

OUR 2009 THIRD QUARTER MARKET SCORECARD

Economy	Neutral	The U.S. economy continued to contract in the second quarter with a -0.7% decrease in GDP following a -6.4% decrease in the first quarter. NABE forecasters and other economists now believe that the “Great Recession” ended during the past summer and the economy entered a recovery phase of the business cycle. ¹
Employment	Negative	Unemployment increased to 9.8% in September with a loss of 263,000 jobs. This brought the number of unemployed persons to 15.1 million. Since the recession began in December 2007, 7.6 million jobs were lost and the unemployment rate doubled. Total employment declined with the civilian labor force at 138.9 million employed persons. ²
Productivity	Positive	Labor productivity jumped in the second quarter and increased by 6.5% in the business sector and 6.6% in the nonfarm business sector. Year-over-year, productivity increased by +1.9% in both the business and the nonfarm business sectors. This was primarily due to a decline in unit labor costs and an increase in output per hour. ³
Housing	Negative	Following four monthly gains, existing home sales declined by 2.7% in August. For the seventh straight month, the pending home sales index increased by 6.4% in August. A realtor survey showed that first time home buyers responded to the tax credit stimulus. They accounted for 30% of sales in July & August with 31% for distressed homes. ⁴
Consumer	Negative	The Consumer Confidence Index dipped in September to a level of 53.1 (1985=100). However, this is substantially about the all-time low of 26.0 in February. Consumers’ assessment of the economy was cautious due to concerns about current business conditions and the labor market. Consumers remain apprehensive in their short term outlook. 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 \$2,144 billion on 9/30/09. Business and consumer loan demand remained soft as credit standards remained tight. Demand for commercial real estate space was weak. ⁶
Inflation	Positive	Inflation remained under control during the third quarter. CPI – Core Inflation (excluding energy & food) increased 0.2% in September and increased 1.5% over the past twelve months. However, CPI - Headline Inflation (including energy & food) increased 0.2% in September and -1.3% for the past year. ⁷
Interest Rates	Positive	In September, the yield curve steepened slightly from August as long rates edged up and short rates edge down. Generally, a flat yield curve indicates weak growth and conversely, a steep curve indicates strong growth. The 317 basis point spread on the yield of 10 year vs. 3 month treasuries suggested solid GDP growth next year. ⁸
Earnings	Positive	The S&P 500 operating earnings rose to \$13.81 in the second quarter from \$10.11 in the first quarter. Forecasts were for this trend to continue as the economy turned around. While revenue growth was subdued, corporate profits benefited from rising productivity, slow growth in labor costs, and low interest rates. ⁹
Valuations	Neutral	Strong investment performance in the third quarter caused stocks and bonds to approach full valuations. The S&P 500 earnings yield declined to 3.8% which was 0.5% above the 10 year Treasury yield. The S&P 500 trailing P/E ratio was 26.6x and forward P/E ratio was 15.0x versus a 20 year average of 19.6x at quarter end. ¹⁰
Investment Returns	Positive	During the third quarter, domestic and international stock indices enjoyed strong double digit gains with the S&P 500 up 15.6%. Value stocks outperformed growth stocks. The MSCI EMI was up 21.0%. Fixed income indices were positive with riskier bond categories like High Yield, Emerging Market Debt, and Corporate Bonds outperforming. 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: Cleveland Federal Reserve Bank |
| 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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