

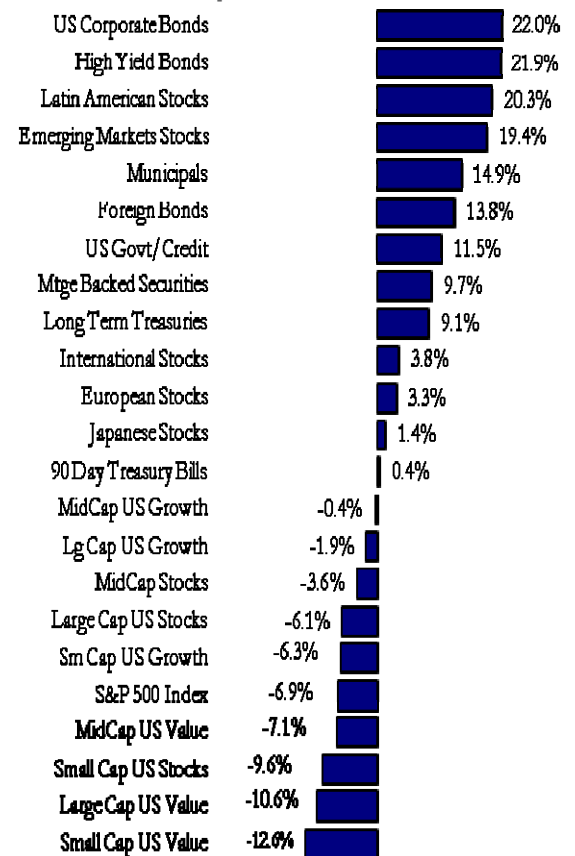
## Capital Markets Summary

Bullish market sentiment continued in the third quarter and propelled all major market indices to finish in positive territory. Investor confidence was reinforced this quarter as gains in the Dow Jones Industrial Average were supported by strong returns from the Dow Jones Transportation and Utility indices. Gains in these latter indices were taken as confirmation that current economic problems are easing and the economy would begin its recovery. As measured by S&P market sector and capitalization, it has been two years since value, growth, and core sectors across large, mid and small cap weightings all reported positive quarterly and year-to-date returns. The recent market action is encouraging, but it has not come without some trepidation.

In August Federal Reserve Chairman Ben Bernanke stated that “critical challenges remain”, however, “economic activity appears to be leveling out”, signaling his belief that the worst financial crisis in decades has ended, or may be coming to an end very soon. In September he announced the recession “is very likely over”. It will not be confirmed for months, but most economists expect the National Bureau of Economic Research (NBER) to officially announce the recession ended sometime in June or July (2009). Industrial production, retail sales, and real income are all now positive; however, corporations continued cost cutting efforts, mainly through job cuts.

Although stimulus funding (bank bailouts, Cash for Clunkers, et al) and low interest rates have been given credit for averting a financial and economic crisis, neither have proven thus far to put the general population back to work.

### One Year Performance of Asset Classes as of September 30, 2009



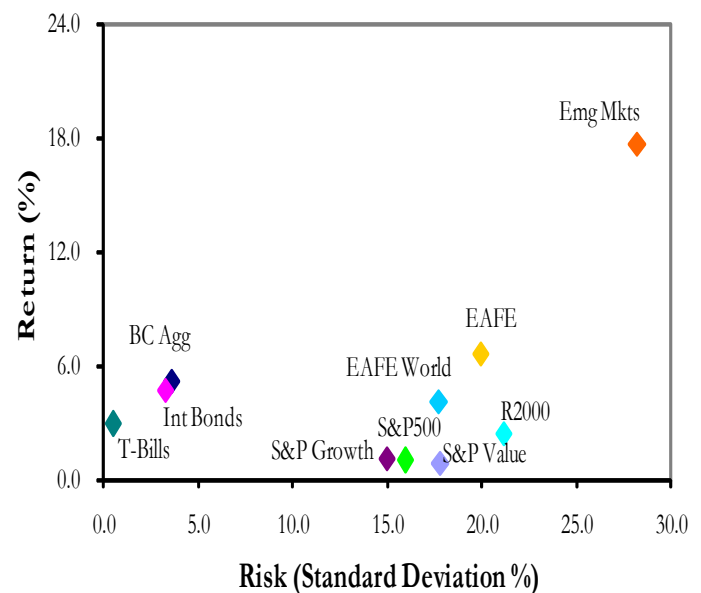
## Capital Markets Summary

Unemployment reached 9.8% this quarter and is expected to exceed 10% next quarter. Employment figures are not expected to improve before the middle of next year. Employment numbers must show meaningful improvement before the economy can sustain a recovery.

