

May
2010



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Latest Returns						
EQUITIES						
Index	May-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	-7.99%	-0.89%	-1.50%	20.99%	-8.69%	0.31%
S&P 400 Midcap	-7.20%	3.66%	5.55%	34.52%	-4.45%	4.08%
S&P 600 Small Cap	-7.22%	5.85%	6.66%	34.95%	-5.87%	2.96%
MSCI EAFE	-11.51%	-7.68%	-12.36%	6.38%	-13.05%	1.35%
MSCI Emerging Markets	-8.80%	-0.24%	-5.47%	22.39%	-0.75%	13.65%
FIXED INCOME						
Index	May-10	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	0.84%	1.77%	3.71%	8.42%	6.89%	5.33%
BC Muni Bond 1-10 Yr	0.72%	0.93%	2.41%	5.79%	5.93%	4.62%
BC High Yield	-3.59%	1.75%	3.22%	28.80%	5.46%	7.32%
BC Global Aggregate Bond	-1.56%	-2.29%	-1.52%	4.16%	6.21%	4.69%
CSFB Bank Loan Index	-2.06%	1.34%	3.50%	22.56%	1.75%	3.93%
OTHER						
Index	May-10	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	-6.92%	-6.29%	-9.89%	0.47%	-8.89%	-1.05%
DJ Wilshire US REIT	-5.39%	11.65%	11.24%	58.75%	-11.64%	1.79%
S&P Developed World Property	3.20%	13.09%	7.41%	57.78%	-12.56%	3.35%
LPX 50 TR	-13.05%	-2.65%	-0.52%	30.84%	-24.62%	-5.79%
HFRI Fund of Funds Index	-2.84%	-0.26%	-0.49%	5.85%	-3.53%	2.76%
3 Month T-Bills	0.02%	0.03%	0.04%	0.16%	1.70%	2.81%

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

Bond Rates	As of	
	5/28/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.78%	1.14%
U.S. Ten-Year Treasury Yield	3.30%	3.84%
U.S. Ten-Year Muni Yield	3.12%	3.05%
High Yield (Merrill U.S. Corporates)	8.85%	8.63%

Exchange Rates		
\$ per €	1.23	1.43
\$ per £	1.45	1.61
¥ per \$	90.94	93.10

The Economy

Despite heightened volatility and uncertainty in the financial markets, the U.S. economy continued to show promising signs of recovery. Construction spending in April rose the most in nearly a decade, and manufacturing expanded for the tenth straight month. The ISM Manufacturing Index's most recent reading was 59.7 (readings above 50 indicate an expansion), a slight decrease of 0.7 from the prior month. The manufacturing employment index, which measures industrial employers' willingness to hire, rose 1.3 points to 59.8, which is the highest level since May 2004. New home sales rose 14.8% in April, largely in reaction to the second expiration of the first-time home buyers' tax credit. Consumer confidence was better than expected, increasing to 63.3 from 57.7 in the

prior month. Finally, the government revised its first quarter GDP estimate to 3.0% (down slightly from the first estimate of 3.2%), confirming that the economy continued to grow, albeit at a slightly slower pace than originally expected.

Investors became increasingly concerned that U.S. and global growth will be slowed by Europe's debt crisis. Despite skepticism among many observers, European political officials acted quickly to implement a \$1 trillion financial rescue package for Greece. These actions should mitigate near-term credit market risk and prevent an outright default by Greece. However, investors remain wary about the sharp fall in the value of the euro and are questioning whether the sovereign debt crisis will expand into other markets. On a positive note, Spain's parliament approved a 15 billion euro austerity package. More relief came when China announced it had no plans to sell



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its European debt holdings.

In addition, prospects of tightened financial market regulation in the U.S. have disturbed investor confidence. The U.S. Senate passed its version of a financial reform bill. While the final regulations will be developed from reconciliation with the House bill, investors tend to view additional regulations as a headwind to long-term economic growth. Furthermore, political tensions in the Korea peninsula and the massive BP oil leak weighed on investors' minds. The oil spill has cost BP nearly \$900 million, and has caused significant economic impact along the gulf coast.

The Markets

In May, market volatility woke from its hibernation. In addition to the aforementioned global uncertainties, on May 6 the Dow Industrials fell 1,000 points in less than an hour, stemming at least in part from a trader's inputting error. From the bull market peak on April 23, 2010, to the close of trading on May 28, 2010, the S&P 500 fell 10.5%. The market is in "correction" mode, which is defined as a peak-to-trough fall between 10 and 20%.

While all segments of the U.S. equity market were down for the month, stocks of small and mid-sized companies maintained their modest year-to-date gains. Growth stocks lost somewhat less than their value counterparts among smaller companies. Energy, financial and material companies were down the most in May. International stocks noticeably underperformed during the month as falling stocks were further hit by depreciating foreign currencies.

Within the fixed income markets, the Barclays Capital Aggregate Index was slightly positive for the month. Mortgages underperformed Treasuries, and high yield bonds lagged higher rated credits. The Barclays High Yield Credit Index was down 3.6% in May, but is up 3.2% year-to-date. The DJ UBS Commodities Index lost 6.9% due to downward pressures on oil and gas prices. Finally, REITs were down 5.3% in May, but maintained year-to-date gains.

Outlook

Despite recent volatility in the markets, we remain optimistic that the U.S. economy should continue to improve. It is encouraging that economic growth over the past year has been largely driven by home-grown demand from consumers and businesses, and assisted by low inflation and interest rates. Few prognosticators expect the problems in Greece, Portugal and Spain to drag the United States back into a recession. However, the volatility in the financial markets reflects a widespread concern that the European debt crisis could slow the pace of the U.S. economic recovery. While the relief package for Greece is positive in the short-term, longer term stability in Europe is dependent on whether its weakest economies can manage their debt and if the European Union can develop lasting economic and fiscal policies to support the euro.

The financial markets face other significant challenges. A stronger U.S. dollar makes U.S. exports less competitively priced, especially versus the European products. U.S.-based multinational companies may struggle to meet their earnings estimates, since many of them earn more than half of their profits from international sales. Like most other nations in the developed world, the U.S. must eventually come to grips with its own unsustainable fiscal policy and the huge amount of federal debt.

While the recent market correction may be difficult to stomach, it is important to recognize that over the long term, stocks are priced according to their earnings, which have been improving significantly over the past year. While sell-offs and rebounds are unpredictable, the U.S. economy is in much better shape than it was one year ago and should be able to withstand the market's volatility. Over time, the market has rewarded investors who are able to endure the volatility and remain patient. Staying invested in a well diversified portfolio can further mitigate risks seen in the markets and should allow investors to reach their long-term financial goals.