

OUR 2009 FOURTH QUARTER MARKET SCORECARD

Economy	Positive	The U.S. economy had its best showing since 1993 with an increase of 5.7% in the fourth quarter following a 2.2% increase in GDP in the third quarter. In October, NABE forecasters declared that the Great Recession of 2008-2009 was over. Leading Economic Index was up 1.1% in December following a 1.0% gain in November. ¹
Employment	Negative	Unemployment rate was unchanged at 10.0% in December even though nonfarm employment edged down with a loss of 85,000 jobs. The number of unemployed persons was 15.3 million. At the beginning of December 2007, 7.7 million were unemployed and the unemployment rate was 5.0%. Total employment declined to 137.8 million persons. ²
Productivity	Positive	Labor productivity increased in the third quarter and increased by 8.5% in the business sector and 8.1% in the nonfarm business sector. Year-over-year, productivity increased by +4.0% 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	Existing home sales rose by 7.4% in November as first-time home buyers rushed to close sales before the original November 30 deadline for the recently extended (until 6-30-10) and expanded tax credit (\$8,000 for first time buyers and \$6,500 for repeat buyers). The pending home sales index decreased by 16.0% in November due to the rush to close sales. ⁴
Consumer	Neutral	The Consumer Confidence Index rose in December to a level of 52.9 following a reading of 50.6 in November (1985=100). Consumers' assessment of the future economic outlook improved as their expectations were optimistic for better business and labor market conditions. Consumers remain cautious 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 \$2,237 billion on 12/31/09. Business and consumer loan demand was mixed as credit standards remained tight. Nonresidential real estate conditions remained soft. ⁶
Inflation	Positive	Inflation remained under control during the fourth quarter. CPI – Core Inflation (excluding energy & food) increased 0.1% in December and increased 1.8% over the past twelve months. However, CPI - Headline Inflation (including energy & food) increased 0.1% in December and 2.7% for the past year. The increase was due to the cost of energy. ⁷
Interest Rates	Positive	In December, the yield curve steepened as long rates edged up while short rates remained steady. Generally, a flat yield curve indicates weak growth and conversely, a steep curve indicates strong growth. The 352 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 \$15.78 in the third quarter from \$13.81 in the second quarter and \$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	The strong rebound in investment performance in 2009 caused stocks and bonds to approach full valuations. The S&P 500 earnings yield declined to 3.6% which was just 0.2% below the 10 year Treasury yield. The S&P 500 trailing P/E ratio was 18.5x and forward P/E ratio was 14.8x versus a 20 year average of 19.8x at 12/31/09. ¹⁰
Investment Returns	Positive	During the fourth quarter, most stock indices enjoyed gains with the S&P 500 up 6.0%. For the full year, the S&P 500 was up 26.5%. The MSCI EMI was up 8.6% during the quarter and 79.0% for the year. Fixed income indices were mainly 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, and The Conference Board | 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 Russell Investment'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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