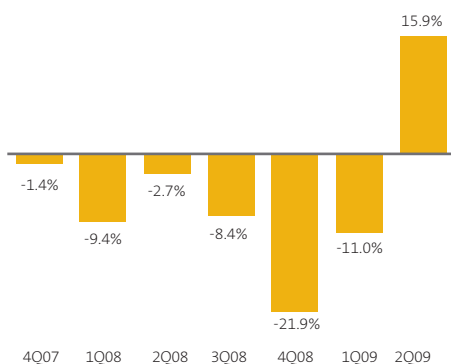


# Capital Market Review • Second Quarter 2009

After hitting a new low in early March, the market posted four straight up months with a return of 26.1% over the four month period ending June 30th. This gave the stock market a strong positive second quarter with a 15.9% return. This came on the heels of six consecutive negative quarters.



The rally lost steam at the end of the quarter however, with June 2009 only posting a 0.2% return. Regardless, this was a welcome relief from a market that dealt out so much punishment over the past few years.

The extreme unusual volatility continues in the real estate market. The Dow Jones US Select REIT Index fared the best for the quarter posting a 31.5% gain. The index, which started in 1987, had its best monthly return in April at 32.8%. This resulted in the index having stronger returns when compared to the S&P 500 for the quarter. However, the index had its worst monthly return in October 2008 at -32.4%.

Things were mixed for bonds as the Barclays Capital Aggregate Bond Index, an index of the broad bond market, gained 1.8% for the quarter bringing the year-to-date return to 1.9%. The U.S. Treasury bond market fell on concerns of higher inflation and a recovering

economy. The Barclays Capital Credit Index was up 8.8% for the quarter, while the Barclays Capital Government Index was down 2.2%. The six month results are similar with the Credit index up 6.9% and the Government Index down 3.2%. This is driven by spreads between government and credit bonds tightening or getting narrower. The Barclays Capital US Corporate High Yield Index posted a 23.1% increase for the quarter, showing evidence that the credit markets have begun to loosen. The Citigroup World Global Bond Index – Non US\$ was up 5.4% for the quarter reducing the year-to-date decline to -0.6%. The municipal bond market, which had struggled in 2008, had a 2.1% return for the quarter and was up 6.4% for the year-to-date period.

## STOCK MARKET

The major averages saw steep gains during the second quarter, which have brought the year-to-date numbers in mostly positive territory. The S&P 500 Index, an index of large company stocks, returned 15.9% for the quarter pushing the six month return to 3.2%. The Russell 2000 Index, an index of small company stocks, fared better by gaining 20.7% for the quarter, which brought the six month number to 2.6%. The MSCI EAFE Index, an index representing international stocks, was the best of the broader stock indices with a return of 25.4% for the quarter and 8.0% for the six months. The Dow Jones US Select REIT Index, an index representing real estate companies, gained an amazing 31.5% in the quarter, but this followed a -33.9% in the first quarter, resulting in a -13.1% six month return.

The longer-term numbers, even with such a strong quarter, have stayed very weak. The S&P 500 Index has lost 2.2% annually for the past 10 years. In fact, the only periods that are positive for the S&P 500 is the last 6 years with a 1.0% return and the 7 years with a 0.9% return. All the other periods are negative.

Looking at the S&P 500 for the 9 ½ years of this decade so far, the market is split evenly with 19 positive quarters and 19 negative quarters. On a monthly basis over those 114 months, 65 have been positive, while 49 have been negative.

## Market Returns

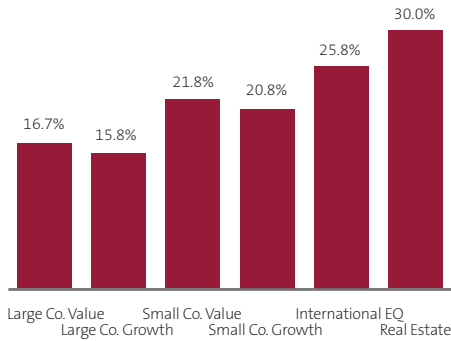
	3 months ended 6/30/09	12 months ended 6/30/09
T-Bills	0.1%	0.6%
Barclays Capital Aggregate Bond Index	1.8%	6.1%
S&P 500	15.9%	-26.2%
Russell 2000	20.7%	-25.0%
EAFE	25.4%	-31.4%
DJ US Select REIT	31.5%	-45.4%

## Equity Styles

All of the equity styles managed to post a gain for the second three months of 2009. Large Value gained 16.7%, while Large Growth gained 15.8%. Small Value gained 21.8%, while Small Growth returned 20.8%. Small had the advantage over large and value had a slight edge over growth during the quarter. The average International Equity finished the quarter up 25.8% and Real Estate, the best of all the categories, gained 30.0%.

