DECEMBER 2009 QUARTERLY RESEARCH REPORT

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Table of Contents

I. Report Overview	3
II. Macroeconomics	6
III. Capital Markets	16
IV. Appendix: Asset Class & Sector Returns	26

I. Report Overview

Report Overview

The Difference a Year Can Make

Before delving into this quarter's report, we would offer a brief reminiscence of conditions just one year ago. It is rather amazing, at least to us, to ponder the tremendous difference one year has made to the landscape of our economy and capital markets. Just consider the events of 4th quarter 2008 and how unsettling, if not frightening, they were to virtually anyone paying attention. The world was in a credit crisis of historic proportions, one so severe it not only sent securities prices plummeting, but also destroyed or imperiled some of the world's largest and most esteemed financial institutions. The Federal Reserve was scrambling to preclude what literally could have been a complete meltdown in financial markets and the onset of a global depression. The President of the United States even found it necessary to comment on the solvency of the FDIC, as a "run" on the banking system became a realistic fear. An epic flight to safety ensued, creating opportunity after opportunity for institutional investors.

It is unlikely such a robust opportunity set will present itself again anytime soon, which leads us to the crux and focus of this quarter's report. With risky assets rallying in 2009, the aforementioned opportunities have gone away, leaving us with a far more normative array of expected returns. However, in an apparent disconnect to this market rally, underlying economic conditions have failed to rebound in commensurate fashion. In fact, by some metrics and frames of reference, things have actually gotten worse. Because we know the economy and capital markets are inextricably linked, we cannot fail to address this departure from underlying fundamentals, or whether it poses a significant risk to investors. So before getting into our views on financial markets and associated portfolio implications, we begin with an analysis of macroeconomic conditions.

Our Macroeconomic Views

From a big picture point of view, US GDP is essentially unchanged on a *real* basis year over year, while at the same time millions of people lost their jobs, households recovered but a small fraction of their losses since the economic peak, and housing market fundamentals rapidly deteriorated as evidenced by rising defaults and foreclosure activity. Of particular concern is the US' apparent continued dependence on debt as a means to fuel our economy. In the last seven quarters, total outstanding US debt has grown by approximately $3 trillion, or more than 20% of GDP. Of course, much of this debt growth is being borne by the government at low interest rates, but such rates of borrowing are simply unsustainable over time.

If recent experiences have reminded us of anything, it is the immutable fact leverage goes hand in hand with potential volatility. When you consider the US economy shrank only 3% from peak levels, but caused the "main street" damage it has, one cannot deny this relationship. As debt levels rise, so does the potential downside should things go awry. This relationship is not something that should be taken lightly at any time, but is of special concern given the economy is still not back on solid footing.

Our analysis of government monetary and fiscal stimulus continues to raise serious concerns about prospective inflation over the next decade. The monetary base has more than doubled, but we have not seen its effects as banks continue to practice stingy lending practices. However, the government is actively pressuring them to get that money supply working. We continue to see a Fed Funds rate around 0%, which will likely stay there until GDP strongly recovers. Fed purchases of Treasury and Agency bonds have been massive, with its balance sheet growing by $1.3 trillion in the last year. Our concern is how these monetary forces will be extricated without causing damage to an economy that is so highly dependent on leverage. Could the Federal Reserve successfully orchestrate an economic recovery and maintain its implicit inflation goal of 2.5%? Well sure it could, but the chances of doing so are low. It just seems unwise to expect not only prescience on the part of the Fed to see inflation coming, but also perfection in how they carry out their plans. Because if they do anything less, it is unlikely they will keep inflation under control.

As if monetary measures weren't enough cause for concern, we must take note of fiscal stimulus efforts, whether they are through direct spending or the support of social safety nets. The fact of the matter is 7.6 million people have lost their jobs and another 4.6 million have exited the labor force since 2007. There are simply fewer people working to produce goods and services, while at the same time consumer spending is pretty much unchanged and huge amounts of stimulus are pending. The logic is very simple - lower supply in the face of sustained demand means higher prices. So the longer we stimulate the economy and unemployment remains high, the higher the risk of domestic price inflation, not to mention concerns over such things as the global price of energy and metals.

Report Overview

How Macro Views Intertwine With Capital Markets

With our macro views in hand, our thoughts first turn to diversifying portfolio exposures globally. Investors worldwide tend to demonstrate a home country bias, which in this environment could be unwise. Even though US GDP growth has outpaced its developed neighbors in recent years, it has done so with higher growth in debt. Moreover, US economic growth has lagged that of emerging and developing countries. When you consider US GDP represents only a quarter of the global economy, that our equity markets are the most expensive in the world, and numerous other risk factors, it seems unwise to shun a globally diversified portfolio. So we urge an open mind.

Another primary consideration is the aforementioned disconnect between underlying economic growth and valuations for risky assets. Because risky assets soared in 2009, investors may be tempted to take risk off the table in anticipation of a market correction that could bring asset prices more in line with economic conditions. We must admit such a possibility is not entirely unrealistic, especially if economic growth fails to materialize in the near future. Markets generally tend to rebound about 6-12 months in advance of an economic recovery, but if economic growth fails to present itself and market expectations are not fulfilled, a correction would be a reasonable expectation.

The problem with these lines of reasoning is such efforts are often dedicated to dimensioning the chances of a correction, as opposed to understanding potential gains if and when a correction occurs. Of course you can have an educated opinion on a potential correction, but you would still be guessing on the timing thereof. On the other hand, you can tangibly forecast the potential value added if such an event occurs and if you happen to time it correctly. We happen to have completed such an analysis in this report with respect to US large cap equities. Our results indicate the potential gains are paltry in comparison to potential losses given current valuations.

Such positioning could take the form of marginal tilts relative to policy targets or working within rebalancing guidelines. Clearly we are big believers in the potential value added of engaging in strategic tilts, but only when the chances of success are markedly in our favor within the context of a 10 year investment horizon. Positioning against a possible market correction in the hopes of adding marginal value is quite a different story. Not only would we describe such actions as market timing, we would add there is little to be gained even if successful, as most asset classes appear to be trading at what would be best described as “fair value.” If we believed assets were grossly overpriced, we might very well have a different opinion given all the aforementioned economic risks. But this just isn’t the case right now.

Equity markets appear to be offering up mid- to high-single digit expected rates of return on a ten year investment horizon. Credit yields remain well above Treasury rates, and offer reasonable compensation for bearing the associated risks. TIPS appear to be priced fairly, but arguably cheap, with implied inflation expectations of around 2.5%. Does it seem a little fishy that risky assets are priced at these levels given all the economic risks? Well sure it does, but with cash rates at nearly 0% what options do investors have? This of course is by design on the part of the Fed in their efforts to bolster capital markets, which in turn will add to household net worth and therefore consumer spending. As long as cash rates remain where they are and risky assets remain priced to return above Treasuries, the impetus for a significant market correction just isn’t there.

Closing Thoughts

Because we believe capital markets are offering up fair levels of compensation, we are fresh out of compelling “fat pitches.” Given the macro environment, caution is in order for new strategic tilts unless they offer a significant increase in expected return. However, this is not to mean no opportunities exist in private or niche markets, which should be evaluated on a case by case basis. Sometimes opportunities abound. Sometimes they do not. But one should always be on the lookout for them in case they appear.

On an overarching basis, we urge global diversification to reduce risks associated with the US economy, but not as an explicit play against the dollar. Also we believe protection against potentially higher than expected inflation is in order. Do not forget inflation can rear its ugly head with or without an associated pickup in real economic growth. Sadly, a strong economic recovery is not assured and we’re not out of the woods just yet. Let’s hope markets have properly priced the timing and magnitude of an economic recovery, lest they be disappointed and correct.

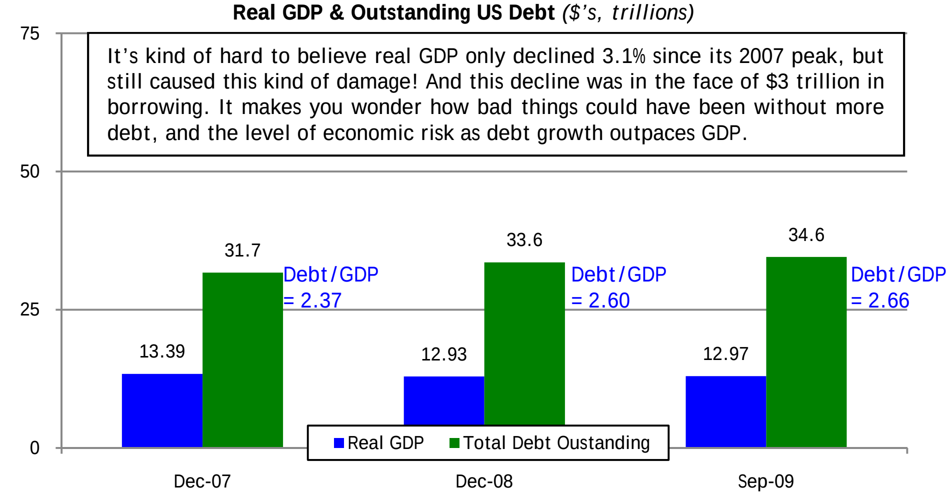
There are a lot of fascinating things going on in the world today, and we try to illuminate and explain as many of them as possible in this report. We hope you enjoy reading our research as much as everyone here at Wurts & Associates enjoyed preparing it for you.

II. Macroeconomics

A Big Picture View of the Economy

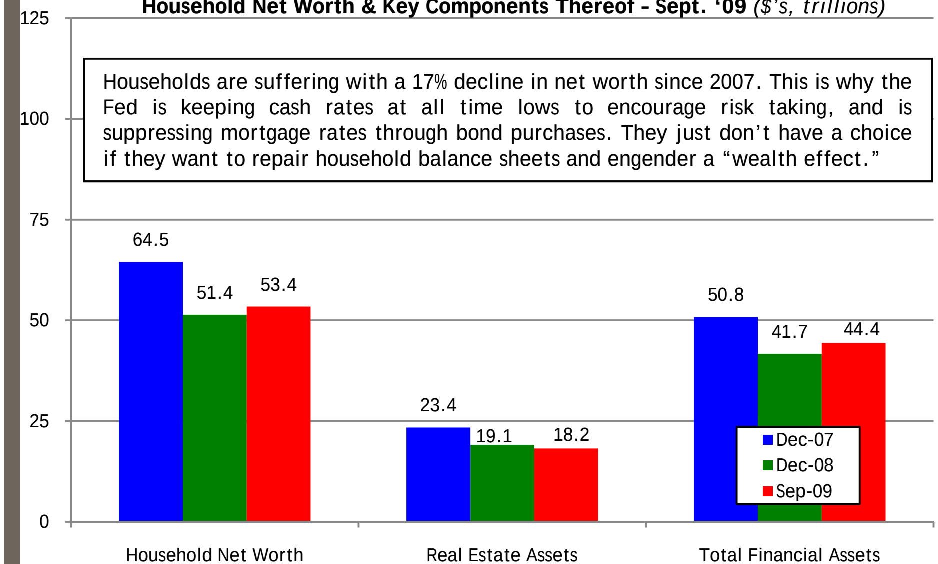
- The US economy posted annualized growth of 2.2% in the 3rd quarter 2009. Of course this is good news, but looking only at growth rates tends to miss the mark in understanding economic activity. Instead we believe a more fundamental analysis is worthwhile. This page provides a big picture view; subsequent pages go much further into detail.
- What is rather unsettling to note about recent years is how little absolute levels of *real* GDP declined, versus how much damage there has been to household net worth and the job market. The downside of leverage is painful indeed.
- Also important to note is the continued ramping up of total societal debt. We have been monitoring these data throughout 2009, but to actually see the addition of $3 trillion in debt since GDP began falling after 2007 is somewhat unsettling.