The Federal Reserve was not expected to raise interest rates this quarter and most investors focused on forward looking statements from the Fed regarding the timing of any future increases. San Francisco Fed President Janet Yellen reiterated Bernanke's earlier comments by saying interest rates would remain at low levels for an "extended period". Despite historically low interest rates the Treasury continues to auction record amounts of debt to cover the budget deficit which could exceed \$1.5 trillion by the end of this year. China, Japan and the United Kingdom were the largest buyers of U.S. debt.

The U.S. equity markets were led by financial stocks at the expense of defensive issues. The banking sector turned in strong performance as evidence indicated several banks, after receiving permission and having repaid TARP funds, were not as fragile as first announced. Investors were encouraged by a favorable earnings season and appeared willing to take some additional market risk. Seventy-six percent of the companies reporting earnings through the end of July exceeded forecasts. This is the highest level recorded by Thompson Reuters since they began tracking the percentage in 1994. True, expectations were low and this likely aided in many earning "surprises". Forward looking comments and earnings upgrades made by key analysts also helped to fuel the markets' momentum. Next quarter's earnings season should provide some insight into the economic rebound as it is widely believed most domestic corporations have exhausted cost cutting measures. Investors will be looking for top line growth.

**Risk/Return Comparison of Asset Classes**  
Five Years Ended September 30, 2009



## Capital Markets Summary

Recent secondary stock offerings from financial institutions and initial public offerings (IPOs) have proven to be successful. Merger and acquisition activity has also increased as investors and corporations look for attractive opportunities in undervalued sectors. Volume remains low on all exchanges and volatility has been decreasing. As such, the markets have experienced fewer violent “mood swings”.

Globally, the International Monetary Fund (IMF) yet again revised its forecast for global expansion to 3%, from 2.5%, for 2010. While speaking to global finance officials in August Fed Chairman Bernanke said the global economy is much improved, but “critical challenges remain”. Bernanke cited ongoing strains in financial markets and tight credit as the main threats to a recovery.

Asian and emerging markets have well outpaced developed country markets this year. Economic expansion fueled by infrastructure spending is trickling down to a new market force – emerging world consumers. Demand and consumption of goods and services from these new younger consumers has grown twice as fast as U.S. consumption.

## Domestic Equity

The major market indices continued to shine through the third quarter as weakening year over year energy costs and a weakening dollar helped lead the Dow Jones Industrial Average to its best third quarter since 1939. Posting a 15.82% gain in the third quarter, the index is now in positive territory for 2009, up 13.49% for the year. It was a similar story across all of the major averages as the S&P 500 [TR] posted a 15.61% gain, its fifth best third quarter since 1929. When combined with the 15.93% gain the S&P attained in the second quarter, the index is up 19.26% year-to-date going into the final quarter. The Russell 3000 had an even stronger showing for the quarter posting a 16.82% gain and is now up 21.19% year-to-date. Over on the NASDAQ, a 15.90% gain for the quarter left the index up a commanding 35.80% year-to-date.

