

WINNOVEST MONTHLY MARKET COMMENTARY

March 2010



W. Eric Overbey
Research Analyst, II

Latest Returns						
EQUITIES						
Index	Mar-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	6.03%	5.39%	5.39%	49.77%	-4.17%	1.92%
S&P 400 Midcap	7.13%	9.09%	9.09%	64.07%	-0.83%	5.17%
S&P 600 Small Cap	7.78%	8.61%	8.61%	64.00%	-3.16%	3.48%
MSCI EAFE	6.24%	0.87%	0.87%	54.44%	-7.02%	3.75%
MSCI Emerging Markets	8.07%	2.40%	2.40%	81.08%	5.16%	15.65%
FIXED INCOME						
Index	Mar-10	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	-0.12%	1.78%	1.78%	7.70%	6.14%	5.44%
BC Muni Bond 1-10 Yr	-0.60%	0.86%	0.86%	5.49%	5.38%	4.65%
BC High Yield	3.13%	4.62%	4.62%	56.18%	6.65%	7.78%
BC Global Aggregate Bond	-0.76%	0.02%	0.02%	10.55%	6.60%	5.00%
CSFB Bank Loan Index	2.16%	4.34%	4.34%	41.05%	2.42%	4.13%
OTHER						
Index	Mar-10	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	-1.24%	-5.03%	-5.03%	20.53%	-6.88%	-1.36%
DJ Wilshire US REIT	10.22%	9.82%	9.82%	113.48%	-12.03%	3.36%
S&P Developed World Property	6.72%	4.08%	4.08%	84.19%	-13.24%	3.40%
LPX 50 TR	10.11%	12.51%	12.51%	128.10%	-20.03%	-3.59%
HFRI Fund of Funds Index	1.69%	1.45%	1.45%	12.66%	-1.69%	2.91%
3 Month T-Bills	0.00%	0.01%	0.01%	0.17%	1.99%	2.91%

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

Bond Rates	4/7/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	1.05%	1.14%
U.S. Ten-Year Treasury Yield	3.86%	3.84%
U.S. Ten-Year Muni Yield	3.22%	3.05%
High Yield (Merrill U.S. Corporates)	8.14%	8.63%

Exchange Rates	4/7/2010	12/31/2009
\$ per €	1.35	1.43
\$ per £	1.53	1.61
¥ per \$	93.97	93.10

The Economy

The United States' economic recovery extended in March, characterized by a rise in retail sales and the strongest job growth results since May 2007. The ISM Manufacturing and Non-manufacturing indexes increased in March, and durable goods orders rose for the third month in February. These reports suggest that new manufacturing and service expansion will continue to fuel the U.S. economic recovery. At the end of March the Fed completed its \$1.25 trillion purchase of mortgage backed securities.

After almost a year of deliberation and market speculation, President Obama and Congress managed to pass major healthcare reform legislation during the month of March. Mandatory insurance for individuals, Federal oversight of health insurance coverage, as well as a collection of tax increases and fees are likely to be debated for years to come.

Greece's government continued to struggle during the month, as a need to refinance roughly \$14 billion in debt

maturities was hampered by the country's ability to pay excessive market yields. European leaders agreed to support new Greek debt in conjunction with IMF backing. Due to sovereign debt concerns in Portugal, Italy, Ireland, Greece and Spain (PIIGS) the Euro fell to a 10-month low near the end of March.

While many European countries remained under pressure, several emerging countries continued to report robust GDP growth. India reported a six percent growth in GDP, and Brazil expanded at a more modest rate of two percent during the last quarter of 2009. Inflation began to increase in isolated cases, resulting in China's withdrawal of stimulus policies and aggressive bank lending programs, as well as an unexpected rate increase by the Reserve Bank of India. Meanwhile, the Bank of Japan doubled its lending program in an effort to curb deflationary trends that have repeatedly plagued the country's economy since the 1990s.

The Market

Domestic equities flourished during March, with small caps (+7.78%) outpacing large cap (+6.03%) securities. Positive earnings reports and improving economic data bolstered stock returns after their approximate eight percent pullback in late January and early February. International equities regained the ground lost earlier in the quarter, and posted a 7.45% return in local currency terms. However, 1.2% of that performance was lost due to a rally in the U.S. dollar. Emerging markets stocks (+8.07%) continued to rally; however, their quarterly performance still trailed the gains in domestic equities.

Broad domestic and municipal fixed income indexes were down slightly amid rising intermediate and long-term rates. Treasury yields rose as much as 0.25% in March as investors' demand had trouble keeping pace with heavy supply. Floating rate corporate loans and high yield bonds both benefited from further spread contraction, as new high yield issuance and declining default rates eased investors' concerns.

Alternative asset classes provided a range of returns for the month. Commodities, as measured by the Dow Jones UBS Commodity Index, were down modestly, impacted by declining natural gas and grain prices. Real estate securities and listed private equity, however, produced strong returns in March, extending their outperformance of other asset classes since the lows of 2009.

Outlook

Corporate earnings for the final quarter of 2009 were better than expected. According to Standard & Poor's, 72 percent of companies comprising the S&P 500 index beat revenue estimates, and 54 percent beat earnings estimates. While revenues were only up modestly on a year-over-year basis, reported and operating earnings witnessed considerable increases due to vigilant cost cutting and a rise in labor productivity, which is near multi-decade highs. Unlike many consumers and governments, much of the corporate sector is generating sufficient cash flows to pay down debt and self-fund future growth. Considering the amount of cash on many company balance sheets, rising activity in mergers and acquisitions, as well as potential increases in capital expenditures, appear likely. Moreover, the resilience of emerging market growth provides opportunities for those

companies that can generate revenues through international sales.

While the corporate environment has improved dramatically, debt fueled growth witnessed earlier in the last decade is an unlikely outcome as we emerge from this recession. Consumer balance sheets still need dramatic improvements, credit underwriting standards remain tight, and the unemployment level remains very high. Several financial intermediaries are also starting to take principal reductions on underwater mortgage portfolios, implying focus remains on balance sheet repair rather than new loan origination. A growing U.S. debt burden, including additional treasury issuances, will likely place significant pressure on fixed income portfolios. Lastly, several anticipated tax hikes passed as part of health care reform may dampen economic growth and profitability.

As always, we stand behind the tested and proven approach that maintaining a well diversified portfolio over various market cycles is the most prudent method to meeting clients' long-term objectives. In the words of legendary investor Shelby M.C. Davis, "History provides a crucial insight regarding market crises: They are inevitable, painful, and ultimately surmountable."