WURTS ASSOCIATES

MEMORANDUM

To: **Wurts & Associates Clients**

From: **Eric Petroff, CFA, Director of Research**

Date: **February, 13 2009**

Re: **January 2009 Market Commentary**

Market Performance Review

Asset Class	Benchmark	January	YTD	1-Year	3-Year	5-Year
Domestic Stocks	S & P 500	-8.4%	-8.4%	-38.6%	-11.8%	-4.2%
International Stocks	MSCI EAFE	-9.8%	-9.8%	-43.4%	-11.8%	-0.3%
Emerging Market Stocks	MSCI EM	-6.4%	-6.4%	-50.0%	-10.0%	5.9%
Aggregate Bonds	BC Aggregate	-0.9%	-0.9%	2.6%	5.2%	4.3%
Treasury Bonds	BC Treasury	-2.9%	-2.9%	7.7%	7.6%	5.5%
High Yield Bonds	BC High Yield	6.0%	6.0%	-20.7%	-4.2%	0.0%
Real Estate	Wilshire REIT	-18.1%	-18.1%	-50.0%	-19.7%	-4.0%
Commodities	Dow Jones - AIG	-5.4%	-5.4%	-41.6%	-10.9%	-1.3%

Periods longer than one year are annualized.

Macro Commentary

As a whole macroeconomic conditions and investors' perceptions thereof changed little during the month in spite of several noteworthy events. The first month of the year saw a new presidential administration and a series of appointments for key positions that will influence efforts to bring about an economic recovery. Most notably was the appointment of Timothy Geithner as the new Treasury Secretary, perhaps the most important of all cabinet posts. Work also began on a comprehensive economic stimulus package and a renewed focus on spending the remaining $350 billion of the TARP program. We also saw monies being lent to Chrysler, which alleviated short-term concerns about the failure of yet another corporate giant and potential job losses.

Generally speaking, markets tend to dislike the uncertainty associated with transitions in power, which has arguably contributed to the recent market downturn as investors faced a myriad of unknowns in capital markets and our economy. Normally, we would expect the establishment of a new power structure in Washington and firming up of economic stimulus plans to have a strong positive effect on investors' expectations. Unfortunately, political activity was trumped by the reporting of worsening economic conditions, most notably GDP growth and unemployment. The Bureau of Economic Analysis (BEA) reported 4th quarter GDP contracted at a real annualized pace of 3.8%, and unemployment continued moving upwards to greater than 7%. On top of these factors, the Federal Reserve and the Congressional Budget Office (CBO) released relatively pessimistic forecasts for economic growth and potential double digit unemployment over the next year or two.

Asset Class Commentary

As a result of the aforementioned factors, equities continued to fall across the globe, with developed markets falling further than emerging markets. Publicly traded real estate (REITs) suffered heavy losses in January as illiquid commercial real estate managers reported historic quarterly losses. The commercial real estate market is beginning to feel the effects of the recession, albeit at a lagged pace to residential markets. Interestingly we did see positive results for the US high yield debt market as investors jumped on yields to maturity (YTM) that stood at around 20% as of the end of the year. Given historically low cash rates and highly uncertain equity markets, investors are likely seeking out cash flow wherever possible. Commodities also fell as economic expectations continued to sour; slowing consumer demand means lower demand for commodities. US Treasuries broke their trend over the last year with a loss for January as rates moved higher, possibly due to concerns over mounting government debt and the need to attract lenders.

Overall, it is fair to say investors continued to pull away from risky assets in January in spite of the removal of many unknowns in the political arena. Slowing economic activity and no clear end thereof was simply too much for capital markets to garner any sort of recovery or stabilization. Over the near term we would expect plans for economic stimulus, reviving the banking and lending industry, and the associated economic forecasts to acutely affect capital markets. It may be some time before market participants form solid economic expectations, which is typically the point at which markets begin to recover.