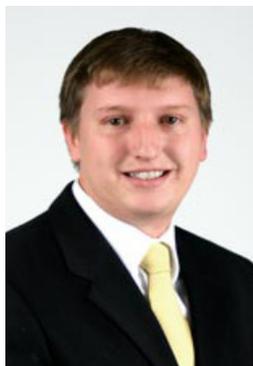


# INNOVEST MONTHLY MARKET COMMENTARY

## September 2010



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Latest Returns						
EQUITIES						
Index	Sep-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	8.92%	11.29%	3.89%	10.16%	-7.16%	0.64%
S&P 400 Midcap	11.30%	13.12%	11.57%	17.78%	-1.67%	3.77%
S&P 600 Small Cap	11.40%	9.62%	8.66%	14.22%	-4.18%	1.62%
MSCI EAFE	9.80%	16.48%	1.07%	3.27%	-9.51%	1.97%
MSCI Emerging Markets	11.11%	18.03%	10.75%	20.22%	-1.48%	12.74%
FIXED INCOME						
Index	Sep-10	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	0.11%	2.49%	7.95%	8.17%	7.43%	6.20%
BC Muni Bond 1-10 Yr	-0.44%	2.40%	5.15%	5.05%	6.13%	5.11%
BC High Yield	3.01%	6.72%	11.52%	18.44%	8.75%	8.38%
BC Global Aggregate Bond	2.35%	7.30%	7.28%	6.38%	7.47%	6.76%
CSFB Bank Loan Index	1.28%	3.10%	6.45%	10.33%	3.13%	3.97%
OTHER						
Index	Sep-10	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	7.26%	11.60%	0.89%	10.00%	-6.84%	-2.35%
DJ Wilshire US REIT	4.43%	13.22%	19.20%	30.13%	-6.98%	1.34%
S&P Developed World Property	8.59%	18.25%	13.63%	18.10%	-9.65%	2.15%
LPX 50 TR	13.65%	20.17%	15.19%	13.79%	-18.95%	-5.26%
HFRI Fund of Funds Index	2.44%	3.33%	2.08%	3.58%	-3.01%	2.16%
3 Month T-Bills	0.01%	0.04%	0.08%	0.13%	1.13%	2.61%

Returns provided by outside vendor. Innovest is not responsible for accuracy of numbers presented.

Bond Rates	10/1/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.43%	1.14%
U.S. Ten-Year Treasury Yield	2.53%	3.84%
U.S. Ten-Year Muni Yield	2.65%	3.05%
High Yield (Merrill U.S. Corporates)	7.47%	8.63%

Exchange Rates	10/1/2010	12/31/2009
\$ per €	1.37	1.43
\$ per £	1.58	1.61
¥ per \$	83.29	93.10

## The Economy

Equities were up sharply for the month of September on better-than-expected economic news and decreasing worries about the possibility of a double-dip recession. During September GDP for the second quarter was incrementally revised up to annualized rate of 1.7 percent from 1.6 percent. The upward revision was primarily due to a moderately higher estimate for inventories. Additionally, despite a continuation of lackluster employment data, the U.S. Department of Commerce said consumer spending is on the rise. The latest report indicated that consumer spending rose 0.4% during the month and incomes increased 0.5%. Unit sales of North American made cars and light trucks came in at an 8.6 million annual rate in September, up from 8.3 million in August. The

gradual increase in vehicle sales is a positive sign for the overall consumer sector because it suggests that those with jobs are beginning to feel secure enough to make big purchases.

Business spending on buildings and machinery has also been on the rise in recent months. A report on capital expenditures released during the month showed an increase of 6.5 points to 93, according to the Business Roundtable's survey of chief executives of big companies. Any number over 50 indicates expansion. After the index hit a low of -6.7 last year, it appears companies are starting to spend. However, many have suggested that while businesses are more willing to spend on business related items, they remain reluctant to spend on new employees.

Despite the increase in consumer and business spending, consumer confidence fell in September amid a disappointing outlook for employment growth. The Conference Board's Consumer Confidence Index, declined to 48.5, the weakest level since February. Additionally, with the deadline for special tax credits for homebuyers having ended back in April, home prices felt the impact of the decline in demand. During the month it was announced that home prices in 20 cities rose at a slower pace compared to a year earlier, according to the S&P/Case-Shiller Home Price Indices. Another interesting report noted that the average sales price of an existing home sold in the 13 Western U.S. states was \$214,700 in August 2010, down 38% from the average Western sales price of \$344,000 in August 2005. The potential for renewed weakness in the housing market would negatively impact labor mobility and make it more difficult for borrowers to take advantage of record-low rates to refinance mortgages.

remain until the elevated levels of uncertainty and conflicting economic news on the strength of the economy begin to subside. While corporations appear fairly healthy and earnings expectations have returned close to 2007 highs, companies remain reluctant to begin hiring at a meaningful rate. Joblessness remains near a three-decade high, and new jobs are not being created fast enough to meaningfully reduce the unemployment rate. Given the economic and fiscal uncertainties that lie ahead we continue to recommend that our clients remain committed to prudent asset allocation, disciplined rebalancing and ongoing assessment of risk based on future capital needs.

### The Markets

During the month of September, the S&P 500 Index gained 8.9%, its best September result since 1939 and its fourth best performance for any month in the last 20 years. Nearly all segments of the U.S. equity market generated positive returns for investors, with small- and mid-sized companies outperforming larger companies. From a sector standpoint, technology, consumer discretionary and industrial companies tended to outperform less economically sensitive sectors, such as utilities and consumer durables. In a continuation from prior months, International stocks, outperformed as concerns over the European sovereign debt crisis began to subside. Emerging markets also performed very well during the month and outperformed their developed counterparts. Within the fixed income markets, the Barclays Capital Aggregate Index was slightly positive for the month. High yield bonds, floating-rate corporate loans, and international bonds noticeably outperformed as investors became less risk adverse. Finally, REITs modestly underperformed most equity markets during the month; however, they continue to be one of the better performing asset classes thus far in 2010.

### Outlook

The S&P 500 has gained or lost at least 4% in each of the last five months, which has happened only once in the last decade. We believe that heightened volatility is likely to