Real GDP & Outstanding US Debt *($'s, trillions)*



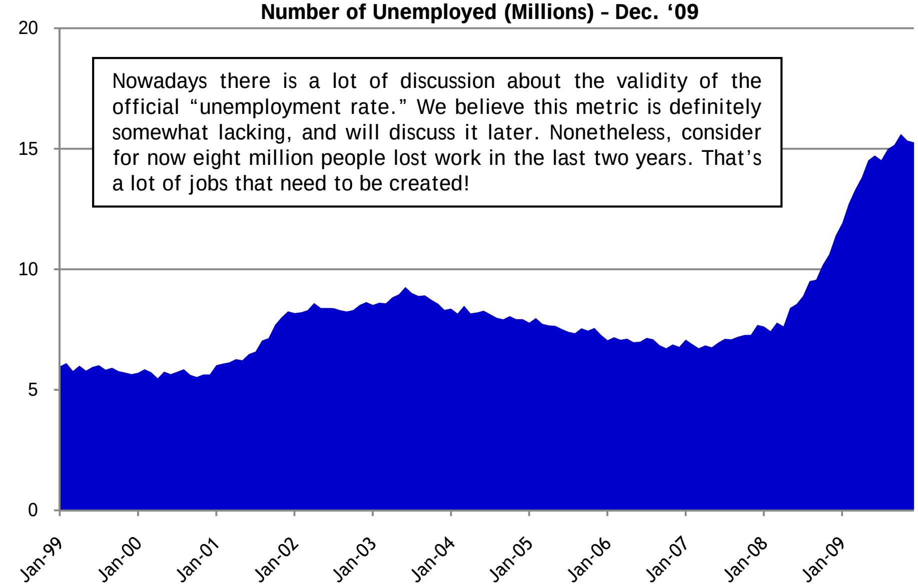
Source: Federal Reserve, BEA

Household Net Worth & Key Components Thereof – Sept. '09 *($'s, trillions)*



Source: Federal Reserve

Number of Unemployed (Millions) – Dec. '09

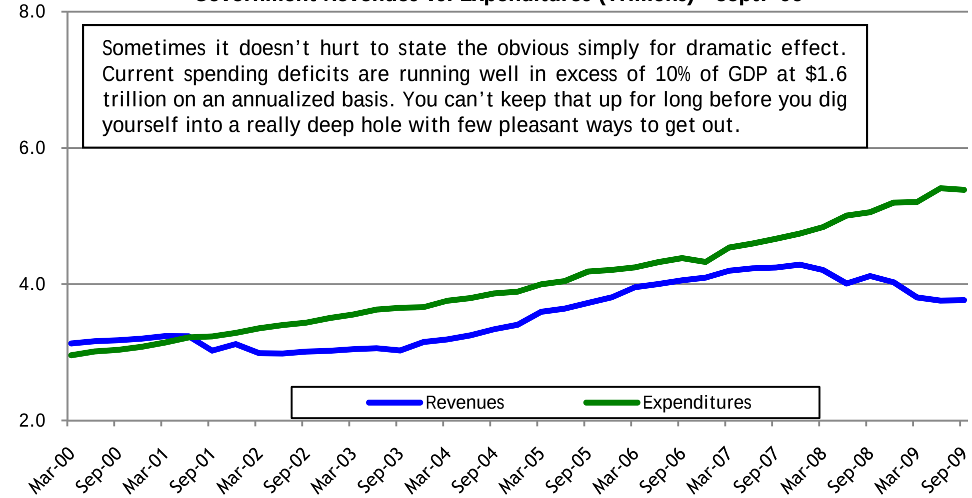


Source: BLS

The Economy is Still Running on Leverage

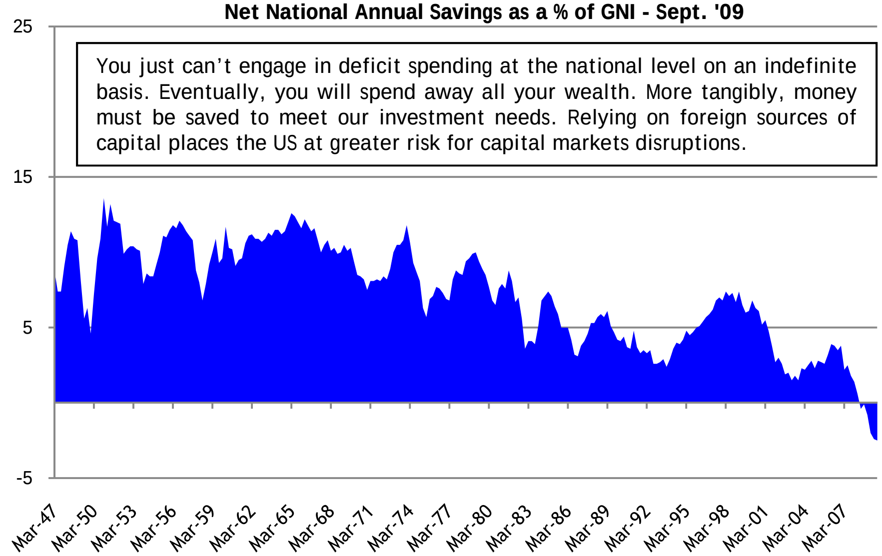
- The Federal government continues to run massive operational deficits well in excess of one trillion dollars on an annualized basis, which in itself is probably not much of a surprise.
- What is surprising however, are the results of a closer look at the personal and national savings rates. A lot of attention has been drawn to a resurgence in personal savings as a sign of near term pressure on consumer spending, but a long term positive for household net worth.
- Household savings rates have risen all right, but this is not likely a result of legitimate savings, as it appears people are simply saving their tax cuts, not making lifestyle changes.
- Furthermore, let's not be fooled by accounting tricks. Savings for the total economy just turned negative, which is something that has never happened before.

Government Revenues vs. Expenditures (Trillions) - Sept. '09



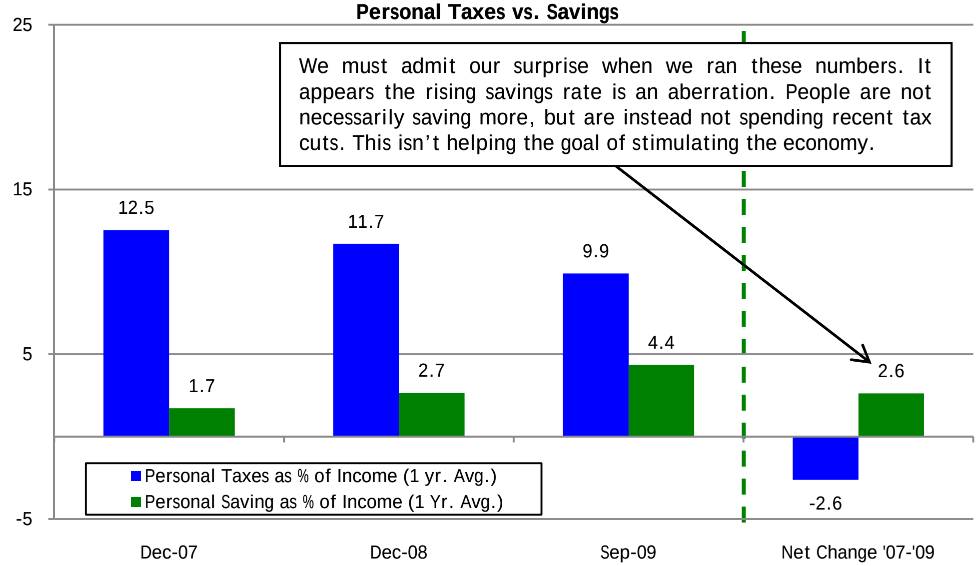
Source: BEA, Wurts & Associates

Net National Annual Savings as a % of GNI - Sept. '09



Source: BEA, Wurts & Associates

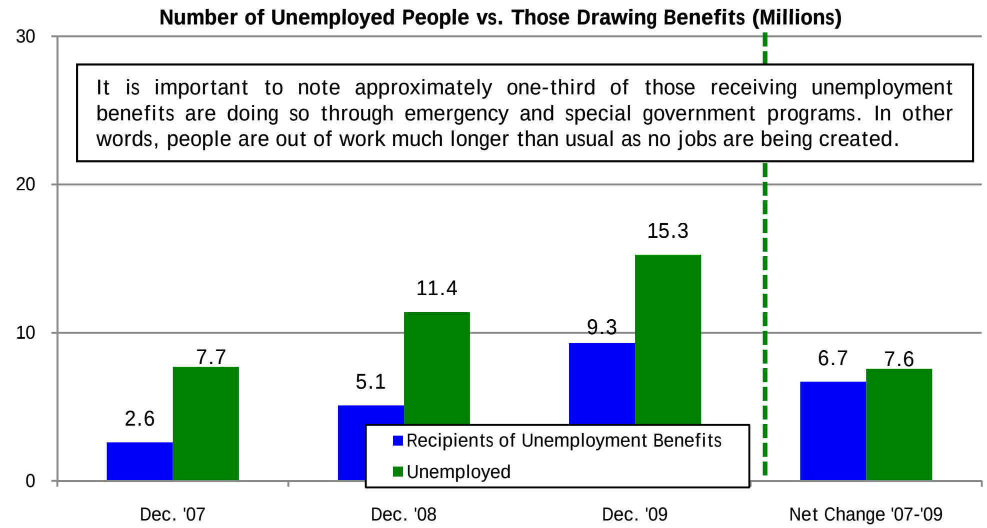
Personal Taxes vs. Savings



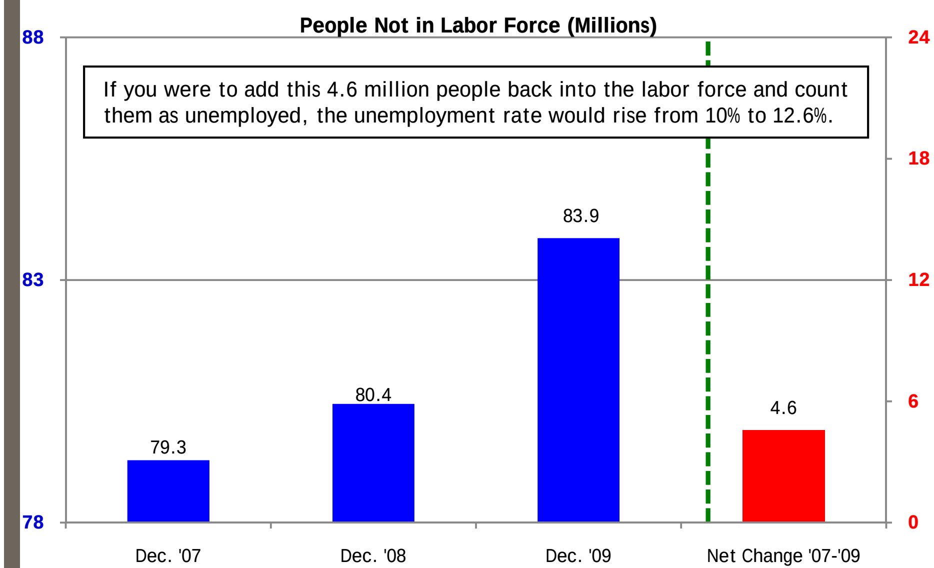
Source: BEA, Wurts & Associates

A Deeper Dive Into the Unemployment Situation

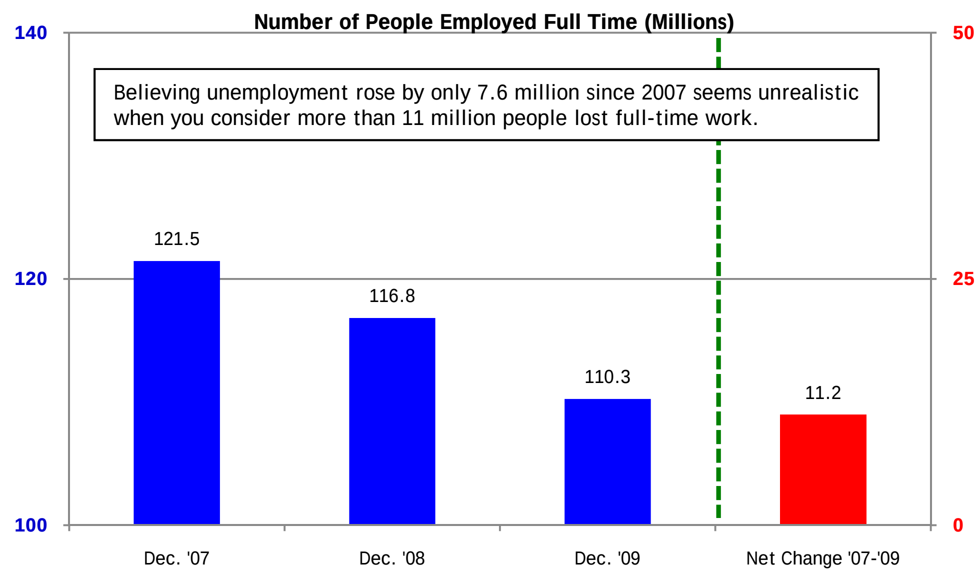
- The "unemployment rate" has gotten a lot of press recently, not only because of how high it is, but due to concerns of its accuracy in dimensioning the true status of labor markets. We tend to agree and believe an accurate picture of the situation can be found without looking too far into the data.
- The number of unemployed people has risen by 7.6 million since 2007, which seems pretty darn awful. However, 11.2 million people have lost full time work, leading one to see why so many question the validity of the official unemployment rate.
- On top of this, we must also keep in mind 4.6 million people have given up on looking for work, removing them from the calculation of the unemployment rate.
- Things are tough for people, really tough.



