

PMFA MARKET PERSPECTIVES

January 2010

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FINANCIAL ADVISORS

Capital Markets

Spending time with family during the holiday season often causes us to pause and reflect on our experiences. Sometimes when families gather, old memories are rehashed and good times are had by all. Conversely, family gatherings can sometimes be a great source of anxiety or discomfort, or even a reminder that few family holidays are as pristine as a Norman Rockwell painting might suggest. Having experienced the roller coaster ride that was 2009, many investors felt similarly conflicted feelings toward the markets last year.

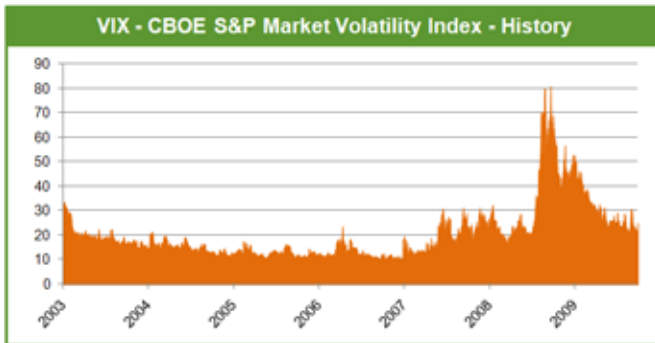
Our annual "Road Ahead" commentary, which will be included in the PMFA annual report that will be released in early February, will provide our forward-looking perspective on the markets and economy in 2010. In the meantime, we hope you enjoy our seasonal twist on reflection of the past year in the markets.

Observation 1: When You Think Things Are Never Going to Get Better, They Often Do

You look up at the clock and realize that only an hour has passed. You are stuck at the table, seated between your loud uncle and your great aunt who never has a positive thing to say. Then, someone pulls out an old photo album and you find that shared memories of holidays past generate laughter. Just when you thought your family gathering was never going to get better, it did. A similar rollercoaster of emotion took equity investors on a whirlwind tour of high and lows in 2009.

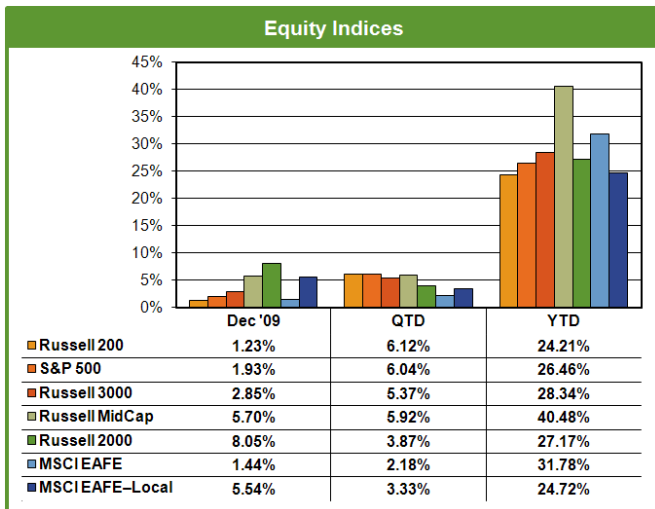
In the first quarter of 2009, it seemed at times as if the news kept getting worse with no evidence of positive signs to be found. The Bureau of Economic Analysis reported GDP at a dismal -6.4% for the first quarter, an even larger contraction than the -5.4% from the fourth quarter of 2008. Following losses of 23% for the Russell 3000 Index in 2008, domestic equities received no reprieve to start the New Year. In the first two months of 2009, the index lost an

additional 18%. At the same time, pessimism surrounding the economy and the outlook for consumer spending drove equity P/E ratios down to levels unseen in many years while keeping volatility at a high level.



Source: PMFA, Yahoo Finance

However, at the first sign of economic stability, investors with a sufficiently high tolerance for risk overlooked the massive uncertainty in the market and seized an opportunity to begin buying equities -- bidding up prices handsomely in the ensuing months.