*Data Sources: Zephyr StyleAdvisor, Barclay's Capital*

*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.*

## Domestic Equity

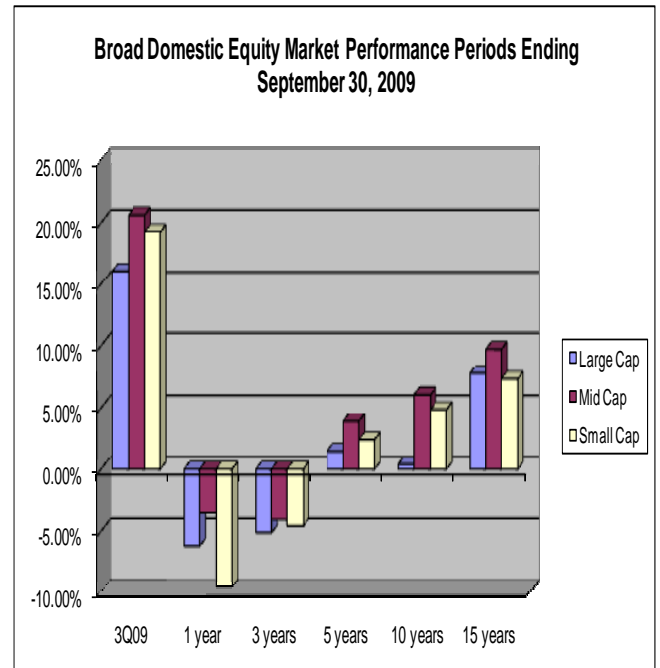
Breaking down the S&P 500 by sectors, all sectors posted a positive gain for the third quarter. Cyclical led the market as Financials (+24.08%), Materials (+22.90%), Industrials (+20.86%), Consumer Discretionary (+20.78%) and Information Technology (+17.40%) all posted solid numbers for the quarter. Trailing the overall market were traditionally defensive sectors. Energy (+11.92%), Consumer Staples (+11.43%), and Health Care (+10.13%) all managed to post double digit returns for the quarter. Telecommunication Services rose only 8.82% for the quarter, but was the leading sector in September when it posted a 6.86% return. Utilities (+6.77%) lagged behind the other sectors as investors chased higher growth prospects.

In comparing capitalizations, mid caps again outshone the other caps as the Russell MidCap posted a 20.62% gain in the quarter. Following closely behind was the Russell 2000 which gained 19.28%. The large cap Russell 1000 rose 16.07% while the mega-cap Russell Top 200 rose 14.41%. For the year, the Russell MidCap ended the quarter up 32.63% pushing its lead to double-digits in 2009 over the second place Russell 2000 (+22.43%).

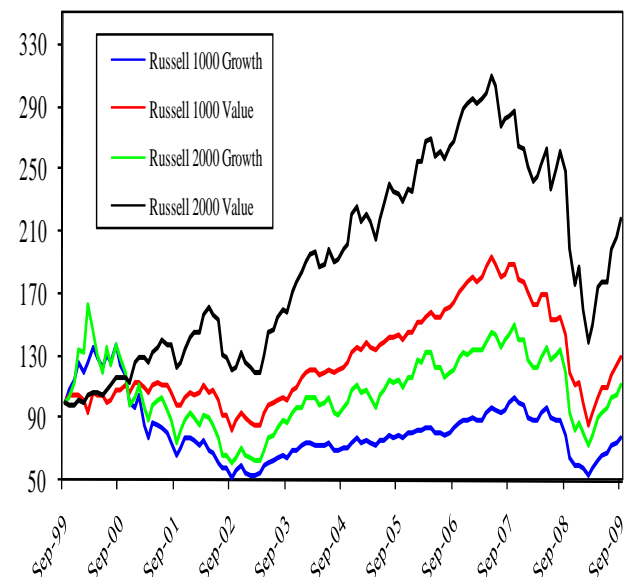
In comparing styles, growth stocks led in September but it was not enough to overtake the strong performance value stocks enjoyed in July and August. The Russell 1000 Value rose 18.24% for the quarter while the Russell 1000 Growth gained 13.97%. Similarly, the Russell 2000 Value returned 22.70% for the quarter versus the Russell 2000 Growth 15.95% return.

Data Sources: Zephyr StyleAdvisor, Barclay's Capital

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## Style Performance Ten Year Growth of \$100



## Domestic Equity (cont.)

However, growth continues to nearly double value's performance in 2009 as the Russell 1000 Growth ended the third quarter up 27.11% for the year versus the Russell 1000 Value's gain of 14.85%. Likewise, the Russell 2000 Growth (+29.12%) leads the Russell 2000 Value (+16.36%) for the year.