Source: Bureau of Labor Statistics: Department of Labor



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

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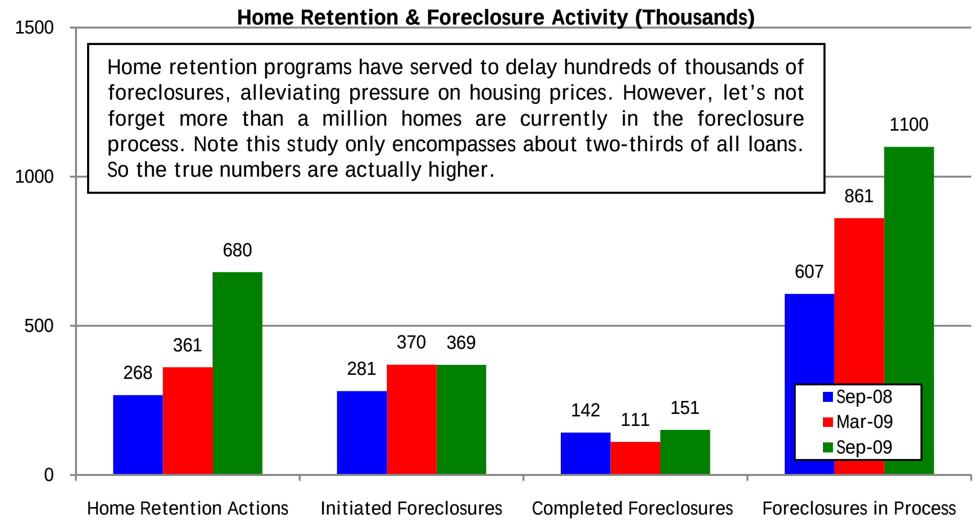
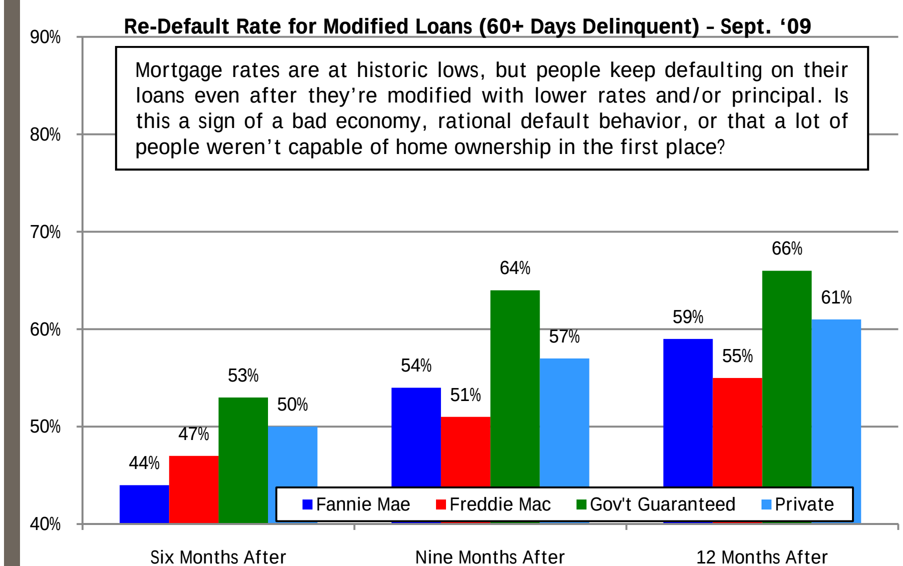
Given Everything, It's No Wonder Households Are Suffering

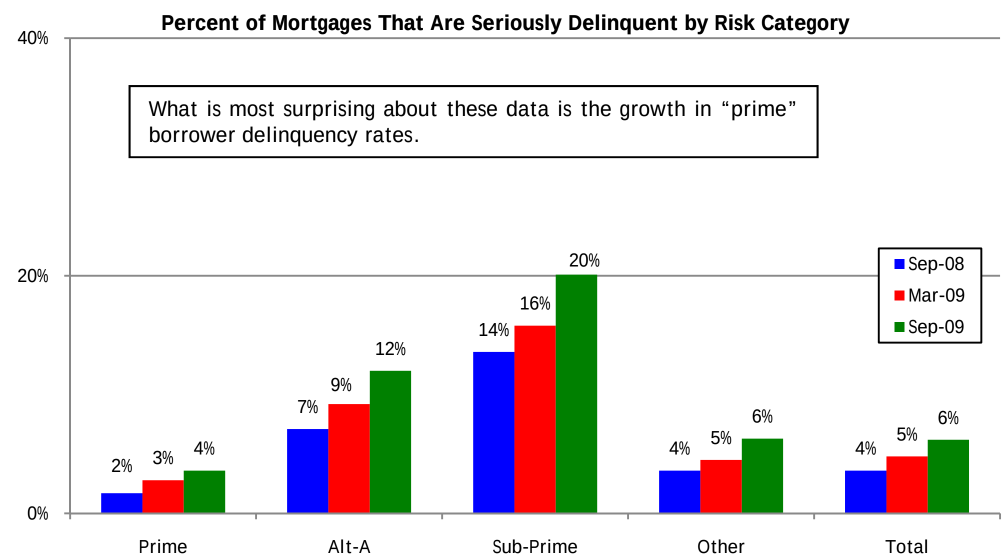
- Now before drawing too many conclusions from these rather ominous looking data, keep in mind there are two fundamental forces driving these results.
- The first is the recession, which clearly makes it more difficult for people to keep their homes. We can legitimately infer the economy is still in a very weakened condition. People can't keep up with payments.
- The second is housing prices which have fallen so much they are altering the normal pattern of behavior for home owners. When "under water" with your home value, it only makes sense to default on your loan, especially if someone is going to offer you a low rate or even reduce principal when you do.
- Nonetheless, the government must do something to get the housing market going again to bolster household net worth.



Source: Office of the Comptroller of Currency



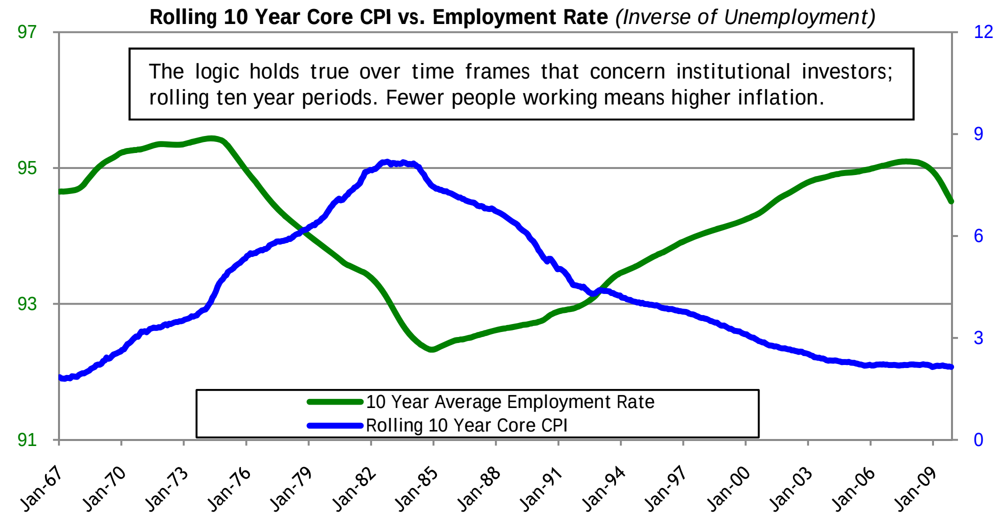
Source: Office of the Comptroller of Currency



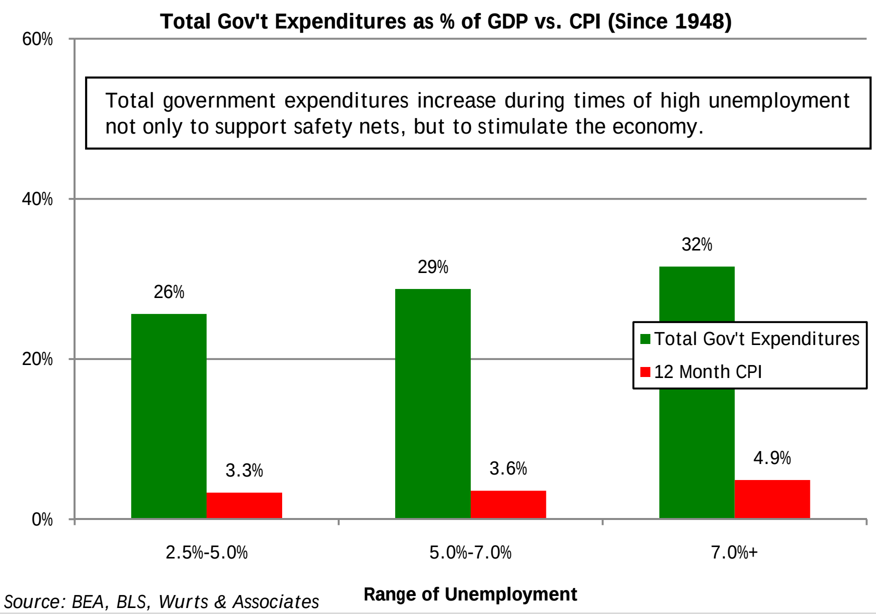
Source: Office of the Comptroller of Currency

Unemployment Actually Causes Inflation *(Assuming Safety Nets & Stimulus)*

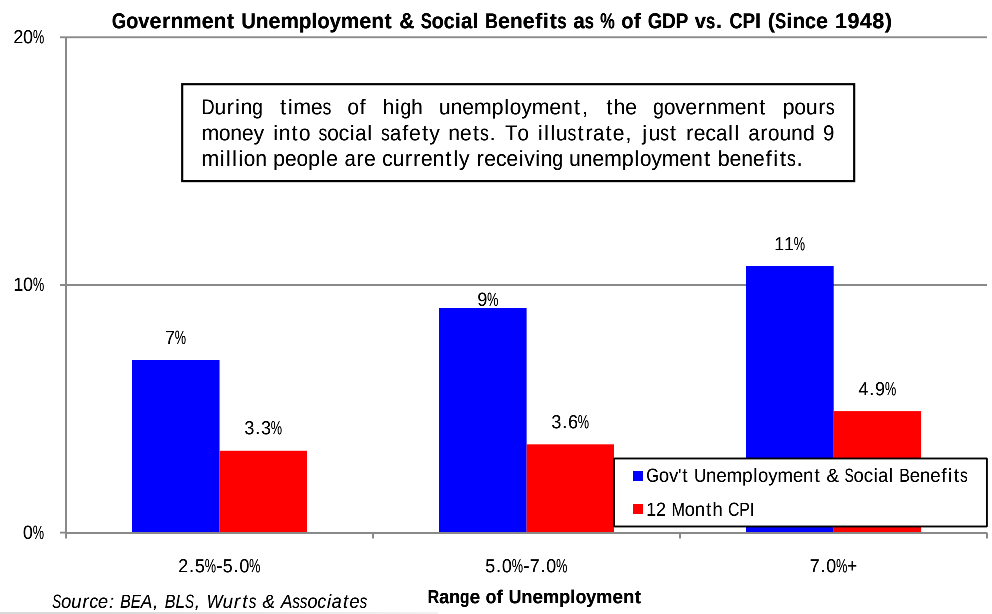
- This page of our report really ought to get some people riled, namely those that proclaim high levels of unemployment assure us of either deflation or subdued inflation.
- This line of reasoning may be true over the short term and especially during the onset of recession, but it is not true over long periods of time if you take into account how the US economy is structured with social safety nets and government entitlement and spending programs.
- Our logic is simple. You just can't pay people not to work for an extended period of time and not cause inflation.
- Fewer people working means fewer goods and services produced in the face of sustained demand supported by social programs.



Source: Bureau of Labor Statistic, Wurts & Associates



Source: BEA, BLS, Wurts & Associates

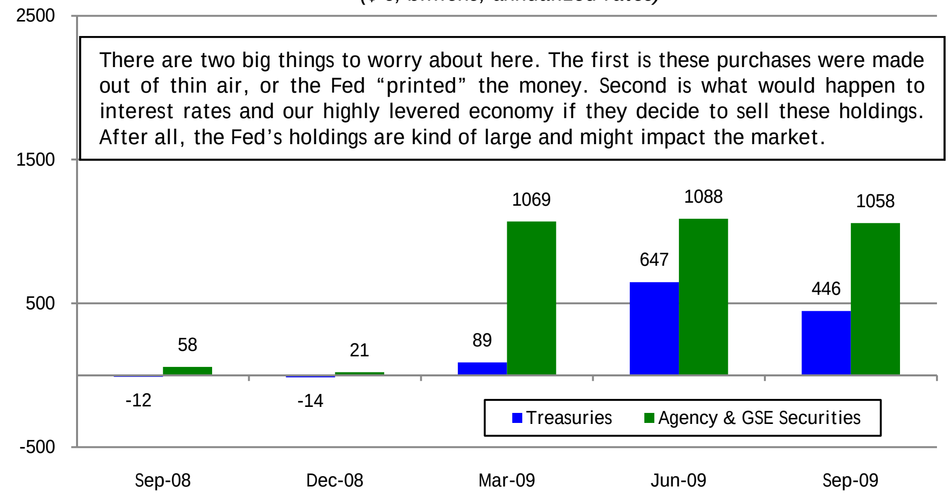


Source: BEA, BLS, Wurts & Associates

Government Monetary & Fiscal Stimulus

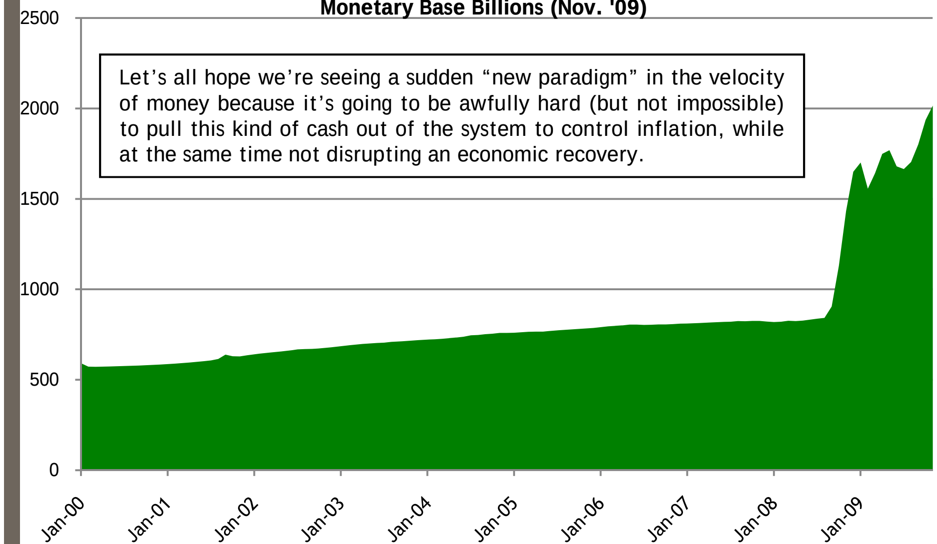
- Acknowledging we're starting to sound like a broken record, we remain concerned about inflation given everything the government is doing with respect to monetary and fiscal policy.
- In our last quarterly report we provided extensive details to show the growth in the monetary base was well in excess of expected banks losses, and that the possibility of a resurgence in velocity of money posed a serious inflationary threat…and now we find the monetary base has grown again!
- Another concern is manipulation of interest rates by the Federal Reserve through purchases of Treasuries and Agency mortgages. Artificially keeping rates low is ultimately inflationary. Also don't forget the government is running deficits of 10% of GDP.
- Can the government pull back all these measures and control inflation? Well, yes they can, but will they? Unlikely.

