

PMFA MARKET PERSPECTIVES

November 2009

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FINANCIAL ADVISORS

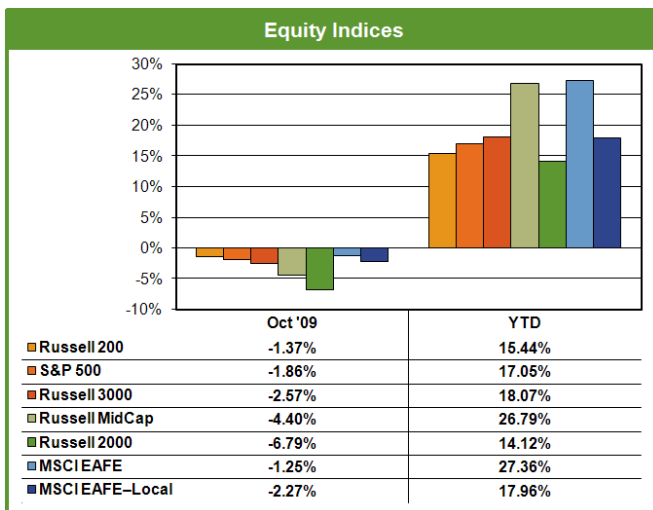
Capital Markets

A lull, a pause, or even a correction should not have been surprising after seven months of surging equity returns. Since the rally began, the economy has shifted course and fear has surrendered to cautious optimism. It wasn't long ago that dire predictions for a potential depression were common. Significant policy action and stimulus efforts were eventually successful in stabilizing the economy and capital markets. Today, the primary focus has shifted to the assessment of what the recovery will look like. October provided us our first look at U.S. economic growth for the third quarter - the first quarter of growth in over a year. While the recession has likely ended and growth has taken root, we continue to be skeptical of a return to what many had come to believe was "business as usual."

Guardrails were hastily erected in the form of fiscal and monetary intervention to keep the economy out of the proverbial ditch. At some point those rails will be removed, leaving the question of sustainability to be resolved at that pivotal juncture. Personal consumption, which represents nearly 70% of GDP, may be slow to lead this recovery. Consumer balance sheets have experienced a significant setback with declines in housing and investment values, while their income statements have been harmed to varying degrees by limited wage growth and the weak employment market. Tighter lending standards remain in place, reducing accessibility to easy money. Other components of GDP are also indirectly dependent upon the consumer, such as business investment and inventories, which ramp up largely in expectation of increased demand from the consumer. Government spending, on the other hand, would seem likely to need to slow in time as the deficit balloons or risk other adverse and potentially lasting consequences to the fiscal and economic health of the country.

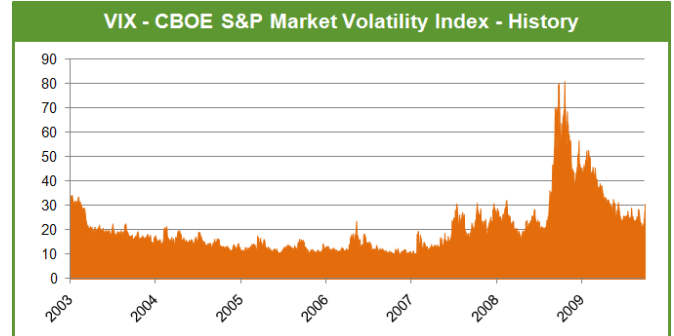
The forward-looking nature of the capital markets often contributes to positive results in anticipation of better days ahead, leading to periods of strong returns even as the underlying economic climate remains challenging. Conversely, although recent indicators are exhibiting signs of improvement, this has arguably already been largely discounted by the market. Today, the market appears to be focusing on the nature of the recovery, as noted earlier herein. As such, although the incremental improvement in a number of metrics (or even a slowdown in the rate of deterioration) is increasingly evident, the market is now evaluating the probability of various paths from here. The markets are figuratively asking, "What's next?" As always, the lack of clarity in the answer and the constant attempts to interpret sometimes conflicting data creates crosscurrents in market direction and both challenges and opportunities for market participants.

