INNOVEST

MONTHLY MARKET COMMENTARY

June 2010

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Latest Returns

EQUITIES Index	Jun-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	-5.23%	-11.43%	-6.65%	14.43%	-9.81%	-0.79%
S&P 400 Midcap	-6.55%	-9.59%	-1.36%	24.93%	-5.90%	2.21%
S&P 600 Small Cap	-7.07%	-8.73%	-0.88%	23.63%	-7.64%	0.82%
MSCI EAFE	-1.00%	-13.97%	-13.23%	5.92%	-13.38%	0.88%
MSCI Emerging Markets	-0.73%	-8.37%	-6.17%	23.15%	-2.50%	12.73%
FIXED INCOME Index	**Jun-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	1.57%	3.49%	5.33%	9.50%	7.55%	5.54%
BC Muni Bond 1-10 Yr	0.28%	1.82%	2.69%	6.64%	6.11%	4.57%
BC High Yield	1.24%	-0.11%	4.50%	26.77%	6.54%	7.17%
BC Global Aggregate Bond	1.53%	-0.03%	-0.02%	5.32%	6.90%	5.10%
CSFB Bank Loan Index	-0.24%	-1.04%	3.25%	17.69%	1.56%	3.74%
OTHER Index	**Jun-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	0.32%	-4.81%	-9.60%	2.75%	-8.36%	-1.32%
DJ Wilshire US REIT	-5.36%	-4.13%	5.28%	55.68%	-10.33%	-0.35%
S&P Developed World Property	-1.85%	-7.67%	-3.91%	25.22%	-13.88%	-0.03%
LPX 50 TR	-3.64%	-14.81%	-4.15%	23.86%	-25.00%	-6.94%
HFRI Fund of Funds Index	-1.08%	-2.80%	-1.43%	4.45%	-4.05%	2.28%
3 Month T-Bills	0.01%	0.04%	0.05%	0.16%	1.57%	2.77%

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

Bond Rates	7/2/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.63%	1.14%
U.S. Ten-Year Treasury Yield	2.98%	3.84%
U.S. Ten-Year Muni Yield	3.02%	3.05%
High Yield (Merrill U.S. Corporates)	8.65%	8.63%

Exchange Rates		
€ per $	1.26	1.43
£ per $	1.52	1.61
$ per ¥	87.70	93.10

The Markets

For a second consecutive month, equity markets sold off again during June, with the S&P 500 down 5.23%. Only eight of the 134 subsectors that comprise the S&P 500 posted gains in June, up from only four in May. Despite having gained in the first four months of 2010, the S&P 500's losses in May and June brought the year-to-date performance down to -6.65%, the third worst first-half return for the S&P 500 since 1982.

Mid-cap stocks underperformed large-cap stocks, with the S&P 400 down 6.55% for the month. Small-cap equities pulled back even more, with the S&P 600 down 7.07%. International equities outperformed domestic stocks, with the MSCI EAFE Index down 1.00% and the MSCI Emerging Markets index down 0.73%. Year-to-date performance for international equities remained depressed, as the MSCI EAFE Index was down 13.23% and the MSCI Emerging Markets index fell 6.17%.

Within the fixed income markets, the Barclays Capital Aggregate Index finished June in positive territory, up 1.57%, and the CSFB Bank Loan Index slumped a modest 0.24%. Approximately $1 billion flowed into high yield mutual funds during June, which returned 1.24% for the month. BB-rated bonds returned 1.69% for the month, outperforming B-rated and CCC-rated bonds, which returned 1.29% and 0.83% respectively. Year-to-date, CCC-rated bonds have provided the best relative return of 5.89% followed by BB- and B-rated bond returns of 4.89% and 3.56% respectively. The Dow Jones-UBS Commodity index eked out a gain, up 0.32% in June thanks to gains in the metals markets. Due to uncertainty surrounding implications of the Gulf oil disaster, the price of crude remained virtually unchanged and closed the month at $75.37 a barrel. Gold rose from $1,217 per ounce to $1,243 during the month, more than a 2% increase.