Federal Reserve Purchase/Sale of Treasuries & Agency Securities
($'s, billions, annualized rates)



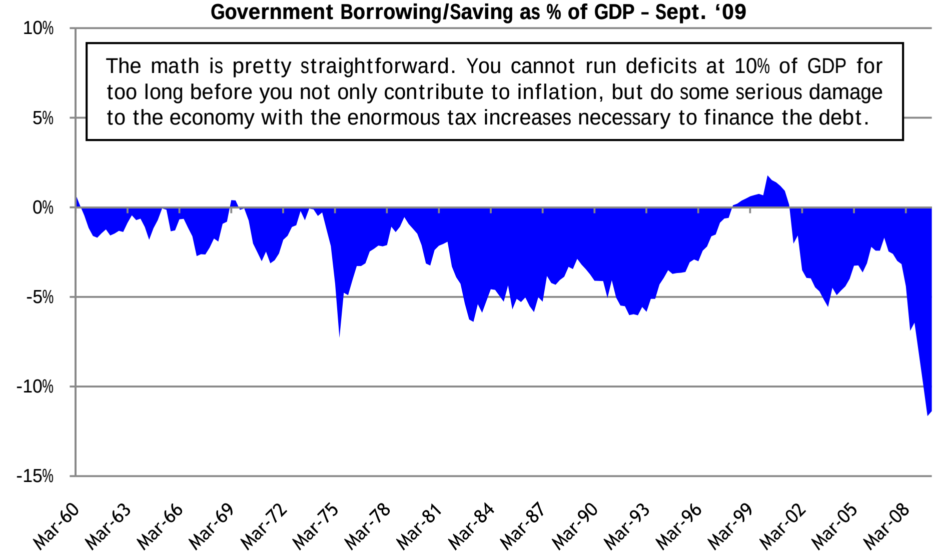
Source: Federal Reserve

Monetary Base Billions (Nov. '09)



Source: Federal Reserve

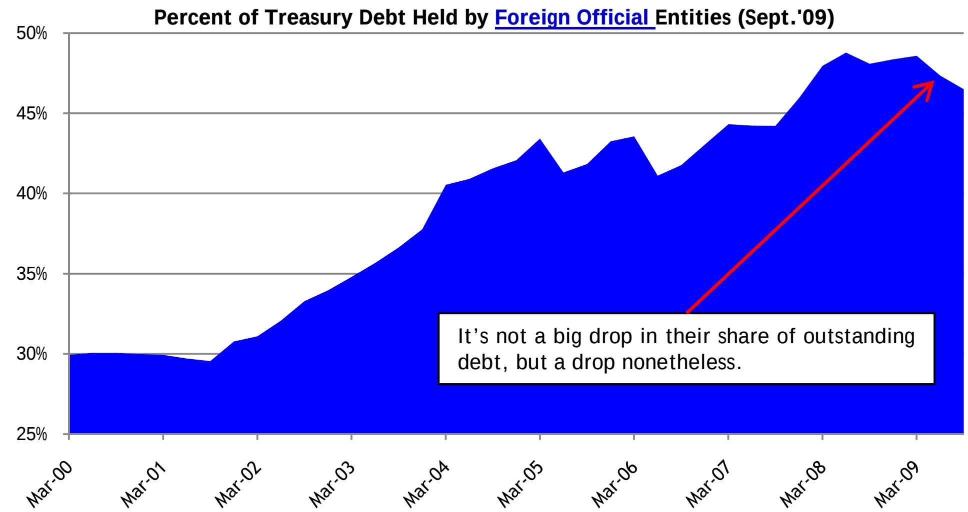
Government Borrowing/Saving as % of GDP – Sept. '09



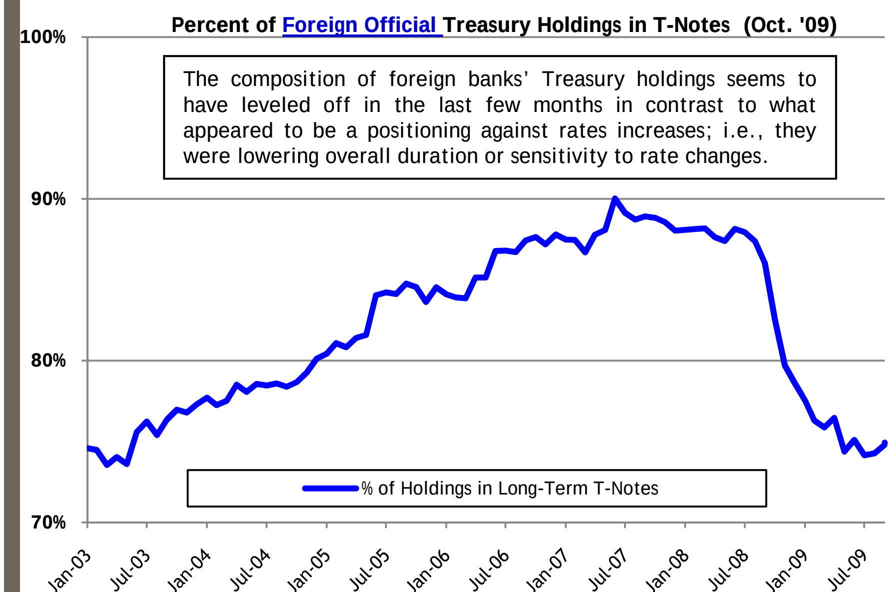
Source: BEA

Foreign Appetite for Treasuries Continues

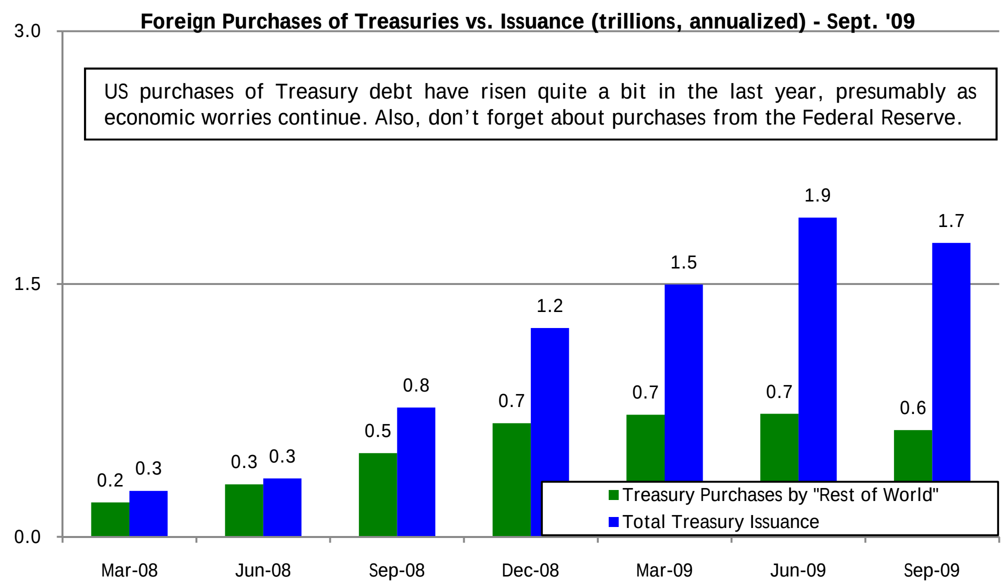
- One significant ray of hope, at least for now, is foreign investors seem to have a virtually insatiable appetite for US Treasuries. This allows the economy to continue operating with little to no savings, not to mention making it easier for the government to finance its enormous budget deficits without pushing interest rates rapidly higher.
- What is fascinating about recent events is foreign official banks' share of Treasury debt has actually fallen. They just couldn't keep up with supply even though their rate of purchase has roughly doubled.
- Longer term though, we must wonder how long foreign nations and central banks will embrace this co-dependent relationship of funneling their savings in support of the US dollar and economy so we can continue buying their goods.



Source: US Treasury, Federal Reserve, Wurts & Associates



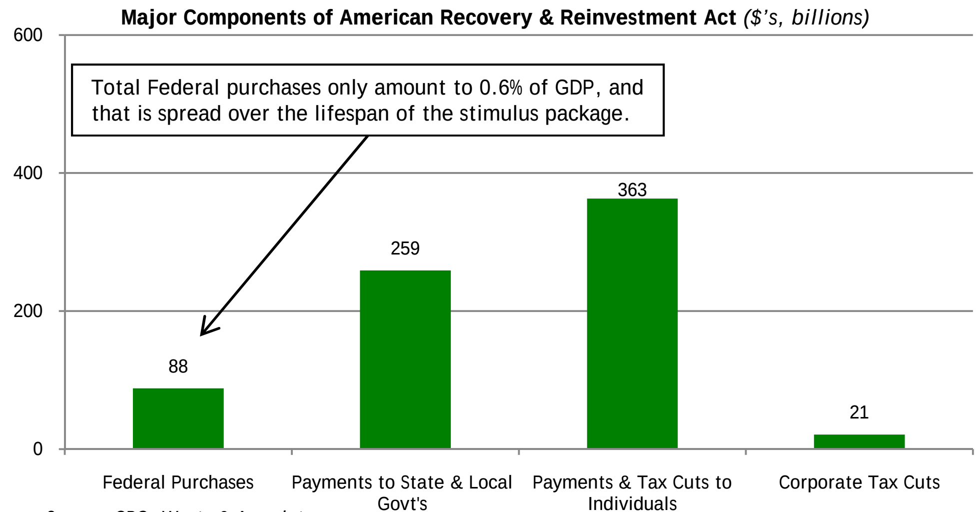
Source: US Treasury, Ibbotson, Wurts & Associates



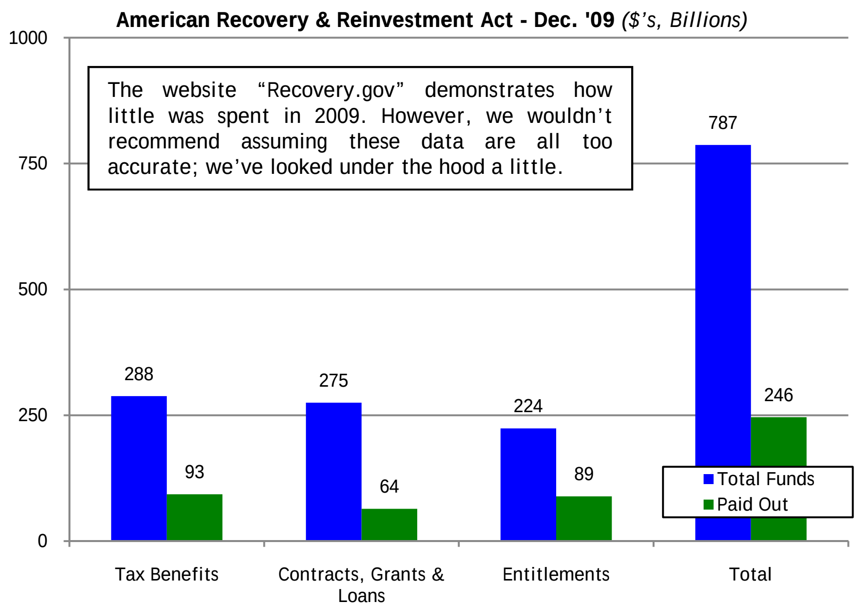
Source: Federal Reserve

The Bulk of '09 Fiscal Stimulus is Yet to Arrive

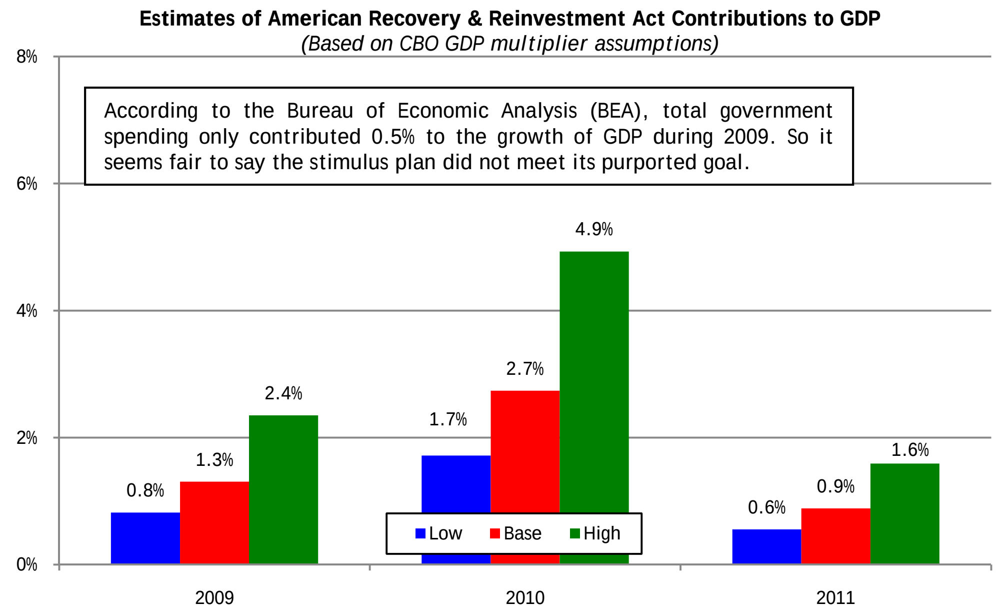
- A lot of people are wondering how the unemployment rate hit 10% and GDP flailed in 2009 when the government enacted an $800 billion stimulus package; or about 6% of nominal GDP.
- Well the answer is very simple, the bulk of spending was slated beyond 2009, and the money spent in 2009 was mostly for tax benefits and entitlement programs, as opposed to new government spending on major projects.
- Depending on assumptions for the "multiplier" effect of government spending, the potential contribution to 2010 GDP could be very little, or very large based on CBO estimates.
- Let's not forget people have been saving their tax cuts, sustaining local governments is not really stimulus, and "purchases" are a very small portion of the package.