Doubts about "what's next" helped to shift the momentum of equities downward in October, after their extended rally in which broad equities, as measured by the Russell 3000 Index, returned over 60%. The pullback in domestic equities was led by smaller caps, which fell by nearly 6.8%. Larger companies, and specifically mega caps, were less exposed to the losses with declines of just 1.4%. International equities held up comparatively well, although the relative decline of the greenback enhanced the returns for U.S.-based investors.



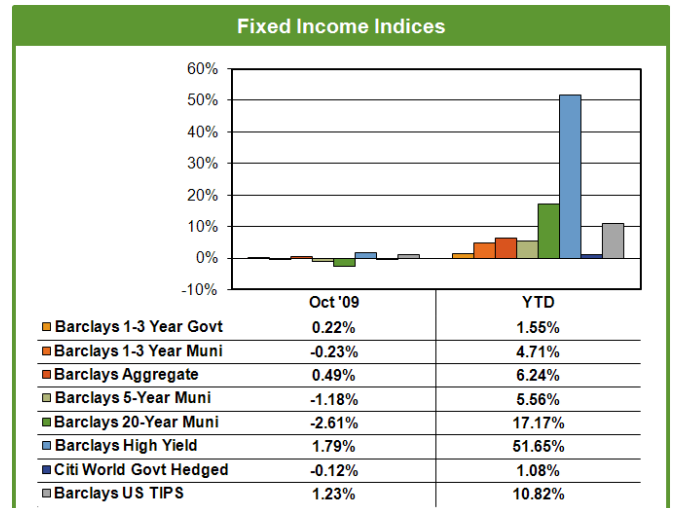
Source: PMFA

Volatility, more specifically in the form of downside risk, crashed the party again in October. While volatility levels are still far from the historical peaks reached just a year ago, elevated volatility levels are clearly not a thing of the past and are expected to be here for an extended stay.



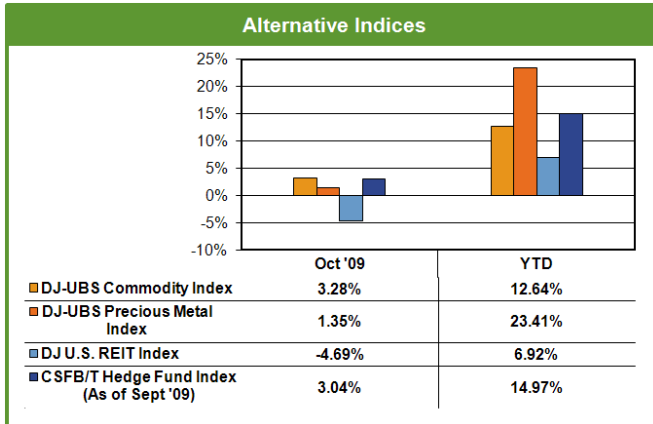
Source: PMFA, Yahoo Finance

Bond markets experienced more mixed results as compared to equities during the month. Municipal bonds shed some of their previous gains in October, with longer maturity issues underperforming the short end of the curve. Meanwhile, taxable bonds posted moderate gains. The most notable gain was realized yet again by the Barclays High Yield Bond Index, which has surged by over 50% year-to-date. This result stands in sharp contrast to the index's outsized losses in 2008.



Source: PMFA

The correlations associated with alternative investments relative to traditional equities have begun reverting back toward historical averages, following a period in which correlations converged. Diversification benefits were evident in October, as several alternative investments provided positive results. Commodities provided a positive return for the month, while precious metal prices also moved higher. Gold specifically reached a new peak during the month of \$1,060 per ounce. Fears surrounding the devaluation of the U.S. Dollar and the potential for runaway inflation have recently contributed to the gold rally.



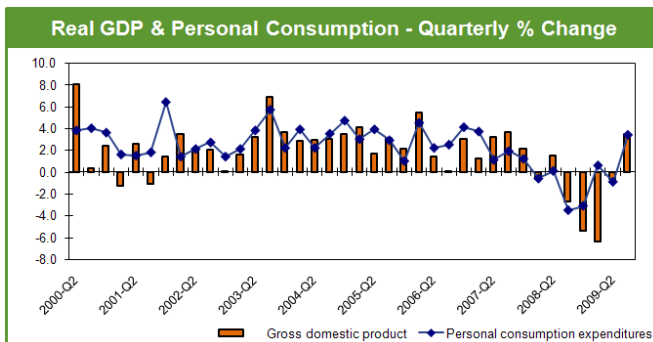
Source: PMFA

Economy

GDP

After experiencing a shrinking economy for five of the last six quarters, market watchers anticipated the positive announcement of third-quarter GDP growth. They were not disappointed with the advance estimate of 3.5% annualized, which surpassed the consensus expectation of 3.2%.

