MONTHLY REVIEW—JANUARY 2010

MARKET INDEXES

Index	1 Month	3 Months	Year to Date	Trailing 1 Year
Domestic Equity (Large Cap)				
Russell 1000 (Core)	(3.60)	4.57	(3.60)	34.81
Russell 1000 Growth	(4.36)	4.65	(4.36)	37.85
Russell 1000 Value	(2.81)	4.48	(2.81)	31.44
Domestic Equity (Small/Mid Cap)				
Russell 2500 (Core)	(3.35)	7.80	(3.35)	42.74
Russell 2500 Growth	(4.12)	7.10	(4.12)	44.51
Russell 2500 Value	(2.67)	8.41	(2.67)	40.69
International Equity				
MSCI World ex US (Core)	(4.69)	(0.77)	(4.69)	40.51
MSCI World ex US Growth	(4.65)	(0.05)	(4.65)	35.35
MSCI World ex US Value	(4.73)	(1.49)	(4.73)	46.04
MSCI Emerging Markets (Gross)	(5.56)	2.40	(5.56)	80.66
Domestic REITs				
NAREIT	(5.21)	8.59	(5.21)	46.74
Domestic Fixed Income				
Barclays U.S. Aggregate	1.53	1.24	1.53	8.51

ECONOMIC INDICATORS

	Most Recent	Year-to-Date	Trailing 1 Year
U.S. Dollar (January)	0.8%	0.8%	-6.4%
Housing Prices (November)	-0.2%	-2.2%	-4.5%
Consumer Sentiment (level)	74.4	72.5	61.2
Retail Sales (December)	-0.3%	4.9%	4.9%
Job Gains/Losses (January)	(20,000)	(20,000)	(4,022,000)
Inflation (December)	-0.2%	2.7%	2.7%

After a year of strong stock and bond gains, uncertainty again entered the markets in January. For much of the month, world equity markets continued their torrid pace from 2009. From December 31 through January 19th, the Dow Jones Industrial Average had risen 2.9%, the Russell 1000 had risen 3.2%, and the Russell 2500 had risen 3.7%. However, the surprise election results in Massachusetts, following the prior week's news of possible increased regulation in the banking and investment management industry, and the upcoming state of the union address all led investors to rethink their investment portfolios. The equity markets declined for the remainder of the month, all ending in negative territory. In our opinion, none of the news was significant enough to alter the economic recovery that appears to be underway, but it was enough to shake investor confidence. For most of 2009, investors were very positive. The economy appeared to be slowly recovering and the future looked much brighter than the recent past. The lack of major "bad news" gave further support to investors and they increased risk taking in their portfolios. The debate over healthcare was heated, but it was clear that some form of change was coming to the healthcare system. Investors could digest this news and move on to other issues.

The Massachusetts election results from January 19th appears to have altered the landscape for health care reform. What was a "known" before was now an "unknown." Furthermore, the proposed tax on banks caused further uncertainty. Investors quickly went from having a strong feeling about what lies ahead to being a little unsure. After the strong gains in 2009, some investors reduced their equity exposures, starting with the investments that had gained the most. Emerging markets dropped 5.6% and REITs lost 5.2%. Within U.S. large caps, information technology (the largest gainer from 2009) lost 8.4% and materials (the second largest gainer in 2009) lost 8.3%. Health care was the only sector to show gains, up 0.5%.

With their proceeds, some investors bought bonds, which slightly gained in the second half of the month. High quality bonds outperformed high yield (junk) bonds, a reversal from 2009. Investors were once again seeking safety, not risk, and longer term Treasuries were the security of choice. The U.S. Dollar saw a slight increase in the month, but this was attributed to a relatively more positive U.S. economy, not a flight to quality. That said, U.S. Treasuries did slightly outperform other major sovereign bonds, but much of this outperformance was against European bonds, which have struggled due to a few poorly performing countries. The new acronym PIIGS (Portugal, Ireland, Italy, Greece, and Spain) has been developed to more easily discuss the countries in the European Union (EU) that have caused a great headache for Germany and France. For many years, the PIIGS showed strong economic growth, boosted by low interest rates, which are set by the EU. Ireland and Spain each enjoyed a booming housing market and all of these countries enjoyed the ability to finance growing government spending at very low interest rates. Most ran up large current account and budget deficits, which when the global recession hit, hurt them more than other European countries. Their deficits are now a major burden on their economies and rating agencies have been considering bond downgrades. The coming year could test the loyalty of countries to the EU, especially if one of the PIIGS needs to be bailed out by a wealthier EU member. Although Americans may grumble about offering assistance to Michigan or California, we would agree to let it happen. It is unclear how Germans or the French feel about bailing out Greece.

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