcy that spooked the capital markets in September 2008.

Domestic Economy and Unemployment

Unemployment continued to climb during the fourth quarter, but the rate of job losses appears to have abated somewhat, as November's loss of 11,000 nonfarm jobs was well below the monthly job losses of hundreds of thousands of jobs witnessed in early 2009. It was the fewest number of jobs lost since December 2007. In the most recently reported figures, the national level of unemployment declined slightly, from 10.2% in October to 10% in November. However, unemployment in the last 12 months has risen from a level of 6.8%, where it stood at the November 2008 report. (Source: U.S. Labor Dept.)

Looking at unemployment within each state in the Union, the worst employment conditions were in Michigan, with 14.7% unemployed, Rhode Island at 12.7%, and three states reported 12.3% unemployment: California, Nevada and South Carolina. The states with the lowest level of unemployment were North Dakota, Nebraska and South Dakota, each with no more than 5% unemployment.

Although there were small improvements in the labor market as evidenced by average hours worked and average hourly earnings in the November report, there were still 5.9 million people who have been unemployed for more than six months. This equates to 38.3% of the aggregate unemployed population, which is a record level. This is perhaps an indication that some job losses may be part of a permanent, structural change, as well as other jobs lost as part of a normal cyclical economic downturn.

U.S. Fixed Income Markets

Returns in the domestic fixed income markets were relatively flat in the fourth quarter, as interest rates generally increased across the U.S. Treasury yield curve. The long end of the yield curve experienced the greatest change, as the Barclay's U.S. Treasury Long Index declined by 5.3%, which was the worst performing fixed income segment in Q4. Long-term Treasuries were also the worst performing fixed income segment in 2009, as they returned -12.9%. On the short end of the yield curve, T-bill investors continued to experience minuscule returns, the Citigroup 3-Month T-Bill Index crawled ahead by 0.03% in the fourth quarter, bringing the total return to a remarkable 0.16%. The high yield market continued its strong performance in the fourth quarter, as the ML High Yield Master Index gained 5.3%, which brought its total return for 2009 to an astounding 56.3%, which is by far the best performing domestic fixed income asset class over that timeframe. In fact, high yield debt outperformed all nine major U.S. equity styles by at least 1,000 basis points in 2009.

The Federal Reserve again voted to keep the Fed Funds Rate at 0% - 1/4% and will likely keep rates low for a prolonged period. The Fed stated that it *"continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."* (Source: FOMC)
Of course, the answer to the vital question, "When will The Fed begin to tighten?" remains to be seen. In the meantime, money market investors must contend with earning next to nothing, and in real terms (adjusted for inflation) they are experiencing negative returns.

Russell Equity Index Performance

In the fourth quarter, Growth outperformed Value. The greatest outperformance of Value vs. Growth was in the Large Cap arena, as the Russell 1000 Value underperformed its growth counterpart by 370 basis points. Also, Large Cap outperformed Midcap, which in turn outperformed Small Cap. This was more pronounced in the growth-based indices. (Source: Russell)

Q4 Russell U.S. Equity Returns (%)

	Value	Blend	Growth
Large Cap	**4.2**	**6.1**	**7.9**
Mid Cap	**5.2**	**5.9**	**6.7**
Small Cap	**3.6**	**3.9**	**4.1**

Non-U.S. Equity Markets

The performance of non-U.S. equities in the fourth quarter was mixed. The EAFE Index gained 2.2% in the quarter, as a strengthening U.S. dollar in late 2009 hurt returns for dollar-based investors. The strongest performing developed markets in U.S. dollar terms was experienced in Norway, up 14.4%, Singapore, which gained 9.0%, and The U.K., which returned 6.2%. On the other hand, the weakest performing markets were Greece, down 22.8%, and Austria, which declined by 9.9% in the fourth quarter.

For 2009, the EAFE Index gained 32.5% in dollar terms. The best performing markets were Norway, up 82.5%, and Australia, which gained 68.8% for the year. The markets with the worst relative performance in 2009 for U.S. investors were Japan, up 4.4%, and Finland, which gained 7.2%. In non-developed equity markets, The MSCI Emerging Markets Index gained 8.6% in the fourth quarter and sprinted ahead by 79.0% in 2009.

Residential Real Estate

U.S. home prices are back to Autumn 2003 levels, based on the October 2009 S&P/Case-Shiller 20-City Home Price Index statistics released on 12/29/09. The Index posted a one-year loss of 7.3%, and was unchanged in the month of October. Although the overall rate of decline is slowing somewhat, it remains a very mixed bag, with some local real estate markets doing significantly better than others. For example, there have been seven consecutive monthly gains in San Francisco home prices, and six consecutive monthly gains in San Diego. On the other hand, Las Vegas housing has experienced 38 consecutive months of declining prices, bringing prices back to January 2000 levels.

