INNOVEST

MONTHLY MARKET COMMENTARY

January 2010

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Latest Returns

EQUITIES Index	Jan-10	3 months	YTD	1 Year	3 Years	5 Years
S&P 500	-3.60%	4.16%	-3.60%	33.14%	-7.24%	0.18%
S&P 400 Midcap	-3.21%	7.03%	-3.21%	43.36%	-4.05%	3.13%
S&P 600 Small Cap	-3.38%	7.69%	-3.38%	38.97%	-6.52%	1.12%
MSCI EAFE	-4.41%	-1.09%	-4.41%	39.68%	-7.65%	2.99%
MSCI Emerging Markets	-5.58%	2.37%	-5.58%	80.19%	3.49%	14.14%
FIXED INCOME Index	**Jan-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	1.53%	1.24%	1.53%	8.51%	6.60%	5.16%
BC Muni Bond 1-10 Yr	0.58%	1.77%	0.58%	4.59%	5.67%	4.36%
BC High Yield	1.27%	5.65%	1.27%	51.17%	6.03%	6.76%
BC Global Aggregate Bond	0.41%	-0.90%	0.41%	11.01%	7.55%	4.87%
CSFB Bank Loan Index	1.81%	4.84%	1.81%	39.44%	2.00%	3.85%
OTHER Index	**Jan-10**	**3 months**	**YTD**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	-7.28%	-2.12%	-7.28%	16.51%	-6.29%	0.22%
DJ Wilshire US REIT	-5.72%	7.82%	-5.72%	47.84%	-17.75%	0.60%
S&P Developed World Property	-5.02%	0.35%	-5.02%	49.06%	-15.42%	1.39%
LPX 50 TR	1.17%	5.44%	1.17%	86.30%	-21.51%	-5.37%
HFRI Fund of Funds Index	-0.70%	0.97%	-0.70%	9.99%	-1.76%	2.65%
3 Month T-Bills	0.01%	0.03%	0.01%	0.22%	2.27%	2.99%

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

	As of	
Bond Rates	**2/5/2010**	**12/31/2009**
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.75%	1.14%
U.S. Ten-Year Treasury Yield	3.55%	3.84%
U.S. Ten-Year Muni Yield	3.03%	3.05%
High Yield (Merrill U.S. Corporates)	8.66%	8.63%
Exchange Rates		
$ per €	1.37	1.43
$ per £	1.56	1.61
¥ per $	89.36	93.10

The Economy

After a nearly non-stop rally since March 2009, the stock market changed direction and closed in the red for the first month of the New Year. The S&P 500 Index began the month with a decent start and reached a new high in mid-January. However, in January's final two weeks the S&P dropped nearly 7% and closed the month down 3.6%.

The mild profit taking in large caps spread to other major S&P equity indices. The S&P 400 Mid Cap Index and S&P 600 Small Cap Index lost 3.21% and 3.38%, respectively. Many formerly larger-companies moved into the mid-cap space during the 2008 bear market and some investors expect these companies to benefit from rising profits and a more stable economy in 2010.

From a sector perspective, health care was the only one of ten S&P 500 sectors to post positive results for the month, up 0.49%. Consumer staples, which traditionally perform well during periods of volatility, were down 1.08%. Meanwhile, materials (-8.61%), technology (-8.43%) and telecom services (-8.21%) stocks all lagged dramatically.

Poor January performance was not limited to domestic equities during the month. The MSCI EAFE Index was down 4.41%, and the MSCI EAFE Emerging Market Index lost 5.58%.

Within fixed income markets, the Barclays Capital Aggregate Index was positive for the month (+1.53%). High yield bonds

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and floating rate corporate loans finished the month in positive territory as spreads continue to tighten.

The Dow Jones-UBS Commodity Index lost 7.28%, mainly due to declines in energy prices. The oil market has been hampered by overall weak demand and China's announcement to tighten their credit markets and cool demand. Statements by the U.S. Federal Reserve to keep interest rates low (and thereby stimulate the U.S. economy) did little to offset fears of a slowdown in China.

Economic Overview

January's results are a reminder of the pressures that still weigh on the economy. Investors are skeptical of a healthy and robust recovery due to unconstrained government spending, record high federal budget deficits and few signs of new job creation.

The January jobs report was bleaker than expected. U.S. employers continued to defer new hiring after having slashed payrolls on expected weaknesses in demand. For the second month in a row and for the 24th month out of the last 25, the nation's employers reported lower payrolls, although the drop was rather small (about 20,000 jobs). While January's market decline was a bit of a disappointment, we don't believe investors should be overly troubled by a down month. There are several positive economic indicators that continue to support a constructive view on equities and the economy for the year.

Corporate earnings have exceeded expectations. It is worth noting that for the first time since October 2008, the number of companies reporting year-to-year earnings increases in January exceeded the number of reporting earnings decreases by 480 to 387, respectively. In past recoveries, when earnings improvements began to exceed reductions, it has been a reliable sign that economic activity was largely improving.

Recent GDP growth announcements were also encouraging. Fourth quarter 2009 real GDP growth was +5.7%, which far exceeded expectations. Many believed that the robust growth was caused by a "re-stocking" of inventories. However, much of the inventory contribution (+3.4%) to GDP was due to a significant reduction in the rate at which inventories are being liquidated. In the fourth quarter of 2009, company inventories declined by $33 billion, as compared to the third quarter of 2009 decline of a dramatic $139 billion – thus real growth was relatively meaningful for the fourth quarter.

The U.S. economy remains in a vulnerable state as Congress faces the daunting tasks of closing the budget gap and controlling mandated interest payments on existing debt. However, the encouraging signs of inventory rebuilding, an anticipated end of rising unemployment and strong corporate profits, provide a positive counter weight.

We remain cautious in the near-term, especially regarding the effects that higher interest rates may have on stocks' valuations. Nonetheless, we are confident that our approach of prudent and custom diversification is time-tested and a successful method to long-term investing.

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