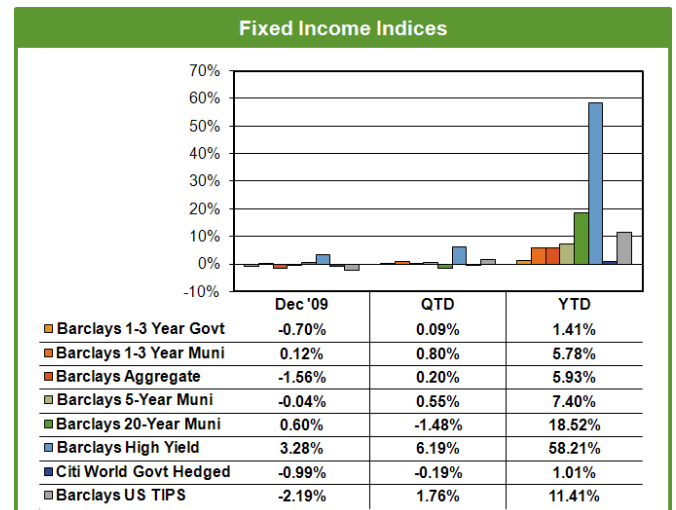
Source: PMFA

To put this in perspective, it has been over 20 years since the trailing Russell 1000 Index P/E was as low as the value reached in the first quarter of 2009, following “Black Monday” in October 1987. Driven by the global coordinated fiscal and monetary stimulus unleashed by policymakers, and a general view that the banking system would not be “nationalized,” the Russell 1000 Index achieved a return in excess of 25% in 2009, its biggest calendar year gain since 2003.

Observation 2: Too Much of a Good Thing May Lead to Unintended Consequences

Family gatherings can come with many opportunities to overindulge. After such a large meal, did you really need two pieces of Aunt Ruth’s double-layer chocolate cake as well? When your taste buds are being rewarded, it can be easy to not think about how you will feel later. The rally in risk assets that was often called a “sugar high” provokes similar questions of justification, especially given the expectation that conditions will become less supportive of risk assets at some point in the future.

Among the many powerful forces that were supportive for risk asset markets in 2009 was the extremely accommodative monetary policy that helped to drive down borrowing costs for corporations and individuals and kept banks flush with liquidity. The global policy response to the crisis of 2008 was without precedent. Despite warnings of unintended consequences from these measures, including the potential for higher interest rates and inflation down the road, investors piled into risk assets, including equities and low grade bonds, as the fears of financial Armageddon dissipated.



Source: PMFA

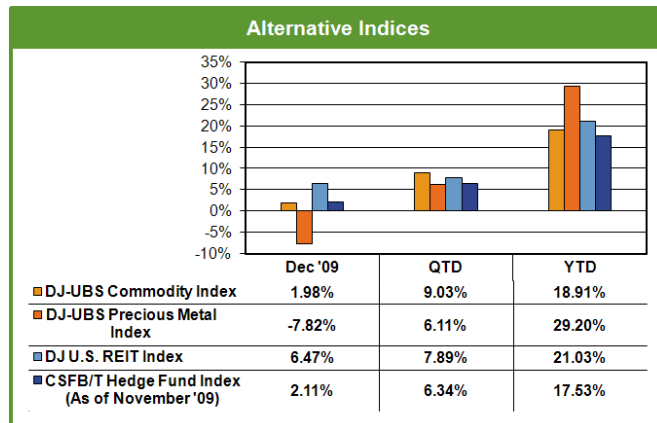
While it may have been easy to be skeptical of risk asset performance in 2009, as the economy still remained very weak despite showing glimmers of hope, investors who remained in risk assets were handsomely rewarded.

For some, the aftermath from indulgence in “too much of a good thing” at family gatherings may be a stomach ache. Without question, the accommodative forces that have helped to fuel risk asset performance will have to be unwound, potentially causing periodic decreases in value. Looking forward, investors should not expect

outsized returns unless the drivers of economic growth becoming convincingly more favorable.

