Monthly Market
COMMENTARY

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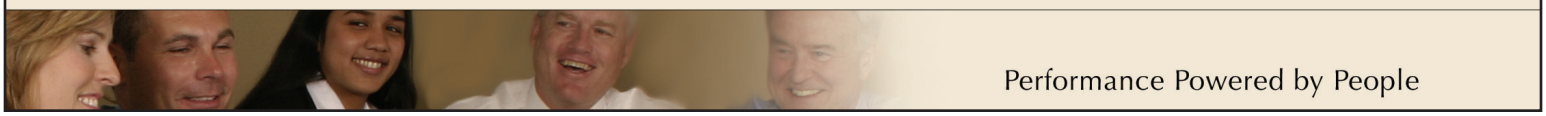

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February 2009

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LATEST PERFORMANCE					
	Feb-09	Y-T-D	1 Year	3 Year	5 Year
EQUITY					
S&P 500	-10.65%	-18.18%	-43.32%	-15.11%	-6.64%
S&P 400	-9.68%	-16.24%	-42.00%	-15.38%	-4.43%
S&P 600	-11.98%	-23.16%	-42.54%	-17.32%	-5.20%
MSCI EAFE	-10.26%	-19.07%	-50.22%	-15.30%	-3.27%
MSCI Emerging Markets	-5.64%	-11.73%	-56.17%	-11.92%	3.36%
FIXED INCOME					
Barclays Aggregate	-0.38%	-1.26%	2.06%	4.94%	4.00%
Barclays Muni Bond 1-10 Yr	-0.74%	2.29%	7.11%	4.85%	3.57%
Barclays High Yield	-3.10%	2.70%	-22.07%	-5.45%	-0.59%
Barclays Global Aggregate	-2.23%	-5.43%	-5.16%	4.68%	3.67%
CSFB Bank Loan	0.35%	6.15%	-20.07%	-6.57%	-1.86%
OTHER					
DJ-AIG Commodity	-4.43%	-9.57%	-50.27%	-10.24%	-3.34%
DJ-Wilshire US REIT	-21.85%	-35.98%	-59.36%	-26.58%	-8.95%
S&P-Citi World Property	-17.23%	-27.41%	-59.39%	-23.04%	-6.49%
Red Rocks Domestic LPE	-23.33%	-33.04%	-74.02%	-37.65%	-20.97%
Red Rocks Global LPE	-18.45%	-30.20%	-72.45%	-30.09%	-10.42%
HFRI Fund of Funds	-0.31%	0.38%	-19.63%	-2.30%	1.49%
3-Month T-Bills	0.02%	0.01%	1.41%	3.75%	3.22%

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

The Economy

Throughout February, investors were pummeled with dismal economic data and continued worries over the stability of the financial sector. Gross Domestic Product contracted in the fourth quarter of 2008 at an annualized rate of 6.2%, the steepest decline in 27 years. This severe pullback was largely a factor of reduced consumer spending, as consumers and financial institutions repair their balance sheets. Furthermore, companies cut inventories and exports dropped, given weak global demand and the strengthening of the dollar. In addition, unemployment numbers for February reflected the severity of the recession. Unemployment rose to a 25-year high of 8.1%, as companies cut labor costs in all sectors. Since the recession began in December 2007, according to the National Bureau of Economic Research, an estimated 4.4 million jobs have been lost, with the majority of employment cuts occurring since November 2008.

In the shadow of weak data, Treasury Secretary Geithner released plans to implement the second phase of the TARP, or what has now been renamed as the Financial Stability Plan. The goal is to attack the credit crisis on all fronts. The Financial Stability Plan is comprised of a TALF expansion, Bank Recapitalization, Public-Private Partnership, and Foreclosure Relief. Key aspects of this plan are the stress tests, designed to identify banks with the highest risk exposure, and the public-private partnership, a modification of the "bad bank" idea intended to remove troubled assets from banks' balance sheets. Additionally, the Treasury will purchase as much as $100 billion of additional preferred stock in Fannie Mae and Freddie Mac, twice as much as previously announced. President Obama also signed into law the $787 billion American Recovery and Reinvestment Act of 2009. This act's three key areas include: infrastructure, science, and energy associated projects; increased

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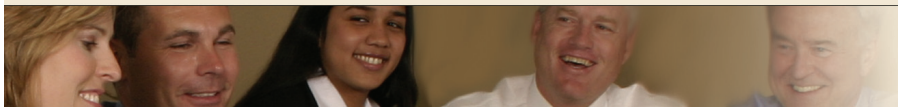

funding for unemployment benefits and food stamps; and tax breaks for individuals and businesses.

Despite the Fed's issuance of numerous "life jackets" to rescue the financial system and economy, Citigroup, GM, and AIG have requested additional government funding to recapitalize their balance sheets after incurring excessive write-downs and losses. Through the Fed's unconventional actions, it is hoped that credit markets stabilizing will facilitate lending and ultimately consumer spending.

The Market

Early February rallies were offset by mid-month broad market declines amid skepticism that the U.S. bailout plan lacks the adequate measures to prop up the financial system. Equities were among the worst performing asset classes, as the S&P 500 breached November market lows. The S&P 500 closed the month at 700, while the Dow Jones Industrial Average closed slightly above the 7,000 mark. Among large cap stocks, financials and industrials were among the largest detractors for the month, given the backdrop of weak economic data and questions of financial stability. Growth equities continued to outperform value across market capitalizations, while small cap stocks led domestic equity declines. International equities performed slightly better than domestic stocks, while emerging markets outperformed all other equities during the month. Less pessimism about 2009 growth forecasts and hopes that China's $585 billion stimulus package will spring significant growth have contributed to emerging markets' recent relative performance. Furthermore, REITs and Private Equity suffered severe losses in February, in a continuation of declines suffered in January. The Barclays Aggregate Bond Index was roughly flat for the month, while the Barclays High Yield Index contracted slightly from its January rally. In addition, bank loans, as measured by the CSFB Leveraged Loan index, were the only risk-seeking assets that posted positive returns during the month.

Outlook

Despite the efforts of the Fed, financial institutions are more concerned with recapitalizing their impaired balance sheets, after years of indiscriminate lending standards, and hoarding cash in expectation of rising loan defaults. As a result of inadequate availability of credit to consumers, corporate earnings are expected to pull back in the coming months. With both consumers and businesses retrenching, the economic environment is positioned for reduced growth. While the immediate outlook for the economy is uncertain, the Fed is taking extreme measures to strengthen balance sheets while strongly encouraging lending to resume.

Although we are undoubtedly in trying times, we remain confident that there are many opportunities for patient investors. Equity valuations are at multi-year lows, pointing to strong long-term prospects. There is a significant amount of cash on the sidelines, which may be the source of future equity purchases. Investment-grade corporate bonds continue to present equity-like return opportunities with less implied risk.

Our time-tested investment process has been a frequent reminder that maintaining a long-term investment horizon and a well diversified portfolio is crucial during times of market uncertainty. At difficult times like these, it is helpful to reflect on the advice of renowned investor Sir John Templeton: "The four most expensive words in the English language are 'this time it's different.'"

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