Source: CBO, Wurts & Associates



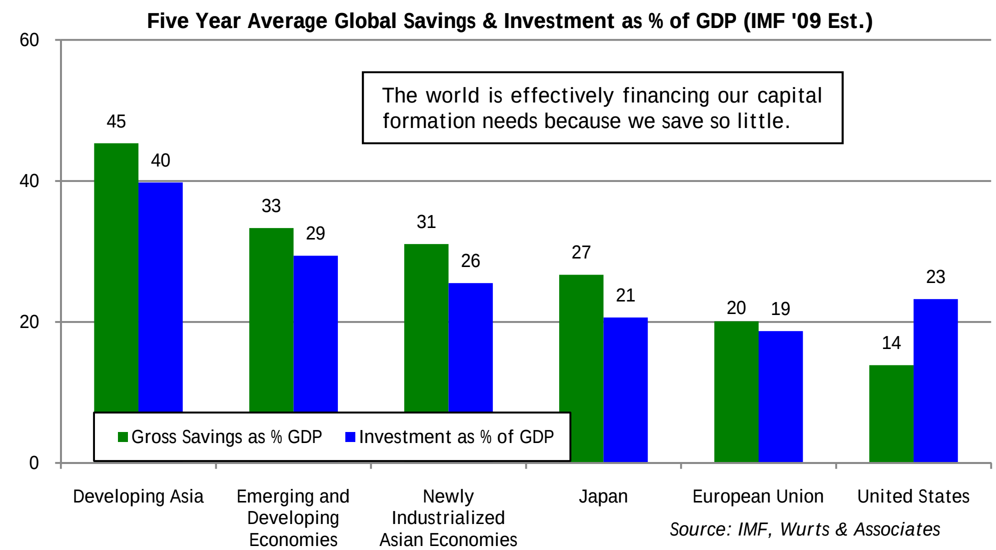
Source: Recovery.gov



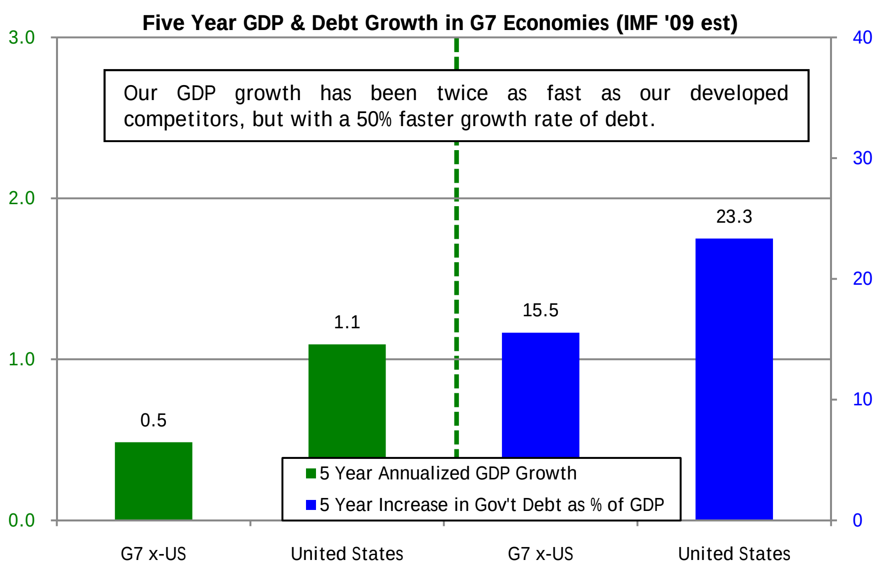
Source: CBO, Wurts & Associates

How Does the United States Stack Up Globally?

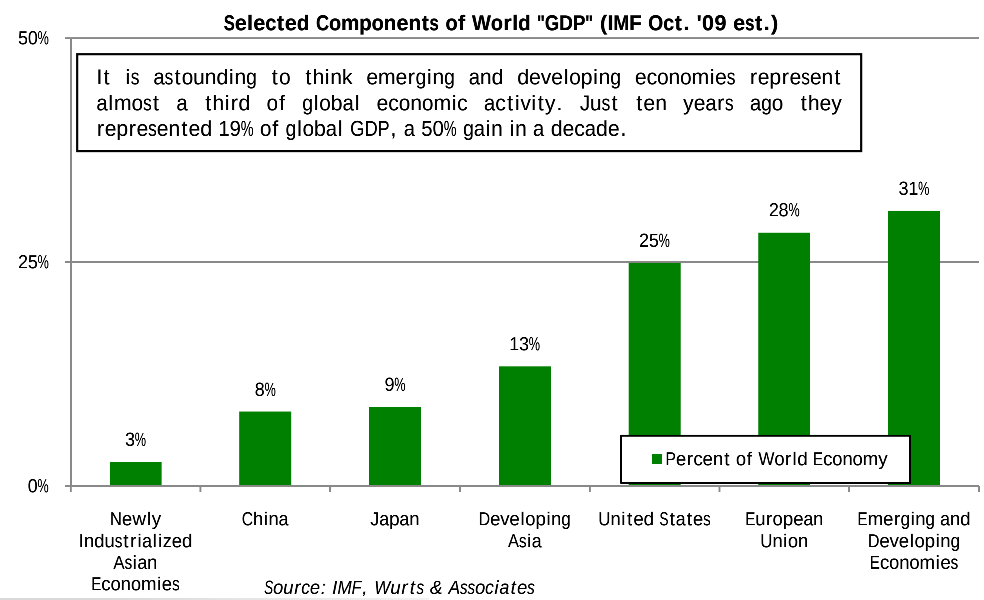
- We must not forget to compare ourselves against our global competitors. Understanding the relative attractiveness of various economies is integral as macroeconomic factors are intertwined with key valuations and risk factors, and therefore asset allocation decisions. A few things stand out when viewing the US globally.
- First, we may have grown faster than our developed counterparts, but have done so with far higher amounts of debt, implying higher economic and investment risk.
- Second, we are not saving enough, and are relying on the rest of the world to finance our investment needs, creating another risk due to potential economic disruptions.
- Third, the US is only 25% of the global economy. The bulk of investment opportunities lie outside our borders.



Source: IMF, Wurts & Associates



Source: IMF, Wurts & Associates

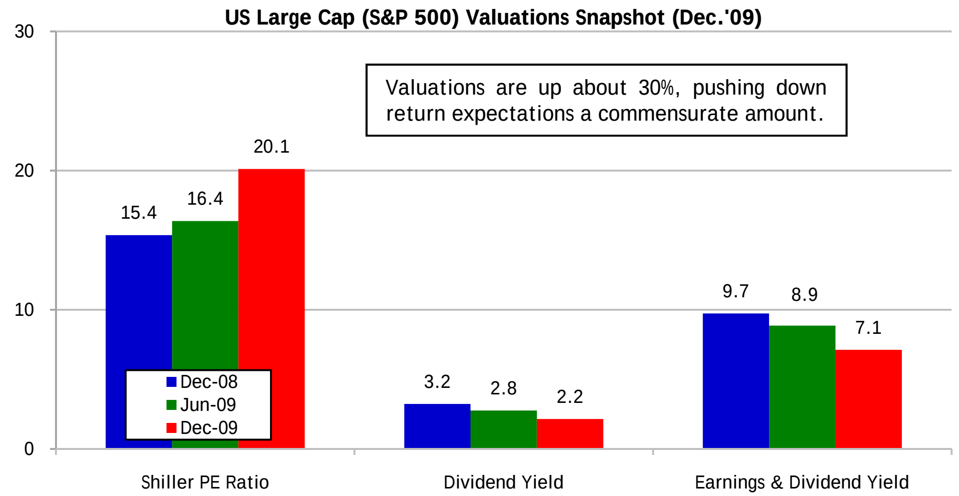


Source: IMF, Wurts & Associates

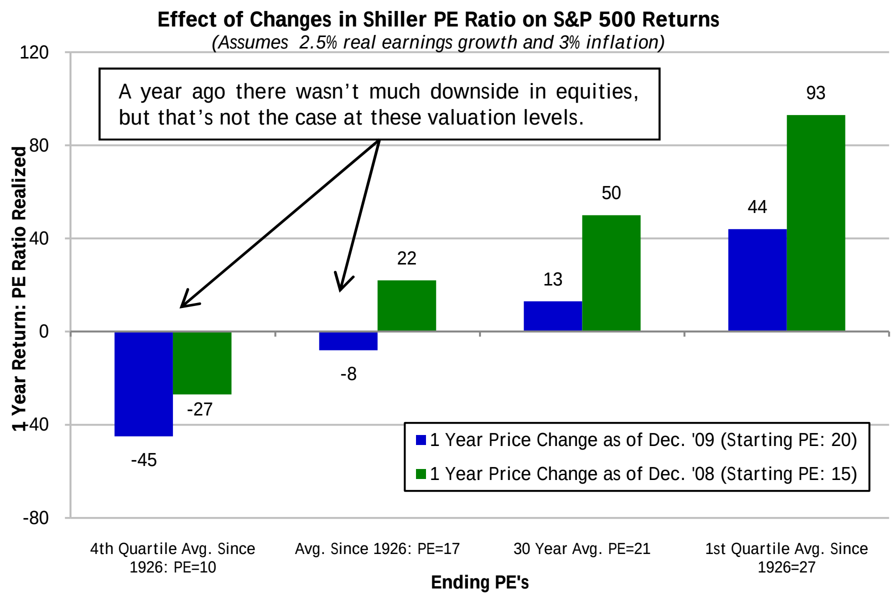
III. Capital Markets

US Large Cap Equities Appear Fairly Valued

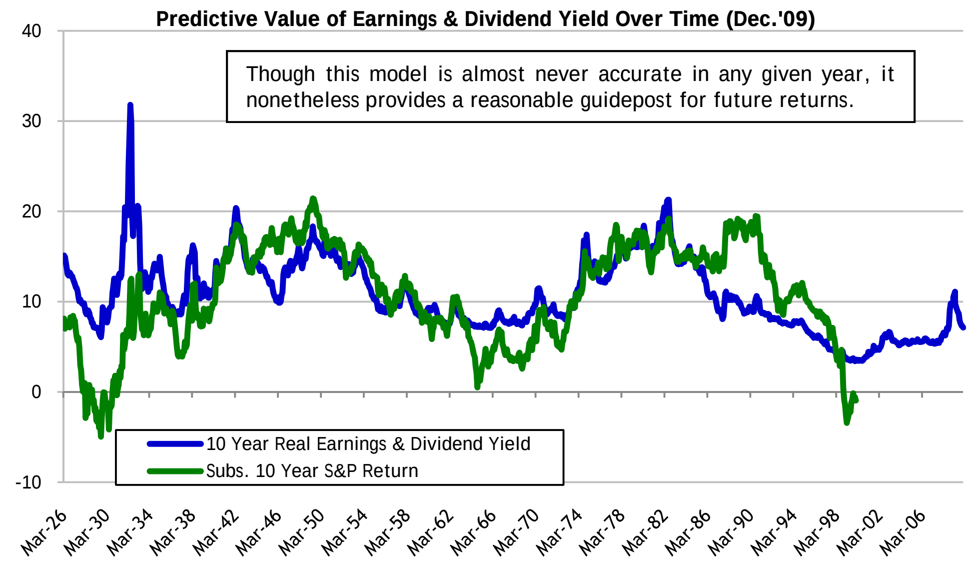
- With cash rates near zero, it appears the Federal Reserve has successfully created the "flight to risk" we called for in our 4th Quarter 2008 Research Report.
- It is amazing how much valuations changed in the last year in spite of fundamentally unimproved macroeconomic conditions. Although it is normal to see valuations rebound in advance of a recovery in GDP, we must admit our surprise at how robust a rebound 2009 produced.
- Just one year ago, Shiller PE ratios were in the mid teens, and had even gone as low as 12 during the 1st Quarter 2009. Now they are at 20, which is around the 30 year average, but in excess of the historic average since 1926 of 17. At these valuations equities seem poised to provide 7%-8% returns over the next decade.