Consumers were one substantial contributor to growth over the quarter, fueled by government stimulus programs geared toward incentivizing spending on big-ticket items. Motor vehicle output alone added 1.7% - a big thanks to the "Cash for Clunkers" program, and the First Time Home Buyers Credit boosted residential investment, which expanded for the first quarter in nearly four years. Results were also enhanced by inventory restocking and increased exports.



Source: PMFA, Bureau of Economic Analysis (BEA)

Third-quarter earnings season kicked off in October and results thus far have been generally positive, over 70% of companies exceeded operating estimates as of October 30. Furthermore, profit margins have been above their 15-year average, a product of the stringent

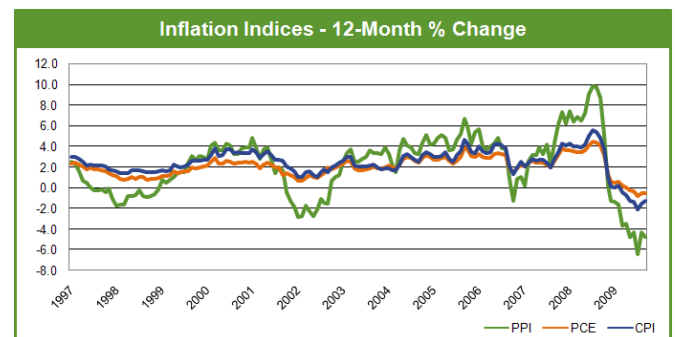
cost-cutting measures that have been in effect since the onset of the recession.

INFLATION

Index	Period Ending September 2009	
	One-Month % Change	One-Year % Change
All Items		
CPI	0.1%	-1.3%
PPI	-0.6%	-4.7%
PCE	0.1%	-0.5%
All Items Excluding Food and Energy		
Core CPI	0.2%	1.5%
Core PPI	-0.1%	1.8%
Core PCE	0.1%	1.3%

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

Core measures of consumer inflation remain positive, but relatively weak. Some deflation is confirmed by the one-year change in headline indicators, but this has been driven largely by falling energy prices over the past 12 months. While commodity prices have once again been on the rise, other significant forces are working to impede rising inflation in the short term. These include the soft labor markets (expected to soften further), which will contain wage pressures, and the excess resource slack throughout the economy. Until significant improvements occur on these fronts, inflation indices should remain moderate.



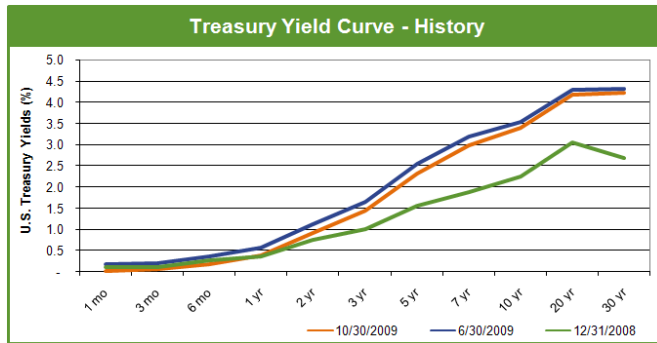
Source: PMFA, BEA, BLS

INTEREST RATES

The FOMC met in the first week of November to evaluate their policy efforts in navigating this delicate economy. Not surprisingly, the Fed kept its funds rate unchanged, at a range of 0%-0.25% and reiterated the need to maintain "exceptionally low levels of the federal funds rate for an extended period."

Central banks around the world also continue to evaluate their policies as the picture continues to improve. The Reserve Bank of Australia made news by

raising its target rate 25 basis points this month. As the global recovery gathers steam, tighter monetary policies are likely to varying degrees dependent upon local conditions. Given current conditions and the overall outlook in the U.S., the weak labor market and output gap should keep the need for the Fed to hike rates at bay until well into 2010.