Observation 3: New Influences Come and Go

The holidays are often one of the few times in which extended families gather together. As a result, it is not unusual for the faces at holiday gatherings to change each year or traditions to change out of necessity to accommodate shifting family dynamics. Perhaps your nephew Eddie has a new girlfriend, your niece has a new baby, or your cousin’s mother-in-law “crashed the party.” Changes like these may require a reassessment of your situation, including adjustments to your list of gifts to be purchased or preparation of a formal list of names to keep track of everyone. Similarly, the influences that impact the global investment markets have experienced significant changes over the past 18 months. This has required investors to confront portfolio construction considerations that had not previously been a factor.



Source: PMFA

In recent years, increasing attention has been given to potential allocations to alternative investments. Reasons for this may include the spike in equity market volatility as well as the sanguine near-term outlook for the return potential of traditional equity and fixed income asset classes. Gold, in particular, was an investment that seemed to dominate the headlines in 2009, as investor interest in the so-called “barbaric relic” increased in concert with fear of a potential depression and subsequently excessive inflation. The result was performance that was very much in line with the broad equity market.

If the domestic economic recovery becomes more convincing, gold could be challenged; a stronger-than-expected rebound could be constructive for the U.S. Dollar as well as stocks for some period. Nonetheless, we believe that maintaining some exposure to gold (particularly for investors with higher exposure to risk

assets) as a protective measure in an uncertain environment remains prudent.

A second materially changing influence on the markets was that of the Federal Reserve. In 2009, the Fed purchased in excess of \$1 trillion in agency mortgage-backed securities during the year, in an effort to support housing affordability and improve liquidity in the credit markets. For investors in mortgage debt, returns were positively influenced by the participation of the Fed. The Fed’s agency mortgage purchase program is set to expire in the first quarter of 2010, and speculation is increasing surrounding the timing and strategy that the Fed will employ to wind down the program without disrupting the market. The Fed’s presence in the agency mortgage-backed securities market in 2009 was a game changer that helped to prop up both the housing and banking sectors. Their exit strategy from this intervention will also need to be well-conceived and carefully executed to facilitate a relatively smooth transition back toward more normal conditions.

Faces come and go at family gatherings, and family traditions evolve to accommodate changing family dynamics. As much as it can feel comforting to hold on to the past, change is constant and it cannot simply be wished away.

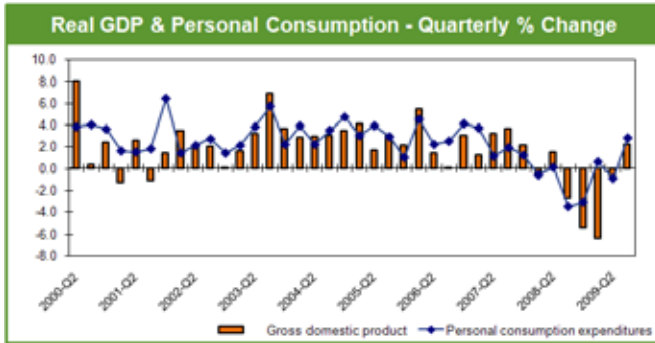
Similarly, we have seen meaningful changes to the major influences on global investment markets that cannot be avoided by investors. Investors must acknowledge the changes that have occurred and consider how future portfolio risk and return will be impacted. Historical expectations and relationships, even those that may have held true for a long time, may fundamentally change. Recognizing those changes and adapting to new circumstances may be necessary in the next phase of the market cycle. For our thoughts on what this means for investors and strategy looking forward, we invite you to review our expanded commentary in the PMFA Annual Report upon its release.

Economy

GDP

The final estimate of third-quarter GDP came in at 2.2%, well below the advance estimate of 3.5%. The continued downward revision suggests that the “coiled springs” weren’t quite as taut as originally anticipated. A return to growth was still welcomed, though, after enduring four consecutive quarters in negative territory. Prodded by federal stimulus programs, consumers boosted spending levels, and residential housing provided its first quarterly positive contribution to growth since 2005. Inventory investment was also a positive

contributor as anticipated, while the falling dollar supported gains in exports.



