INNOVEST

MONTHLY MARKET COMMENTARY

December 2009

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Latest Returns

EQUITIES Index	Dec-09	3 months	1 Year	3 Years	5 Years
S&P 500	1.93%	6.04%	26.46%	-5.63%	0.42%
S&P 400 Midcap	6.28%	5.56%	37.38%	-1.83%	3.27%
S&P 600 Small Cap	8.63%	5.12%	25.57%	-4.79%	1.36%
MSCI EAFE	1.44%	2.18%	31.78%	-6.04%	3.54%
MSCI Emerging Markets	3.95%	8.55%	78.51%	5.11%	15.51%
FIXED INCOME Index	**Dec-09**	**3 months**	**1 Year**	**3 Years**	**5 Years**
BC Aggregate Bond	-1.56%	0.20%	5.93%	6.04%	4.97%
BC Muni Bond 1-10 Yr	-0.15%	-0.10%	7.16%	5.39%	4.30%
BC High Yield	3.28%	6.20%	58.21%	5.98%	6.47%
BC Global Aggregate Bond	-3.76%	-0.84%	6.94%	7.05%	4.57%
CSFB Bank Loan Index	2.68%	3.65%	44.88%	1.67%	3.58%
OTHER Index	**Dec-09**	**3 months**	**1 Year**	**3 Years**	**5 Years**
DJ UBS Commodity	1.98%	9.03%	18.90%	-3.83%	1.96%
DJ Wilshire US REIT	7.00%	9.17%	28.46%	-13.71%	-0.06%
S&P Developed World Property	3.83%	3.94%	37.63%	-12.56%	1.49%
LPX 50 TR	1.82%	-1.21%	51.57%	-21.27%	-5.57%
HFRI Fund of Funds Index	0.44%	1.18%	11.15%	-1.23%	2.72%
3 Month T-Bills	0.01%	0.04%	0.21%	2.40%	3.02%

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

	As of	
Bond Rates	**1/8/2010**	**12/31/2009**
U.S. Federal Funds Target Rate	0.25%	0.25%
U.S. Two-Year Treasury Yield	0.96%	1.14%
U.S. Ten-Year Treasury Yield	3.81%	3.84%
U.S. Ten-Year Muni Yield	3.08%	3.05%
High Yield (Merrill U.S. Corporates)	8.29%	8.63%
Exchange Rates		
$ per €	1.43	1.43
$ per £	1.60	1.61
¥ per $	92.95	93.10

The Economy

As investors' tolerance for risk continued to grow, stocks remained strong in December. Rebounding from severe losses in 2008, U.S. stocks in 2009 had their best year since 2003. Large-cap stocks eked out a small gain in December with the S&P 500 up 1.93%. For calendar year 2009, the S&P 500 gained 26.5%, the 11th best result in the last 50 years for the index.

Mid-cap stocks outperformed large-cap stocks and slightly underperformed small-cap stocks as the S&P 400 finished December up 6.28%. Many formerly large-cap companies moved into mid-cap territory during the 2008 bear market and rose in 2009 on investors' expectation of a strengthening economy and rising profit growth.

Small-cap stocks outperformed both large- and mid-cap stocks in December, with the S&P 600 finishing the month up 8.63%. Many small-cap stocks were devastated in 2008; however, the stocks that were hurt the worst tended to rebound the most in 2009.

In the fixed income markets, spreads continued to tighten as risk appetites returned. With over $31 billion flowing into high yield mutual funds during 2009, high yield bonds finished the month in positive territory, up 3.03%. CCC-rated bonds continued their impressive run, returning 4.59% for December while BB-rated and B-rated bonds returned 2.37% and 2.26% respectively. For the calendar year 2009, CCC-rated bonds have returned an astounding 111%. The 10-year treasury finished December in negative territory, down almost 5%.

The Dow Jones-UBS Commodity index was up 1.98%

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in December, thanks primarily to an increase in demand for metals used in manufacturing. The price of gold, which began 2009 at $884 an ounce, rose to an all-time high of $1,114 on November 11, 2009, and finished the year at $1,095 an ounce. The price of oil began 2009 at $44.60 a barrel and finished 2009 at $79.36, down modestly from the year's high of $81.37 in October.

Economic Overview

The Federal Reserve Board's Open Market Committee unanimously voted in December to keep the federal funds rate for interbank lending in a range of 0% - 25%, but disagreed on the economy's overall health. Some policy makers believe the economy may be "gaining momentum", while others raised concerns that high unemployment and the eventual dissipation of federal stimulus money could stall the fragile recovery.

Consumer confidence increased for the second consecutive month in December to an index reading of 52.9, up from November's reading of 50.6. The December result was more than double February's record low reading. Despite the improvement, the index remains in a relatively low range based on long-term readings.

In December the Institute for Supply Management's purchasing managers index hit its highest level since April 2006 at 55.9, an expansion which was reflected in European and Asian markets. The manufacturing index has remained at an expansionary level - above 50 - for five consecutive months. However, the ISM Non-Manufacturing Index, an important gauge of activity in the service sector, moved up to only 50.1 in December. Since the service sector comprises almost 90% of the nation's economy, the tepid increase from 48.7 in November reflects a very soft labor market.

Unemployment continued to detract from economic growth as non-farm payrolls lost another 85,000 jobs in December. The unemployment rate remained virtually unchanged in December at 10%; however, many experts believe this measure is not a true representation of the nation's unemployed, and the actual figure may be closer to 17%. Permanent jobs must be created in order for the economy to continue to recover and eventually grow. The current economic recovery appears to be sustainable, yet weak. High unemployment and the resulting weak consumer spending will likely remain a headwind for the recovering economy well into 2010. However, modest increases in consumer spending could generate rising profits at many companies that have significantly reduced costs over the past 18 months.

Innovest has completed in depth asset allocation studies, and we will be discussing our 2010 and long-term expectations with our clients in the first quarter of 2010. As always, we recommend that investors carefully assess their downside risk tolerance, remain diversified and ride out the bumps in the near term.

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