Source: Yale/Shiller, Wurts & Associates



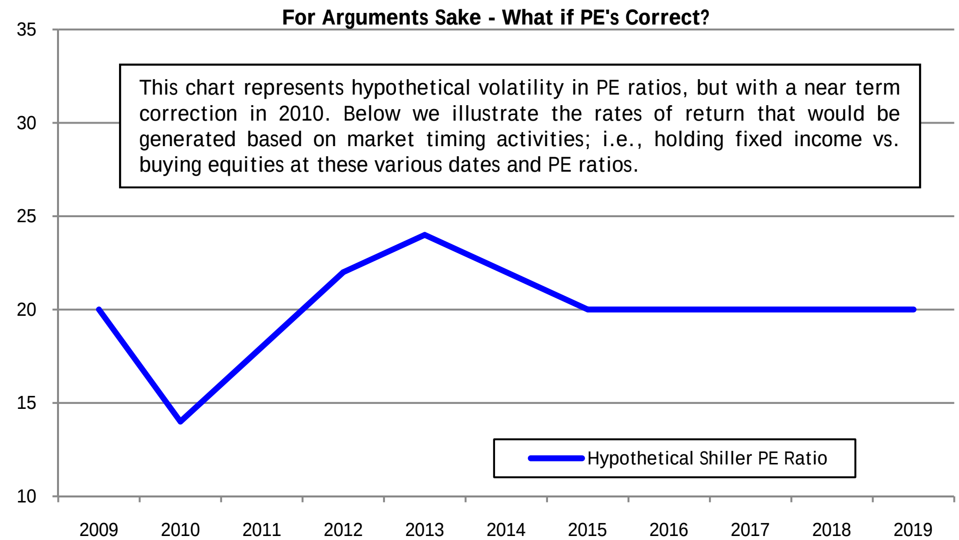
Source: Yale/Shiller, Wurts & Associates.

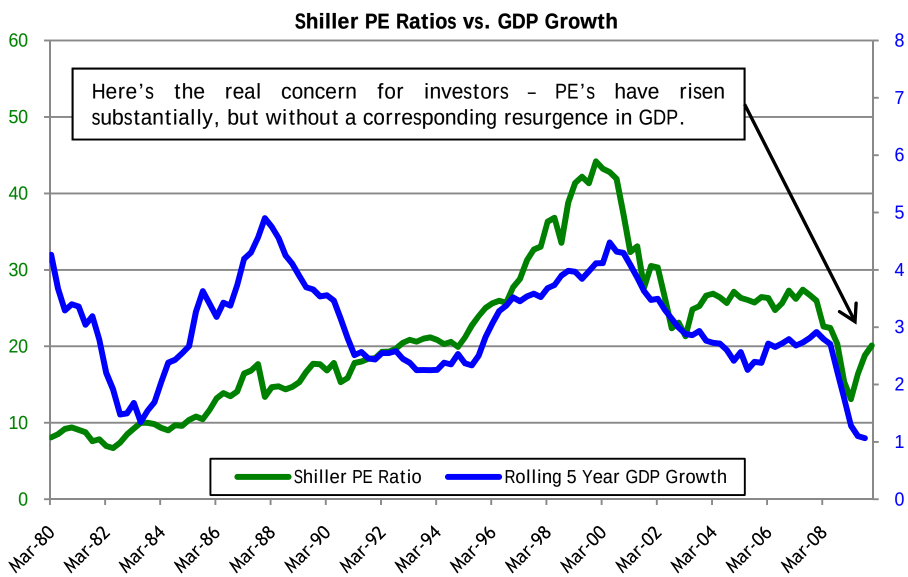


Source: Ibbotson, Yale/Shiller

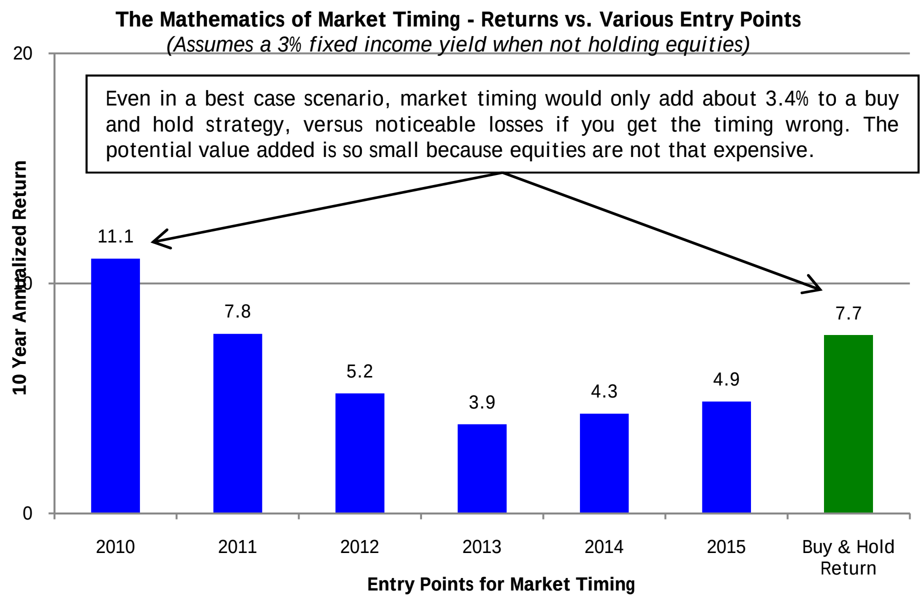
Time to Time the Equity Market?

- PE ratios rose substantially in the last year, while the economy remained effectively flat. So, many wonder if equity markets are ripe for a correction, tempting investors to consider the benefits of market timing.
- Such activities can take the form of working within the confines of rebalancing guidelines, or changes in the target allocations through strategic tilts.
- Though a market correction would not be entirely unexpected given the lack of GDP growth, investors need to ask themselves how much they stand to gain from engaging in such activities. A simple analysis in light of current valuations indicates positioning against an equity correction may not be such a worthwhile pursuit.
- It doesn't make much sense when assets are fairly valued.





Source: *Yale/Shiller, BEA, Wurts & Associates*



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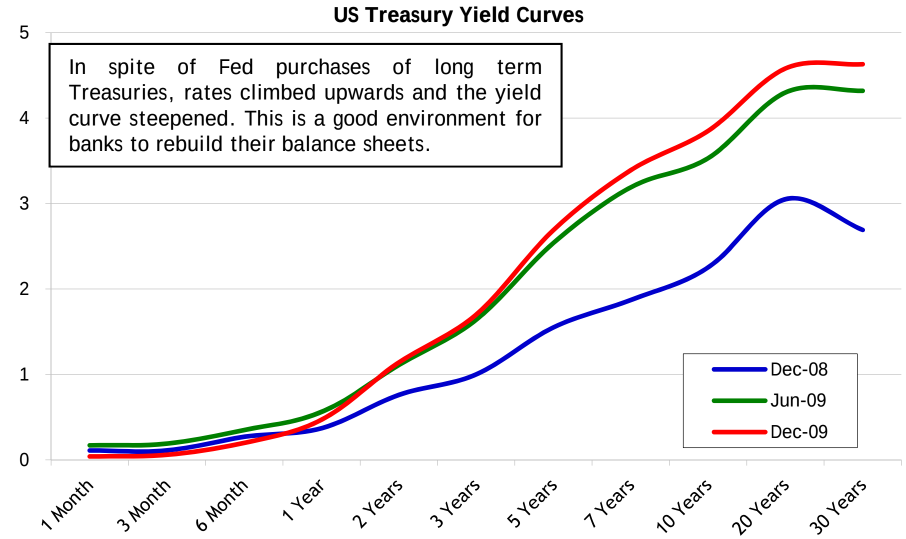
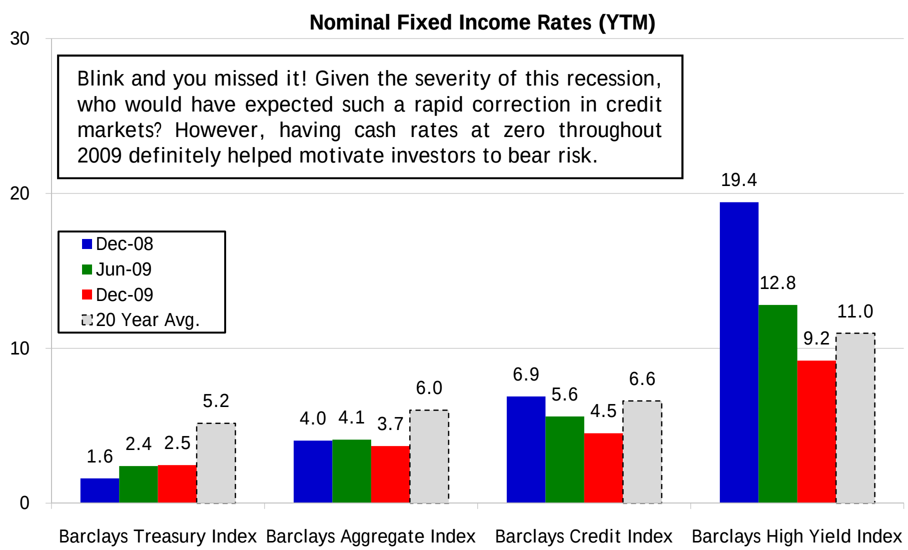
Fixed Income Markets Recovered in 2009

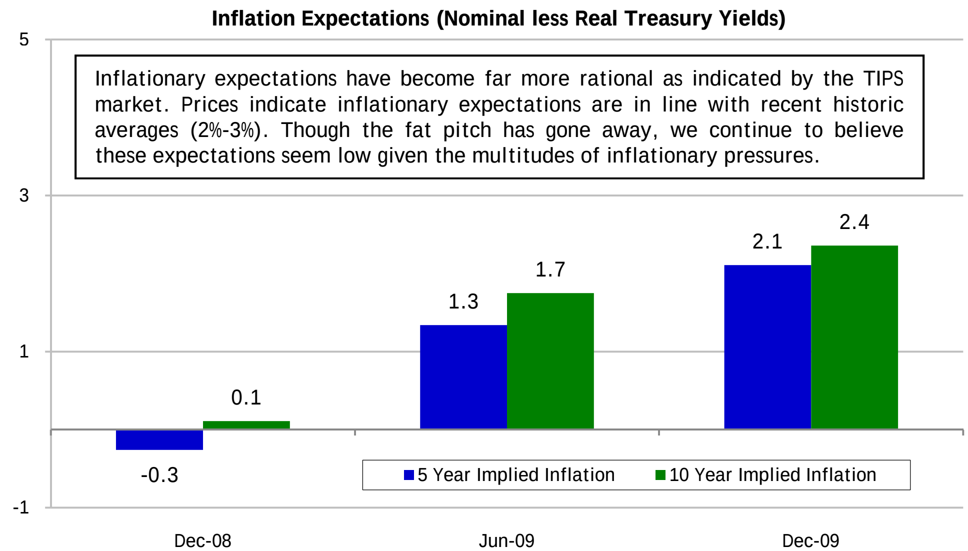
- Just think back to the conditions of fixed income markets one year ago. Ah, the good ole days!
- The risks and flaws of sub-prime lending practices led to the downfall of some of the world's leading financial institutions, the President of the United States was reassuring people their banking deposits would not be lost, and there was an historic global flight to safety into Treasuries as a result.
- It was a credit meltdown of epic proportions, opening up numerous opportunities to make strategic investment tilts.
- Nominal Treasuries seemed priced at bubble-ish levels, TIPS inflationary expectations seemed irrationally low, and the compensation for bearing credit risk was huge.
- The good news is we were correct in our strategic tilts. The bad news is the "fat pitches" have gone away.



Source: Federal Reserve



Source: Barclays

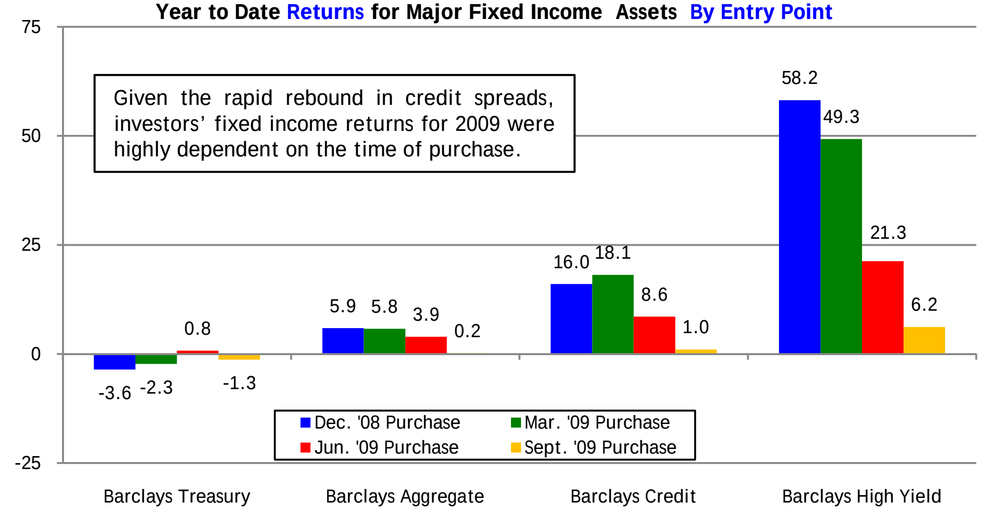


Source: Federal Reserve, Wurts & Associates

Worth Holding On To Strategic Credit Tilts?

