INNOVEST MONTHLY MARKET COMMENTARY

August 2010

Peter Mustian
Director - Due Diligence

Latest Returns

EQUITIES Index	Aug-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	-4.51%	-3.17%	-4.62%	4.91%	-8.66%	-0.91%
S&P 400 Midcap	-4.94%	-5.03%	0.24%	11.87%	-4.29%	1.73%
S&P 600 Small Cap	-7.47%	-8.55%	-2.46%	7.81%	-7.11%	-0.38%
MSCI EAFE	-3.10%	5.03%	-7.95%	-2.34%	-10.75%	0.96%
MSCI Emerging Markets	-1.94%	5.44%	-0.33%	18.02%	-1.50%	12.38%
FIXED INCOME Index	**Aug-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	1.29%	3.98%	7.83%	9.18%	7.66%	5.96%
BC Muni Bond 1-10 Yr	1.57%	3.14%	5.62%	7.44%	6.64%	5.12%
BC High Yield	0.04%	4.89%	8.27%	21.53%	8.61%	7.52%
BC Global Aggregate Bond	1.39%	6.44%	4.82%	6.16%	7.44%	5.92%
CSFB Bank Loan Index	0.36%	1.55%	5.11%	12.52%	3.23%	3.81%
OTHER Index	**Aug-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	-2.55%	4.38%	-5.94%	4.16%	-6.63%	-2.83%
DJ Wilshire US REIT	-1.34%	2.61%	14.14%	33.33%	-7.13%	0.55%
S&P Developed World Property	-0.18%	6.88%	4.64%	14.77%	-10.51%	0.90%
LPX 50 TR	-4.48%	1.89%	1.36%	8.59%	-21.73%	-7.24%
HFRI Fund of Funds Index	0.01%	-0.09%	-0.42%	2.80%	-3.12%	1.97%
3 Month T-Bills	0.01%	0.04%	0.08%	0.14%	1.26%	2.67%

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

Bond Rates	8/27/2010	12/31/2009
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.56%	1.14%
U.S. Ten-Year Treasury Yield	2.65%	3.84%
U.S. Ten-Year Muni Yield	2.61%	3.05%
High Yield (Merrill U.S. Corporates)	8.04%	8.63%

Exchange Rates		
$ per €	1.27	1.43
$ per £	1.55	1.61
¥ per $	84.98	93.10

The Economy

August's conflicting U.S. economic data appeared to affirm Federal Reserve Chairman Ben Bernanke's view that the economic outlook looks "unusually uncertain." The second quarter's Gross Domestic Product (GDP) was revised down to +1.6%, from an initial estimate of +2.4%. The revision is a significant decline from the annual rate of +3.7% in the first quarter and +5% in the last three months of 2009. Additionally, investors faced disappointing news on the housing front: existing home sales plunged 27.2% in July, according to the National Association of Realtors. Further, home inventories reached a 12.5-month supply, versus an 8.9-month supply in June.

Employment data was mixed during the month of August: job losses continued to rise, but at a more modest pace than expected. Nonfarm payrolls fell by 54,000, matching the level of losses recorded in July. Private employers added 42,000 jobs in August, while a reduction in census workers dragged total payrolls down by 100,000 and pushed up the unemployment rate to 9.6%. Year-to-date, the private sector has increased payrolls by 763,000, which is a modest recovery after more than 4.6 million jobs were lost in 2009. Further, a recent study published by the Brookings Institute pointed to weak hiring, rather than elevated job losses, as the distinctive factor keeping the unemployment rate elevated. Business uncertainty about government regulations and taxes appear to be a significant headwind for companies to expand their workforce.

On the more positive side, the second-quarter earnings season revealed that, on average, corporations beat expectations by an impressive 10%. Overall, approximately 75% of companies reported better-than-expected results. Non-financial corporate profits grew by approximately 40% in the second quarter compared to 2009, and revenue growth has also been impressive. In fact, all ten sectors of the market had positive revenue gains

Peter Mustian ~ Director - Due Diligence ~ Innovest Portfolio Solutions LLC
4643 South Ulster Street, Suite 1040 ~ Denver, CO 80237
(303) 694-1900 ~ (303) 694-4707 fax ~ www.innovestinc.com

for the first time since the second quarter of 2007. Mergers and corporate acquisitions also increased during the month. French pharmaceutical company Sanofi-Aventis announced an $18 billion offer for Genzyme, Intel announced a $7 billion deal to acquire McAfee, 3M announced it was buying Cogent for $943 million, and finally, Hewlett-Packard won the bidding war for data storage company 3Par, for $2.4 billion. These announcements are a positive indication that companies are beginning to put some of their cash to work and are looking to grow their businesses.

The Market

During the month of August, the S&P 500 Index fell by 4.5% as increased economic uncertainty weighed on investors' minds. For the month, nearly all segments of the U.S. equity market generated negative returns for investors, with small- and mid-sized companies noticeably underperforming larger companies. From a sector standpoint, financial, technology and industrial companies tended to underperform less economically sensitive sectors, such as health care, utilities, materials and consumer durables. In a reversal from previous months, International stocks, outperformed during the month as concerns over the European sovereign debt crisis began to subside. Emerging markets also held up well during the month and outperformed their developed counterparts. Within the fixed income markets, the Barclays Capital Aggregate Index was slightly positive for the month. From a sector standpoint, Treasuries continued their strong run as many investors grew increasingly risk averse. High yield bonds and floating rate leveraged loans were relatively flat for the month, but remain noticeably positive on a year-to-date basis. Finally, REITs pulled back modestly during the month, yet continue to be one of the best performing asset classes thus far in 2010.

Outlook

The equity markets have been unable to gain traction due in large part to the high levels of uncertainty and conflicting reports on the strength of the economy. Tax policy, health care and financial reform legislation, and expansive budget deficits have further diluted the confidence of investors and businesses. Ivan Seidenberg, CEO of Verizon, recently commented: "By reaching into virtually every sector of economic life, government is injecting uncertainty into the marketplace and making it harder to raise new capital and create new businesses." However, it is reassuring to note that many businesses, from a profitability standpoint, are doing very well. In fact, corporate profit margins as a percentage of GDP are near 40-year highs. As the current level of uncertainty begins to subside we believe investors' confidence should return, which would be a nice tailwind for the equity markets. Predicting exactly when a stock rebound may occur is an impossible endeavor, and therefore we remind investors of the importance of maintaining a diversified portfolio and staying focused on the long term.

Peter Mustian ~ Director - Due Diligence ~ Innovest Portfolio Solutions LLC
4643 South Ulster Street, Suite 1040 ~ Denver, CO 80237
(303) 694-1900 ~ (303) 694-4707 fax ~ www.innovestinc.com