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## MARKET REVIEW – 2<sup>ND</sup> QUARTER 2008

The U.S. economy remains weak with home prices dropping more than 15% during the year ended in April. Nevertheless, rising food and energy prices have put inflation concerns at center stage. This means the Federal Reserve is caught between two opposing problems. If it keeps interest rates low in order to help housing recover, inflation could increase. Alternatively, if the Fed raises interest rates to fight inflation, housing deflation could worsen.

Of course, the Fed is not the only one dealing with these conflicting problems. Consumers are getting pinched and consumer sentiment has dropped to the lowest level in 28 years. At the same time, investors turned negative late in the second quarter, causing the stock market to test, and in some cases exceed, the lows hit during the first quarter.

On the inflation front, food prices were boosted this spring by floods in the Midwest and increased demand for grain as an alternative energy source. Oil prices also moved higher during the second quarter as strong demand from India and China offset weaker demand from the United States and Europe. However, geopolitical risks, especially worries that Israel may attack Iran's nuclear facilities, have traders worried about potential supply disruptions.

The stock market started the second quarter with a recovery from the first-quarter lows. Investors were expecting the government's tax rebates to support the economy this spring and summer. The tax rebates are helping, but many consumers are hanging on to the rebates rather than spending the money. Late in the second quarter, the stock market declined after the Fed indicated that it would resist any further increase in inflation expectations. Investors worried that a rate hike at this time could make current economic weakness even worse. After all, the two longest and deepest recessions since World War II occurred when the Fed increased interest rates part way through the economic downturn.

The credit markets stabilized early in the second quarter after the Fed extended its lending facilities to investment banks rather than just commercial banks. This reduced the risk of financial contagion. However, long-term interest rates increased and bond prices declined late in the quarter when inflation increased and the Fed signaled that it may raise short-term rates.

Finally, rising food and energy prices are hurting economic prospects and stock markets in other parts of the world. At this point, economic prospects and investor sentiment would probably improve if energy prices decreased from current record levels.

The prices of small and mid-sized company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes. This may result in greater price volatility. Although Treasuries are considered free from credit risk they are subject to other types of risks, including interest rate risk, which may cause the underlying value of the bond to fluctuate, and deflation risk, which may cause the principal to decline and the securities to under perform traditional Treasury securities.

