

Market Background

4th Quarter 2009

Economy

Financial markets staged a strong recovery in 2009 amidst unparalleled relief efforts by governments across the world. Encouraged by government efforts to revamp the financial system and stimulate the economy, investors who had flocked to low risk investments in 2008 bid up prices for the most volatile stocks and bonds, racking up big gains along the way. The market continues to benefit in the wake of the Federal Reserve's decision to keep interest rates low, and the U.S. Federal Government's stimulus dollars that continue to pour into the economy. Despite the capital market's substantial recoveries in 2009, markets remain vulnerable due to a series of severe problems plaguing the economy. These problems include spiraling government budget deficits that could continue to aggravate governments' high leverage, massive medical and retirement liabilities that might require higher taxes, and the frail position of most financial institutions.

- The Federal Reserve held rates at virtually zero during the fourth quarter of 2009.
- The Conference Board's Consumer Confidence Index fell slightly in the fourth quarter reaching 52.9, a 0.9% decrease.
- Through December year-over-year, the CPI was up 2.7%, and rose at a 0.8% annualized rate for the quarter. The quarterly gain was broad based, with indexes for food and energy posting moderate increases.
- GDP grew at an annual rate of 2.2% during the third quarter of 2009. The largest positive contributors to GDP were personal consumption, inventories, and government. The weakest components were international trade and commercial construction.
- The unemployment rate rose from 9.8% to 10.0% to end the year. The current mark of 15.3 million unemployed workers is an increase of 7.6 million unemployed workers from the 7.7 million level in December 2007 when the recession began.

Stocks

The Dow Jones Industrial Average ended the fourth quarter of 2009 up 7.4%. For the year, the Dow was up 18.8%, recovering from a 12-year low recorded in March. The Dow finished the year up 59.3% from its March low, marking its fastest ten month climb since 1933. The Dow remains down 26.4% from its all time high, and is down 9.3% from ten years ago, marking its worst decade since the 1930's when it dropped 39.5%.

- The broad benchmark S&P 500 Index gained 6.0% for the quarter. Over the full year, it experienced a 26.5% gain. (see Table I).
- Nine of the ten S&P 500 economic sectors posted positive results for the quarter. The best performing sectors were Information Technology (up 10.5%) and Consumer Discretionary (up 8.6%).
- The worst performing S&P sector for the quarter was Financials (down 3.7%).
- Large-cap growth stocks outperformed large-cap value issues, returning 7.9% compared to 4.2% for the quarter. For the trailing-year period, the Russell 1000 Growth Index gained 37.2%, while the Russell 1000 Value Index gained 19.7%.
- Small-cap growth equities outperformed value for the quarter. The Russell 2000 Growth Index gained 4.1%, while the Russell 2000 Value Index gained 3.6%. For the trailing-year period, the Russell 2000 Growth Index outpaced the Russell 2000 Value Index, posting a return of 34.5% compared to 20.6%.

TABLE I: Total Return Statistics for Select Market Indices

	Fourth Quarter	12 Months Trailing
S&P 500 Index	6.0%	26.5%
Russell Mid Cap Index	5.9	40.5
Russell 2000 Index	3.9	27.2
MSCI EAFE Index	2.2	31.8
MSCI Emerging Markets Index	8.5	78.5
NAREIT Index	9.4	28.0
DJ-UBS Commodity Index	9.0	18.9

TABLE II: S&P 500 Sector Performance & Allocation

	Fourth Quarter	12 Months Trailing	Allocation
Information Technology	10.5%	59.9%	19.8%
Cons. Discretionary	8.6	38.8	9.6
Health Care	8.5	17.1	12.6
Materials	6.9	45.2	3.6
Utilities	6.1	6.8	3.7
Telecom Services	5.9	2.6	3.2
Energy	5.0	11.3	11.5
Industrials	4.8	17.3	10.2
Consumer Staples	4.2	11.2	11.4
Financials	-3.7	14.8	14.4



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The world's stock markets soared in 2009 as investors armed with cash searched the globe for higher returns. Investors took advantage of world-wide low interest rates, sending benchmark indexes skyrocketing, and marking a return to the kind of performance that preceded the financial crisis when international stocks outpaced their U.S. counterparts.

