

INNOVEST MONTHLY MARKET COMMENTARY

November 2010



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Bond Rates	12/3/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.48%	1.14%
U.S. Ten-Year Treasury Yield	3.02%	3.84%
U.S. Ten-Year Muni Yield	2.97%	3.05%
High Yield (Merrill U.S. Corporates)	7.49%	8.63%

Exchange Rates		
\$ per €	1.34	1.43
\$ per £	1.57	1.61
¥ per \$	82.66	93.10

Latest Returns						
EQUITIES						
Index	Nov-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	0.01%	13.08%	7.86%	9.94%	-5.15%	0.98%
S&P 400 Midcap	2.97%	18.56%	18.85%	26.31%	1.29%	4.55%
S&P 600 Small Cap	3.57%	20.28%	17.32%	27.45%	0.24%	2.92%
MSCI EAFE	-4.81%	8.29%	-0.32%	1.11%	-10.08%	1.80%
MSCI Emerging Markets	-2.64%	11.32%	10.96%	15.34%	-2.47%	12.52%
FIXED INCOME						
Index	Nov-10	3 months	YTD	1 Year	3 Years	5 Years
BC Aggregate Bond	-0.57%	-0.10%	7.72%	6.04%	6.39%	6.23%
BC Muni Bond 1-10 Yr	-0.84%	-1.38%	4.15%	4.00%	5.32%	4.93%
BC High Yield	-1.17%	4.43%	13.06%	16.77%	9.83%	8.71%
BC Global Aggregate Bond	-3.81%	-0.31%	4.49%	0.57%	5.30%	6.67%
CSFB Bank Loan Index	0.48%	3.25%	8.52%	11.43%	3.95%	4.24%
OTHER						
Index	Nov-10	3 months	YTD	1 Year	3 Years	5 Years
DJ UBS Commodity	-0.35%	12.21%	5.54%	7.63%	-5.46%	-0.23%
DJ Wilshire US REIT	-1.95%	7.13%	22.29%	30.85%	-3.30%	1.38%
S&P Developed World Property	-3.87%	8.65%	13.69%	18.04%	-8.00%	2.10%
LPX 50 TR	-3.29%	19.73%	21.36%	23.56%	-16.72%	-4.58%
HFRI Fund of Funds Index	-0.46%	3.42%	3.08%	3.87%	-3.18%	2.32%
3 Month T-Bills	0.01%	0.03%	0.11%	0.11%	0.88%	2.49%

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

The Economy

The month of November was full of headlines spanning from the U.S. midterm elections to an FBI investigation of insider trading allegations. The former helped to bring more political certainty to the U.S. markets, as the Republican Party took control of the House of Representatives, while the latter brought more scrutiny to Wall Street.

Around the globe, tensions escalated on the Korean peninsula after a brief attack by North Korea on South Korea's Yeonpyeong Island. Hostilities in the region have spiked this year, including the sinking of a South Korean battleship that killed 46 sailors. The latest incident has increased local market volatility, reinforcing investors' concerns over potential conflict risk. Ireland's sovereign debt concerns also drew attention while the global investment community awaited a European bailout. Irish Prime Minister Brian Cowen detailed a €15 billion (\$19.9 billion) plan designed to cut Ireland's budget deficit over the next four years, and the European Union subsequently approved

an €85 billion (\$112.53 billion) aid package. Portuguese and Spanish debt also came under scrutiny during the month, as speculators forced spreads higher on sovereign debt.

The U.S. government successfully began to monetize its ownership in General Motors Corporation. The federal government sold part of its holdings at the automaker's initial public offering, recovering nearly \$13.6 billion of the \$49.5 billion it paid to bail out the company during the global economic crisis. The Federal Reserve's \$600 billion bond purchase plan (QE2) that was announced in early November made its first purchase of Treasury notes in mid-month, totaling \$7.3 billion. Total purchases were expected to reach \$100 billion by the first week of December.

The Market

During the month of November global equity markets continued to oscillate, bringing year-to-date performance for the MSCI All Country World index to nearly 5%. Domestic large cap stocks were roughly flat (+0.01%) for the month,

trading within a 4% range for the S&P 500, while mid and small cap stocks generated returns of 2.97% and 3.57%, respectively. Both international developed markets (MSCI EAFE) and emerging markets (MSCI Emerging Markets) witnessed modest declines in local currency terms; however, after currency translation, performance of the MSCI EAFE suffered significantly more as sovereign debt concerns caused a notable decline in the Euro.

The prices of fixed income instruments generally declined during the month as Treasury rates increased across the maturity spectrum and credit spreads widened. Core fixed income securities declined by 0.57%, as represented by the Barclays Capital Aggregate Bond Index. Below-investment-grade issues witnessed a disparity of performance, with floating rate corporate loans up modestly (+0.48%) and high yield bonds down 1.17% for the month.

Global and domestic Real Estate Investment Trusts (REITs) experienced notable declines. Nonetheless, year-to-date performance for domestic REITs (+22.29%) topped all other asset classes, largely driven by investor demand for income in the current low interest rate environment. Diversifying asset classes, such as hedge fund of funds and commodities, had marginal declines. In addition, return-enhancing strategies, such as listed private equity, witnessed strong declines.

Outlook

The U.S. economy is arguably suffering from what English economist John Maynard Keynes described as the “paradox of thrift.” In this vicious cycle, too many individuals seek to save, rather than spend, money at the same time, which has been reinforced by persistently high unemployment. While in normal circumstances a higher savings rate (currently 5.7%) would translate into accelerating loan origination by financial intermediaries, these businesses continue to focus more on repairing the damage from the U.S. housing bubble. Consequently, many banks remain unwilling to underwrite new loans without extremely favorable terms.

The Federal Reserve’s second round of quantitative easing is an effort to break this thrift cycle by enticing investors and banks to seek risky investments rather than to hoard cash. However, unless the U.S. economy finds the necessary means to outgrow its expanding debt burden, the impact of such unorthodox techniques may come in the form of

higher government borrowing costs and obligatory austerity measures.

Despite the many economic uncertainties looming over the global markets, we believe several asset classes remain relatively attractive. Domestic large cap equities trade at under 13x forward earnings, which is significantly less than the long-term average of 16.6x. Corporate earnings prospects also appear to be strong, benefiting from emerging market growth and deep cost-cutting. As we close out the year, InnoVest is evaluating future investment prospects for clients’ portfolios. We believe that a rigorous, forward-looking approach to capital market returns produces a higher probability of success in meeting clients’ future return goals within the context of acceptable risk. Remaining fully aware of the unpredictability of global markets, our objective is to guide client portfolios as market inefficiencies create opportunities. In the priceless words of Keynes, “It is better to be roughly right than precisely wrong.”