## Comparison of Equity Styles

3 months ended 06/30/09

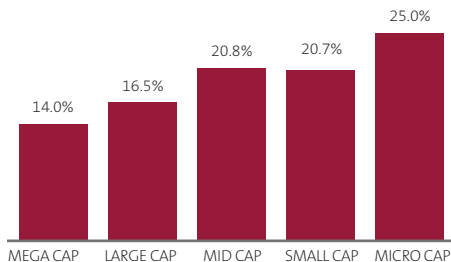


The six month period, while most were positive, varied to a larger degree on the domestic front with Large Value gaining only 1.9%, Large Growth 10.5%, Small Value 2.9%, and Small Growth 10.6%. Diversification into International did help with an average return of 10.9%, while Real Estate did not help with the average fund being down 8.5%

The twelve month period still has negative results for all the equity styles. Large Value fell 26.6%, Large Growth 27.1%, Small Value 23.5% and Small Growth 26.9% on the domestic side with a -31.4% and -43.1% for the average International and Real Estate funds.

## Return by Market Cap

3 months ended 06/30/09

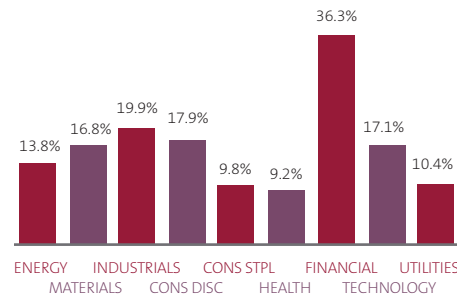


The smaller the market cap, the better the results were for the second quarter. The Russell Micro Cap gained 25.0%, followed by Small Cap at 20.7% and Mid Caps at 20.8%. Large Cap stocks were up 16.5% while Mega Cap stocks were up 14.0%. However, for the six month period, the returns were not in order like

they were for the quarter. Mid Caps did the best with a 10.0% return, followed by Micro Caps at 6.0%. In between on the capitalization scale was Small Cap that only produced a 2.6% return. Large Caps at 4.3% did better than Mega Caps, which returned 0.7%. The twelve month results were in a range of -21.5% for Mega Cap and -30.4% for Mid Cap. Large Cap was down 26.7%, while Small Cap and Micro Cap were down 25.0% and 24.5%.

## Stocks by Sector

3 months ended 06/30/09



All of the nine sectors provided positive returns for the second quarter. Financials, which have been the cause of so much of the recent bad news, led for the quarter with a 36.3% return. Four other sectors produced results above the market's 15.9% return, Materials with a 16.8%, Industrials at 19.9%, Consumer Discretionary at 17.9% and Technology at 17.1%. The four other sectors trailed the overall market, but produced strong returns. Energy and Utilities sectors produced double digit results at 13.8% and 10.4%, while the two more defensive sectors, Consumer Staples and Healthcare returned 9.8% and 9.2%.

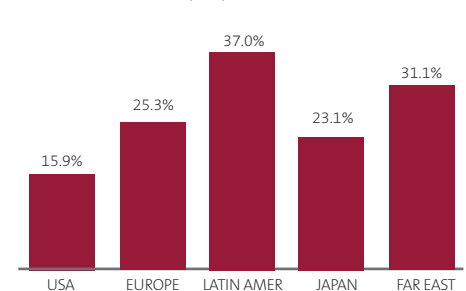
Five of the nine sectors were positive for the six months with Technology leading at 19.3% and Materials at 14.7%. Consumer Discretionary returned 8.0%; Energy at 1.7% and Healthcare at 0.2%. Industrials was the worse sector at -4.7% followed by Financials at -3.2%. Consumer Staples

fell 2.4% and Utilities 1.8%. The overall market returned 3.2% for the six months.

During the twelve months, all nine sectors were negative and five of the nine were trailing the overall market return of -26.2%. The Energy sector lost 44.6%. Materials posted a -36.3% loss, while Industrials lost 33.4%. The consumer and their lack of spending has been a topic of discussion as the economy has slowed down with Consumer Discretionary sector down 17.3%, while Consumer Staples were down 11.6%. Healthcare, which one would think is less sensitive to the overall economy, was down 12.1%, which was better than the overall market. Financials, which continue to be a trouble spot, dropped 38.7% due to lingering concerns of the amount of write offs that still need to be taken. Technology was down 19.1%, while Utilities were a negative 28.4%.

