INNOVEST WAS AWARDED TOP RECOGNITION IN NATIONAL BOOK

During volatile markets, an uncertain economy, and global unrest, Innovest was selected as one of the top 10 wealth management teams to provide knowledge capital, skill, and a trustworthy sanctuary for worried investors.

Innovest was recently recognized as a highly acclaimed wealth management firm by Financial Forum, Inc., in their latest book, The Wealth Factor: A Team Approach. Financial Forum, located in Logan, Utah, is a publisher of financial services industry and consumer investment books. Innovest and its team members were among the ten top teams recognized by industry authors Sydney LeBlanc and Lyn Fisher, both of whom have more than 30 years experience researching and interviewing the most successful advisors and wealth managers in the US. •

To obtain a copy of The Wealth Factor: A Team Approach, please contact Donna Patch (donnap@innovestinc.com).

THE RESEARCH REPORT GOES GREEN

This is the final edition of Innovest's quarterly newsletter that will be printed and mailed. Please furnish us with your email address if you receive this currently in hard copy by emailing Donna Patch at **donnap@innovestinc.com.**

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the Research Report
1ST QUARTER 2009

WISDOM FROM THE LEGENDS

By Scott Middleton, CFA, CIMA®

What do the world's most successful investors have in common? Intellectual strength, especially regarding the financial markets, is undoubtedly a shared trait. However, even smart individuals often make decisions that undermine their long-term wealth. As observed by Steve Leuthold, founder of The Leuthold Group, an investment management and institutional research firm, "History teaches us that investors behave wisely…once they have exhausted all other alternatives."

Over the years, some of history's greatest investors have revealed the guiding principles of their long-term success. The main reasons for their self-described accomplishments have not pointed to super-human knowledge or intuition. Instead, history's best investors have consistently indicated that disciplined and unemotional decision-making is indispensible for long-term investing.

Fortunately, all investors have the opportunity to learn and incorporate guiding principles for both good and bad markets. As noted by John Bogle, founder of the Vanguard Group, it is very beneficial to "…learn from the experiences of others. It's cheaper!"

1 Understand That Crises Are Inevitable

"History provides a crucial insight regarding market crises: They are inevitable, painful, and ultimately surmountable." — *Shelby M.C. Davis, founder of Davis Advisors*

History demonstrates that investors have always encountered crises and uncertainty as part of their long-term investment journey.

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Performance Powered by People

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Investors in the 1970s were faced with rising energy prices and a stock market that plummeted 44% in two years. Investors in the 1980s dealt with Black Monday, when the market crashed over 22% in one day. In the 1990s, investors weathered the S&L Crisis, the collapse of hedge fund Long Term Capital Management and the Asian financial crises. Investors in the beginning of the 2000s experienced the bursting of the technology bubble and terrorist attacks at home. Today, investors are facing the collapse of residential real estate prices, a severe recession and the worst credit conditions since the 1930s. It is important to recall that, through all these crises, the long-term upward progress of the U.S. economy and its stock market has not been derailed permanently.

Investors who keep history in mind may be less likely to overreact in crises and make drastic changes to their investment plans. The goal is to stay the course and be positioned to benefit from the long-term growth potential of equity assets.

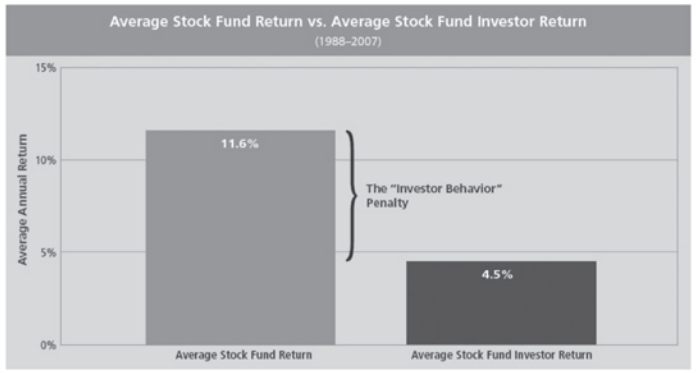
2 Don't Let Emotions Manipulate Your Investment Decisions

"Individuals who cannot master their emotions are ill-suited to profit from the investment process." — *Benjamin Graham, considered the father of value investing*

Building long-term wealth requires counter-emotional investment decisions, such as buying at times of maximum pessimism or resisting the false elation of buying investments hat have recently outperformed.

Following three years of stellar returns for stock funds from 1997 to 1999, exuberant investors added money to those funds in record amounts in 2000, just in time to experience three terrible years of returns from 2000–2002. Following these three terrible years, investors turned pessimistic and placed far less money into stock funds in 2002, right before stocks delivered one of their best returns ever in 2003 (+29.7%). In 2008, fearful investors pulled money from stock funds in record numbers, primarily after the deepest losses.

An additional study reveals investors' destructive tendencies. From 1988-2007, the average stock fund returned 11.6% annually, while the average stock fund investor earned only 4.5%. Why did investors sacrifice nearly two-thirds of their potential return? Driven by emotions like fear and greed, they engaged in destructive behavior such as chasing the hot manager or asset class and avoiding investments that were out of favor and poised to rebound.