In individual stocks, cyclicals led the DJIA as Caterpillar (CAT) gained 55.36%, American Express (AXP) gained 45.24%, and General Electric (GE) gained 40.10% to lead the Dow. Only three Dow members were negative for the quarter led by Exxon Mobil (XOM) which was down 1.86%. Verizon Communications (VZ) down 1.50% and McDonalds (MCD) down 0.73% were the other two Dow stocks in the red for the quarter.

Over on the S&P 500, Gannett (GCI) up 250.42% led the pack followed by Hartford Financial (HIG), up 123.25%. The biggest losers on the S&P were Metro PCS (PCS) which was down 29.68% and Moody's (MCO) which was down 22.35%. Targacept Inc. (TRGT) was the NASDAQ leader for the third quarter as it was up 772.2% on the back of positive results for its experimental depression and cognitive disorder drugs. On the flip side, Repros Therapeutics Inc. (RPRX) was the NASDAQ's biggest loser. The stock plummeted following the voluntary suspension of its clinical trials of Proellex in early August and ended down 87.5% for the third quarter.

3Q09 Subsector Scorecard				
Gainers			Losers	
Health Care Facilities	94.2%	1	Home Entertainment Software	-14.4%
Commercial Printing	80.2%	2	Specialized Finance	-7.6%
Broadcasting	74.4%	3	Automotive Retail	-3.1%
Consumer Electronics	72.9%	4	Wireless Telecommunication Services	-1.1%
Multi-Line Insurnace	65.3%	5	Electronic Components	-0.8%

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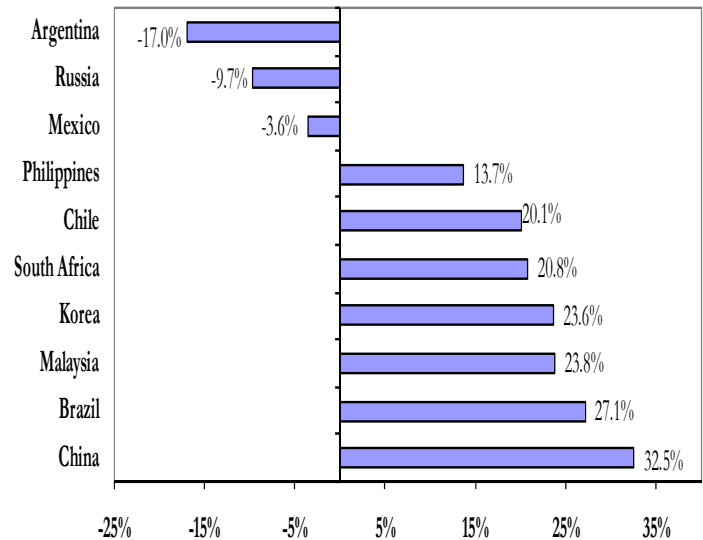
## International Markets

Foreign stocks enjoyed a second consecutive quarter of considerable gains as the MSCI EAFE Index shot up 19.52% in the third quarter. The index posted positive returns in each month of the third quarter and has gained an impressive 29.58% for the year-to-date as of September 30. The trailing one year return for the EAFE is also now in positive territory at 3.79% while the trailing three year number remains negative at -3.12%. European stock returns measured in US dollars by the MSCI Europe Index were up 22.98% as the continent continues, like the United States, to show ambiguous signs of recovery. The rate of increases in unemployment in Europe is slowing, but unemployment numbers stand at a ten year high.

Stimulus plans and low interest rates appear to have spurred some positive results, but will have to be dialed back down at some point. Sweden's Finance Minister Anders Borg spoke about the EU's expansionary fiscal policy in September calling for its continuation into 2010 while acknowledging that current levels of stimulus spending are not sustainable. In Germany, unemployment actually fell in September, marking the third month of decreasing unemployment in a row. Continuing the theme of perplexing economic data, German retail sales numbers fell 1.5% for August despite forecasts for a slight increase. Australia was the constituent of the EAFE with the highest return for US investors for the quarter with a 33.18% return while the MSCI Japan posted the lowest return, up just 6.57%.

