INNOVEST

MONTHLY MARKET COMMENTARY

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Latest Returns						
EQUITIES						
Index	**Aug-09**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
S&P 500	3.61%	11.67%	14.97%	-18.25%	-5.78%	0.49%
S&P 400 Midcap	4.37%	14.19%	23.10%	-18.17%	-2.99%	3.98%
S&P 600 Small Cap	2.29%	14.47%	13.61%	-20.73%	-5.29%	2.86%
MSCI EAFE	5.44%	14.41%	24.21%	-14.95%	-4.75%	5.82%
MSCI Emerging Markets	-0.36%	9.35%	50.77%	-9.95%	5.16%	16.59%
FIXED INCOME						
Index	**Aug-09**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	1.04%	3.25%	4.63%	7.95%	6.35%	4.96%
BC Muni Bond 1-10 Yr	0.44%	1.56%	5.35%	6.17%	5.25%	4.13%
BC High Yield	1.86%	11.15%	40.94%	6.50%	3.87%	5.27%
BC Global Aggregate Bond	1.76%	4.44%	5.59%	8.52%	7.33%	5.91%
CSFB Bank Loan Index	2.28%	10.60%	35.33%	-0.87%	0.23%	2.57%
OTHER						
Index	**Aug-09**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	-0.58%	0.68%	7.36%	-33.55%	-7.34%	0.31%
DJ Wilshire US REIT	14.64%	22.17%	9.97%	-34.24%	-15.15%	-0.29%
S&P Developed World Property	8.52%	18.99%	25.48%	-21.89%	-10.77%	3.08%
Red Rocks Domestic LPE	5.08%	23.90%	33.09%	-42.07%	-21.84%	-7.83%
Red Rocks Global LPE	8.47%	23.23%	39.15%	-37.78%	-14.13%	3.04%
HFRI Fund of Funds Index	0.97%	2.92%	7.86%	-9.33%	-0.49%	3.26%
3 Month T-Bills	0.03%	0.05%	0.14%	0.66%	2.96%	3.13%

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

The Markets

During the month of August, the S&P 500 Index posted its sixth consecutive monthly gain. The Index has now returned 40.5% over the past six months, representing the largest six-month gain since 1975. For the month, nearly all equity markets provided positive returns for investors, although the size of the gains were somewhat muted compared to July's. Many companies benefited from announcing "less bad" news, as second quarter earnings often exceeded dire expectations. However, while the majority of companies were able to exceed projected earnings estimates, many continue to fail to achieve top-line growth. This lack of revenue growth suggests that businesses have been able to dramatically cut costs, but in many instances have yet to see the return of organic growth. Within equity markets, the most impressive gains were found among more value-oriented indexes, which noticeably outperformed their growth counterparts. This dispersion in returns was largely influenced by the continued rebound of many financial companies. It is interesting to note that since 3/9/09, the top performing sector in the S&P 500 has been financials, returning an astounding 137.5%. International stocks, within developed countries, slightly outperformed domestic equities, while emerging markets tended to underperform after months of significant gains. Within the fixed income markets, the Barclays Capital Aggregate Index was slightly positive for the month. High yield bonds and floating rate leveraged loans continued to perform well, and for the first eight months of the year, these two asset classes have returned approximately 40%. Finally, REITs continued to rebound strongly following significant losses earlier year.

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The Economy

The release of several economic indicators in August may indicate that the recession has ended, although growth prospects remain in doubt. Existing home sales posted an increase of 7% from June levels. First time homebuyers accounted for 30% of recent purchases, while distressed homes accounted for slightly over 31% of homes sold, according to the National Association of Realtors. Additionally, the Case-Shiller home price index rose for the second consecutive month, a notable change in direction considering the recession had its roots in the housing market. However, the housing numbers still showed a decline of 31% from their peak in July 2006, and foreclosures rose by 7% month-over-month and 32% year-over-year in July.

In the labor market, the U.S. unemployment rate jumped to a 26-year high of 9.7% in August as nonfarm payrolls fell by 216,000, the 20th consecutive monthly decline, the Labor Department estimated. However, the U.S. leading economic indicator series advanced in July, marking the fourth straight month of upward moves. This series has never climbed four months in a row during a recession, which is further evidence that the United States could be moving into recovery.

It also appears that consumers may be feeling more optimistic about the prospects of a recovery. The Conference Board Consumer Confidence Index rose to 54.1 in August from 47.4 in July. Additionally, orders for big-ticket items, including cars and appliances, increased 4.9% in July, indicating improvement in the manufacturing sector. While the overall numbers were encouraging, many economists caution that much of the increase came from the transportation sector, led by an increase in auto sales from the Cash for Clunkers program.

The Outlook

Although investors have welcomed the recent market advances, many are now beginning to question if the recent rally is sustainable and if we have come too far, too fast. Skeptics continue to point to headwinds for a continued rally, including the low quality nature of the recent rally, high unemployment, the significant reduction of household wealth that will likely weigh on consumer spending, continued secular deleveraging and a massive federal budget deficit. Some have also noted that businesses cannot cut costs forever, and at some point revenue growth is a necessity for a sustainable expansion. While we recognize all of these legitimate concerns, we would also contend that from a fundamental perspective, economic growth, corporate earnings and credit conditions are all improving. There is also still a tremendous amount of uninvested money sitting on the sidelines, which at some point could provide additional fuel for the markets. These factors do not guarantee that the market will continue on an unabated path upwards or that we will not have a near-term correction. However, these positive indicators give us reason to be cautiously optimistic for the long term, and we continue to recommend that clients' portfolios remain well diversified.

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