Source: PMFA, Bureau of Economic Analysis (BEA)

After some early indicators have exceeded expectations in recent months, economists' estimates for fourth-quarter GDP continue to be bumped higher. While we won't get our first official look at fourth-quarter GDP until January 29, an increasing number of economists are projecting that quarterly growth may exceed a 4.0% annualized pace. The average, according to the most recently completed Bloomberg survey of economists dated December 9, remains at 3.0%.

INFLATION

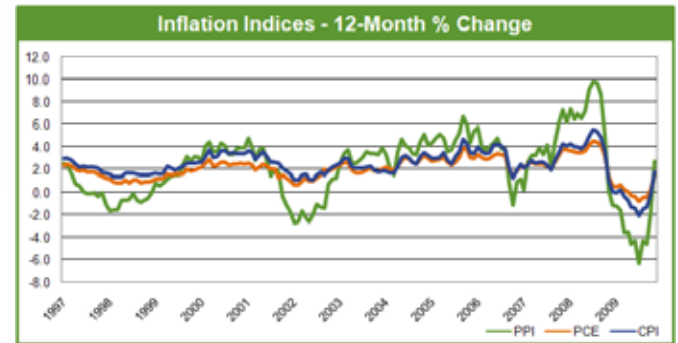
2009 was a volatile year for inflation indices. The Consumer Price Index fell to -2.1% year-over-year by mid-year after beginning the year flat. After trending upward for the remainder of the year, it appears that the index will end 2009 in positive territory, as the 12-month change reached 1.8% for the month ended November.

Index	Period Ending November 2009	
	One-Month % Change	One-Year % Change
All Items		
CPI	0.1%	1.8%
PPI	1.8%	2.7%
PCE	0.2%	1.5%
All Items Excluding Food and Energy		
Core CPI	-0.2%	1.7%
Core PPI	0.5%	1.2%
Core PCE	0.0%	1.4%

Source: PMFA, BEA, Bureau of Labor Statistics (BLS)

Headline inflation edged higher in November boosted by rising energy costs. Increasing energy prices were particularly influential on the Producer Price Index, which increased a sizeable 1.8% during the month. Core indices were mixed for the month, but the 12-month figures were little changed since October. Core

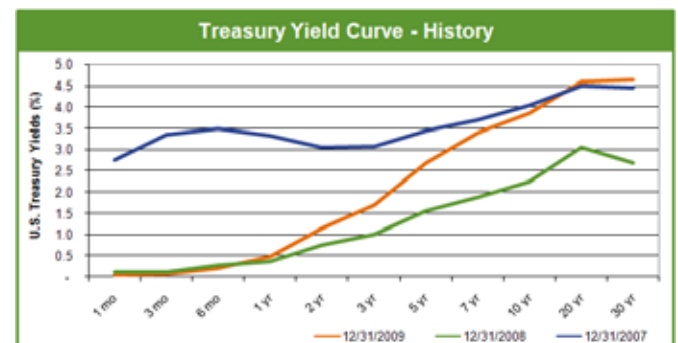
indices still remain within the Fed's implied target range of 1%-2%, and expectations suggest that near-term inflationary pressures will continue to be contained. Rising commodity costs within the context of a depreciating dollar, however, could act as an additional inhibitor to consumer spending and a stronger recovery.



Source: PMFA, BEA, BLS

INTEREST RATES

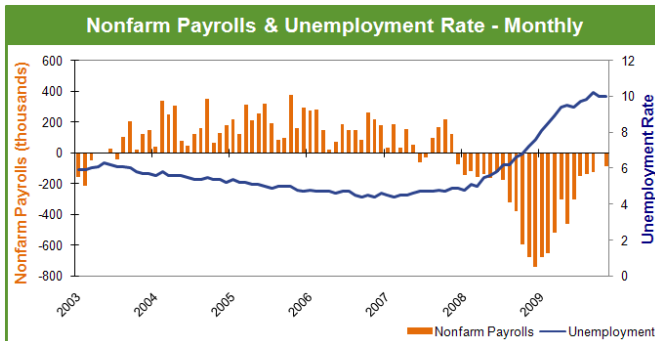
The Treasury yield curve has been unusually volatile over the course of the past two years. Throughout the latter half of 2007, the yield curve was in an inverted state, which often is an early indicator of an impending recession. While its predictive nature proved correct, the unforeseen severity of the recession ignited a flight to quality which quickly drove short-term Treasury yields to virtually zero by the end of 2008. Longer-term Treasury yields, which also fell dramatically in 2008, have since edged back near 2007 levels, resulting in a significant re-steepening of the Treasury yield curve.



