

# Capital Market Review

## Asset Class Returns

- The S&P 500 was down 37.0% in 2008, its worst calendar since 1931 when it was down 43.3%
- Many indexes booked their worst returns in a calendar year, including MSCI EAFE, DJ Wilshire REITs and DJ AIG Commodities.
- Emerging Markets had the worst return for 2008 down more than 53% as measured by the MSCI, while the Barclays Capital Aggregate Bond Index, driven by Treasury performance, had the best return up 5.2%.
- Domestically, mid caps were the worst performers while small caps were the best (-41.7% and -33.8%, respectively)

## Market Volatility

- Volatility nearly tripled from the preceding 5-year period
  - Multiple asset classes experienced record calendar year volatility based on monthly returns
  - Most asset classes witnessed a two- or three-standard deviation event for the year; U.S. REITs had the greatest volatility of the asset classes we follow
- Source: based on Callan data.

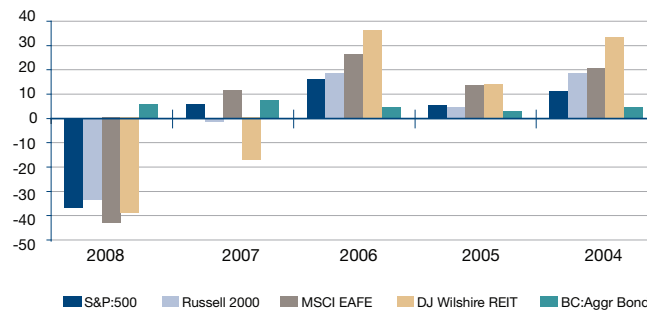
## Equity Style Returns

- Mid cap growth (-44.3%) was the worst performing domestic equity style for 2008
- Small Cap Value (-28.9%) was the best performing domestic equity style for 2008
- Overseas, growth led value in 2008 by a narrow margin (growth -42.7% and value -44.1%)

## Economic Data

- The dollar fell against the Yen, but rose against the Pound and Euro
- After spiking, oil and gas prices fell dramatically in 2008
- Interest rates fell to unprecedented levels with the 10-year Treasury rate falling to 2% for the first time
- The Fed Funds rate was reduced seven times in 2008 to 0.0 – 0.25% for the first time
- Spreads on high yield bonds reached their highest level on record

## Calendar Year Returns



## Russell Style Returns

	5-years ended Dec. 31, 2008			2008		
	Value	Core	Growth	Value	Core	Growth
Large	-0.79	-2.04	-3.42	-36.85	-37.59	-38.44
Mid	0.33	-0.71	-2.33	-38.45	-41.46	-44.32
Small	0.27	-0.93	-2.35	-28.92	-33.79	-38.54

## Commodities

	Q1	Q2	Q3	Q4
Oil	\$103.64	\$132.32	\$97.23	\$44.60
Gold	\$933.50	\$930.25	\$884.50	\$865
Gasoline	\$3.26	\$4.05	\$3.70	\$1.61

Source: based on Department of Energy data.

## Currencies Per U.S. Dollar

	Q1	Q2	Q3	Q4
Yen	100.00	105.49	105.87	90.34
Euro	0.6335	0.6335	0.7058	0.7113
Pounds	0.5042	0.5016	0.5623	0.687

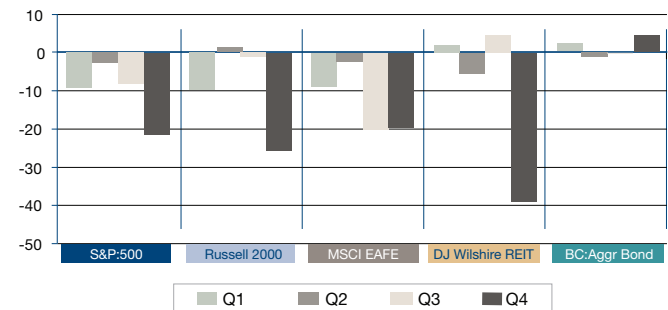
Source: based on FactSet data.

