

WINNOVEST

MONTHLY MARKET COMMENTARY

February
2010



Doug Inglee
Research Analyst

Latest Returns						
EQUITIES						
Index	Feb-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	3.10%	1.31%	-0.61%	53.62%	-5.67%	0.37%
S&P 400 Midcap	5.21%	8.22%	1.83%	67.00%	-2.65%	3.50%
S&P 600 Small Cap	4.30%	9.47%	0.77%	64.66%	-5.03%	1.40%
MSCI EAFE	-0.69%	-3.69%	-5.06%	54.58%	-8.11%	1.98%
MSCI Emerging Markets	0.35%	-1.50%	-5.25%	91.63%	3.82%	12.32%
FIXED INCOME						
Index	Feb-10	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	0.37%	0.32%	1.91%	9.33%	6.19%	5.36%
BC Muni Bond 1-10 Yr	0.88%	1.31%	1.47%	6.30%	5.63%	4.64%
BC High Yield	0.17%	4.77%	1.44%	56.27%	5.60%	6.49%
BC Global Aggregate Bond	0.37%	-3.01%	0.78%	13.96%	6.95%	4.91%
CSFB Bank Loan Index	0.32%	4.87%	2.14%	39.40%	1.86%	3.79%
OTHER						
Index	Feb-10	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	3.71%	-1.94%	-3.84%	26.43%	-6.19%	-0.42%
DJ Wilshire US REIT	5.68%	6.61%	-0.36%	99.93%	-15.58%	1.09%
S&P Developed World Property	2.68%	1.26%	-2.47%	84.91%	-14.86%	1.49%
LPX 50 TR	1.00%	4.04%	2.18%	133.28%	-21.93%	-5.77%
HFRI Fund of Funds Index	0.12%	0.50%	-0.25%	10.81%	-1.91%	2.45%
3 Month T-Bills	0.00%	0.02%	0.01%	0.20%	2.14%	2.96%

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

As of

Bond Rates	3/8/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.80%	1.14%
U.S. Ten-Year Treasury Yield	3.59%	3.84%
U.S. Ten-Year Muni Yield	3.01%	3.05%
High Yield (Merrill U.S. Corporates)	8.59%	8.63%

Exchange Rates

\$ per €	1.36	1.43
\$ per £	1.52	1.61
¥ per \$	88.87	93.10

The Markets

After January's modest correction in stock prices, the U.S. equity markets rebounded in February and posted modest gains for the month. Large-cap stocks, as measured by the S&P 500, finished February up 3.10%. After disappointing returns in January, February's performance brought the year-to-date performance for the S&P 500 back in to positive territory, up 1.31%. Of the 134 subsectors that comprise the S&P 500, 75% posted a gain in February, up from 22% in January.

Mid-cap stocks were the best performing U.S. equity category in February, outperforming large- and small-cap stocks. The S&P 400 finished the month up 5.21%. Small-

cap stocks outperformed large-cap stocks and slightly underperformed mid-cap stocks, with the S&P 600 up 4.30% for the month. International equities provided mixed returns with the MSCI EAFE Index down 0.69% and the MSCI Emerging Markets index up 0.35%. Year-to-date performance for international equities remained depressed, as the MSCI EAFE Index is down 3.69% and the MSCI Emerging Markets index fell 1.50%.

The U.S. bond markets had a relatively quiet month compared to the strong returns provided to investors in 2009. The Barclays Capital Aggregate Index and the CSFB Bank Loan Index also finished February in positive territory, up 0.37% and 0.32% respectively. Year-to-date, approximately \$487.7 million has flowed into high yield mutual funds, which returned 0.17% for the month of February. BB-rated



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bonds returned 0.51% for the month, outperforming B-rated and CCC-rated bonds, which returned -0.22% and -0.59% respectively. Year-to-date, CCC-rated bonds have provided the best return of 1.93% followed by BB- and B-rated bond returns of 1.38% and 0.81% respectively. The Dow Jones-UBS Commodity index was up 3.71% in February thanks to gains in the metals and cotton markets. The price of oil jumped 9.3% last month, closing the month at \$79.66 a barrel, up \$5.66. Gold rose from \$1,091 per ounce to \$1,119 per ounce during the month, its first monthly advance since November.

The Economy

On February 18, 2010, Federal Reserve Chairman Ben Bernanke announced a 25 basis point (bps) rate hike in the discount rate, the rate at which banks borrow from the central government. The Fed Funds rate, the rate at which banks lend overnight to each other, remained unchanged at 25 bps. While the discount rate is normally set 100 bps higher than Fed Funds rate, the discount rate has been much lower since the credit crisis of 2008. The Fed has made it easy for banks to borrow directly from the Fed at the discount window, hoping to spur lending and economic growth. Therefore, the decision to raise the discount rate is not seen as a tightening of policy or an end to the nearly zero percent interest rate policy, but rather a step back towards normalization. This discount rate hike is a healthy step towards normalizing monetary policy and signals that the greatest weakness in the economic crisis has passed. The Federal Reserve is likely to raise the Fed Funds target by year-end, but will probably wait for meaningful improvements in the labor market and job growth before doing so.

The economy shed an additional 36,000 jobs in February, which is a break from the downtrend in unemployment that occurred through early January. With nearly 15 million Americans currently out of work, the unemployment rate remained steady at 9.7%. Job losses were concentrated in the construction industry and were influenced by the record snow storms in the northeast. The manufacturing and service sectors added jobs in February, and temporary labor

surged as well. Continued addition of temporary-worker jobs is an optimistic sign that employers are beginning to require additional labor. Historically speaking, an increase in temporary labor has traditionally been a precursor of permanent hiring. Key to lasting job growth and continued improvement in the economy is an improving environment for small businesses, as companies with less than 50 employees account for more than 45% of all private sector employment.

The economic highlight of February was the upward revision of real GDP in the fourth quarter of 2009 from 5.7% to 5.9%. Despite the improved GDP figure, uncertainty about the U.S. economy is accentuating fears, and the markets clearly despise uncertainty. Anxieties facing the domestic markets include increased regulation of the banking industry, tax hikes, rising healthcare costs and stubbornly high unemployment. The eventual decline in unemployment will likely be the key catalyst for improvements in consumer confidence and retail sales.

InnoVest believes that the economy and corporate profits should continue to improve, albeit at a relatively slow pace. While steep economic declines are ordinarily followed by robust recoveries, the deep and lingering effects of the recent credit crisis indicate that the current economic rebound should be relatively subdued. Despite numerous economic and political uncertainties, we believe that the prudent investors should develop realistic expectations about future investment returns, carefully examine downside risk, and construct their portfolios with diversification and a long-term outlook.