Source: *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (July 2008) and Lipper. Dalbar computer the "average stock fund investor" returns by using industry cash flow reports from the Investment Company Institute. The "average stock fund return" figures represent the average return for all funds listed in Lipper's US Diversified Equity fund classification model. Dalbar also measured the behavior of a "systematic investor" and "asset allocation investor." The annualized return for these investor types was 5.8% and 3.5% respectively over the time frame measured. All Dalbar returns were computed using the S&P 500® Index. Returns assume reinvestment of dividends and capital gain distributions. **Past performance is not a guarantee of future results.**

Great investors have understood that building long-term wealth requires controlling one's emotions and having a disciplined investment approach. In the words of Warren Buffett, Chairman of Berkshire Hathaway, "I will tell you how to become rich. Be fearful when others are greedy. Be greedy when others are fearful."

3 Don't Try to Time the Market

"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves." — *Peter Lynch, legendary investor and author*

Market corrections often cause investors to abandon their investment plan, moving out of stocks with the intention of moving back in when things seem better – often to disastrous results. For the 15-year time period from 1993 to 2007, investors who stayed the course (represented by the S&P 500 Index) received average annual returns of 10.5% per year. However, those who missed only the best 90 trading days in that 15-year period saw their returns plummet to an annualized loss of 7.4%.

Investors who understand that timing the market is a loser's game will be less likely to react to short-term extremes in the market and more likely to adhere to their long-term investment plan.

4 Disregard Short-Term Predictions

"The sad truth is that there are only three kinds of financial prognosticators: those who don't know, those who don't know they don't know, and those who know they don't know, but who get paid big bucks to pretend they know." — *Burton G. Malkiel, author of the classic finance book A Random Walk Down Wall Street*

During periods of uncertainty, investors often gravitate to the advice of investment forecasters for insights into making short-term changes to their portfolios. After all, there is always someone around who looks very smart. While prognosticators may have compelling arguments, they usually add no real value on a consistent basis.

A Wall Street Journal study tracked economists' six-month interest rate forecasts from December 1982 to June 2008. These forecasts were then compared to the actual direction of interest rates. Overall, the economists' forecasts were wrong in 35 of the 52 time periods, or 67% of the time. Instead of wasting time and energy on unknowable short-term variables (like the direction of interest rates or the stock market), focus your energy on knowing your time horizon and risk tolerance, set realistic return expectations, and maintain a diversified portfolio.

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5 Be Patient

"The Stock Market is designed to transfer money from the Active to the Patient." — *Warren Buffett, Chairman of Berkshire Hathaway*

Great investors recognize that while market moods may cause a stock price to fluctuate widely over the short term, over longer periods the value of the underlying businesses often assert themselves.

From 1928 to 2008, the stock market delivered positive returns in 59 out of 81 one-year periods, or 73% of the time. However, by extending the holding period to only five years, stocks delivered a positive return 92% of the time (71 out of 77 periods). When weathering a challenging period for equities, remember that stocks have rewarded patient, long-term investors.

Conclusion Taking advantage of market uncertainty requires embracing and incorporating the wisdom offered by successful investors. To do so, many investors find it indispensable to have personal and objective assistance from investment professionals who are dedicated to these enduring principles. Innovest is honored to have the privilege of helping families, retirement plans and not-for-profit organizations to implement these principles and achieve their long-term goals. •

Innovest's appreciation goes to Davis Distributions, LLC, which compiled many of the studies and quotes contained in this article.

AROUND THE FIRM 1ST QUARTER 2009

WELCOME

Amina Adnan and Shawna Sambrano have joined the Innovest team. Amina is a Research Assistant responsible for the design and production of client performance reports, manager analysis reports, asset allocation reports and fulfilling other client research needs. Shawna is Vice President at Innovest and responsible for business development efforts and strategy for both Innovest and InSight Employee Benefit Communications. Their biographies can be found at **www.innovestinc.com/about-us/**

EVENTS

Rick Rodgers presented Education Responsibilities of Plan Fiduciaries at the 2009 Fire, Police and Public Finds Summit in Jacksonville, FL.

Rick Rodgers also joined John Sopranuk in delivering Fiduciary Education for the Colorado Public Plan Coalition education workshop on March 12th at the City of Northglenn's conference facility. John Sopranuk, who is a Trustee of the City of Aurora-Police Money Purchase Pension Plan, presented "The History and Roles of Retirement Plan Fiduciaries" and Rick followed with "Understanding the Retirement Plan Investment Process".

IN THE NEWS

Rich Todd's bi-monthly column in *The Denver Business Journal* included: "Everyone Shares Blame for our Economic Downturn" and "Congress Expected to Repair Problem with Pension Plans". Articles can be found on the Innovest website, **www.innovestinc.com.**

2008, GOOD RIDDANCE

By Rich Todd, Managing Principal

What a year! In my 23 years in the investment business, the last six months was the most difficult environment that I've ever been through. Thank you, clients, for your steadfastness and loyalty.