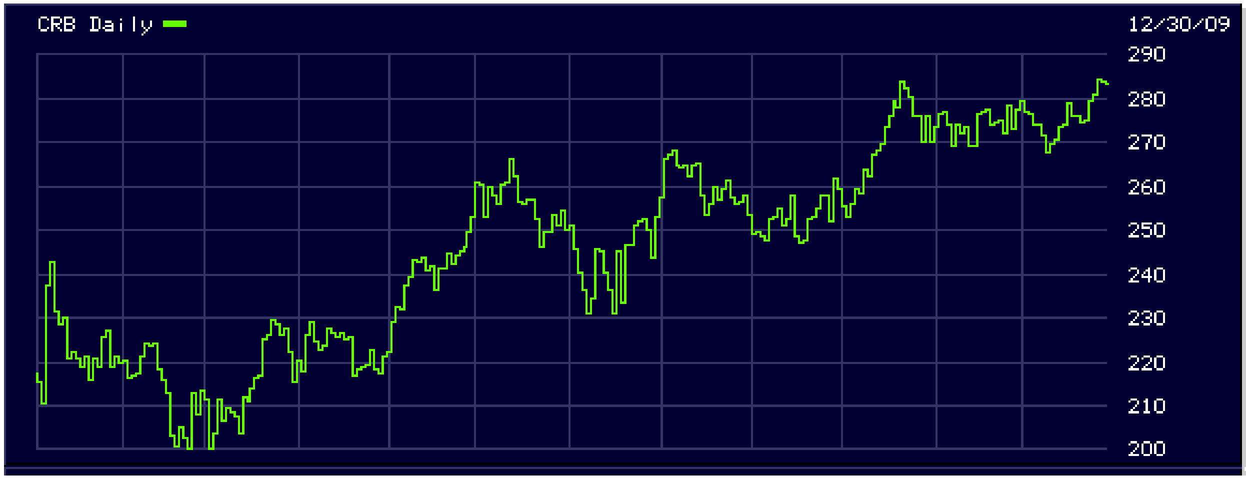
Looking at one-year performance through October, the top three performing real estate markets were Denver, down 0.1%, Dallas at –0.6%, and San Diego at –2.4%. To the contrary, the weakest home price trends were in Las Vegas, down 26.6%, Phoenix, down 18.1%, and Tampa, down 15.2%.

Commodity Prices

The price level of commodities, as measured by the broad-based CRB Commodity Index, showed a remarkably similar pattern to that of the U.S. stock market in 2009. After beginning 2009 in a decline, as the chart to the right shows, the CRB Index bounced off of the 200 level and rallied to close at approximately 289, a gain of 32% for 2009.

Gold glittered in 2009 and closed the year at $1,096 (a gain of 24% in 2009), after closing at an all-time high of $1,218 earlier in December. Silver rallied by 49% in 2009, closing at $16.82 per oz. Even more impressive were the base metals, Copper and Aluminum, which gained 139% and 50% in 2009, respectively.

The price of crude oil gained 78% in 2009, closing at $79.36/barrel, according to The Wall St. Journal. Natural gas, to the contrary, declined by 0.9% in 2009.



(Source: Bigcharts.com)

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Edited by James Kitchens, CFA

Index Returns Since 2000, Sorted From Best to Worst

INDEX	*ASSET CLASS*
Russell 1000 Value	Large Value
Russell 1000	Large Blend
Russell 1000 Growth	Large Growth
Russell Midcap Value	Mid Value
Russell Midcap	Mid Blend
Russell Midcap Growth	Mid Growth
Russell 2000 Value	Small Value
Russell 2000	Small Blend
Russell 2000 Growth	Small Growth
MSCI World Index	Global Equity
MSCI EAFE Index	Int'l Equity
Barclays Aggregate Bond Index	Intermed. Bond
Merrill Lynch High Yield Index	High Yield Bond
Balanced (60/40)-Rebal. Annually	Balanced
Citigroup 3-month T-bill	Cash Equiv.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
22.8%	14.0%	10.3%	48.5%	23.7%	14.0%	26.9%	11.8%	5.2%	56.3%
19.2%	8.4%	1.7%	47.3%	22.3%	12.7%	23.5%	11.6%	1.8%	46.3%
11.6%	4.5%	-1.9%	46.0%	20.7%	12.7%	22.3%	11.4%	-20.7%	40.5%
8.3%	4.1%	-9.2%	42.7%	20.2%	12.1%	20.7%	9.6%	-26.2%	37.2%
7.0%	2.5%	-9.6%	40.1%	18.3%	10.0%	20.2%	7.1%	-28.9%	34.5%
6.0%	2.3%	-11.4%	39.2%	16.5%	7.1%	18.4%	7.0%	-33.8%	34.2%
-1.2%	-3.7%	-15.5%	38.1%	15.5%	6.3%	15.5%	6.1%	-36.9%	32.5%
-3.0%	-5.6%	-15.7%	33.8%	15.3%	5.3%	15.3%	5.8%	-37.6%	30.8%
-5.1%	-5.6%	-16.2%	30.0%	14.3%	4.7%	13.4%	5.6%	-38.4%	28.4%
-7.8%	-9.2%	-19.5%	29.9%	11.4%	4.5%	11.8%	4.7%	-38.4%	27.2%
-11.8%	-12.5%	-20.5%	29.8%	10.9%	4.2%	11.2%	2.2%	-38.5%	20.6%
-12.9%	-16.5%	-21.7%	28.2%	8.3%	3.9%	10.7%	-0.2%	-40.3%	19.8%
-14.0%	-20.2%	-27.4%	19.3%	6.3%	3.0%	9.1%	-1.4%	-41.5%	19.7%
-22.4%	-20.4%	-27.9%	4.1%	4.3%	2.7%	4.8%	-1.6%	-43.1%	5.9%
-22.4%	-21.2%	-30.3%	1.1%	1.2%	2.4%	4.3%	-9.8%	-44.3%	0.2%

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