

**June
2009**



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| LATEST PERFORMANCE | | | | | | |
|----------------------------|--------|-----------|---------|---------|---------|---------|
| | Jun-09 | Last Qtr. | Y-T-D | 1 Year | 3 Year | 5 Year |
| EQUITY | | | | | | |
| S&P 500 | 0.20% | 15.93% | 3.16% | -26.21% | -8.22% | -2.24% |
| S&P 400 | 0.62% | 18.75% | 8.47% | -28.02% | -7.54% | 0.36% |
| S&P 600 | 1.44% | 21.07% | 0.67% | -25.31% | -9.57% | -0.90% |
| MSCI EAFE | -0.57% | 25.43% | 7.95% | -31.35% | -7.98% | 2.31% |
| MSCI Emerging Markets | -1.35% | 34.73% | 36.01% | -28.07% | 2.95% | 14.72% |
| FIXED INCOME | | | | | | |
| Barclays Aggregate | 0.57% | 1.79% | 1.91% | 6.06% | 6.43% | 5.02% |
| Barclays Muni Bond 1-10 Yr | -0.52% | 0.73% | 3.19% | 6.35% | 5.27% | 4.26% |
| Barclays High Yield | 2.86% | 23.07% | 30.43% | -2.41% | 2.09% | 4.34% |
| Barclays Global Aggregate | 0.41% | 4.93% | 1.52% | 2.76% | 6.69% | 5.54% |
| CSFB Bank Loan | 3.88% | 18.60% | 27.10% | -7.86% | -1.45% | 1.39% |
| OTHER | | | | | | |
| DJ-UBS Commodity | -1.90% | 11.66% | 4.61% | -47.08% | -8.30% | -0.23% |
| DJ-Wilshire US REIT | -3.49% | 31.47% | -13.12% | -45.33% | -19.74% | -3.27% |
| S&P Developed World Prop | 0.15% | 35.08% | 5.62% | -35.47% | -13.82% | 0.86% |
| Red Rocks Domestic LPE | 2.54% | 38.09% | 10.14% | -50.01% | -26.04% | -11.76% |
| Red Rocks Global LPE | 1.12% | 44.33% | 14.18% | -50.46% | -18.58% | -0.98% |
| HFRI Fund of Funds | 0.35% | 4.57% | 4.95% | -15.43% | -1.21% | 2.57% |
| 3-Month T-Bills | 0.01% | 0.05% | 0.10% | 0.95% | 3.25% | 3.17% |

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

The Economy

During the month of June, the Federal Reserve announced that it would allow firms to pay back TARP funds if they could demonstrate the capacity to raise adequate capital. Soon thereafter, ten large financial institutions received the go-ahead to repay \$68 billion in government funding, liberating them from limits on executive compensation and substantial government scrutiny. These repayments signaled that the solvency of the banking system is improving. The Obama administration also proposed financial regulatory reform, which would empower the Federal Reserve to supervise systemically important financial institutions and require loan underwriters to maintain an economic interest in the loans that they securitize.

Despite investors' fledging optimism about the economy, General Motors failed to meet President Obama's profitability plan criteria and filed for bankruptcy.

Unsecured bondholders were forced to accept equity and warrant compensations for their senior holdings, and the U.S. government (taxpayers) purchased a 60% stake in the post-bankruptcy firm. Chrysler forged a deal with Italian manufacturer Fiat, saving the firm from liquidation. While the bankruptcy of America's iconic automakers may have been a necessary evil, the implication on unemployment does not bode well for the economy. Considering many of these jobs may not return as the economy recovers indicates structural unemployment may remain elevated for sometime.

June job losses mounted at a faster pace than expected, and unemployment spiked to 9.5%. Despite June's slight decline in consumer confidence (pressured by high unemployment and rising gas prices), confidence figures have improved significantly since last September. As investors developed a greater appetite for risk and concerns over potential long-term inflation increased, 10-year Treasury yields were

pushed to 4.0% in mid-June. However, many economists expect downward wage pressures to keep inflationary influences in check for the near-term.

The Market

After enduring six quarters of negative returns, investors obtained much needed relief in the second quarter of 2009. In June, the S&P 500 index returned 0.3% and finished the quarter up 15.9%. Growth outpaced value across all capitalizations. International and emerging equity markets had a slight pull-back, but maintained their significant gains for the quarter. Corporate credit markets continued to shine. The Barclays High Yield and CSFB Leveraged Loan indexes outpaced most broad domestic and international equities on a monthly and year-to-date basis. Rising yields on long-dated Treasuries muted the returns for diversified bond investors.

Commodities were negative for the month after oil pulled back from a 2009 high around \$72/bbl. Global and domestic listed private equity posted another month of positive performance and ended the three-month period with gains of 44.3% and 38.1%, respectively.

Outlook

The consumer deleveraging process appears to be in the process of repair and possible recovery. Personal savings rates have increased to 6.9% of disposable income, a rate not seen since the early '90s. Although far from historical norms, debt-to-income ratios have declined suggesting a positive sign for consumers' balance sheets. Pent-up demand in vehicle sales and low inventory levels indicate that the economy may be in a bottoming process. In addition, rebounding equity and credit markets indicate that investors have begun purchasing risk-seeking assets.

Despite predictions of the next financial Armageddon in addition to bad economic and corporate data, recent market performance has proven quite resilient. The market's rebound may have come from reported earnings and corporate outlooks coming in less gloomy than anticipated. Many firms have significantly cut costs, inventories, and capital projects to prevent deeper losses and to improve operating margins. While this strategy has helped to realign expenses with revenues, it may not

give investors confidence that organic growth will be generated in the near future.

Regardless of the exact timing of the economy's emergence from its severe slump, we remain encouraged about the long-term opportunities in both credit and equity markets. To place the recent equity rally into context, a recovery to 2007's market highs would still provide investors with annualized returns of approximately 21.9%, 13.7%, or 8.0% over the next three-, five-, or ten-year respective periods. Additionally, corporate credit spreads remain above historical averages and suggest superior risk-adjusted prospects despite rising default rates.

During periods where pronounced uncertainty dominates the market is when a long-term investment horizon and a time-tested diversified approach can add value. In the words of Benjamin Graham, the father of value investing, "Even the intelligent investor is likely to need considerable willpower to keep from following the crowd."