



QUARTER TWO 2009

MARKET COMMENTARY

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SECOND QUARTER RECAP

“**GREEN SHOOTS**” — what an amazing influence these fledgling seedlings of our economy have exhibited on the global securities markets. Sightings of these nascent glimmers of economic recovery — or lack of continued deterioration — started presenting themselves in various economic data points in the early spring. The media and various market commentators adopted this terminology and found a way to apply it to almost any economic release. It seems that the global equity markets have moved along the same trajectory as the ever increasing use and popularity of this phrase.

These sightings have propelled the S&P 500 from its recent bear market closing low of 676.53, which occurred on March 9, 2009, generating a return of approximately 35.9% through the end of the second quarter, June 30, 2009. The MSCI EAFE, a widely followed international equity index, generated a 45.9% return over this same period. There is little doubt that the most vexing and urgent aspects of the numerous challenges faced by our banking system and the economy during the fourth quarter of 2008 and the first quarter of 2009 have diminished significantly and that our financial system and economy are on the mend. With the easing of these financial tensions, investors have been willing to accept more risk as reflected by the performance exhibited in both equity and bond markets during the second quarter, especially the riskier segments of these markets. During the quarter, the S&P 500 generated a return of 15.9%, its best quarterly return since 1998, the broad based Wilshire 5000 generated a return of 16.8% and the MSCI EAFE was up by 25.4%. In the domestic equity markets, the more aggressive small and mid cap indexes outperformed their large cap brethren with the Russell 2000 small cap index and the Russell Mid Cap index producing returns of 20.7% and 20.8% respectively during the quarter. In the international equity markets, the higher octane MSCI Emerging Markets index bested the MSCI EAFE developed markets by 9.3% generating a return of 34.7%. The equity markets of Brazil, Russia, India and China (BRIC) as measured by the MSCI BRIC index jumped ahead by 41.1% during the quarter.

PERFORMANCE MATRIX

Index	2009 2Q	2009 YTD
S&P 500	15.9%	3.2%
Russell 1000 Growth	16.3%	11.5%
Russell 1000 Value	16.7%	-2.9%
Russell Mid Cap	20.8%	10.0%
Russell 2000 (small cap)	20.7%	2.6%
Wilshire 5000	16.8%	5.0%
MSCI EAFE (international, \$, net)	25.4%	8.0%
Barclays Capital Municipal Bond	2.1%	6.4%
Barclays Capital Aggregate Bond	1.8%	1.9%

Not to be outshone, the bond markets displayed their own risk-taking tango as investors fled the safe haven of treasuries in search of greener pastures. During the quarter, the 10-year treasury note fell 6.2% while the 30-year treasury bond dropped 11.4%; year-to-date they are down 8.7% and 23.3% respectively. Much of this sell-off can be attributed to the continued unwinding of the “fear trade” that took place during November and December of last year as investors ran to the safety of treasuries. At the end of last year, the yield on the 10-year treasury note fell below 2.1%. Other major contributors to the sell-off in treasuries are the large amounts of issuance by the government (and the ballooning deficit) as it attempts to stimulate the economy, and the increasing fear that the government’s actions may lead to a significant bout of inflation down the road. During the quarter, the Barclays Capital Aggregate Bond index, a broad based investment grade bond index, generated a return of 1.8% while the Barclays Capital Municipal Bond index was up by 2.1%; for the year they are up 1.9% and 6.4% respectively. Municipal bonds continue to recover from their lackluster performance of 2008 even as various states and municipalities come under additional budgetary stress. A portion of this continued performance may be related to the issuance of Build America Bonds (BABs) which have supplanted a portion of the issuance of standard tax-exempt municipal bonds. BAB bonds are essentially taxable bonds issued by various municipalities (the federal government provides a subsidy to the municipality to compensate for the higher interest cost of these bonds). The use of these bonds by various municipalities should reduce the new supply of standard tax-exempt bonds, which may be a positive for existing tax-exempt municipal bonds. As in the equity markets, risk appetite has pushed many investors to the more speculative end of the bond markets. During the quarter the Barclays Capital U.S. High Yield Bond index, an index of lower quality (non-investment grade bonds), generated a return of 30.4%, 14.5% points higher than the S&P 500. The triple C rated portion of the high yield bond market (one of the higher risk portions of the high yield bond market) leapt forward by 45.5%. Granted, these moves have been generated

due to markets that became oversold during the latter part of last year and the early part of this year, however, the recent performance of these securities may be implying a more robust recovery than we are likely to experience in the near term.

The recovery trade that helped to propel the equity and bond markets with an emphasis on the more speculative segments of these markets also produced strong returns in various commodity markets. The S&P/Goldman Sachs Commodity Index, a basket of commodities, generated a 19.2% return for the quarter. The largest sector in this index is the energy complex. During the second quarter, the price of crude oil rose approximately 40% and for the year was up approximately 56%. During June, oil prices moved to just over \$71/barrel before starting to correct due to the continued economic weakness and the mounting global inventory. As of early July, the price has continued to weaken and has been trading around \$60/barrel. Though a softening of energy prices would be a positive for consumers as they attempt to restructure their personal balance sheets, deeper deterioration in energy prices could portend an ominous time for the economic recovery.

