INNOVEST

MONTHLY MARKET COMMENTARY

October 2010

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Latest Returns

EQUITIES Index	Oct-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	3.81%	7.97%	7.84%	16.52%	-6.49%	1.73%
S&P 400 Midcap	3.45%	9.46%	15.42%	27.64%	-1.41%	4.93%
S&P 600 Small Cap	4.25%	7.47%	13.28%	26.27%	-3.43%	3.12%
MSCI EAFE	3.61%	10.23%	4.72%	8.36%	-9.60%	3.31%
MSCI Emerging Markets	2.90%	12.11%	13.96%	23.55%	-3.98%	14.93%
FIXED INCOME Index	**Oct-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	0.36%	1.77%	8.34%	8.03%	7.23%	6.45%
BC Muni Bond 1-10 Yr	-0.10%	1.02%	5.03%	6.29%	5.96%	5.19%
BC High Yield	2.58%	5.71%	14.40%	19.35%	9.46%	9.08%
BC Global Aggregate Bond	1.26%	5.08%	8.63%	7.21%	7.34%	7.35%
CSFB Bank Loan Index	1.46%	3.13%	8.01%	11.22%	3.36%	4.21%
OTHER Index	**Oct-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	4.98%	9.73%	5.91%	11.81%	-6.35%	-0.11%
DJ Wilshire US REIT	4.63%	7.80%	24.72%	42.63%	-5.92%	2.70%
S&P Developed World Property	4.08%	12.82%	18.26%	24.95%	-9.21%	3.58%
LPX 50 TR	8.94%	18.26%	25.49%	30.78%	-17.67%	-3.13%
HFRI Fund of Funds Index	1.49%	4.00%	3.53%	5.15%	-3.53%	2.75%
3 Month T-Bills	0.02%	0.03%	0.10%	0.12%	1.04%	2.55%

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

Bond Rates	10/29/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.34%	1.14%
U.S. Ten-Year Treasury Yield	2.61%	3.84%
U.S. Ten-Year Muni Yield	2.69%	3.05%
High Yield (Merrill U.S. Corporates)	7.01%	8.63%

Exchange Rates		
$ per €	1.39	1.43
$ per £	1.60	1.61
¥ per $	80.55	93.10

The Markets

During October, large-cap domestic stocks, as represented by the S&P 500, finished with a gain of 3.8%. The S&P 500 gained 13.1% in September and October of 2010, the best back-to-back two month performance since the gain of 15.7% in April and May of 2009. Of the 134 subsectors that comprise the S&P 500, 80% posted gains in October. Mid-cap stocks lagged, while small-cap stocks outperformed both large- and mid-cap stocks for the month. Reversing a trend that began in June, international equities lagged domestic equities, and emerging markets underperformed their developed counterparts during the month.

Within fixed income markets, high yield bonds returned 2.58% for the month of October, outperforming the Barclays Capital Aggregate Index (up 0.36%) while underperforming equities. Approximately $1.2 billion flowed into high yield mutual funds during October, bringing the year-to-date inflows to more than $10.6 billion. CCC-rated bonds returned 3.07% for the month, outperforming B-rated and BB-rated bonds, which returned 2.47% and 1.89%, respectively. Year-to-date, CCC-rated bonds have provided the best relative return of 16.23%, followed by BB- and B-rated bond returns of 14.30% and 13.04%, respectively. A weakening dollar helped boost commodity prices, and the Dow Jones-UBS Commodity index finished October up nearly 5%. The price of crude remained virtually unchanged and closed the month at $81.43 a barrel. Gold continued its run and finished the month at $1,357.60 per ounce. REITs outperformed nearly every equity market during October and continued to be one of the best performing asset classes year-to-date.

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The Economy

Improving economic data alleviated concerns of a double-dip recession. The first estimate for third quarter real GDP growth came in at 2.0%, marking the fifth straight quarter for positive GDP growth. Major contributors to GDP growth, in descending order, were personal consumption, inventories and business investment in equipment and software. Similar to the second quarter of 2010, the weakest component of real GDP was net exports.

While unemployment remained stubbornly elevated, October's good news on job creation suggested that the labor market may be stabilizing. Excluding government workers, the economy added 159,000 jobs in October, the highest monthly total since April. Despite the improvement, the jobs added in October are still not enough to lower the nation's unemployment level, which remained above 9.5% for the fifteenth straight month. Since last December, the economy has recouped only 874,000 of the 8.4 million lost in the recession.

On November 3, the Federal Reserve announced further measures designed to stimulate the economy through a second round of quantitative easing. These actions, referred to as QE2, include printing an additional $600 billion between now and June 30, 2011, to buy a variety of both short- and long-term Treasury securities. The Fed's purchase of such securities is designed to flood the banking system with cash, thereby boosting bank reserves. In theory, these steps should leave banks with far more excess reserves than are necessary to back existing deposits. Instead of letting these excess reserves sit idle and earn nothing, banks may increase their lending, thereby stimulating economic growth. At the beginning of September, banks had almost $1 trillion in excess reserves sitting on their books, doing nothing to help bolster the economy. Opponents to QE2 say there is already ample money in the system and that additional quantitative easing could lead to inflation. Federal Reserve chief Ben Bernanke defended QE2 by stating that the central bank's decision to purchase $600 billion worth of Treasury bonds is aimed to keep U.S. interest rates low so the economy can grow while keeping inflation under control. The flexibility that the Fed has afforded itself in implementing QE2 increases market uncertainty about the direction of monetary policy. The impact of QE2 may depend largely on how it is implemented, and more importantly, removed.

Outlook

The United States economy has settled into a period of weak growth and stubbornly high unemployment. The economy's continued growth is good news, but the sluggish rate of that growth is less than impressive. Without the creation of new jobs, investors can expect the economic recovery to continue at a slow pace. Given the unprecedented number of uncertainties facing corporations and investors, we continue to believe that prudent investors should develop realistic expectations and construct their portfolios with diversification and a long-term outlook.

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