

MEMORANDUM

To: **Wurts & Associates Clients**
 From: **Curtis Yasutake, Research Analyst**
 Date: **November 9, 2009**
 Re: **October 2009 Market Commentary**

MARKET PERFORMANCE REVIEW

Asset Class	Benchmark	Oct.	YTD	1-Year	3-Year	5-Year
Domestic Stocks	S & P 500	-1.9%	17.0%	9.8%	-7.0%	0.3%
International Stocks	MSCI EAFE	-1.2%	28.0%	28.4%	-4.8%	5.6%
Emerging Market Stocks	MSCI EM	0.1%	65.1%	64.6%	6.7%	17.2%
Aggregate Bonds	BC Aggregate	0.5%	6.2%	13.8%	6.4%	5.1%
Treasury Bonds	BC Treasury	-0.1%	-2.3%	6.3%	6.7%	5.0%
High Yield Bonds	BC High Yield	1.8%	51.7%	48.1%	5.5%	6.1%
Real Estate	FTSE NAREIT All	-4.8%	12.1%	1.9%	-15.9%	-1.6%
Commodities	Dow Jones - UBS	3.3%	12.6%	0.1%	-5.5%	-0.5%

Periods longer than one year are annualized.

MACRO COMMENTARY. Capital markets finished materially unchanged in October on balance. However, the small monthly change belies the fact markets were actually quite volatile, with the Dow experiencing 10 daily moves of 100 points or more. Increased volatility seems to indicate a resurgence of uncertainty as market participants appear to require more insight regarding the shape of the recovery and the outlook for government stimulus before committing more capital.

The Bureau of Economic Analysis reported 3.5% annualized GDP growth for the third quarter, slightly beating most economists' predictions of around 3.4%. While certainly a positive sign, the strong third quarter is not necessarily indicative of the pace of future long-term growth. A plethora of temporary government programs played a material role in enhancing the number. Motor vehicle output contributed 1.7% to GDP, boosted by the "cash for clunkers" program and new home construction added 0.5%, helped by the home buyer tax credit. The market clearly expressed reservation as the Dow fell almost 250 points on weak personal spending data the day after rallying 200 points on GDP growth.

Unemployment rose to 10.2% in October from 9.8% in September, much more than the expected increase to 9.9%. Additionally, payrolls surprised to the downside, falling by 190,000 while the average workweek remains at a record low. These dismal numbers did nothing to allay concern regarding consumers' ability to sustain economic growth. Improving employment, which typically lags during recoveries, is an essential catalyst for revitalizing the economy. When unemployment begins to decrease, income growth improves, thus stimulating consumer spending which comprises around 70% of GDP.

The Federal Open Market Committee stated that economic activity continues to pick up, citing increased housing activity and slowed cuts of fixed investment and staffing at businesses. The Fed left the central bank rate at effectively zero, again stating that it will remain at that level for an extended period. Persistently low global rates have been a key factor in the market recovery. Most experts believe a rate increase is unlikely until next spring or summer due to subdued inflation expectations and low rates of resource utilization. However, the probability of a rate hike will soon be a topic of much contention as the economic environment improves.

Potential rate fluctuations are already having an interesting affect on markets. Rate hike discussion has forced investors into a paradoxical situation where weak economic data could actually be good for markets in the short run. This is because evidence of a weak economy enables central banks to maintain low interest rates, boosting financial markets and enhancing corporate earnings through cheaper financing. In fact, markets actually rallied on the abysmal unemployment numbers this month. On the other hand, positive economic data has the potential to hurt markets because they increase the likelihood central banks will increase rates to calm inflation and avoid asset bubbles. This relationship will not entirely dictate market behavior of course, but it is important to note. Close attention will be paid to the language in Fed announcements in the coming months as investors attempt to determine the timing of rate increases. ■

ASSET CLASS COMMENTARY. Capital markets did not move much in October, but most asset classes managed slightly positive performance. Despite relatively strong 3rd quarter earnings, domestic equities turned negative for the month, ending a 7 month rally. Financials, materials and industrials led the S&P 500 lower while only energy and consumer staples were positive. Developed international and emerging markets did not significantly move in either direction but were bolstered (for U.S. investors) by further decline in the dollar, which is nearing all time lows.

High yield slightly outperformed investment grade credit and Treasuries as investors continue to chase higher yields. Treasury returns remain slightly negative year to date even as the government continues to purchase large amounts of their own debt. Credit remains attractive relative to Treasuries, but not by as wide a margin as earlier in the year.

REITs fell more than any other asset class as commercial real estate, which tends to lag other asset classes, remains especially weak. Commodities rose, with gold and oil rallying on the declining dollar.

The flight to risk slowed in October as the tug-of-war continues between accommodative global government policy and uncertainty regarding the strength of economic recovery. ■