INNOVEST

INTEGRITY. BALANCE. OBJECTIVITY.

MONTHLY MARKET COMMENTARY

April 2011

Martin Walsh
Vice President

Bond Rates	4/29/2011	12/31/2010
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.61%	0.60%
U.S. Ten-Year Treasury Yield	3.30%	3.30%
U.S. Ten-Year Muni Yield	3.51%	3.75%
High Yield	6.75%	7.51%

Exchange Rates		
$ per €	1.48	1.34
$ per £	1.67	1.57
¥ per $	81.14	81.11

Latest Returns						
EQUITIES						
Index	Apr-11	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	2.96%	6.53%	9.06%	17.22%	1.73%	2.95%
S&P 400 Midcap	2.72%	10.13%	12.33%	25.07%	8.28%	6.35%
S&P 600 Small Cap	2.60%	10.34%	10.51%	21.42%	7.87%	4.21%
MSCI EAFE	5.98%	7.02%	9.54%	19.18%	-2.85%	1.54%
MSCI Emerging Markets	3.10%	8.14%	5.21%	20.67%	2.68%	9.85%
FIXED INCOME						
Index	Apr-11	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	1.27%	1.58%	1.71%	5.38%	5.83%	6.34%
BC Muni Bond 1-10 Yr	1.28%	2.19%	1.97%	3.43%	4.96%	4.99%
BC High Yield	1.55%	3.21%	5.49%	13.42%	11.93%	9.33%
BC Global Aggregate Bond	3.10%	4.20%	4.38%	10.46%	5.79%	7.27%
CSFB Bank Loan Index	0.60%	1.27%	3.26%	7.45%	6.36%	4.54%
OTHER						
Index	Apr-11	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	6.99%	26.58%	41.01%	70.16%	3.56%	7.49%
DJ Wilshire US REIT	5.93%	9.15%	13.03%	23.12%	1.41%	2.60%
S&P Developed World Property	5.14%	6.64%	8.30%	22.50%	-1.49%	1.83%
LPX 50 TR	6.12%	13.08%	15.94%	33.58%	-6.23%	-2.96%
HFRI Fund of Funds Index	1.46%	2.22%	2.36%	5.74%	-0.66%	1.56%
3 Month T-Bills	0.02%	0.06%	0.07%	0.17%	0.49%	2.16%

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

The Economy

Robert Kennedy popularized an oft-quoted Chinese proverb: "May you live in interesting times." Between the geopolitical headlines of the first quarter (Egypt, Libya, and Japan) and the extraordinary fiscal and monetary measures in the developed world, the global economy has been "interesting" to say the least. We continue to witness the recovery of the global economy.

In the U.S. we observe encouraging signs of growth, but at a painstakingly slow pace. The tailwinds of low interest rates and quantitative easing have now given way to the headwinds of inflation and unsustainable budget deficits. How to reconcile the good news with the bad? We still see the glass as half full. Companies continue to grow and be profitable. Jobs and consumer confidence are gradually returning.

Last week, nearly two billion people worldwide tuned in for Prince William and Kate Middleton's Royal Wedding. It was a "real life fairy tale" for Ms. Middleton, the press assured us. Two other events caught our attention in April: the U.S. Congress locked in a debate over the lifting of the debt ceiling and Fed Chairman Ben Bernanke's first formal press conference.

U.S. fiscal and monetary policy, too, are real life fairy tales—but much more akin to Peter Pan than Cinderella. Both fiscal and monetary policy need to grow up. By not recognizing the potential pitfalls ahead for overly accommodative policies, we have created a number of unintended consequences. The U.S. dollar reached its lowest point last week since 2008. Gold prices surged above $1550, the highest nominal level in history. A barrel of oil finished the month at $113. The debate around the debt ceiling will continue to be a central issue as concern grows for the massive U.S. budget deficit.

Yet the U.S. economy improves (slowly). In the first quarter, U.S. GDP grew at an annual rate of 1.8%. This is a noticeable step down from the fourth quarter ofQ4 2010's growth rate of 3.1%. Notably, we are not likely to chip away at the still high unemployment rate with GDP growth being so slow. At his April press conference, Chairman Bernanke emphasized the continued creation of jobs as the precursor to raising interest rates. We expect higher growth rates for U.S. GDP the rest of this year.

Martin Walsh ~ Vice President ~ Innovest Portfolio Solutions LLC
4643 South Ulster Street, Suite 1040 ~ Denver, CO 80237
(303) 694-1900 ~ (303) 694-4707 fax ~ www.innovestinc.com

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The Market

Stock markets globally registered significant gains in April. In the U.S., the S&P 500 posted a 3% return for the month, leading to a year-to-date gain of 9.1%. We continue to marvel at the seemingly inexorable rise of U.S. equities. While valuations are not overly expensive compared to historical norms, they aren't overly cheap either.

Global equity markets marched upward as well. The EAFE Index was up 6% for April, on the back of very strong returns in Western Europe on earnings optimism. Germany registered a blistering 11.4% rise in their stock market, hitting a three-year high. The European Central Bank policies meant to jump start economic activity in places like Portugal, Greece and Spain have led to gains in Germany, whose economy didn't require such accommodative conditions. Emerging markets were up 3.1%.

Fixed income gained as well. The U.S. Aggregate Bond Index registered a 1.3% gain in April, while the high yield index was up 1.6%. Look for gains in fixed income to moderate in the upcoming months should interest rates creep higher.

Taking a quick look at other asset classes, we see a bullish picture in April. The Wilshire U.S. REIT Index was up 5.8%. The DJ-UBS Commodity Index rose 3.5%. A trip to the gas station these days has become painful and has provided a concrete example of the rise in commodity prices. Notably, the DJ-UBS Index was up 2.2% ex-energy, meaning the biggest surge actually came from non-energy related inputs. Low interest rates, the weakening of the U.S. dollar and quantitative easing all contributed the run- up in commodities.

Outlook

We remain relatively optimistic about the prospects for growth around the world and in the United States. If the Fed decides to raise interest rates at all this year, it will be at the very end of 2011. Unemployment is declining, though very slowly. Accordingly, U.S. companies are in an enviable position; they can grow top line revenues while keeping labor costs flat. Even as producer prices rise, margins remain robust.

At least in the short term, the stock market's run is getting long in the tooth, and a pullback is to be expected. In the first quarter, industrials and energy were the only two sectors that outperformed the broader S&P 500 index. This is a concern, as it indicates a concentration of leadership among stocks that likely won't have the same positive surprises to the upside in the second quarter.

Expect to see an end to quantitative easing by the Fed after QE2 is finished in June. While some envision new iterations of easing that would include QE3 and QE4, it is becoming increasingly difficult politically for the Fed and the Obama administration to justify these actions. An increasingly weaker U.S. dollar will only serve to make gas prices even higher this summer.

Standard & Poor's revised its outlook to "negative" for U.S. sovereign credit in April due to what it views as unsustainable fiscal policy. Toward this summer and fall, look for Congress and the U.S. political debate to focus increasingly on the shoring up of U.S. finances. If President Obama is to be reelected, he will need to convince independent voters that he is committed to greater fiscal responsibility—heretofore something he has not accomplished.

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