

# MEMORANDUM

To: **Wurts & Associates Clients**  
 From: **Curtis Yasutake, Research Analyst**  
 Date: **September 8, 2009**  
 Re: **August 2009 Market Commentary**

## Market Performance Review

Asset Class	Benchmark	August	YTD	1-Year	3-Year	5-Year
Domestic Stocks	S & P 500	3.6%	15.0%	-18.3%	-5.8%	0.5%
International Stocks	MSCI EAFE	5.2%	21.1%	-17.7%	-7.4%	3.1%
Emerging Market Stocks	MSCI EM	-0.3%	51.1%	-9.7%	5.5%	17.0%
Aggregate Bonds	BC Aggregate	1.0%	4.6%	7.9%	6.3%	5.0%
Treasury Bonds	BC Treasury	0.9%	-3.0%	6.1%	6.9%	5.1%
High Yield Bonds	BC High Yield	1.9%	41.0%	6.5%	3.9%	5.3%
Real Estate	FTSE NAREIT All	12.2%	10.7%	-30.0%	-13.9%	-1.0%
Commodities	Dow Jones - UBS	-0.6%	7.4%	-33.5%	-7.3%	0.3%

Periods longer than one year are annualized.

## Macro Commentary

It appears investors have recovered from recent market panic, as economic fundamentals seem to be driving rising capital markets in the face of supposed “green shoots” of a recovery. Nonetheless, markets rose at a more subdued pace in August as questions arose whether recent advances had outpaced the economy.

Most data for the month indicated a slowing economic contraction. A fewer-than-expected 216,000 jobs were cut by US employers in August, (down from 276,000 in July) confirming a slowing pace of layoffs for now, although unemployment rose from 9.4% to 9.7%. Moreover, an index based on a survey of US manufacturing purchasing managers indicated factory output in the US grew for the first time since January 2008 and US auto sales hit their highest levels in over a year (helped by the “Cash for Clunkers” program). Residential housing markets also appear to be improving as the National Association of Realtors index of pending home sales hit a two-year high and the decline in housing starts slowed.

Some certainty was instilled into markets with Ben Bernanke’s reappointment and an announcement the Fed funds rate will remain between 0% and 0.25% for the foreseeable future. Markets were boosted by news that Federal Open Market Committee (FOMC) participants agreed the economy is stabilizing and some economic growth is expected in the second half of the year.

Overall, it appears the economy is stabilizing, but it is difficult to determine how much is due to massive government stimulus efforts compared to fundamental economic improvement. Considering tight credit markets, decelerating wages, higher unemployment, and rising savings rates,

a cautious outlook seems in order with respect to a rebound in consumer spending. Business investment also looks challenged, as firms appear to be setting a high bar for increasing capital investment in the face of lower consumer demand. Going forward, we expect market participants to be paying close attention to key economic indicators to determine the shape of the recovery (or the possibility of a double-dip recession).

### **Asset Class Commentary**

Most asset classes posted positive gains for the month with riskier assets slightly outperforming safer assets on balance. Financials led US stocks higher while telecom and consumer goods lagged. Domestic equities continue to trail developed international equities. Emerging markets took a break from their blistering rally, losing 0.3% for the month as Asian economies, particularly China, cooled on fear the rally had gone too far too fast. Still, emerging market stocks are up 51.1% year to date.

High yield and corporate credit marginally outperformed government debt. Treasuries turned in one of their most solid months of 2009 as demand was resilient even with expectations of \$2 trillion in new bonds being issued this year. Much of the positive fixed income performance can be attributed to unattractively low interest rates on cash funds and assurance from the Fed that rates will remain at current levels.

Real Estate outperformed all other asset classes as the FTSE NAREIT Index pulled into positive territory for the year. This is likely attributable to expected government intervention in troubled commercial mortgage markets, not to mention real estate's recent historic decline. Commodities lost a little during the month as investors' growth expectations tapered off; i.e., less demand for resources.

All in all, August continued to see rising optimism in capital markets, but was overlaid with concerns regarding the staying power of recent economic improvements.