Emerging markets equities outpaced developed international stocks for the third quarter in a row as the MSCI Emerging Markets Index gained 21.04%. The index now stands up a remarkable 64.88% for 2009 to date as of September 30 and up 19.44% for the past year. Emerging markets have returned a negative 10.55% for the past 2 years, but 5 and 10 year trailing returns are up in the double digits at 17.68% and 11.71%, respectively.

One Year Emerging Market Country Returns  
as of September 30, 2009



## **International Markets (cont)**

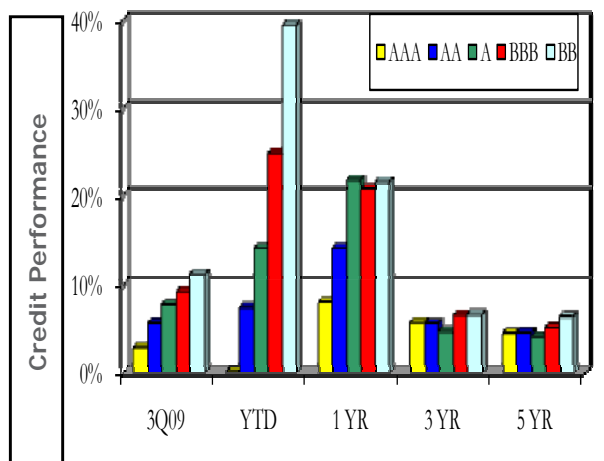
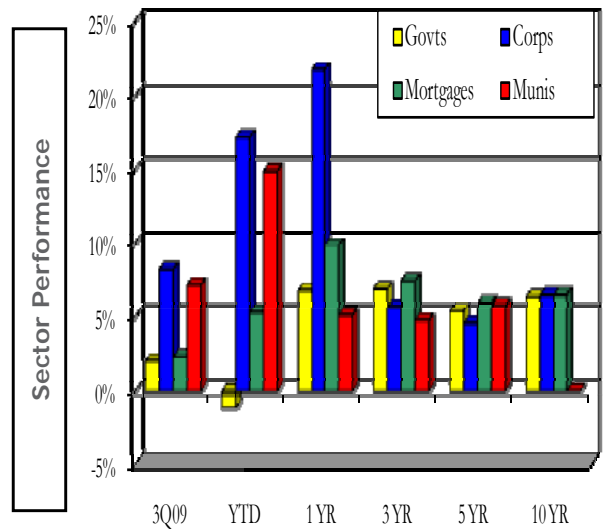
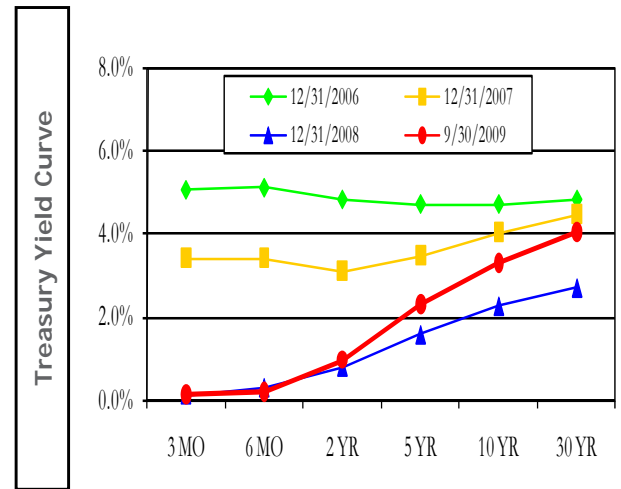
The MSCI China Index gained 7.86% in the third quarter. The International Monetary Fund (IMF) has increased its forecast for growth in China's economy in 2010 from 8.5% to 9%. Chinese officials were upset with the United States government in September when the United States imposed a 35% tariff on Chinese made automobile tires. Although this move is not expected to have a large impact on China's growth prospects, it has been criticized by some as protectionist.

