MONTHLY REVIEW—NOVEMBER 2010

MARKET INDEXES

Index	1 Month	3 Months	Year to Date	Trailing 1 Year
Domestic Equity (Large Cap)				
Russell 1000 (Core)	0.33	13.81	8.83	11.48
Russell 1000 Growth	1.16	17.28	10.62	14.04
Russell 1000 Value	(0.53)	10.40	7.06	8.95
Domestic Equity (Small/Mid Cap)				
Russell 2500 (Core)	2.81	18.96	17.77	26.26
Russell 2500 Growth	4.03	22.24	19.91	29.16
Russell 2500 Value	1.74	16.13	15.90	23.75
International Equity				
MSCI World ex US (Core)	(4.23)	8.69	0.83	2.43
MSCI World ex US Growth	(2.73)	10.80	4.73	6.89
MSCI World ex US Value	(5.81)	6.50	(3.09)	(1.99)
MSCI Emerging Markets	(2.64)	11.32	10.96	15.34
Domestic REITs				
NAREIT	(1.96)	7.24	22.25	30.99
Commodities				
Dow Jones-UBS Commodity	(0.35)	12.19	5.54	7.63
Domestic Fixed Income				
Barclays U.S. Aggregate	(0.57)	(0.11)	7.71	6.03

ECONOMIC INDICATORS

	Most Recent	Year-to-Date	Trailing 1 Year
U.S. Dollar (Oct)	-2.9%	-3.6%	-3.8%
Housing Prices (Sept)	-0.5%	2.0%	1.6%
Consumer Sentiment (level)	71.6	72.5	67.4
Retail Sales (Oct)	1.2%	5.4%	7.1%
Job Gains/Losses (Nov)	39,000	951,000	842,000
Inflation (Oct)	0.1%	1.3%	1.2%

November was the latest example of the equity market volatility seen in 2010. The month began with the Fed announcing details of their previously announced latest round of quantitative easing. While smaller than the first round of quantitative easing that began during the 2008 financial crisis, it's effects were immediately felt, at least in the equity markets. As the excitement of quantitative easing began to wear off, the markets were hit with some major negative news. Ireland was on the verge of bankruptcy and would need to be bailed out, just as Greece was earlier in the year. The negative reaction in the equity markets erased all of the gains from earlier in the month, leaving large cap equities about where they started the month. Small cap equities continued to surprise many, ending the month higher.

While Greece and Ireland have taken the headlines in Europe, countries around the world face similar issues. The problem, especially in the developed world, is that few countries have enough revenue to pay their expenses. Most countries have been borrowing through the bond market to make ends meet, but the bond market was making it too expensive for Greece and Ireland to borrow any more. In effect, Greece and Ireland were forced to either raise revenues (taxes), cut spending, or both. The markets are already signaling to Spain and Portugal that they are next, unless they voluntarily follow Greece and Ireland's lead. Not wanting to see the bond market chaos in their countries, other European countries have proposed reforms to increase revenues and cut expenses. In France and England, their citizens have reacted poorly to the proposals, but in the end, these steps are probably necessary to allow these countries to continue to borrow under favorable credit terms.

Meanwhile, the U.S. faces the same issues as the rest of the developed world, but stands idly by. The focus of the U.S. appears to be on *current* economic growth, ignoring the damage higher debt levels might do to *future* economic growth. Fortunately, given the demand for U.S. Treasuries (at least today) we have not reached a crisis point. Our government has the luxury of watching the European proposals unfold and hopefully will learn what works and what does not.

The emphasis in the U.S. should be providing an environment that allows the economy to continue to recover. Unemployment remains stubbornly high and is not likely to greatly improve for many more years. Politicians are praised for trying to create jobs, but other than hiring people directly, the government can do little to help the unemployment rate. The unemployment rate will likely improve after the economy improves, not before.

We believe that the economy will continue to heal itself, but at a slow pace. While equity markets will likely remain volatile, they should be moving positively. Investment portfolios should be as diversified as possible to avoid the damage a few negative headlines can do to the equity markets—or any single asset class.

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