INNOVEST MONTHLY MARKET COMMENTARY

February 2011

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Vice President

Bond Rates	2/25/2011	12/31/2010
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.72%	0.60%
U.S. Ten-Year Treasury Yield	3.43%	3.30%
U.S. Ten-Year Muni Yield	3.65%	3.75%
High Yield	6.87%	7.51%
Exchange Rates		
$ per €	1.40	1.34
$ per £	1.63	1.57
¥ per $	82.38	81.11

Latest Returns

EQUITIES Index	Feb-11	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	3.43%	12.95%	5.88%	22.57%	2.19%	2.87%
S&P 400 Midcap	4.65%	13.74%	6.75%	32.76%	8.74%	6.08%
S&P 600 Small Cap	4.41%	12.57%	4.56%	31.07%	7.44%	4.05%
MSCI EAFE	3.30%	14.30%	5.73%	20.00%	-2.62%	2.43%
MSCI Emerging Markets	-0.93%	3.26%	-3.62%	20.92%	0.52%	9.63%
FIXED INCOME Index	**Feb-11**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	0.25%	-0.71%	0.37%	4.96%	5.41%	5.81%
BC Muni Bond 1-10 Yr	1.00%	-0.21%	0.78%	2.43%	5.26%	4.65%
BC High Yield	1.31%	5.42%	3.55%	17.50%	12.69%	9.19%
BC Global Aggregate Bond	0.59%	2.09%	0.77%	5.85%	4.59%	6.71%
CSFB Bank Loan Index	0.53%	3.86%	2.50%	10.36%	7.13%	4.64%
OTHER Index	**Feb-11**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	1.32%	13.27%	2.33%	24.32%	-7.88%	2.60%
DJ Wilshire US REIT	4.57%	13.41%	8.28%	39.20%	4.19%	1.95%
S&P Developed World Property	3.12%	11.91%	4.72%	30.46%	-0.68%	1.91%
LPX 50 TR	5.57%	17.57%	8.24%	39.62%	-7.92%	-3.34%
HFRI Fund of Funds Index	0.64%	2.87%	0.67%	6.67%	-1.78%	1.92%
3 Month T-Bills	0.02%	0.04%	0.02%	0.14%	0.58%	2.30%

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

The Economy

It finally looks like American consumers are starting to admit that they are feeling better about the current economic situation and the future direction of the economy. Both consumer confidence and sentiment rose in February, with the indices rising to 70.4 and 77.5, respectively, both reaching their highest levels in three years. It appears consumers are ready to move forward with a positive outlook regarding jobs and wage increases, which indicates that the economic recovery is likely to continue.

With the exception of housing, most of the U.S. economic data in February was positive. On employment, the U.S. labor market showed signs of improvement as jobless claims fell below 400,000, job growth accelerated with non-farm payrolls expanding by 192,000, and the unemployment rate dropped for the third straight month to 8.9%, its lowest level since April 2009. Retail sales continued their strong showing from December, with a 7.8% year-over-year increase, making it the fifth consecutive month with annual increases above 7.5%. Expansion in manufacturing and non-manufacturing continued to be very strong. The ISM reported that factory activity expanded at 61.4% in February, its fastest pace since 2004, and that service industries jumped to 59.7%, its highest reading since August 2005. (Readings above 50 indicate an economic expansion.) Since the U.S. economy is heavily weighted towards the service sector, the strong ISM service index is good news and is consistent with annualized GDP growth of roughly 4 percent.

Even as we received these good economic reports, we were reminded of several potential risks to the economy: distressed housing sales, the battle over the federal budget, state and local government cutbacks, and higher oil prices. Larger than expected drops in spending by state and local governments contributed to the downward revision in the fourth quarter GDP growth estimate, to 2.8% from 3.2%. The political battles in Wisconsin highlighted the budget woes faced by most states. News reports in the last week of February once again focused on the geopolitical events and changes occurring in the Middle East and North Africa. These events pushed up oil prices to around $100 and threaten to slow down the pace of the global recovery.

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The Markets

During the month of February, large-cap domestic equities, as represented by the S&P 500 Index, continued their upward movement gaining 3.43%, making 2011 the first year since 2006 that the index has appreciated in both January and February. The gain in the S&P 500 Index was broad based as 112 out of the 133 subsectors (84%) that comprise the index posted gains in February, up from 86 subsectors in January. Similar to last month, energy was the top performing sector, up 7.2%. Mid-cap equities posted strong monthly gains, outperforming both large-cap and small-cap equities. Small-cap equities, after a fractional gain in January, rebounded in February outperforming large-cap equities and slightly underperforming mid-cap equities. International equities posted gains for the month, continuing to perform in-line with large-cap domestic equities. However, emerging market equities, down 0.93% in February, extended their year-to-date losses, significantly underperforming equities of both domestic and their developed counterparts.

High quality bonds have provided miniscule returns for investors so far this year. The Barclays Aggregate Bond Index managed to eke out a small gain, advancing 0.25% for the month and 0.37% for the year. Interest rates on the 10-year T-Bond eased to 3.43%, from the recent peak of 3.73% near the beginning of the month. High yield corporate bonds continued their winning ways, outperforming the other fixed income indices. Municipals had a good showing in February, bouncing back after being beaten down in December and January.

The HFRI Fund of Funds Composite Index gained 0.64% in February, lagging equity markets for the second month in a row, but performing better than high quality bonds. Hedge fund managers benefited from modest net-long exposure, but an overweight to cyclical, shorts and hedges detracted from performance this month. The Dow Jones – UBS Commodity Index rose 1.32%, despite mixed global macroeconomic conditions. Prices were supported by inflationary concerns and strong emerging markets demand amidst tight inventory levels for raw materials. REITs and listed private equity were two of the best performing asset classes for February and the first two months of the year.

Outlook

Despite fourth quarter GDP growth being revised down from its original estimate, the economic recovery continues to improve. While the drop in Q4 GDP was due to a larger than expected drop in state and local government spending, consumer spending, which is the single largest contributor to GDP accounting for 2/3 of economic activity, rose 4.1%, much faster than the 2.2% in the first three quarters of 2010. This spending, along with the recent increases in consumer confidence and hiring, and the expansion in the manufacturing and the service sectors, reinforces our belief that the economy is moving forward and confirms our net positive view of the equity markets.

While we are generally positive on the U.S. economy and financial markets for the long-term, we are watching with concern the budget problems facing all levels of government, as well as the increase in oil prices caused by the turmoil in the Middle East and North Africa. Higher gasoline prices would eat into consumers' disposable income, acting like a "tax" on the U.S. economy. Sustained higher gas prices could be enough to cause consumers to retrench, resulting in slower growth, lower profits and lower returns. As a result of the recent tragic events in Japan, new questions and concerns are emerging as to the impact it will have on the global markets. Currently we are uncertain to the affects this will have on the world economy, though as the severity of these events continue to unfold there is the potential for increased volatility in the financial markets.

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