- The MSCI EAFE Index, a proxy for developed international markets, gained 2.2% for the quarter, and was up 31.8% for the trailing-year period. In local currencies, the Index was up 3.3% for the quarter, and up 24.7% for the trailing year. The dollar posted a 2.4% loss against the Euro, but a 2.6% gain against the Japanese Yen for the year.
- The MSCI Emerging Markets Index gained 8.5% for the quarter, and was up 78.5% for the trailing year. Emerging Markets were the stars of 2009, with stock markets in Russia, India, and China posting huge gains.

Fixed Income

The Federal Reserve's aggressive policy actions throughout 2009 proved to be beneficial to credit markets. These credit markets recorded some of their best performances on record, as investors showed confidence that the market was returning to normal. Consumers did not remain under lockdown, but instead cautiously ventured back into the marketplace looking for bargains. While credit sectors surged in 2009, U.S. Treasuries sagged. Yields on long-term U.S. Treasuries rose as investors opted for riskier options.

- The Barclays U.S. Aggregate Index posted a return of 0.2% during the fourth quarter. The Global Aggregate lost 0.8%. For the full year, the U.S. Aggregate earned 5.9%, while the Global Aggregate gained 6.9%.
- Asset-backed securities gained 24.7% for the year as continued support from the U.S. Federal Government's TALF program bolstered returns. High-Yield issues bounced back from record lows in 2008, gaining 58.2% for the year.
- U.S. Treasuries and Agencies were down (1.3% and 0.1% respectively) and trailed other sectors as an increase in investor risk appetite ruled the quarter. Mortgage-backed securities posted a gain of 0.6% for the quarter and 5.9% for the year. U.S. Corporate Investment Grade issues flourished in 2009, gaining 18.7% for the year.

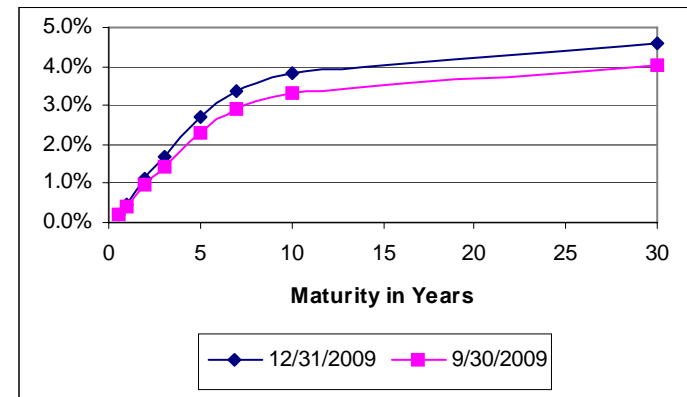
TABLE III: Bond Market Returns and Duration

	Fourth Quarter	12 Months Trailing	Modified Duration
Three-month Treasury Bills	0.0%	0.2%	0.3
Barclays 1-3 Year Treasury	0.0	0.8	1.9
Barclays G/C Intermediate	0.3	5.2	3.9
Barclays U.S. Aggregate	0.2	5.9	4.6
Barclays Government/Credit	-0.2	4.5	5.2
Global Aggregate (Unhedged)	-0.8	6.9	5.4

TABLE IV: Bond Market Sector Returns and Duration

	Fourth Quarter	12 Months Trailing	Modified Duration
U.S. Treasury	-1.3%	-3.6%	5.1
Agencies	-0.1	1.5	3.2
Asset-Backed Securities	1.3	24.7	3.3
Mortgage-Backed Securities	0.6	5.9	3.6
U.S. Corporate Investment Grade	1.4	18.7	6.4
U.S. Corporate High Yield	6.2	58.2	4.3

CHART I: Treasury Yield Curve at 12/31/09 and 9/30/09



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