

MONTHLY REVIEW—OCTOBER 2010

MARKET INDEXES

Index	1 Month	3 Months	Year to Date	Trailing 1 Year
<u>Domestic Equity (Large Cap)</u>				
Russell 1000 (Core)	3.89	8.36	8.48	17.67
Russell 1000 Growth	4.78	10.52	9.35	19.65
Russell 1000 Value	3.00	6.24	7.63	15.71
<u>Domestic Equity (Small/Mid Cap)</u>				
Russell 2500 (Core)	3.83	8.86	14.55	27.76
Russell 2500 Growth	3.76	10.06	15.26	28.76
Russell 2500 Value	3.90	7.81	13.92	26.88
<u>International Equity</u>				
MSCI World ex US (Core)	3.56	10.10	5.29	9.61
MSCI World ex US Growth	3.32	11.24	7.68	12.87
MSCI World ex US Value	3.81	8.95	2.89	6.38
MSCI Emerging Markets	2.90	12.12	13.97	23.56
<u>Domestic REITs</u>				
NAREIT	4.70	7.86	24.70	30.28
<u>Commodities</u>				
DJ-UBS Commodity	4.98	9.74	5.92	11.82
<u>Domestic Fixed Income</u>				
Barclays U.S. Aggregate	0.36	1.76	8.33	8.02

ECONOMIC INDICATORS

	Most Recent	Year to Date	Trailing 1 Year
U.S. Dollar (Sept)	-1.2%	-0.6%	-2.4%
Housing Prices (August)	-0.1%	2.5%	2.6%
Consumer Sentiment (level)	67.7	72.5	70.6
Retail Sales (Sept)	0.6%	3.8%	7.2%
Job Gains/Losses (Sept)	(95,000)	613,000	344,000
Inflation (Sept)	0.1%	1.2%	1.1%

Adding to September's gains, capital markets were strong during October. Equities were up, both domestically and internationally, as were REITs. Generally, large cap and small cap stocks performed in line with one another; however, large cap growth stocks outperformed not only other large cap stocks but also small and mid caps as well.

Commodities outpaced equities during the month, with large gains in cotton, soybeans and corn. In the metals, silver rallied 13%, and gold was up 3.7%. Crude oil was positive, up 1.8%. U.S. Treasuries, however, were weak as the yield on the 10-year Treasury bond increased 0.09% during the month.

Domestically, the market voted in favor of QE2 (quantitative easing, round 2), running up in anticipation of the Fed once again attempting to stimulate the economy by buying bonds to keep long-term interest rates low. Although there have been some positive signs that the economy is growing

slowly, the Fed is really honing in on two things. First, unemployment remains too high, hovering right below 10%. Secondly, core inflation, which is currently below 1%, is too low. The Fed's target inflation rate is closer to 2%.

The equity markets reacted positively to the news; however, economists debate the effectiveness of the move. On October 25th, \$10 billion in five-year TIPS were sold, yielding a **negative** 0.55%. This is significant as it is the first time ever yields on TIPS have gone negative. This indicates that investors believe the Fed will be successful in fighting deflation and are actually anticipating future inflation. It is difficult to predict the long-term impact of the Fed's actions on U.S economic growth; however, in the short-term, investors appear more optimistic, the U.S. Dollar is weaker, boosting international returns for domestic investors in light of relatively weaker local currency returns, and inflation expectations have increased.

In the emerging world, countries such as China and Brazil continue to grow at a healthy pace. China has recently been criticized by the U.S. government for not allowing their currency, the Yuan, to appreciate given the country's economic strength, resulting in a world trade imbalance. At the G20 meeting in Korea, it was decided that the role of emerging economies in the International Monetary Fund (IMF) would increase to better reflect the global landscape. Not only are quota shares for emerging countries increasing but representation on the board of the Fund will increase as well.