INNOVEST MONTHLY MARKET COMMENTARY

July 2009

Gordon Tewell, CFA, CPC
Consultant

LATEST PERFORMANCE					
	July-09	Y-T-D	1 Year	3 Year	5 Year
EQUITY					
S&P 500	7.56%	10.97%	-19.96%	-6.16%	-0.14%
S&P 400	8.74%	17.95%	-20.25%	-4.00%	3.04%
S&P 600	10.32%	11.07%	-19.27%	-5.46%	2.21%
MSCI EAFE	9.13%	17.81%	-22.60%	-5.57%	4.80%
MSCI Emerging Markets	11.24%	51.31%	-16.84%	6.17%	17.62%
FIXED INCOME					
Barclays Aggregate	1.61%	3.55%	7.85%	6.52%	5.14%
Barclays Muni Bond 1-10 Yr	1.64%	4.89%	6.95%	5.50%	4.39%
Barclays High Yield	6.09%	38.37%	4.92%	3.79%	5.29%
Barclays Global Aggregate	2.21%	3.76%	4.88%	7.12%	6.00%
CSFB Bank Loan	4.10%	32.31%	-3.14%	-0.29%	2.14%
OTHER					
DJ-AIG Commodity	3.23%	7.99%	-38.03%	-8.29%	0.06%
DJ-Wilshire US REIT	10.42%	-4.07%	-41.33%	-18.01%	-1.43%
S&P-Citi World Property	9.48%	15.63%	-29.52%	-12.13%	2.58%
Red Rocks Domestic LPE	14.99%	26.65%	-43.78%	-22.10%	-8.02%
Red Rocks Global LPE	12.35%	28.28%	-44.66%	-15.56%	1.96%
HFRI Fund of Funds	1.45%	6.69%	-11.68%	-0.60%	3.03%
3-Month T-Bills	0.02%	0.12%	0.79%	3.11%	3.15%

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July provided strong gains in the U.S. and international equity markets, despite investors' initial concerns as to whether the markets could sustain their positive momentum. Flat results in June and the anxiety after the healthy returns of April and May have changed – at least for now – as the majority of mid-July's corporate earnings reports were ahead of analysts' estimates.

Better-than-expected earnings came in from Goldman Sachs, JP Morgan, and IBM. Despite continued political pressure on Bank of America and Citigroup and discounted expectations for their stocks, these banks contributed positive momentum to the market.

Noteworthy results included the best monthly return for the Dow Jones Industrial Average since 2002, up 8.6%; the S&P 500 almost crossing the 1,000 barrier and ending the month up 7.4%; and small cap stocks as represented by the S&P 600 Index rising 10.3%, its best month of July on record. Equities across the globe had dramatically positive months as well, with the MSCI EAFE Index up 9.1% and the MSCI Emerging Markets Index up 11.3%.

Credit markets' continued recovery and substantial inflows of capital pushed index levels to record gains. The Barclays Capital High Yield Index returned 6.1% during July and was up 38.4% year-to-date. CCC-rated bonds, the lowest quality segment of the high yield market, led the rally while higher quality BB bonds lagged. Many active high yield managers failed to match the returns of their benchmarks as few managers invest in this lower rated CCC segment of the high yield market. Treasuries rose in the month as the 10-year yield fell to 3.50% from second quarter highs. The drop in yields from June's nearly 4.00% level signaled steady demand for U.S. debt, even in the face of expressions to the contrary by China and other large U.S. government debt holders.

Steven Karsh ~ Principal, Director of Research ~ Innovest Portfolio Solutions LLC
4643 South Ulster Street, Suite 1040 ~ Denver, CO 80237
(303) 694-1900 ~ (303) 694-4707 fax ~ www.innovestinc.com

The Economy

Following cautious remarks in the third week of July by Federal Reserve Chairman Ben Bernanke, the revised second quarter gross domestic product (GDP) figures indicated the economy shrank at a 1% annualized rate, its slowest decline in a year. This modest decline followed contractions of 5.4% and 6.4% in the fourth quarter of 2008 and the first quarter of 2009, respectively. Projections for the third and fourth quarters of 2009 indicate that the economy may actually resume growing at a 2% to 3% positive rate.

Mr. Bernanke indicated that the Fed does not plan to raise interest rates from today's near zero levels until more concrete evidence of the recovery is apparent, most notably an improvement in jobs data.

After making significant efforts to keep rates down, the Fed appears ready to keep them low, as an insurance policy that the economy really has recovered.

As reported on July 20, the Conference Board's Leading Economic Index (LEI) rose 0.7% in June. The LEI is comprised of 10 indicators that signal the direction of the economy over the next two quarters. Last April, the LEI rose sharply for the first time in seven months. With the July increase the index has now risen in three straight months and may be signaling the worst U.S. recession in five decades is close to being over. In July, seven of the 10 indicators were positive, including interest rate spreads, building permits, stock prices, weekly initial jobless claims, and manufacturers' new orders for consumer goods and materials. Among the negatives were money supply and consumer expectations.

Consumer expectations is one of the most closely watched LEI indicators, as it tracks consumer spending. With consumer spending making up two-thirds of the economy, this measure points to how the economy might behave in the coming months. The Conference Board's Consumer Confidence Index, which fell in June to 49.3, declined further in July to 46.6. Consumer confidence, which had rebounded strongly in late spring, has faded in the last two months as consumers continue to worry about rising unemployment and stagnant income.

Outlook

Just as the recession began as a credit crisis and then spread to the wider economy, the recovery is also likely to begin within the financial sector. The positive news from financial institutions should be welcomed as an indicator of an improving economy.

Of course, the reasons for optimism during the second half of July do not necessarily mark an end to the recession. Despite some good news, the U.S.' GDP still shrank by 1% in the second quarter. Worrisome issues are plentiful in both the world and U.S. economies. The most significant negative contributor to the economic outlook is likely to be high unemployment, which continues to resist the trend of positive news in most developed economies. Additionally, it is entirely possible that miscalculations on the part of business, government or the public could take us off the path towards recovery.

In the event of a sustained rebound in consumer sentiment, increased risk-seeking behavior and an end to the recession, the economic focus is likely to shift towards the risks of inflation, the long-term effects of government and central bank interventions and the eventual shift in monetary policy. The point at which interest rates move from their low levels will be an important indicator that policy makers' concerns have shifted from the recession to the speed of the recovery. We continue to pay close attention to the markets and economic data. So far, the reports seem to indicate that the U.S. is moving towards a gradual and tentative recovery.

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