WURTS & ASSOCIATES

MEMORANDUM

To: **Wurts & Associates Clients**

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

Date: **December 10, 2008**

Re: **November 2008 Market Commentary**

Market Performance Review

Asset Class	Benchmark	November	YTD	1-Year	3-Year	5-Year
Domestic Stocks	S & P 500	-7.2%	-37.7%	-38.1%	-8.7%	-1.4%
International Stocks	MSCI EAFE	-5.4%	-46.3%	-47.5%	-7.3%	2.5%
Emerging Market Stocks	MSCI EM	-7.5%	-56.7%	-56.6%	-5.5%	7.6%
Bonds	BC Aggregate	3.3%	1.5%	1.7%	4.6%	4.1%
Real Estate	S & P REIT	-22.8%	-46.9%	-49.8%	-15.9%	-2.0%
Commodities	Dow Jones - AIG	-7.0%	-32.6%	-29.5%	-6.3%	2.5%

Periods longer than one year are annualized.

Capital markets performance for November represented a continued aversion to risk and flight to safety on the part of global investors, not to mention mounting concerns over the current recession. In fact on November 28th the National Bureau of Economic Research (NBER) officially announced the US has been in a recession since the end of 2007. Though this comes as no surprise to any of us, the S&P 500 nonetheless responded with nearly a 9% drop the following day.

Extreme levels of market volatility remained the norm for November. There were only five trading days for the S&P 500 that involved movements of around 1%, with the remaining daily changes averaging 5%. These levels are not only dramatically different from recent years, but also illustrate extreme levels of uncertainty about the future of the US economy. With the incoming administration's concerns over the health of the US economy as demonstrated by discussions of an automobile bailout, hundreds of billions (maybe a trillion) in economic stimulus, and potentially the largest national infrastructure project in half a century, the cause for market concern seems warranted.

Still it is interesting to dissect some of the specifics of market returns. To begin with, we saw mid-single digit losses for equity markets, but with an advantage to international equities (developed markets). Given the US dollar continued to appreciate in November, this shows relative strength in international equities, presumably due to their substantially lower valuations. However, many express concern about the severity of recessionary pressures moving towards a more fragile European banking system and wonder if earnings and dividends will hold up when this occurs. Time will tell.

Also interesting to note is the extreme decline in REITs, losing nearly 23% during the month and falling a full 50% over the last year. Although commercial real estate will undoubtedly come under economic pressure, actual valuations for these properties are yet to come under pressure, but this is on very slim transaction volume. So logically the REIT market is pricing significant price declines.

Forthcoming economic weakness is also being priced into commodity markets that were down 7% for the month, and off nearly 1/3rd over the last year. Oil on the other hand is off about $100, or around 70% from its high. The relationship between commodity pricing and economic growth is direct. This is an important learning lesson for investors in that they should not be fooled by the historic correlations between commodities and equities. They are directly linked with one another, especially during times of economic stress. Equities fall on weak economic conditions, as do the commodities that support economic growth. Going forward though, upward pressure on commodities is systematically positive, especially when considering economic stimulus from the Chinese central bank.

The only ray of light in recent performance is that of fixed income investments that are explicitly or implicitly guaranteed by the US government. This includes Treasury obligations of course, and nowadays agency-backed mortgage bonds. This is why the Barclay's aggregate index posted positive results in November as the flight to quality persisted. Going forward though, investors must be wary of a bubble in risk free assets that will all but certainly deflate. In lieu of Treasuries for risk free fixed income, US Treasury inflation protected bonds seem a good substitute because they now hold the same yields but with the advantage of protecting against the inflation that should eventually come from recent economic stimulus.

Overall markets continue to be characterized by uncertainty, a flight to quality, and punishment of any investment that entails any sort of risk. Until investors perceive a bottoming of economic expectations, the government solidifies economic stimulus structure, and liquidity returns to fixed income markets, one should only expect a continuation of extreme volatility with downward trending markets. The trick of course is knowing when these changes in perception will occur, especially considering we know they are unknowable.