

OUR 2009 SECOND QUARTER MARKET SCORECARD

Economy	Negative	The U.S. economy continued in a recession in the first quarter with a -5.5% decrease in GDP following a -6.3% decrease in the fourth quarter. Consumer spending rose by 1.4% after falling for two consecutive quarters. Corporate profits rose 3.8% after falling -16.5% in the fourth quarter. Business Economists forecast a rebound in the second half of 2009. ¹
Employment	Negative	Unemployment increased to 9.5% in June with a loss of 467,000 jobs. This brought the number of unemployed persons to 14.7 million. Since the recession began, 7.2 million jobs have been lost, as the unemployment rate rose by 4.6 percentage points. Total employment declined with the civilian labor force at 140.2 million employed persons. ²
Productivity	Positive	Labor productivity improved in the first quarter and increased by 1.8% in the business sector and 1.6% in the nonfarm business sector. Year-over-year, productivity increased by +2.0% in the business sector and 1.9% in the nonfarm business sector. Durable goods manufacturing continued very weak with large declines in output and hours worked. ³
Housing	Negative	The housing market showed modest improvement as the excess inventory declined by 3.5% in May. Existing home sales rose +2.4% and a 9.6 month supply existed. The pending home sales index increased for four straight months. Interest rates on most mortgages increased to 5.38% in Mid-June for a 30 year, conventional, fixed rate mortgage. ⁴
Consumer	Negative	The Consumer Confidence Index retreated somewhat in June after three months of increases to a level of 49.3 (1985=100). The all-time low of 26.0 was made in February. Consumers' assessment of the economy waned as weak business conditions and employment were concerns. Consumers do not expect a turnaround in the short term. ⁵
Liquidity	Neutral	Since the financial crisis began in August 2007, many new government programs were implemented. The Federal Reserve's balance sheet ballooned from \$869 billion on 8/8/07 to \$1,998 billion on 6/30/09. Overall lending activity was stable as credit conditions remained stringent. Commercial real estate experienced weakened loan demand. ⁶
Inflation	Positive	Inflation remained under control during the second quarter. Core inflation (excluding energy & food) increased 2.3% (annualized) over the past three months ending in May and increased 1.8% over the past twelve months. However, headline inflation (including energy & food) decreased -0.2% for the past three months and -1.3% for the past year. ⁷
Interest Rates	Positive	The yield curve steepened (for the week ending June 19) as the ten year treasury increased 61 basis points to 3.75% from 3.14% in May. Generally, a flat yield curve indicates weak growth and conversely, a steep curve indicates strong growth. The 357 basis point spread on the yield of 10 year vs. 3 month treasuries indicated strong GDP growth next year. ⁸
Earnings	Negative	The S&P 500 operating earnings declined 39% in the first quarter on a year-over-year basis compared to a 100% decline in the fourth quarter. This was the seventh consecutive quarter of earnings decline since the last increase in the third quarter of 2007. Earnings for the balance of 2009 were expected to improve but dampened by broad economic weakness. ⁹
Valuations	Positive	Stocks continued to be undervalued historically and relative to bonds as the S&P 500 earnings yield was 4.7% and 1.4% above the 10 year Treasury yield. The S&P 500 trailing P/E ratio was 13.7x and forward P/E ratio was 13.9x versus a 20 year average of 19.9x at quarter end. Many asset classes appeared attractive assuming positive GDP growth. ¹⁰
Investment Returns	Positive	During the second quarter, domestic and international stock indices enjoyed double digit gains with the S&P 500 up 15.9%. Growth stocks outperformed value. The MSCI EMI was up 36.2%. Fixed income indices were positive with riskier bond categories like High Yield and Corporate Bonds outperforming. Treasury Bonds were negative at -4.3%. ¹¹

Important disclosures on back page.

Sources:

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| 1 Sources: Bureau of Economic Analysis & Nat'l Assoc. for Business Economics | 2 Sources: Bureau of Labor Statistics |
| 3 Sources: Bureau of Labor Statistics | 4 Sources: National Association of Realtors |
| 5 Sources: The Conference Board | 6 Sources: Federal Reserve System and Fed Beige Book |
| 7 Sources: Bureau of Labor Statistics | 8 Sources: Federal Reserve Board of Governors |
| 9 Sources: J.P. Morgan | 10 Sources: J.P. Morgan |
| 11 Sources: Wall Street Journal and J.P. Morgan | |

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The prices of small and mid cap company stocks are generally more volatile than large company stocks. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds.

The price/earnings (P/E) ratio is the price of a share of a stock divided by earnings per share, usually calculated using the latest year's earnings. The Russell 2000 Index consists of the smallest 2,000 securities in the Russell 3000 Index. This is the Frank Russell Company's small capitalization index that is widely regarded in the industry as the premier measure of small capitalization stocks. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The Russell Midcap™ Index measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The S&P 500 (a registered trademark of the McGraw Hill Companies) is an unmanaged, index of common stock. The indices are presented to provide you with an understanding of their historic long-term performance and are not presented to illustrate the performance of any security. Investors cannot directly purchase any index.

The MSCI Emerging Markets Index (EMI) is a free float-adjusted market capitalization index that is designed to measure equity market performance. As of May, 2005, the index consisted of the following 26 developed market country indexes: Argentina, Brazil, Chile, China, Columbia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey, and Venezuela.

The Consumer Confidence Index (CCI) is a unique indicator, formed from survey results of more than 5,000 households and designed to gauge the relative financial health, spending power and confidence of the average consumer. The index started in 1985 at 100 and is normalized based on the Consumer Confidence level when it began.

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