Among countries making up the MSCI Emerging Markets Index, Peru had the highest quarterly return at 44% and Morocco was the laggard at -6.61%.

## Fixed Income

Bond markets were higher across the board during the third quarter, with growth in all three months of the quarter for most major indices. The Barclays Capital US Aggregate had its best quarter of the year, returning 3.74%. The Barclays Capital US Government/Credit returned 4.17% while the Barclays Capital US Municipal Bond gained 7.12%. Longer maturity indices fared better than their shorter maturity counterparts as short term rates remained low during the quarter. The Barclays Capital US Treasury 1-3 Year was up 0.78% while the Treasury 7-10 Year was up 2.69%. Similarly, the Barclays Capital Intermediate Gov/Credit was up 3.25% versus 8.52% for the Long Gov/Credit. Finally, on the back of historically low interest rates, cash returns continued to be at all time lows as the Citigroup 3-Month Treasury Bill Index returned only 0.04% in the quarter, thanks to 0.01% gains in each month of the quarter.

On the news front, record Treasury auctions continued during the third quarter, as the government required record amounts of bond sales to fund the ongoing economic recovery. Bid ratios on the new Treasury issuances—the number of bids for each dollar of notes issued—remained above 2.70. The final auction of the quarter received \$81 billion in bids for only \$29 billion in new debt, a healthy 2.79 ratio. Institutional investors accounted for more than 61% of the (indirect) bids, another healthy sign. Perhaps most surprising is the number of dealer banks bidding on bond issuances, possibly angling to be included in the Federal Reserve’s underwriting dealer network, which should prove more lucrative as budget deficits show no sign of slowing anytime soon. All told, the government has issued \$1.52 trillion in notes this year, versus only \$585 billion for the same period of 2008.



Data Sources: Zephyr StyleAdvisor, Barclay's Capital

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

## Fixed Income (Cont.)

The US Treasury department's announced plan to entice private investors into buying toxic mortgage assets have proven mildly successful as Invesco Ltd and Trust Company of the West have raised the necessary capital to take part in the Public-Private Investment Program. This program creates so-called "toxic asset funds" and has raised slightly more than \$1 billion in combined capital. As part of the program, the Treasury department will issue matching financing to the two companies, as well as provide up to 100% of the total ongoing capital commitments as required. In all, the government hopes to attract \$40 billion in private investments to these funds, much less than the \$1 trillion it originally envisioned.

Regional banks continued to fail during the third quarter, as the FDIC said that its protective fund had officially fallen into the red at the end of September. It continues to push for healthy banks to purchase the assets of failed banks, but increasingly has to provide assistance for the purchasing banks that shoulder loan losses on the FDIC. In order to replenish their insurance fund's assets, the FDIC is proposing that banks pre-pay their fees for 2010, 2011, and 2012 by the end of 2009. The FDIC has predicted that it will take until 2017 for balances in the insurance fund to be "comfortable" again. As a last resort, the FDIC has considered borrowing funds directly from the Treasury, which would further add to the increasing amount of debt auctioned by the Treasury department.

In the municipals market, California issued \$8.8 billion in short term bonds, collecting a surprising \$6.64 billion of that total from retail investors as institutional investors looked elsewhere. The large retail order for the debt issuance was the most ever recorded for a municipal debt sale, according to California's Treasurer's office. California's municipal issuance was by far the largest of the quarter, with most of other states and municipalities issuing under \$6 billion total.

In the corporate debt space, companies were issuing record amounts of debt during the quarter. September saw \$126 billion of corporate debt alone, the most ever for September and the seventh busiest month on record. Credit the returning investor confidence with allowing companies to again access the debt markets. This new flood of corporate debt is driving yields higher for other corporate issues, and is also making borrowing much more expensive for businesses.

## Commodities

Crude oil was stable and traded in a narrow range near \$70 for the quarter. The discovery of underground nuclear processing facilities and lack of denial from Iran had little effect on the price of oil. Natural gas hit new lows with inventory storage near capacity and industrial demand expected to remain weak into next year.