## Stocks by Region

3 months ended 06/30/09



All of the four regions out-performed the S&P 500 Index for the quarter. Latin America led the five regions with a positive 37.0% return followed by the Far East with a 31.1% gain. Europe, up 25.3% and Japan, up 23.1%, both beat the U.S. market at 15.9% for the quarter. The returns were helped with currency gains as the dollar generally weakened.

The six months presented a different picture however. The developed markets of the U.S., Europe and Japan trailed those of the emerging markets in Latin America and the Far East. The increase in the price of oil pushed the Latin America returns to 43.2%, while the Far East was up 31.7%. The United States was up 3.2%, Europe at 7.0% and Japan at 2.6%.

The twelve month period produced negative returns for all the regions. The USA fell 26.2%, while Europe fell 34.5% for the twelve months. Latin America, again heavily influenced by the oil markets, had a 37.4% decline for twelve months. Japan and the Far East were the best performing regions for the year period, but still produced losses at 23.1% and 21.6%.

Please note that these returns are in U.S. Dollar terms and the change in currencies will have an effect on the return.

## BOND MARKET

The bond market generally experienced a strong quarter even though interest rates on Treasuries increased over the quarter. Spreads on non-Treasury bonds narrowed for the quarter as concerns over the stability of the credit markets and the ability of borrowers to repay their debt eased from the earlier dire expectations.

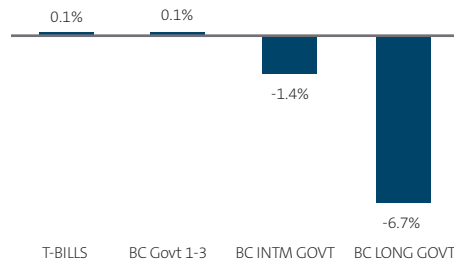
The yield on the 2 year Treasury went from 0.8% to 1.1% during the quarter. Likewise, the yield on the 5 year went from 1.7% to 2.5%, the 10 year from 2.7% to 3.5% and the 30 year from 3.6% to 4.3%. This resulted in price declines in US Treasuries. However, the returns in the spread markets were generally positive.

There is a growing concern that inflation will rear its ugly head at some point as the economy recovers and governments around the world are using fiscal and monetary stimulus to jump start their stalled economies around the globe.

These concerns and reaction to any news that reflect on the economy is moving Treasury rates up or down depending on the news. Duration, a measure of interest sensitivity, is influenced by the underlying income or coupon rate of a bond. Therefore, with yields being so low on Treasuries, they are very sensitive to any change in rates.

## Bonds by Maturity

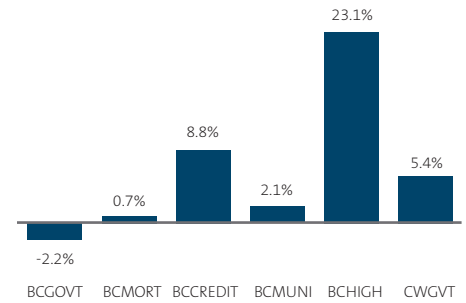
3 months ended 06/30/09



The Barclays Capital Long Government Index trailed all maturities last quarter due to the rising yield curve with a return of -6.7%. The Index is down 11.6% for six months, but has a positive 6.9% return for the year. The return of 0.1% for T-Bills for three and six months (they are the same due to rounding), shows how low short rates continue to be. T-Bills have a twelve month return of 0.6%. The Barclays Capital 1-3 Year Index returned 0.1% in the quarter, 0.5% for six months and ended the twelve months with a 4.9% return. The Barclays Capital Intermediate Government Index was down 1.4% for the quarter and 1.5% for six months, while being up 6.4% for the twelve months.