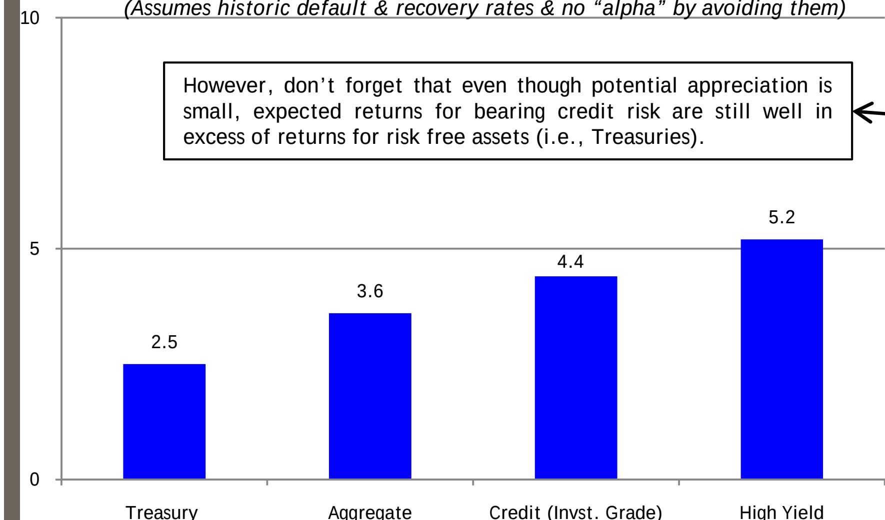
- Investors that tilted into credit markets during 2009 were well rewarded, especially in relation to Treasuries. So of course the temptation exists to take profits off the table and avoid credit risk in case of a market correction. Alternatively, these tilts could be held until they become unattractive relative to Treasuries.
- As is the case with the equity markets, tilting when assets are at fair value is an "iffy" proposition. However, there are a few things to keep in mind given current market conditions.
- As long as cash is near zero and credit holds a yield advantage to Treasuries, the risk of a sharp and sustained correction is low, making market timing even harder. Just recall how quickly valuations rose from just a year ago. Second, credit is still poised to provide higher returns than Treasuries, thereby providing compensation for bearing this risk.

Year to Date Returns for Major Fixed Income Assets By Entry Point



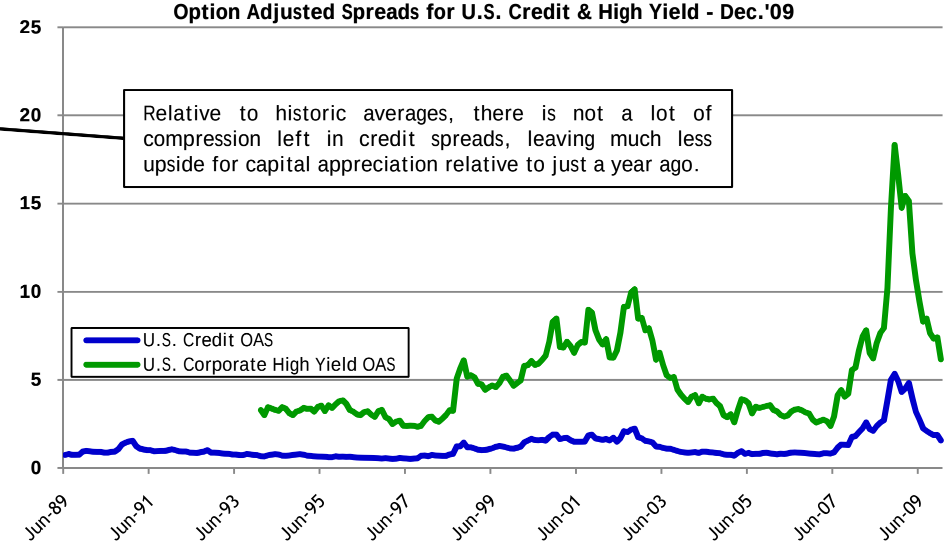
Source: Ibbotson

"Back of the Envelope" 10 Year Return Estimates for Barclays Indices
(Assumes historic default & recovery rates & no "alpha" by avoiding them)



Source: Ibbotson, Wurts & Associates

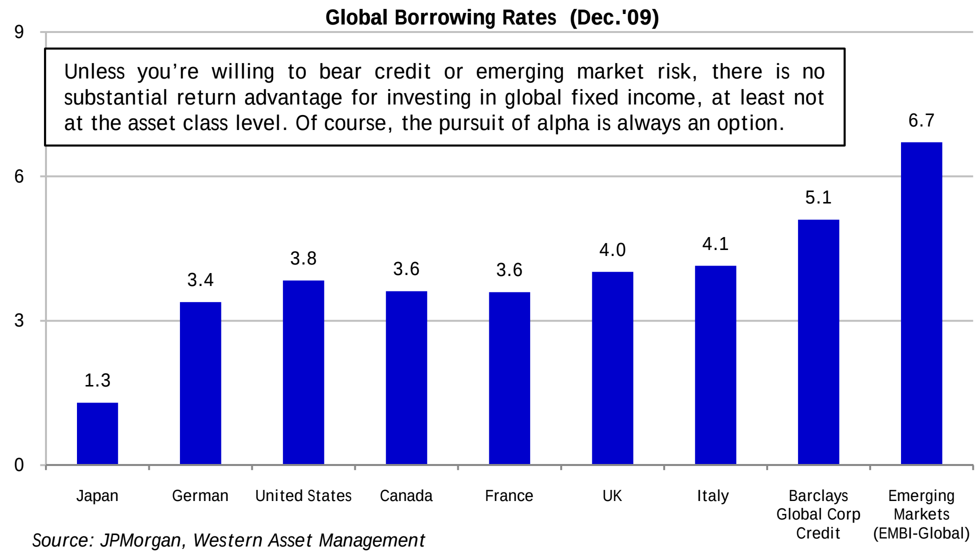
Option Adjusted Spreads for U.S. Credit & High Yield - Dec.'09



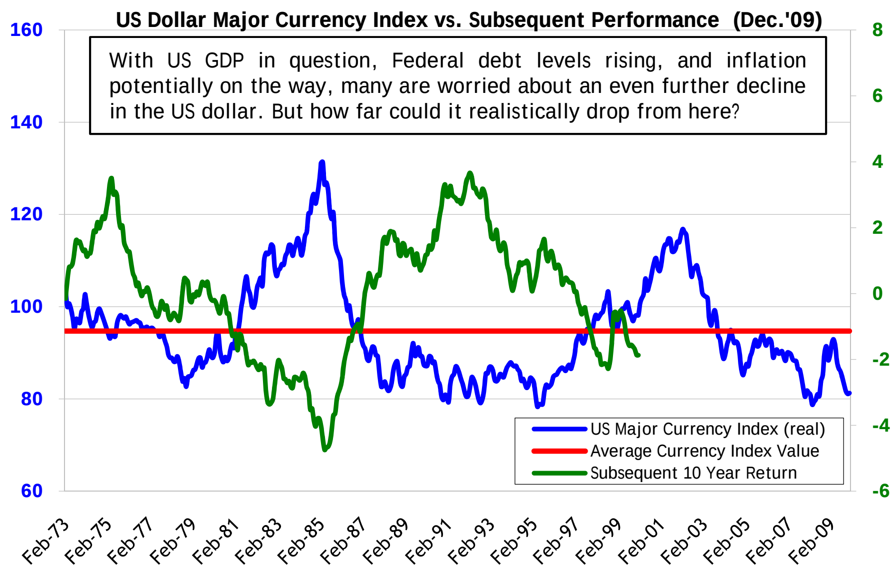
Source: Barclays

Global Markets at a Glance

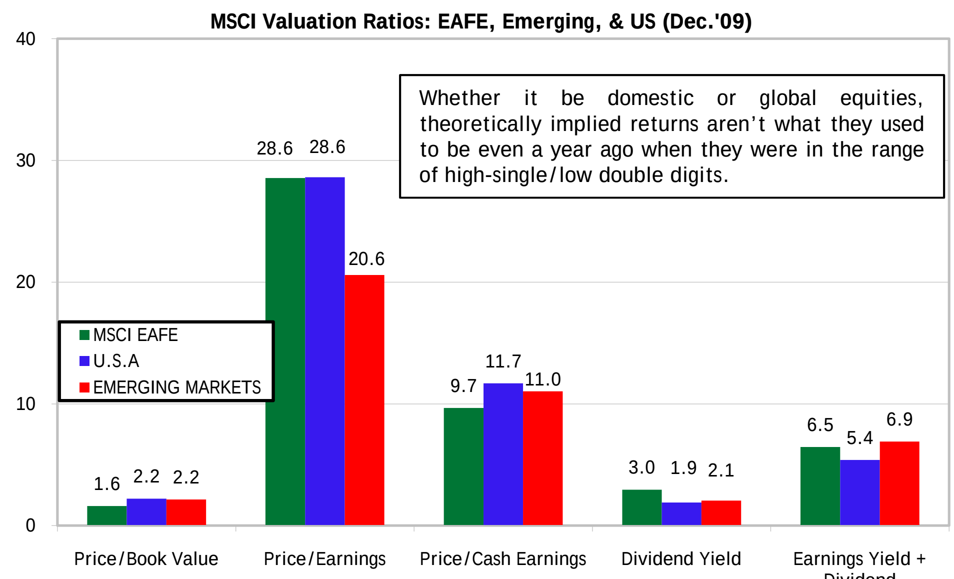
- At a glance, global capital markets seem to have moved in line with the United States during 2009.
- Although US equities continue to be the most expensive in the world, global equity valuations have risen substantially and also appear to be priced around fair value with expected returns in the range of mid-single digits. Given concerns about the US economy, alongside valuations, it makes little sense to hold a heavily US centric portfolio.
- Global sovereign 10 year rates are mostly in line with the US, offering up no significant return advantage for shifting fixed income abroad without taking on credit risk (i.e., corporate or emerging debt).
- The value of the US dollar does pose some interesting issues though. *(See next page.)*



Source: JPMorgan, Western Asset Management



Source: Freelunch.com; Wurts & Associates



Source: MSCI; Wurts & Associates

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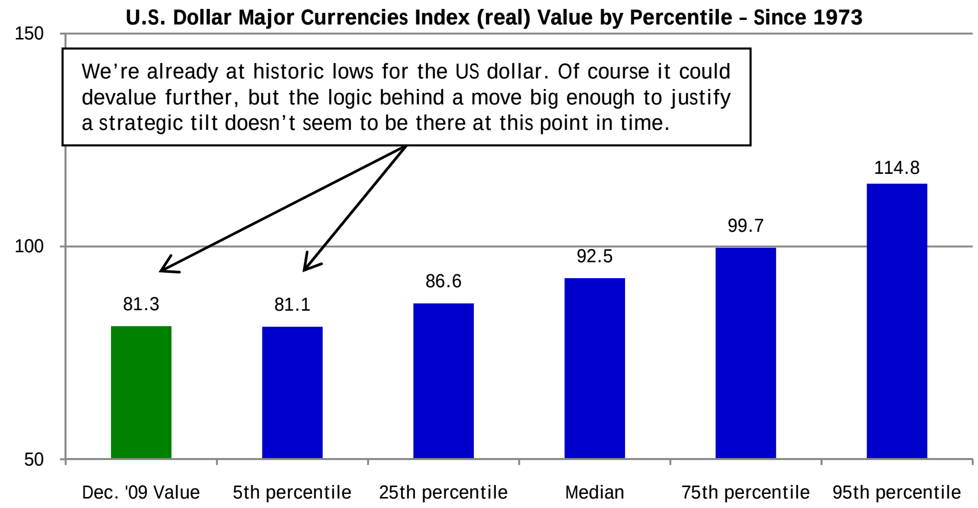
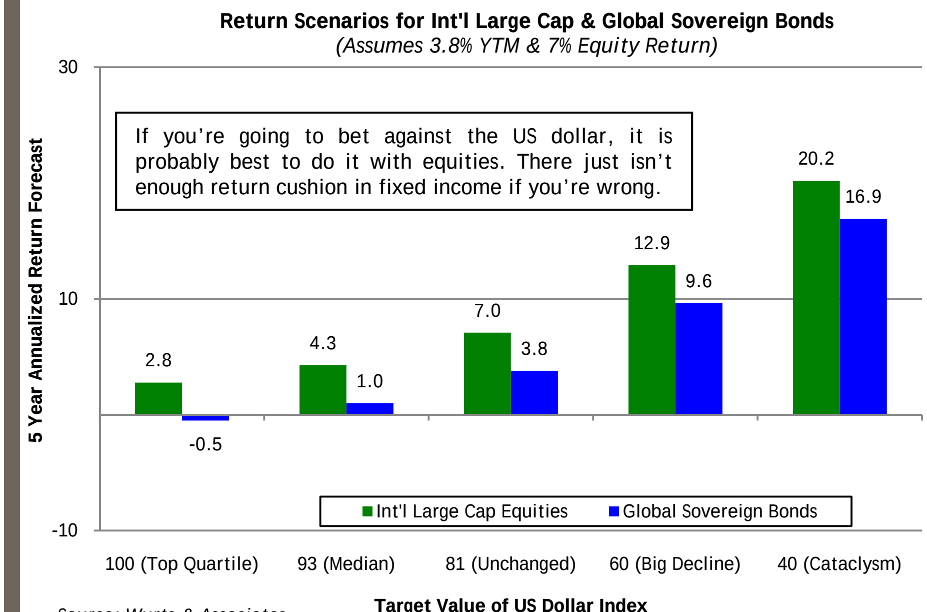
A Good Time for a Bet Against the US Dollar?