## Yields

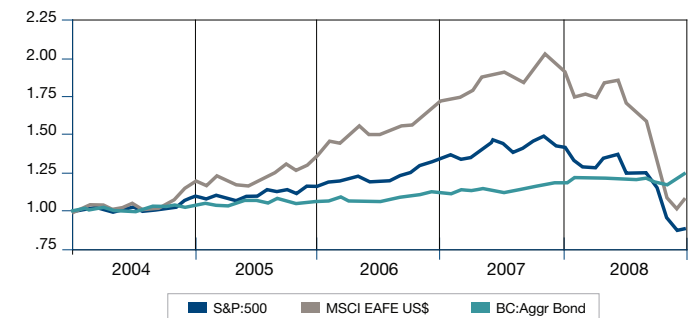
	Q1	Q2	Q3	Q4
Fed Funds	2.61%	2%	1.81%	0.25%
10-yr Treasury	3.45%	3.99%	3.85%	2.25%
BC High Yield Index YTM	10.86%	11.03%	13.97%	19.50%

Source: based on LehmanLive data.

## 2008 Quarterly Returns



## Growth of a Dollar for 5-years ended Dec. 31, 2008



This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account.

There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product which attempts to mimic the performance of an index will incur expenses that would reduce returns. Past performance is not indicative of future results.

Fixed income securities are subject to interest rate risk. Generally, when interest rates rise, bond prices fall, and vice versa. Specific sector investing can be subject to different and greater risks than more diversified investments.

Investing in small-cap and mid-cap stocks generally involves greater risks, and, therefore, may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. High-yield (below investment-grade) bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities trading is generally considered speculative because of the significant potential for investment loss. Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Standard Deviation is a risk statistic used to measure the volatility of return observations around the average return. The smaller the standard deviation, the tighter the band of return observations around the average return, reflecting less historical return variability.

**Asset Class Returns:** Source: Russell, Barclays, Dow Jones, JP Morgan, Callan Associates

**Style Returns:** [Source: Russell] Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. Indices used were: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-cap Value Index, Russell Mid-cap Blend Index, Russell Mid-cap Growth Index, Russell 2000 Value Index, Russell 2000 Index, and Russell 2000 Growth Index.

#### Index Descriptions:

**Barclays Aggregate Index:** Measures changes in the fixed rate debt issues rated investment grade or higher by Moody's Investors Service, Standard and Poor's, or Fitch Investor's Service, in that order. The Aggregate Index is comprised of the Government/Corporate, the Mortgage-Backed Securities, and the Asset-Backed Securities indices. **Barclays Global Aggregate ex U.S. :** Measures changes in global investment-grade, fixed-rate debt markets. It combines non-U.S. dollar-denominated versions of the (an-European Index and the Japanese, Canadian, Australian and New Zealand components of the Global Treasury Index. **Barclays High Yield:** Covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included. **MSCI EAFE (Europe, Australasia, Far East):** A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations. **MSCI EAFE Value:** Represents approximately 50% of the free float-adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style. **MSCI EAFE Growth:** Represents approximately 50% of the free float-adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style. **MSCI Emerging Markets:** Designed to measure equity market performance in 25 emerging market indexes. The index's three largest industries are materials, energy, and banks. **MSCI Local Currency:** A special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next. **MSCI EAFE U.S. Dollar:** An unmanaged capitalization-weighted index of companies representing the stock markets of Europe, Australasia and the Far East. **Russell 1000:** Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investable U.S. equity market. **Russell 1000 Value Index:** Measures the performance of those Russell 1000 companies with higher price-to-book ratios and lower forecasted growth values. **Russell 1000 Growth Index:** Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. **Russell Mid-cap:** Measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index. **Russell Mid-cap Value Index:** Measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values. **Russell Mid-cap Growth Index:** Measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values. **Russell 2000:** Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. **Russell 2000 Value Index:** Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. **Russell 2000 Growth Index:** Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. **Standard & Poor's 500 (S&P 500)** Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. **S&P 500:** Represents approximately 68% of the investable U.S. equity market. **Dow Jones AIG Commodity Index:** Composed of futures contracts on 19 physical commodities (including precious metals, energy and livestock) traded on US exchanges, with the exception of aluminium, nickel and zinc, which trade on the London Metal Exchange (LME). The index serves as a diversified and highly liquid benchmark for the commodity futures market. **Dow Jones Wilshire REIT:** The Dow Jones Wilshire Real Estate Indexes are designed to provide measures of real estate securities that serve as proxies for direct real estate investing, and measure the performance of the publicly traded real estate securities with readily available prices. To be included, a company must be both an equity owner and operator of commercial and/or residential real estate, have a minimum total market capitalization of at least \$200 million at the time of its inclusion, and at least 75% of the company's total revenue must be derived from the ownership and operation of real estate assets.