MONTHLY REVIEW—FEBRUARY 2010

MARKET INDEXES

Index	1 Month	3 Months	Year to Date	Trailing 1 Year
Domestic Equity (Large Cap)				
Russell 1000 (Core)	3.30	2.00	(0.42)	55.32
Russell 1000 Growth	3.44	1.98	(1.08)	54.19
Russell 1000 Value	3.16	2.03	0.26	56.50
Domestic Equity (Small/Mid Cap)				
Russell 2500 (Core)	4.97	8.77	1.46	68.00
Russell 2500 Growth	5.09	8.53	0.76	66.26
Russell 2500 Value	4.87	8.98	2.07	69.33
International Equity				
MSCI World ex US (Core)	(0.10)	(3.27)	(4.78)	56.18
MSCI World ex US Growth	0.46	(2.25)	(4.22)	50.08
MSCI World ex US Value	(0.66)	(4.29)	(5.36)	62.83
MSCI Emerging Markets (Gross)	0.37	(1.45)	(5.21)	92.14
Domestic REITs				
NAREIT	5.34	6.99	(0.15)	95.22
Domestic Fixed Income				
Barclays U.S. Aggregate	0.37	0.32	1.91	9.33

ECONOMIC INDICATORS

	Most Recent	Year-to-Date	Trailing 1 Year
U.S. Dollar (February)	1.9%	2.2%	-7.6%
Housing Prices (December)	-0.2%	-2.4%	-2.4%
Consumer Sentiment (level)	73.6	74.4	56.3
Retail Sales (January)	0.5%	0.5%	4.7%
Job Gains/Losses (February)	(36,000)	(62,000)	(3,297,000)
Inflation (January)	0.3%	0.3%	2.6%

Today is the one year anniversary of the bottoming of the stock market after the 2008 and early 2009 collapse. The table on the left shows how far we have come in the past year. U.S. and developed international large cap markets have risen greater than 50% and U.S. small cap markets have gained almost 70%. Even more eye-catching is that emerging markets have risen 92% and REITs have gained 95%! As we have discussed in prior commentaries, much of the return seen in the last twelve months was driven by investors buying stocks seen as "great deals" due to very low prices. Very few investors were buying based on fundamentals. 2010 has been an up and down market that seems to be looking for a direction. News regarding Greece and the possibility of a European debt crisis continued to cause some hiccups in February, but overall it was a good month. U.S. large cap equity markets showed nice gains of over 3% and small cap markets gained slightly more. The U.S. Dollar rose sharply during the month, especially against the Euro, and erased what would have been good equity returns in international markets. REITs were the best performer in the month, though they are negative on a year-to-date basis. Our firm does not place too much emphasis on short term news events and prefers to view them as noise that distracts investors from what they should be focusing on, the global economic recovery.

The U.S. showed strong economic growth of 5.7% in the fourth quarter of 2009. The majority of the growth was from businesses restocking inventories. Personal consumption (a good measure for consumer spending) was also higher. Even more encouraging was that it was not durable goods orders that were higher, but consumer staples. Durable goods purchases can often be influenced by incentives, making their sales more volatile. However, the growth in consumer staples spending could be a sign that consumers are beginning to increase the amount they spend on everyday items. Of course, growth rates are only a part of the story. We must also consider the level of spending. In the fourth quarter, we spent at the same levels as we did in the summer of 2007. Unfortunately, it may take years to return to the levels we saw at the end of 2007.

Unemployment continues to disappoint. Friday's release of monthly job gains or losses showed another 36,000 jobs lost in February and 62,000 so far in 2010. These numbers pale in comparison to the 8.4 million jobs lost in the past two years. Besides positive job growth in November of 64,000, which was immediately followed by over 100,000 jobs lost in December, employment has not increased since December 2007. This is a serious problem for our economy, but not one that is likely to cause another recession. In our opinion, the employment situation will keep our economy from enjoying the strong economic growth typically seen following recessions. What historically could have been a few years of mid single digit economic growth following a recession, might now be low single digits.

This has worrying implications for stock prices as both corporate profits and investor psychology will be suffering from the slow growth. Much as we saw from our last recession in 2001, we anticipate many news stories about a "jobless recovery" and attention once again focused on job outsourcing to emerging countries. We will not debate the pros and cons of outsourcing here, but to the investing public, outsourcing is not good for our economy and another blow to investor psychology. We are not as pessimistic about our economy and markets as it may seem based on these comments. We are simply prepared for an investment environment that is different than what we have seen in the past.

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