Source: PMFA, U.S. Treasury

EMPLOYMENT

With a net loss of over 4 million jobs in 2009, the year ended with unemployment at an uncomfortably high 10%. Expectations had been for payrolls to remain flat; however, monthly job cuts increased to 85,000 in December. The continuation of losses suggests that employers remain cautious even after six months of tepid improvement in economic indicators.



Source: PMFA, BLS

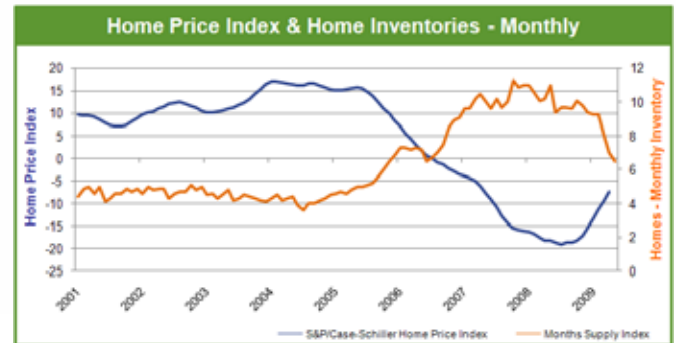
Although the November revision in nonfarm payrolls resulted in an estimated gain of 4,000 jobs, its symbolic significance, given the massive losses earlier in the year, easily outweighs its real impact on job creation. Furthermore, as discouraged workers regain confidence in the recovery and try to re-enter the workforce, the pool of unemployed workers actively seeking jobs will increase, likely putting incremental upward pressure on the overall jobless rate.

REAL ESTATE

While progress has been made, significant uncertainty remains on the housing front. Various stimulus efforts supported asset prices and contributed to the stabilization of the real estate market last year. The Fed's quantitative easing measures helped to keep mortgage interest rates low, enhancing housing affordability. Meanwhile, the First-Time Homebuyer Credit clearly helped to curtail the level of home inventory. These efforts have also helped to at least temporarily buoy home values that have been declining since 2005.

The Homebuyer Credit has been both broadened to incorporate existing buyers and extended through April of 2010 to further support asset values. Once the Fed's intervention winds down, the tax credit expires, and

mortgage rates likely begin to rise, it will be important for the housing market recovery to transition to self-sustainability driven by organic demand.



Source: PMFA, BLS

Gratuitously Unnecessary Perspective of the Month

For the person who has everything...

Taking a cue from entrepreneurs everywhere, Bloomington, Indiana's Miller Park Zoological Society transformed dime-sized pieces of its reindeer droppings and fashioned them into Christmas ornaments for the 2008 holiday season. Reindeer droppings were dehydrated, sterilized, and spray painted with glitter before finding their way into our nation's homes. Although proceeds from the ornaments yielded \$5,000, the zoo managed to quadruple that take in 2009 by offering necklaces as well.

Although Magical Reindeer Gems are shipped nationwide, the zoo has been forced to turn down requests from other countries as federal regulations don't allow reindeer droppings to be exported.

So much for the U.S. Postal Service's tagline for Priority mail: "If it fits, it ships."

Source: www.wsb.com/news/regional/79993182.html

Past performance does not guarantee future results. All investments include risk and have the potential for loss as well as gain.

Data sources for peer group comparisons, returns, and standard statistical data are provided by the sources referenced and are based on data obtained from recognized statistical services or other sources believed to be reliable. However, some or all information has not been verified prior to the analysis, and we do not make any representations as to its accuracy or completeness. Any analysis non-factual in nature constitutes only current opinions, which are subject to change. Benchmarks or indices are included for information purposes only to reflect the current market environment; no index is a directly tradable investment. There may be instances when consultant opinions regarding any fundamental or quantitative analysis may not agree.

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