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## CAPITAL MARKET INDEX RETURNS THROUGH JUNE 30, 2008

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
BEST	LB Agg Bond	Russell 2000 Value	Russell 2000 Value	MSCI EAFE	MSCI EAFE	Russell 1000 Value	DJ Wilshire REIT	Russell 1000 Value	Russell 1000 Growth	Russell 2000 Growth	DJ Wilshire REIT	Russell 2000 Value	LB Agg Bond	Russell 2000 Growth	DJ Wilshire REIT	DJ Wilshire REIT	DJ Wilshire REIT	Russell 1000 Growth	LB Agg Bond	
		8.96%	41.70%	29.15%	32.94%	8.06%	38.35%	37.04%	35.18%	38.71%	43.09%	31.04%	13.96%	10.27%	48.53%	33.14%	14.00%	36.13%	11.81%	1.13%
		Russell 1000 Growth	Russell 1000 Growth	DJ Wilshire REIT	Russell 2000 Value	Russell 1000 Growth	S&P 500	Russell 1000 Growth	S&P 500	S&P 500	Russell 1000 Growth	Russell 2000 Value	DJ Wilshire REIT	DJ Wilshire REIT	Russell 2000 Value	Russell 2000 Value	MSCI EAFE	MSCI EAFE	MSCI EAFE	DJ Wilshire REIT
		-0.26%	41.16%	15.13%	23.84%	2.66%	37.53%	23.12%	33.35%	28.57%	33.16%	22.83%	12.36%	3.60%	46.02%	22.25%	13.54%	26.34%	11.17%	-3.36%
		S&P 500	DJ Wilshire REIT	Russell 1000 Value	Russell 1000 Value	DJ Wilshire REIT	Russell 1000 Growth	S&P 500	Russell 2000 Value	MSCI EAFE	MSCI EAFE	LB Agg Bond	LB Agg Bond	Russell 2000 Value	MSCI EAFE	MSCI EAFE	Russell 1000 Value	Russell 2000 Value	Russell 2000 Growth	Russell 2000 Growth
		-3.12%	23.84%	13.81%	18.12%	2.66%	37.53%	22.94%	31.78%	20.33%	27.30%	11.63%	8.44%	-11.42%	39.16%	20.25%	7.05%	23.48%	7.05%	-8.93%
		Russell 1000 Value	Russell 2000 Growth	Russell 2000 Growth	DJ Wilshire REIT	S&P 500	Russell 2000 Growth	Russell 1000 Value	Russell 1000 Growth	Russell 1000 Value	S&P 500	Russell 1000 Value	Russell 1000 Value	Russell 1000 Value	DJ Wilshire REIT	Russell 1000 Value	Russell 1000 Growth	Russell 1000 Value	LB Agg Bond	Russell 1000 Growth
		-8.08%	21.18%	7.77%	15.14%	1.31%	31.04%	21.64%	30.49%	15.63%	21.04%	7.01%	-5.59%	-15.52%	36.06%	16.49%	5.26%	22.25%	6.97%	-9.06%
		Russell 2000 Growth	S&P 500	S&P 500	Russell 2000 Growth	Russell 2000 Value	Russell 2000 Value	Russell 2000 Value	DJ Wilshire REIT	LB Agg Bond	Russell 1000 Value	S&P 500	Russell 2000 Growth	MSCI EAFE	Russell 1000 Value	Russell 2000 Growth	S&P 500	S&P 500	S&P 500	Russell 2000 Value
		-17.42%	30.48%	7.62%	13.37%	-1.55%	25.75%	21.37%	19.67%	8.67%	7.35%	-9.10%	-9.22%	-15.94%	30.03%	14.31%	4.91%	15.79%	5.49%	-9.84%
WORST	Russell 2000 Value	Russell 1000 Value	LB Agg Bond	S&P 500	Russell 1000 Value	LB Agg Bond	Russell 2000 Growth	Russell 2000 Growth	Russell 2000 Growth	DJ Wilshire REIT	MSCI EAFE	S&P 500	S&P 500	Russell 1000 Growth	S&P 500	Russell 2000 Value	Russell 2000 Growth	Russell 1000 Value	Russell 1000 Value	MSCI EAFE
	-2.177%	24.61%	7.40%	10.06%	-1.99%	18.48%	11.26%	12.95%	1.23%	-2.57%	-13.96%	-11.88%	-22.09%	29.76%	10.87%	4.71%	13.35%	-0.17%	-10.96%	
	MSCI EAFE	LB Agg Bond	Russell 1000 Growth	LB Agg Bond	Russell 2000 Growth	DJ Wilshire REIT	MSCI EAFE	LB Agg Bond	LB Agg Bond	LB Agg Bond	Russell 1000 Growth	Russell 1000 Growth	Russell 1000 Growth	S&P 500	Russell 1000 Growth	Russell 2000 Growth	Russell 1000 Growth	Russell 1000 Value	Russell 2000 Value	S&P 500
	-23.19%	16.00%	5.00%	9.75%	-2.44%	12.24%	6.36%	9.68%	-6.46%	-0.83%	-22.42%	-20.42%	-27.89%	28.67%	6.30%	4.15%	9.07%	-9.78%	-11.91%	
	DJ Wilshire REIT	MSCI EAFE	MSCI EAFE	Russell 1000 Growth	LB Agg Bond	MSCI EAFE	LB Agg Bond	MSCI EAFE	DJ Wilshire REIT	Russell 2000 Value	Russell 2000 Growth	MSCI EAFE	Russell 2000 Growth	LB Agg Bond	LB Agg Bond	LB Agg Bond	LB Agg Bond	LB Agg Bond	DJ Wilshire REIT	Russell 1000 Value
	-23.44%	12.49%	-11.85%	2.90%	-2.92%	11.55%	3.61%	2.06%	-17.00%	-1.49%	-22.43%	-22.00%	-30.27%	4.11%	4.34%	2.43%	4.33%	-17.56%	-13.57%	



**Russell 1000 Value** contains those Russell 1000 (larger capitalization) securities with a less-than-average growth orientation. Securities in this index generally have lower price-to-book and price-to-earnings ratios, higher dividend yields, and lower forecasted growth rates.



**Russell 1000 Growth** contains those Russell 1000 (larger capitalization) securities with a greater-than-average growth orientation. Securities in this index generally have higher price-to-book and price-to-earnings ratios, lower dividend yields, and higher forecasted growth rates.



**Russell 2000 Value** contains those Russell 2000 (smaller capitalization) securities with a less-than-average growth orientation. Securities in this index generally have lower price-to-book and price-to-earnings ratios than those in the Russell 2000 Growth Index.



**Russell 2000 Growth** contains those Russell 2000 (smaller capitalization) securities with a greater-than-average growth orientation. Securities in this index generally have higher price-to-book and price-to-earnings ratios than those in the Russell 2000 Value Index.



**MSCI EAFE** is the Morgan Stanley Capital International Europe, Australia, Far East Index designed to measure the performance of developed stock markets in these areas.



**LB Agg Bond** is the Lehman Brothers Aggregate Bond Index. This index includes U.S. government, corporate and mortgage-backed securities rated investment grade or higher with maturities up to 30 years.



**S&P 500** is a representative sample of 500 leading companies in leading industries of the U.S. economy.



**DJ Wilshire REIT** is intended as a broad measure of the performance of publicly traded real estate equity. The index is comprised of companies whose charter is the equity ownership and operation of commercial real estate.

Data provided by sources believed to be reliable but no guarantee is made as to its accuracy. Past performance is no guarantee of future performance.