

INNOVEST MONTHLY MARKET COMMENTARY

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Latest Returns						
EQUITIES						
Index	Oct-09	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	-1.86%	5.48%	17.05%	9.80%	-7.02%	0.33%
S&P 400 Midcap	-4.54%	5.33%	24.23%	18.18%	-4.22%	3.24%
S&P 600 Small Cap	-5.69%	1.43%	12.65%	5.56%	-7.34%	1.26%
MSCI EAFE	-1.25%	8.10%	27.36%	27.71%	-5.22%	5.10%
MSCI Emerging Markets	0.12%	8.82%	64.65%	64.13%	6.34%	16.78%
FIXED INCOME						
Index	Oct-09	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	0.49%	2.60%	6.24%	13.79%	6.35%	5.05%
BC Muni Bond 1-10 Yr	-1.27%	0.97%	5.90%	9.30%	5.08%	4.07%
BC High Yield	1.80%	9.60%	51.66%	48.10%	5.46%	6.14%
BC Global Aggregate Bond	0.47%	4.43%	8.35%	18.41%	7.91%	5.71%
CSFB Bank Loan Index	0.65%	6.33%	40.69%	24.64%	1.13%	3.18%
OTHER						
Index	Oct-09	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	3.28%	4.29%	12.62%	0.09%	-5.36%	-0.39%
DJ Wilshire US REIT	-4.54%	17.10%	12.33%	-0.25%	-16.80%	-0.85%
S&P Developed World Property	-1.63%	12.65%	30.26%	23.43%	-11.97%	2.81%
LPX 50 TR	-5.22%	10.65%	45.43%	6.31%	-20.24%	-3.67%
HFRI Fund of Funds Index	-0.12%	2.69%	9.67%	5.18%	-0.49%	3.26%
3 Month T-Bills	0.02%	0.07%	0.19%	0.30%	2.69%	3.09%

Returns provided by outside vendor. Innovest is not responsible for accuracy of numbers presented.

Bond Rates	As of	
	11/6/2009	12/31/2008
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.85%	0.76%
U.S. Ten-Year Treasury Yield	3.50%	2.25%
U.S. Ten-Year Muni Yield	3.17%	3.91%
High Yield (Merrill U.S. Corporates)	9.30%	16.58%

Exchange Rates		
\$ per €	1.49	1.39
\$ per £	1.66	1.44
¥ per \$	89.84	90.65

The Economy

After four consecutive quarters of negative Gross Domestic Product (GDP) growth, 3rd quarter news was welcomed by investors. The United States economy expanded at a 3.5% annual rate for the July to September quarter. While the three-month growth in GDP technically represents an end to the recession, on a year-over-year basis, economic activity is still down 2.3%.

GDP growth was driven primarily by a 3.4% increase in consumer spending. Most of the increase in spending was a result of federal stimulus programs such as "cash for clunkers" and the first-time home buyer credit. New home construction continued to grow at an annual rate of 23% as homebuyers rushed to take advantage of the tax credit for first-time home buyers. New home purchases should continue to rise as Congress decided to extend the first-time home buyer tax credit. Critics argue that these programs are simply shifting "growth" from the future to today.

The dollar hit a 14-month low during the first week of October, despite moves by central banks in Hong Kong, Indonesia, the Philippines, South Korea, Taiwan and Thailand to attempt to slow the dollar's decline against their currencies. These central banks are trying to slow the dollar's decline because they are concerned that the weak dollar could negatively impact their export-driven economies. Amid fears of a weakening dollar, gold prices continued to gain, closing at \$1,043, up nearly 20% year-to-date.

Although the economy showed signs of growth and the recession is technically over, high unemployment continues to be a thorn in the side of economic growth. October saw consumer confidence dwindle as unemployment continued to rise towards 10%. In addition, the rapid growth in government spending has led to an increased fear of future inflation.

Until unemployment stops rising, we can expect consumer confidence to remain cautiously optimistic at best. Looking forward, it remains to be seen if GDP growth will

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continue to rise at the pace it did in the 3rd quarter. Without a resumption of private investment, it will be up to the government to continue to put the stimulus money to work for the economy to grow. As the Fed continues to keep interest rates low, business investment should pick up, which will hopefully put an end to the month after month rise in unemployment. However, economists expect that unemployment will continue to grow through mid 2010.

The Market

A seven month rally came to an end as domestic equities closed lower in October. For the month, the S&P 500 fell 1.9%. Domestic equity trading was extremely volatile with the DJIA experiencing triple digit swings in ten trading sessions. After impressive returns year-to-date, small caps were hit the hardest during October with the Russell 2000 Index down almost 7%. The significant decline in small cap stocks may signal investors are beginning to reassess the amount of risk they are willing to take going forward. It's also likely that some of the decline is due to profit taking.

The six month rally also came to an end overseas as developed markets were down 1.3% as measured by the MSCI EAFE index. Emerging markets managed to eke out a small gain of less than 1%.

In the fixed income markets, the treasury yield curve steepened as short rates fell and long rates rose. The Barclay's Aggregate Bond Index and High Yield Index both finished in positive territory up 0.5% and 1.8%, respectively. As has been the case throughout the year, the lower the credit quality of the issue, the greater the gain during the month as spreads continue to tighten. The floating rate corporate loan market maintained its recovery as the CSFB Leveraged Loan index was up 0.6%. The municipal sector saw a decline of 1.3%.

The weakening dollar and fears of future inflation helped drive up the prices for oil, gold and most commodities as the Dow Jones – UBS Commodity index rose 3.3% for the month. The REIT market took a pause from its meteoric rise over the past six months, pulling back 4.5% domestically and 1.6% globally. Hedge funds were relatively flat for the month.

Outlook

October was a key month in determining if the 3rd quarter rally would continue through the end of the year. So

far, results have been moderately disappointing. All major indices finished down for the month with the exception of the DJIA, which eked out a fractional gain. Investors remain hesitant and continue to wonder if we are on the road to recovery, and, if so, how strong the recovery will be. Continued GDP growth should cause consumer confidence to rise; however, unemployment levels continue to plague consumer confidence. Low yielding assets, the recovery in manufacturing and business investment and the mountain of cash on the sidelines should continue to provide a tailwind for equities in the near-term. After promising 3rd quarter results, investors can hope that poor performance and low consumer confidence in October is only a small bump in the road to recovery. We should expect higher personal consumption as the holiday season approaches; however volatility in the markets will keep investors wary. With volatile markets, investors should remain focused on long-term returns and stay as diversified as possible.