Jobless claims have bounced up and down over the past six months, but have not shown any signs of overall improvement. At the end of June, the unemployment rate stood at 9.5%, down from a high of 10.1% in October 2009. Private sector job growth for June was less than expected, and

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claims remain stubbornly elevated. Despite the creation of 1.5 million new jobs since the beginning of 2010, it is hardly a dent in the more than 8 million jobs lost in the recession.

Financial-Regulation Overhaul

In response to the 2008-2009 credit crisis and the ensuing deep recession, the House of Representatives agreed on a comprehensive overhaul to place U.S. banks and financial markets under tighter government control. While the bill has not yet passed the Senate, it appears rather likely that its measure will be the largest remapping of financial regulation since the 1930s. The bill is aimed at better protecting consumers while preventing bailouts of large financial firms at the expense of taxpayers. The legislation expands the regulatory reach of the federal government's major agencies, including the Federal Reserve, Securities and Exchange Commission and Commodity Futures Trading Commission, by strengthening oversight and empowering regulators to seize and break up troubled financial firms whose collapse may threaten the rest of the economy. Most notably, the overhaul would create the Financial Stability Oversight Council (FSOC), which would be responsible for identifying risks to the financial system, especially from problems at large financial institutions. This new regulatory body would have the ability to rewrite current law as well as make new regulations, potentially becoming the most powerful Council in the financial world.

The new legislation would provide regulators the power to curb certain activities of large banks, forcing them hold more cash to protect against losses and restrict certain operations such as proprietary trading, private equity and hedge fund investing. A measure known as the "Volcker Rule" is intended to prevent the largest financial firms from trading with their own funds; however, banks will be allowed to maintain small investments in private equity and hedge funds, limited to 3% or less of a bank's capital. In order to provide additional transparency, the legislation would require derivatives to be traded on exchanges and routed through clearinghouses. Firms that deal in derivatives would be subject to strict capital, margin, reporting, record-keeping and business conduct rules. Banks would also be required to spin off their riskiest derivatives-trading operations into affiliates.

The financial regulation overhaul bill also creates a new Consumer Financial Protection Bureau that would supervise and regulate a vast array of financial products. The new bureau would have rule-making powers and enforcement control over banks and other financial companies, as well as the authority to examine and enforce regulations pertaining to all mortgage-related businesses, banks and credit unions, payday lenders, check cashers and other non-bank financial firms. The legislation would also permanently increase the level of federal deposit insurance for banks and credit unions to $250,000.

Under the new legislation, shareholders of public corporations would have a non-binding vote on executive pay. The bill would give the SEC authority to grant shareholders the right to nominate their own directors to company boards. Hedge funds and private equity funds would be required to register with the SEC as investment advisers and would be required to provide information on trades to help regulators monitor systemic risks.

If these proposed controls are insufficient, the legislation also provides the power and process for the government to seize and liquidate a failing financial company that poses a threat to rest of the economy. Wall Street executives and analysts commented that the new legislation is not as tough as they expected, but tougher than what they had hoped for.

Proponents of the financial regulation overhaul bill believe that it will provide a sound economic foundation to grow jobs, protect consumers, rein in Wall Street, stop "too big to fail" and prevent another financial crisis similar to that of 2008 and 2009. Opponents feel the financial regulation overhaul bill is a vast overreach of governmental power and has failed to address concerns with Fannie Mae and Freddie Mac. An opponent to the bill stated that it "purports to prevent the next financial crisis, but it does so by vastly expanding the power of the same regulators who failed to stop the last one." Many on Wall Street agree that it is difficult to analyze the potential effects of the legislation because the bill allows for new decision-making bodies to enact additional regulations. Uncertainty of the financial regulation overhaul has the potential to weigh negatively on the financial sector for an extended period of time.

Conclusion

While overall U.S. economic activity and health continue to improve, we expect volatility and uncertainty to remain elevated for some time. Stubbornly high unemployment levels and uncertainty surrounding when and how the federal stimulus is removed from the economy are likely to remain headwinds to economic growth for the remainder of 2010. That being said, Innovest believes that the economy is likely to continue to recover and grow at a modest pace. Despite economic uncertainties, we believe that portfolio diversification and patience remain essential to long-term investors.

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