To provide you with additional insight into the performance of the S&P 500, we have included our standard S&P 500 sector performance chart. As you can see from the exhibit below, all ten sectors of the S&P 500 generated positive returns during the second quarter, however, year-to-date only three sectors are in positive territory: Information Technology +24.1%, Materials +12.3% and Consumer Discretionary +7.5%. During the quarter, the best performing sectors — Financial +35.1%, Information Technology +19.4%, Industrials +18.0%, Consumer Discretionary +17.7% and Materials +15.5% — tended to be the sectors most levered to the recovery in our economy and our financial system. These sectors also were amongst the most punished during the prior two quarters.

S&P 500 SECTOR PERFORMANCE

S&P 500 Sector	Sector Wt. (6/30/09)	2009 2Q	2009 YTD
Energy	12.4%	10.1%	-3.2%
Materials	3.2%	15.5%	12.3%
Industrials	9.8%	18.0%	-7.7%
Consumer Discretionary	9.0%	17.7%	7.5%
Consumer Staples	12.0%	8.9%	-3.4%
Health Care	14.0%	8.3%	-1.0%
Financials	13.6%	35.1%	-4.8%
Information Technology	18.4%	19.4%	24.1%
Telecommunications Services	3.5%	1.9%	-6.7%
Utilities	4.1%	8.8%	-4.1%
S&P 500	100.0%	15.9%	3.2%

OUTLOOK

The big question that remains on the minds of most investors - is this simply a bear market rally or have we entered into a new bull market? The simple answer to this question is only time will tell. Moves of this magnitude can occur in both bear market rallies and as the market enters into a new bull market. Even the recent outperformance of the more speculative segments of the equity and bond markets do not provide any additional insight since here again, this occurs in both. What is readily discernable is that our financial system has made great strides in healing itself. Liquidity is returning to the markets, creditworthy companies can now issue new bonds and equity at fairly reasonable prices and fear has greatly diminished. However, that being said, we are clearly not out of the woods yet. Economic activity will most likely prove to be spotty and growth tepid in the coming quarters as we work through a host of challenges. Some of the more daunting challenges include the labor market, made clear with the release of the June employment report. Payrolls were slashed by 467,000 and the unemployment rate jumped to 9.5% bringing the total number of people unemployed to 14.7 million. This tells only part of the story since the Bureau of Labor Statistics (BLS) also publishes another measure of labor utilization called the U-6, which includes discouraged job seekers as well as people working part-time because they cannot find full-time employment. By this measure, June underemployment is 16.5% or approximately 25 million people seeking full-time job opportunities. Since the consumer makes up approximately 70% of our Gross Domestic Product (GDP), the underemployment issue is of vital importance. When you combine the labor market problems with the consumer still trying to overcome their massive debt hangover (they are likely to be a bit more thrifty in the near term, as indicated by the rise in savings rates) and the fact that our economy is still wrestling with a very large housing inventory, the conclusion is that the near term economic growth picture seems fairly mild at best. Another concern that started to present itself was the fear that high inflation was just around the corner due to government spending. Given the slack global economy and all of the excess productive capacity available both domestically and globally along with the labor market issues, it is hard to see inflation taking hold anytime soon. The real near term threat continues to be deflation.

However, even with these remaining challenges, opportunity does exist for patient investors as the economy continues to right itself. Liquidity is returning to the markets, fear has been greatly reduced and investors are becoming more comfortable with the idea of accepting reasonable risk, banks are starting to lend money again and have even started to repay their government loans (a bit self-serving, however, still a positive). All of these events point to markets that are returning to a state of normalcy. In addition, other positives exist: according to CNNMoney.com's bailout tracker, the government has "only" invested \$2.5 trillion of the \$10.5 trillion it has committed through its various recovery programs, there is still a significant amount of money on the sidelines held in money markets, bank deposits and other short-term investments that could come back into the markets and analysts have started to raise their earnings estimates for the second half of this year and 2010 for the companies that constitute the S&P 500.

As normalcy continues to return to the equity and bond markets, we would expect the relevance of fundamental economic data (corporate earnings, interest rates, employment, etc.) to play an increasing role on the movement of these markets. As the healing continues, the markets may continue to exhibit periods of increased volatility at times, however, the longer-term trajectory should be positive.

As you know, we are closely monitoring the financial markets and our clients' investment programs. If you have any questions or concerns regarding your portfolio or the markets, please feel free to contact us.

OTHER MATTERS

In accordance with SEC regulations, we request that you contact us in the event that there have been any material changes in your financial circumstances or investment objectives, or if you wish to impose any reasonable restrictions on the management of your accounts or modify existing restrictions on the management of your accounts.

Sincerely,

MINTZ LEVIN FINANCIAL ADVISORS, LLC