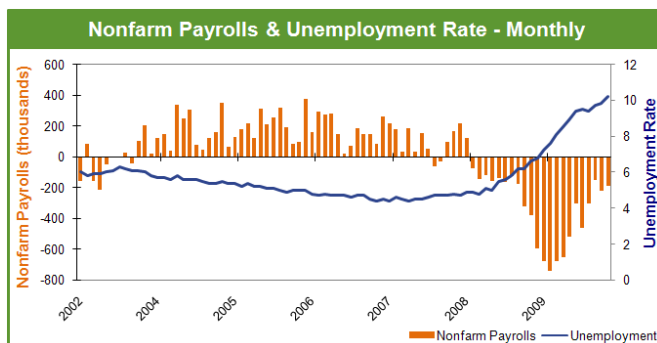


Source: PMFA, U.S. Treasury

The Treasury yield curve steepened marginally throughout October. Short-term yields approached their December 2008 lows, as the three-month Treasury fell nine basis points to just 0.05%. Meanwhile, long-term Treasuries fell during the month, pushing yields higher. The 10-year Treasury ended the month at 3.41%, rising 10 basis points.

EMPLOYMENT

The unemployment rate hit 10.2% in October, its highest level since April 1983. In fact, with the exception of the early '80s, that result is the highest reported rate since 1948. October nonfarm payrolls moderated as compared with September, with 190,000 jobs being shed. While the pace of job loss continues to gradually improve, employers remain in a cost cutting stance; the tally of total jobs lost since January 2008 now stands at over 7.3 million.



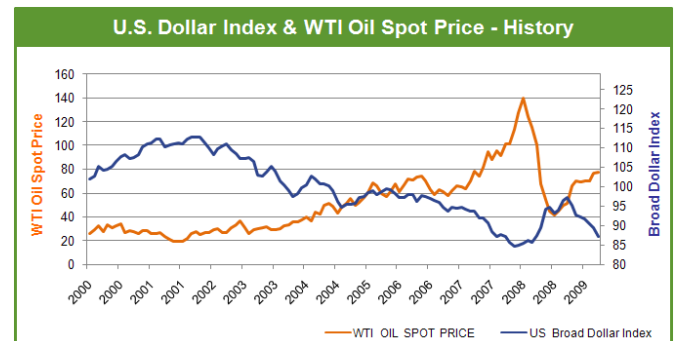
Source: PMFA, BLS

The employment situation will continue to lag as other economic indicators recover. Historically, this has always been the case following a recession. Since the

post-WWII era, unemployment levels peak on average six months after a recession ends. While the official ruling on recessions, the National Bureau of Economic Research, won't announce an end to the current recession for months to come, evidence suggests that the recession likely ended sometime this past summer. If employment follows the historical trend, the unemployment rate may begin to recede in early 2010. Nonetheless, most indications are that underemployment will be with us for some time, and recovery in the jobs market will be a drawn-out process.

U.S. Dollar

A hot topic in recent news has been the future stability of the U.S. Dollar. After a short-lived strengthening in the Dollar during the heart of the panic, the Dollar has once again begun falling relative to other currencies. In part, a falling dollar is consistent with a return to investment risk-taking and the emergence of the Dollar carry trade. Given extremely low rates, the U.S. currency becomes an attractive funding currency for borrowing to buy higher yielding assets, often denominated in other currencies.



Source: PMFA, Energy Information Administration, Federal Reserve

Gratuitously Unnecessary Perspective of the Month

Trypting Out

Ah, tryptophan, that pesky amino acid that runs rampant through the turkeys on our Thanksgiving tables and lulls us fast to sleep after its consumption. Or does it?

In fact, all meats and even cheese contain tryptophan at comparable levels to turkey. Yes, tryptophan can cause sleepiness if taken in large quantities (say, 2,000 milligrams) and on an empty stomach. By comparison, four ounces of turkey contain about 350 milligrams.

What are the real sleep-inducing culprits at Thanksgiving dinner? All those carbohydrates from potatoes, stuffing, vegetables, bread, and pie!

It seems like we owe a big apology to the turkey lobby.

Source: www.livescience.com

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

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