Like I do at this time every year, I wanted to give you a recap of this past year at Innovest.

Formal client asset allocation studies were conducted in the spring, looking forward the next 5 to 10 years. We reduced expectations for domestic equities, and anticipated a less favorable outlook for international stocks, international bonds, and commodities. Hence, for most client portfolios, we recommended a reduction in equities, an increase in domestic fixed income, and taking some profits in commodities. As the markets came crashing down, we recommended rebalancing in late October and early November. Regardless of the actions we took, the meltdown over the last six months was painful.

We conducted asset allocation studies again in January and February after the market dislocations in late 2008, and we believe that there are very interesting opportunities for long-term investors. Spreads are very wide in the credit markets. Regardless of how one feels about the economy, money market balances are enormous, which historically has been very bullish for equities.

2008 was Innovest's 12th consecutive year of revenue growth. This growth is a rare accomplishment in the investment business, especially for 2008. Our growth has always been organic (not through acquisitions), and our ongoing promise to our clients is that they will benefit from our growth as we strive to get better each and every year.

Our client-to-consultant ratio remains at 20-to-1, and we have a 6-to-1 client-to-employee ratio. Both of these metrics are very low when compared to industry norms. We believe these very favorable ratios enable clients to receive excellent service and custom advice and solutions. Maintaining these ratios are constants in our long-term planning; there is no leverage in quality client service.

As a result of our solid new client growth in 2008, (retirement plans, health plans, non-profits, and families) we hired three professionals at Innovest, and did not lose any employees. Sergio Gutierrez, Eric Overbey, and Carla Sanns joined us in 2008. We also named new partners in 2008, Scott Middleton and Steve Karsh. Margarita Hughes is a new partner at InSight Employee Benefit Communication, a division of Innovest. Gordon Tewell was promoted to consultant in 2008 and Eric Overbey was promoted to Research Analyst. Please visit our website, www.innovestinc.com, for biographies of our fine professionals.

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Speaking of our website, it was completely updated and looks great. Please take a look and visit our blog for recent research reports and articles. Let us know what you think!

We had a great offsite retreat in December. Our focus was the "Innovest Mission" and how can we make Innovest an even better place to work!

We received very good reviews in our annual client survey, which we use as a tool to help us get better. Our overall score, with a 40% response rate, was 4.7 on a 5.0 scale, the best yet.

Innovest's 2009 initiatives include: revisiting our vendor relationships to make sure we are getting the best from them; analyzing our macro economic approach and process in an attempt to find improvements; reviewing our integration between research and operations, looking for inefficiencies and improvements; and evaluating our client communications process, especially related to new clients and asset transfers.

Based on our 2009 planning, we expect to hire two more professionals this year, and are off to an excellent start with the hiring of Amina Adnan as a Research Assistant on January 5 and Shawna Sambrano as Vice President, marketing on February 2. In an environment where most financial firms are cutting personnel, we are adding professionals to assist us in researching what we believe are unprecedented investment opportunities.

Of course, none of these improvements would happen without the wonderful support of our clients, who help us create a client-centered and employee-driven culture. To our clients we owe our success, and we especially want to offer our thanks for your incredible support during these very difficult times in the economy and capital markets.

Let's all hope for a healthy and prosperous 2009! •

NEW INSTITUTIONAL CLIENTS JOIN INNOVEST

Innovest was hired by **The Veyance Technologies, Inc. Health Care Trust,** a voluntary employee beneficiary association (VEBA) which was established to provide future medical benefits to retirees of the Engineered Products Division (formerly part of Goodyear Tire & Rubber Company).

MAKING A DIFFERENCE

University of Northern Colorado Foundation

The University of Northern Colorado Foundation is a private non-profit organization devoted to soliciting and managing private gifts and grants for the advancement of the University of Northern Colorado. Through the generosity of loyal alumni, friends, and corporate partners, UNC maintains its steadfast commitment to be an educational leader in Colorado.

For the past 8 years, with the support of The University of Northern Colorado Foundation, Innovest has hosted an annual one-day educational conference for non-profit board members, trustees, and executive staff. The mission of the Rocky Mountain Non-Profit Conference is to provide an educational forum on topics of significant current interest to enable the participants to improve management of their organizations and their investment portfolios. Please join us for this year's conference. Conference registration can be found at www.innovestinc.com or by contacting Donna Patch (donnap@innovestinc.com). •

The 2009 Rocky Mountain Non-Profit Conference

Sponsored by University of Northern Colorado Foundation

"The Survival of Non-Profits in Today's Economy"

March 19, 2009 from 8:30 a.m. – 3:30 p.m.

at the Cherry Hills Country Club in Denver, CO

Habitat for Humanity of Metro Denver

EKS&H Ehrhardt • Keefe Steiner • Hottman PC — Certified Public Accountants and Advisors

Tuthill & Hughes LLP — Attorneys at Law

United Way — Mile High United Way

Giller & Calhoun, LLC — Attorneys at Law

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Speakers at this year's conference include professionals from the above organizations