

MONTHLY REVIEW—NOVEMBER 2009

MARKET INDEXES

ECONOMIC INDICATORS

| Index | 1 Month | 3 Months | Year to Date | Trailing 1 Year |
|--|---------|----------|--------------|-----------------|
| <u>Domestic Equity (Large Cap)</u> | | | | |
| Russell 1000 (Core) | 5.89 | 7.75 | 25.38 | 27.38 |
| Russell 1000 Growth | 6.14 | 9.16 | 33.09 | 35.50 |
| Russell 1000 Value | 5.64 | 6.36 | 17.61 | 19.24 |
| <u>Domestic Equity (Small/Mid Cap)</u> | | | | |
| Russell 2500 (Core) | 4.03 | 3.70 | 25.35 | 32.16 |
| Russell 2500 Growth | 3.71 | 4.43 | 31.51 | 38.18 |
| Russell 2500 Value | 4.31 | 3.06 | 19.58 | 26.46 |
| <u>International Equity</u> | | | | |
| MSCI World ex US (Core) | 2.47 | 4.99 | 31.57 | 38.50 |
| MSCI World ex US Growth | 2.72 | 6.82 | 28.03 | 35.58 |
| MSCI World ex US Value | 2.24 | 3.27 | 35.22 | 41.46 |
| MSCI Emerging Markets (Gross) | 4.30 | 13.94 | 72.20 | 85.68 |
| <u>Domestic REITs</u> | | | | |
| NAREIT | 6.91 | 8.63 | 19.47 | 39.05 |
| <u>Domestic Fixed Income</u> | | | | |
| Barclays U.S. Aggregate | 1.29 | 2.85 | 7.61 | 11.62 |

| | Most Recent | Year-to-Date | Trailing 1 Year |
|-----------------------------|-------------|--------------|-----------------|
| U.S. Dollar (November) | -2.4% | -7.8% | -9.3% |
| Housing Prices (September) | 0.4% | -2.1% | -8.5% |
| Consumer Sentiment (level) | 67.4 | 60.1 | 55.3 |
| Retail Sales (October) | 1.4% | 3.3% | -0.1% |
| Job Gains/Losses (November) | (11,000) | (4,078,000) | (4,759,000) |
| Inflation (October) | 0.1% | 2.8% | -0.2% |

After a brief pause in October, world financial markets resumed their incredible pace in November. U.S. large cap equity markets rose about 6% during the month, U.S. small cap equity markets gained about 4% and developed international markets gained about 2.5%. Emerging markets were once again strongly positive. They have now gained over 85% in the past twelve months, the best twelve month performance they have ever recorded. Even so, the index is still 25% below its peak value in October 2007. This is comparable to other indexes. The Russell 1000 is 26% below its peak, the Russell 2500 is 28% below its peak, and the MSCI World ex US is 30% below its peak.

The biggest negative story in November occurred on one of the last trading days of the month. On November 25, Dubai World announced that it needed to delay payments on \$26 billion in loans that were used for various real estate development projects in Dubai. The announcement sent US markets down between 1.5% and 2.0% on Friday the 27th, the first trading day after the announcement. Investors were worried about the potential for default and its affects on the balance sheets of its major creditors. According to recent news reports, Dubai World's largest creditors are London based banks Standard Chartered, HSBC, Lloyds, and Royal Bank of Scotland. There are also several local Dubai lenders among their 80 creditors. Investors around the world are hoping that the creditors will not need to write-down the Dubai World loans, further damaging already fragile bank balance sheets. When banks reduce assets, they must reduce loans to other companies, which can in turn harm those companies. For now, it does not appear that Dubai World will default on their loans and are willing to negotiate new payment terms with their creditors. Although only a few days have passed since the announcement, US financial markets have fully recovered from their Friday losses.

We view the quick recovery in the markets as very positive. Had this news broken a year ago, there likely would have been worldwide panic and major financial market losses. The Dubai World news was the first major negative news story in several months, and it was only able to deflect the media's attention from health care reform and our nation's plan for Afghanistan for a few days. The sense of panic that recently engulfed financial markets has obviously diminished.

That is not to say that we are still not concerned about current equity valuations. Since our commentary last month that spoke on lofty equity valuations, equity markets have moved even higher. True, corporate earnings have improved somewhat, but hardly enough to justify the market movements we have seen this year. We continue to believe that stock price growth will slow in 2010 and allow corporate earnings to close the valuation gap that currently exists.

Earnings growth in 2010 could depend on increased consumer demand. Fortunately, the latest unemployment figures were relatively positive compared to the depressing employment figures we have seen in the past year. The economy lost "only" 11,000 jobs in November, a big improvement, considering 4.8 million jobs have disappeared in the past twelve months. The unemployment situation in the country remains bleak, but we hope the latest figures are the beginning of a trend of improving unemployment and stronger economic growth.