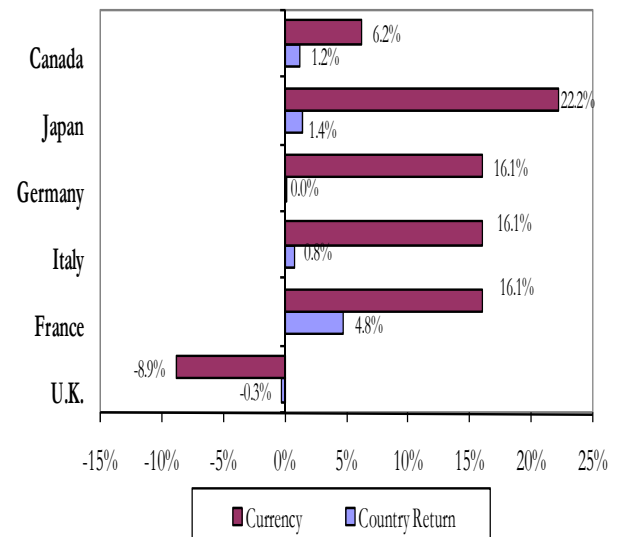
Gold traded near record highs as investors sought to hedge against anticipated inflation and speculators went along for the ride. Silver, platinum, nickel and copper were all higher. The recent gain in industrial metals, such as copper (up over 100% for the year), is attributed to an increase in demand of raw materials to support the anticipation of stronger industrial activity in the U.S., China, Britain and Europe.

## Currency

The dollar was weak this quarter against all major currencies. Some market analysts and economists believe the world's current financial problems mark the beginning of a prolonged slow decline of developed world currencies. This decline would result in narrowing the relationship between developed currencies. If true, further economic expansion in emerging markets would allow undervalued currencies to appreciate in world markets and create new trade opportunities.

As the dollar continues its decline China continues to flex its financial muscle and push for a new world currency. Although this effort is not widely supported today, it is receiving more attention than just six months ago. It may gain support if the domestic economy does not soon improve or if inflation becomes a problem in the U.S.

