2009 SECOND QUARTER MARKET REVIEW

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Investment Advisors LLC

The recovery that began in March catapulted equity markets to sizeable gains in the second quarter. The S&P 500 turned in its first positive return in seven quarters and its biggest gain since the fourth quarter of 1998 with a 15.9% result. While the index closed the quarter 36% above its March low, it remained 41% behind the high achieved in October, 2007. As investors returned to equities, they also returned to riskier assets on the fixed income side, shunning the Treasuries that had benefited from the flight to quality during the financial crisis. The yield on the 10-Year Treasury note rose from 2.68% at March 31 to 3.52% at the end of the quarter. While Treasuries declined, the broad Barclays Capital Aggregate Bond Index was able to produce a 1.8% gain as mortgage and corporate bonds snapped back to life and spreads to Treasuries tightened.

	Q2 2009 Return	YTD 2009 Return
DJIA	12.0%	-2.0%
S&P 500	15.9%	3.2%
Russell 2000 (Small Cap)	20.7%	2.6%
MSCI EAFE (US$)	25.4%	8.0%
MSCI Emerging Markets	34.8%	36.2%
Barclays Capital Aggregate	1.8%	1.9%

Small cap growth stocks turned in the best performance of the quarter, and value stocks, both large and small, remained in the red for the year-to-date period. In a reversal of the first quarter when they were dragged down the most, the financial (+35.1%) and industrial (+18.07%) sectors led the way up. Technology stocks were strongest year to date, with a 19.4% return in the second quarter.

BROAD ADVANCE IN THE SECOND QUARTER

SECOND QUARTER 2009 RETURNS (Apr 1-June 30, 2009)

	VALUE	GROWTH
Large Cap	16.7%	16.3%
Small Cap	18.0%	23.4%

YTD 2009 RETURNS (Jan 1-Jun 30, 2009)

	VALUE	GROWTH
Large Cap	-2.9%	11.5%
Small Cap	-5.2%	11.4%

Russell 1000 Value and Growth indices used for Large Cap returns.
Russell 2000 Value and Growth indices used for Small Cap returns.

Thanks to currency effects, overseas stocks soared even higher for U.S. investors. The MSCI EAFE Index of developed countries advanced 25.4% (US$), and emerging markets, as measured by the MSCI Emerging Markets Index, shot up 34.8% (US$). Emerging markets are the only equity asset class to boast positive returns for three and five year periods ended June 30—despite the recent turmoil, the index sports an impressive 15.1% annualized return for the five years ended June 30. During the second quarter, returns were enhanced by a decline in the US dollar against all major currencies following a year in which its safe haven status propped up the dollar.

The dollar's retreat also contributed to strong returns for U.S. investors in international fixed income. The Barclays Capital Global Aggregate Index ex US (UH) gained 7.1%, while emerging markets local debt, as measured by the JP Morgan GBI-Emerging Markets Diversified USD, climbed 16.0%. In the U.S., high yield bonds continued to recover as risk appetite returned to the credit markets. The benchmark Merrill Lynch High Yield BB/B Constrained index advanced 17.8%, and the spread of high yield bonds over Treasuries narrowed by 6%.

One of the most painful aspects of this financial crisis has been the decline of asset classes in lock-step, with no refuge from the storm. This quarter saw the return of some differentiation to the market. Diversification proved its value once again, as every asset class added substantial return over a traditional S&P 500/Barclays Aggregate portfolio, rewarding investors who chose to stick with their long term strategic allocations and not retreat to the perceived safety of Treasuries or cash. This is not to say the storm is over. It may or may not be, but maintaining a broadly diversified portfolio in line with long-term objectives and risk tolerance remains the best course.

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