## Bonds by Sector

3 months ended 06/30/09



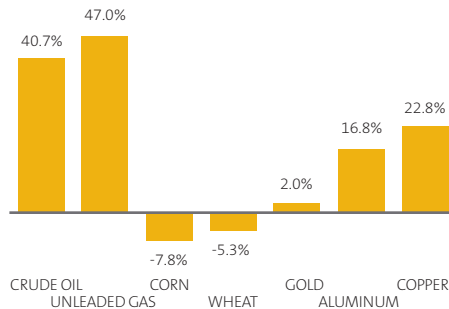
Bonds by sector tell a very different tale than bonds by maturity. With the exception of the Barclays Capital Government Index, down 2.2% for the quarter; all other sectors produced positive results for the quarter. The Barclays Capital Credit Index, an index of investment grade companies, gained a strong 8.8% for the quarter, while the Barclays Capital High Yield Index had a 23.1% return. Municipals, which are generally perceived as second in safety to the US Government, gained 2.1%. World Government bonds also produced good results by gaining 5.4%. The Barclays Capital Mortgage Backed Index managed a small gain of 0.7%.

The same pattern of returns, with the exception of World Government bonds, held true for the six months. High Yield bonds were up 30.4% for the six months, while investment grade Credits were up 6.9%. Mortgage Backed bonds were ahead by 2.9% and Municipals were up by 6.4%. US Governments were down 3.2%, while World Governments were down 0.6%.

The twelve month has all sectors in the positive territory except High Yields which lost 2.4%. Mortgage backed bonds led with a 9.4% return followed by US Governments at 6.6%.

## COMMODITIES MARKET

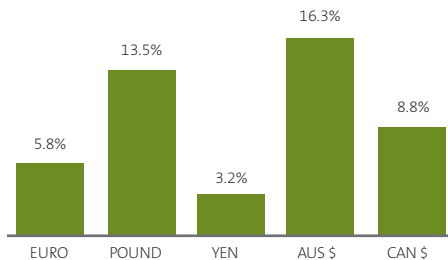
3 months ended 06/30/09



The Dow Jones UBS Commodity Index had a very strong quarter by gaining 11.7% in the second quarter. The hope of a recovering U.S. economy and strength of the Chinese economy led to a recovery in commodity prices especially in the oil market. The index now is up year-to-date with a 4.6% return, but is still down a staggering 47.1% for the twelve months. Not all sectors of the commodity market were up for the quarter, however. Oil and Unleaded Gas were up 40.7% and 47.0%. The agriculture sectors were down with Corn off 7.8% and Wheat down 5.3% for the quarter. Metals were up with Gold being up only 2.0%, while Aluminum gained 16.8% and Copper 22.8%.

## CURRENCY MARKET

3 months ended 06/30/09



The U.S. Dollar was generally weak in the quarter and the first half of the year. The Euro was up 5.8% against the U.S. Dollar for the quarter and was flat for six months, but down 11.0% for the twelve month period. The British Pound was up against the US Dollar in 2009

with a 13.5% increase for three months and 12.1% for six months. However, the Pound was down 18.5% for the twelve months. The Japanese Yen was up against the U.S. Dollar with a 3.2% increase for the second quarter. The Yen was still negative against the Dollar for six months with a 5.4% decrease. The Yen was the only currency that was up against the U.S. Dollar for twelve months with a 10.9% increase. The Australian Dollar and Canadian Dollar, both of which are strongly sensitive to commodity prices, rose against the US Dollar. The Australian Dollar was up 16.3% and 16.1%, while the Canadian Dollar was up 8.8% and 5.4% for the three and six months. Over the twelve month period the Australian Dollar was off 16.3%, while the Canadian Dollar was off 12.5%.

## UPDATE

The markets have all remained volatile, while looking for a clear sign of the economy's direction. The stock market was down during the beginning part of July, but has now bounced back into positive territory as companies have announced better than expected earnings for the second quarter. Interest rates have remained volatile as well.

Oil, which was at \$69.89 a barrel, has backed off about 10% since the end of the second quarter. Inflation has picked up mainly due to higher energy prices. The CPI is up 2.6% for the six months, but is still a negative 1.4% for the twelve months. Core CPI, which excludes energy and food, is up 1.5% for the six months and 1.7% for the twelve months showing that inflation remains tame.

Initial claims for jobless benefits remained high and the unemployment rate continues to climb. The unemployment rate topped 10% in sixteen states and

is over 15% in Michigan. The national unemployment is up to 9.5%. Job losses have been staggering with 3.1 million jobs lost in 2008 and another 3.4 million in the first six months of 2009. There is a general belief that it takes twice as long to rehire as it did to layoff, so high unemployment is expected to stay with us for quite some time even when the economy starts to recover.

While 2009 is only half way over, it is clear that all the pain dealt to the markets in 2008 will not be recouped in a single year.

*Jack Kraus*