

MEMORANDUM

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

MARKET PERFORMANCE REVIEW

Asset Class	Benchmark	Sept.	YTD	1-Year	3-Year	5-Year
Domestic Stocks	S & P 500	3.7%	19.3%	-6.9%	-5.4%	1.0%
International Stocks	MSCI EAFE	3.9%	29.6%	3.8%	-3.1%	6.6%
Emerging Market Stocks	MSCI EM	9.1%	64.9%	19.5%	8.3%	17.7%
Aggregate Bonds	BC Aggregate	1.1%	5.7%	10.6%	6.4%	5.1%
Treasury Bonds	BC Treasury	0.8%	-2.3%	6.3%	6.9%	5.2%
High Yield Bonds	BC High Yield	5.7%	49.0%	22.3%	5.3%	6.1%
Real Estate	FTSE NAREIT All	6.4%	17.7%	-25.3%	-12.7%	0.2%
Commodities	Dow Jones - UBS	1.6%	9.1%	-23.7%	-4.9%	-0.7%

Periods longer than one year are annualized.

MACRO COMMENTARY. Capital markets surged in September, extending a six month rally from March lows. The market recovery has been relatively methodical over the last few months as worst-case scenarios are believed to be less likely and investors seem to be forming rational future expectations. A combination of low cash yields and positive momentum from prior periods led more investors back into the market despite little new evidence of substantive economic growth.

Leading consumer data were mostly positive. Initial jobless claims fell by a less than expected 26,000 and 10 out of 12 districts in the Beige Book reported a pickup of hiring in temporary workers, an initial sign of a stabilizing labor market. Additionally, the outlook for business may be brightening with mergers and acquisitions activity picking up in September. However, consumer sentiment numbers fell unexpectedly for the month on a negative employment outlook.

The Federal Open Market Committee stated that economic activity has picked up, citing improved financial markets conditions and increased housing market activity. The Fed also elected to leave the central bank rate at effectively zero and pushed the end date of Agency debt and MBS purchase programs out to the first quarter of 2010, presumably to help ease fixed income markets off of government assistance. As the economy recovers and more stimulus programs near targeted termination dates, the Fed will face the challenge of winding them down in time to avoid runaway inflation without snuffing out a recovery.

One commonly held outlook is the U.S. will see a solid bounce in GDP through the remainder of 2009 attributable to the inventory cycle and fiscal stimulus, followed by a much slower long-term recovery due to persistent consumer weakness. In the coming months, investors will continue to closely follow key economic indicators for guidance regarding the trajectory of future economic

activity. Market participants will also be following company performance and forward guidance as the third quarter earnings season approaches. It will likely be more difficult to please investors this quarter with markets now trading near historical average price levels. Particularly, investors will be looking for profits caused by actual top-line growth as opposed to cost-cutting. ■

Markets were hammered in the first few days of October, with most major indexes losing 2 to 3 percent. Unemployment increased as expected to 9.8%, but nonfarm payrolls fell by 263,000, blowing away expectations of 175,000. Additionally, the average workweek declined to a historic low of 33 hours. These two data points indicate that companies will likely remain resistant to bringing on more workers anytime soon. With around 70% of GDP consisting of the consumer, any data related to employment, individual incomes and consumer spending are closely monitored for signs of future economic activity. ■

ASSET CLASS COMMENTARY. Risky assets resumed their advance in earnest this month after a relatively slow August. Developed international equities slightly outperformed domestic. Industrials, materials, and consumer discretionary led US stocks higher while utilities and healthcare lagged. Emerging markets remain on the vanguard of the rally, doubling the performance of all other major asset classes for the month.

High yield vastly outperformed investment grade credit and Treasuries as investors were willing to take on more risk to chase higher yields. Treasury returns remain negative year to date as rates have risen following the 2008 flight to safety. Credit remains attractive relative to Treasuries, but not by as wide a margin as earlier in the year.

REITs continue to perform very well in 2009, up almost 18% so far. However, experts predict the commercial real estate industry as a whole will remain in recession through 2011. Commodities ticked up on foreign demand and continued hope of future growth and associated rising inflationary expectations.

Overall, it is fair to say that the continued performance of risky assets at the very least indicates cautious optimism on the part of investors. ■