1 Year Country and Currency Returns  
G-7 Excluding U.S. as of September 30, 2009



# CAPITAL MARKETS REVIEW – SEPTEMBER 30, 2009

## CAPITAL MARKET INDEX RETURNS

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
BEST	Barclay Agg Bond 8.96%	Russell 2000 Value 41.70%	Russell 2000 Value 29.15%	MSCI EAFE 32.94%	MSCI EAFE 8.06%	Russell 1000 Value 38.35%	DJ Wilshire REIT 37.04%	Russell 1000 Value 35.18%	Russell 1000 Growth 38.71%	Russell 2000 Growth 43.09%	DJ Wilshire REIT 31.04%	Russell 2000 Value 13.96%	Barclay Agg Bond 10.27%	Russell 2000 Growth 48.53%	DJ Wilshire REIT 33.14%	DJ Wilshire REIT 14.00%	DJ Wilshire REIT 36.13%	Russell 1000 Growth 11.81%	Barclay Agg Bond 5.24%	Russell 2000 Growth 29.12%
	Russell 1000 Growth -0.26%	DJ Wilshire REIT 41.16%	DJ Wilshire REIT 15.13%	Russell 2000 Value 23.84%	Russell 1000 Growth 2.66%	S&P 500 37.53%	Russell 1000 Growth 23.12%	S&P 500 33.35%	S&P 500 28.57%	Russell 1000 Growth 33.16%	DJ Wilshire REIT 22.83%	DJ Wilshire REIT 12.36%	DJ Wilshire REIT 3.60%	Russell 2000 Value 46.02%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Russell 2000 Value -28.92%	Russell 2000 Growth 28.97%
	S&P 500 -3.12%	DJ Wilshire REIT 23.84%	Russell 1000 Value 13.81%	Russell 1000 Value 18.12%	DJ Wilshire REIT 2.66%	Russell 1000 Growth 37.19%	S&P 500 22.94%	Russell 2000 Value 31.78%	MSCI EAFE 20.33%	MSCI EAFE 27.30%	Barclay Agg Bond 11.63%	Barclay Agg Bond 8.44%	Russell 2000 Value -11.42%	MSCI EAFE 39.16%	MSCI EAFE 20.25%	Russell 1000 Value 7.05%	Russell 2000 Value 23.48%	Russell 2000 Growth 7.05%	Russell 1000 Value -36.85%	Russell 2000 Growth 27.11%
	Russell 1000 Value -8.08%	Russell 2000 Growth 21.18%	Russell 2000 Growth 7.77%	DJ Wilshire REIT 15.14%	S&P 500 1.31%	Russell 2000 Growth 31.04%	Russell 1000 Value 21.64%	Russell 1000 Growth 30.49%	Russell 1000 Value 15.63%	S&P 500 21.04%	Russell 1000 Value 7.01%	Russell 1000 Value -5.59%	Russell 1000 Value -15.52%	DJ Wilshire REIT 39.16%	Russell 1000 Value 16.49%	Russell 1000 Growth 5.26%	Russell 1000 Value 22.25%	Russell 2000 Growth 6.97%	S&P 500 -37.00%	S&P 500 19.26%
	Russell 2000 Growth -17.42%	S&P 500 30.48%	S&P 500 7.62%	Russell 2000 Growth 13.37%	Russell 2000 Value -1.55%	Russell 2000 Value 25.75%	Russell 2000 Value 21.37%	DJ Wilshire REIT 19.67%	Barclay Agg Bond 8.67%	Russell 1000 Value 7.35%	S&P 500 -9.10%	Russell 2000 Growth -9.22%	MSCI EAFE -15.94%	Russell 1000 Value 30.03%	Russell 2000 Growth 14.31%	S&P 500 4.91%	S&P 500 15.79%	S&P 500 5.49%	Russell 1000 Growth -38.44%	DJ Wilshire REIT 17.65%
	Russell 2000 Value -21.77%	Russell 1000 Value 24.61%	Barclay Agg Bond 7.40%	S&P 500 10.06%	Russell 1000 Value 18.48%	Barclay Agg Bond 11.26%	Russell 2000 Growth 12.95%	Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	DJ Wilshire REIT -2.57%	MSCI EAFE -13.96%	S&P 500 -11.88%	S&P 500 -22.09%	Russell 1000 Growth 29.76%	S&P 500 10.87%	Russell 2000 Value 4.71%	Russell 2000 Growth 13.35%	Russell 1000 Value -0.17%	Russell 2000 Growth -38.54%	Russell 2000 Value 16.36%
	MSCI EAFE -23.19%	Barclay Agg Bond 16.00%	Russell 1000 Growth 5.00%	Barclay Agg Bond 9.75%	Russell 2000 Growth -2.44%	DJ Wilshire REIT 12.24%	MSCI EAFE 6.36%	Barclay Agg Bond 9.68%	Russell 2000 Value -6.46%	Barclay Agg Bond -0.83%	Russell 1000 Growth -22.42%	Russell 1000 Growth -20.42%	Russell 1000 Growth -27.89%	S&P 500 28.67%	Russell 1000 Growth 6.30%	Russell 2000 Growth 4.15%	Russell 1000 Growth 9.07%	Russell 2000 Value -9.78%	DJ Wilshire REIT -39.20%	Russell 1000 Value 14.85%
WORST	DJ Wilshire REIT -23.44%	MSCI EAFE 12.49%	MSCI EAFE -11.85%	Russell 1000 Growth 2.90%	Barclay Agg Bond -2.92%	MSCI EAFE 11.55%	Barclay Agg Bond 3.61%	MSCI EAFE 2.06%	DJ Wilshire REIT -17.00%	Russell 2000 Value -1.49%	Russell 2000 Growth -22.43%	MSCI EAFE -22.00%	Russell 2000 Growth -30.27%	Barclay Agg Bond 4.11%	Barclay Agg Bond 4.34%	Barclay Agg Bond 2.43%	Barclay Agg Bond 4.33%	DJ Wilshire REIT -17.56%	MSCI EAFE -45.09%	Barclay Agg Bond 5.72%

-  **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.
-  **Barclays 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 Source: Morningstar  
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.