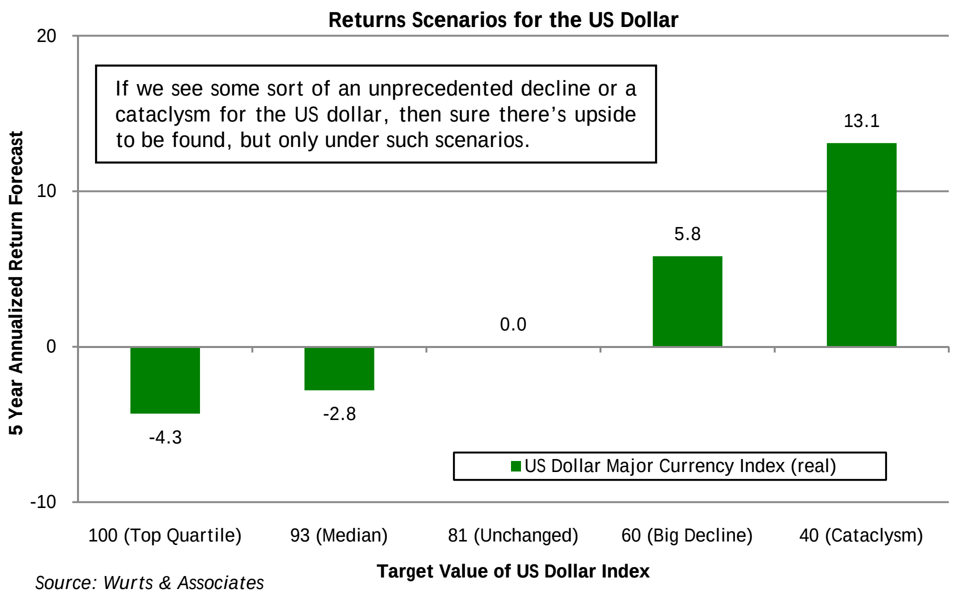
- Placing a strategic tilt to benefit from potential US dollar depreciation seems to be gaining popularity. Because the US dollar is currently at historic lows, the wisdom of such a tilt seems elusive. This is because an unprecedented decline would be necessary to make such a move worthwhile. And we cannot realistically envision such a scenario within the time frame of a strategic tilt beyond a global investment framework.
- The fact of the matter is the world has a vested interest in maintaining the strength of at least one "reserve currency," not to mention the ability of US consumers to purchase their goods through a strong dollar.
- We just can't recommend a strategic tilt based on the expectation of a *sudden* new global economic paradigm, at least not at these valuations. There's little cushion for error.



Source: Freelunch.com; Wurts & Associates



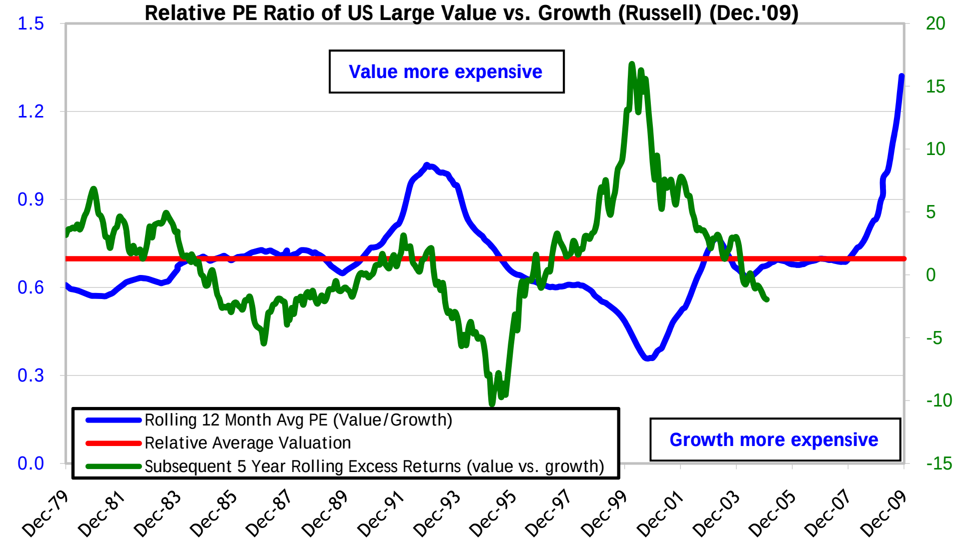
Source: Wurts & Associates



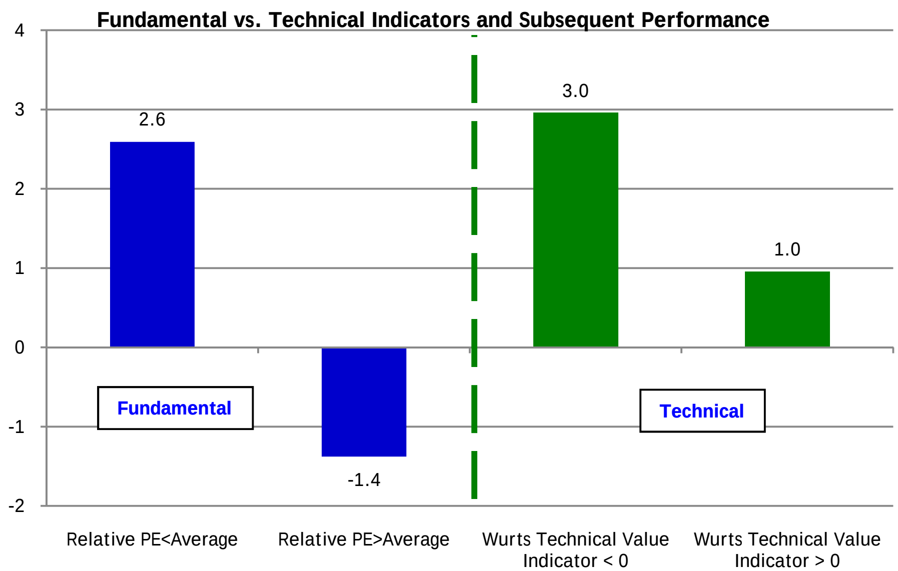
Source: Wurts & Associates

Style Tilts: *US Large Value vs. Growth*

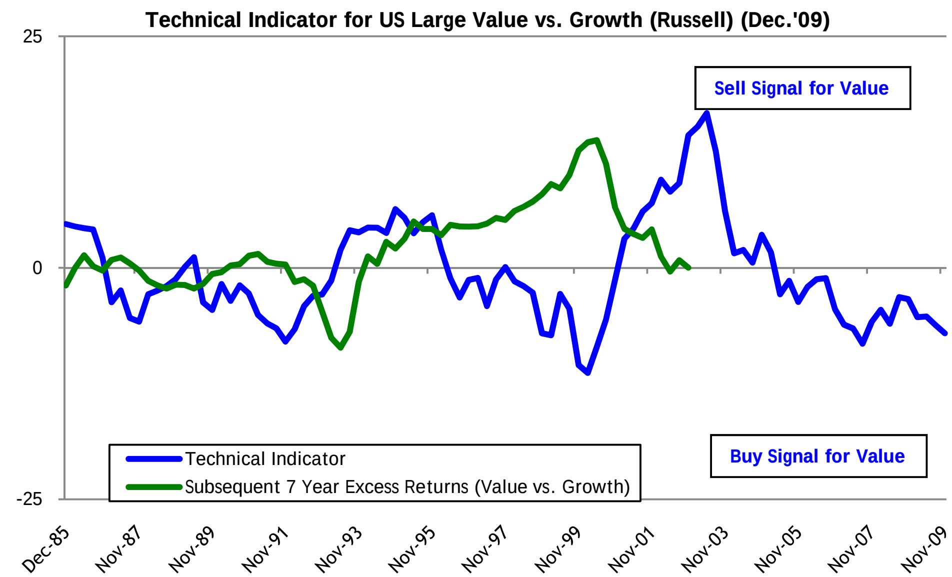
- Relative valuations within the US equity universe continue to exhibit extreme volatility as the balance sheets of value stocks have fluctuated wildly in recent periods.
- The unfortunate result of such high levels of valuation volatility makes it very difficult to identify the relative attractiveness of value versus growth stocks.
- Nonetheless, fundamental analysis indicates value is much more expensive than growth.
- Technical analysis on the other hand indicates value stocks appear to be oversold and future returns may be better than growth. Because of these contradictory results, there is no compelling reason to take a stand one way or the other.
- Therefore, a neutral weighting is in order.



Source: Ibbotson, Wurts & Associates



Source: Russell, Wurts & Associates

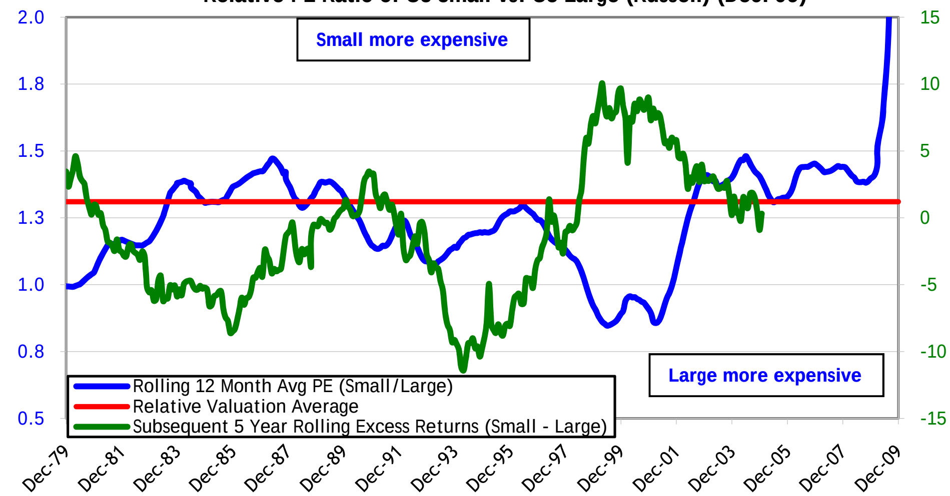


Source: Ibbotson, Wurts & Associates

Capitalization Tilts: *US Small vs. Large*

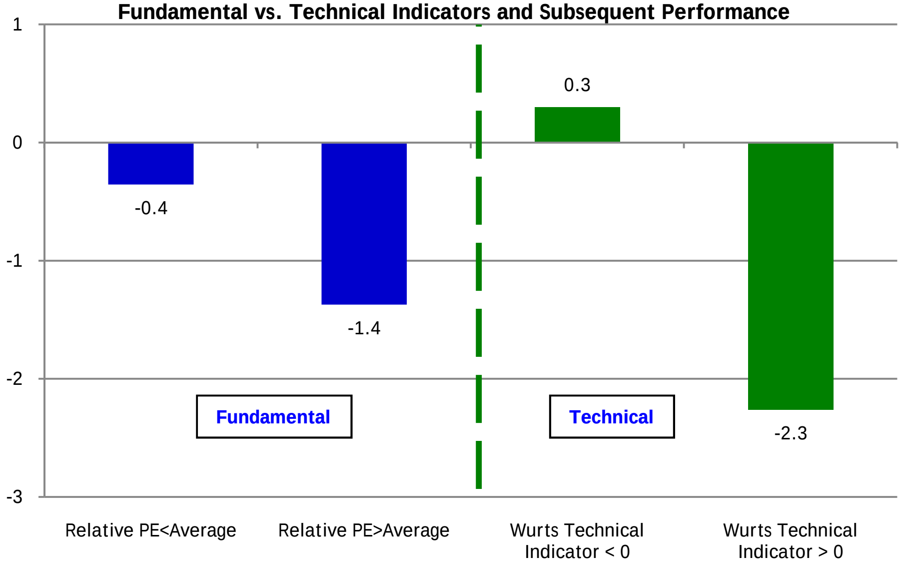
- As mentioned on the previous page, balance sheet irregularities are rendering fundamental valuation analysis less useful until things return to more normative levels.
- Small cap stocks should trade at cheaper levels than large caps due to their inherent riskiness, and they were not cheaper going into the recent market crisis.
- Fundamental analysis indicates small cap equities to be trading at a huge premium over large caps.
- On the other hand, our technical indicators are telling us small cap stocks may be a little oversold relative to large.
- Small caps are not trading at compellingly cheap valuations or experiencing significant technical weakness. Therefore market weighting (or lower) seems appropriate at this time.

Relative PE Ratio of US Small vs. US Large (Russell) (Dec.'09)



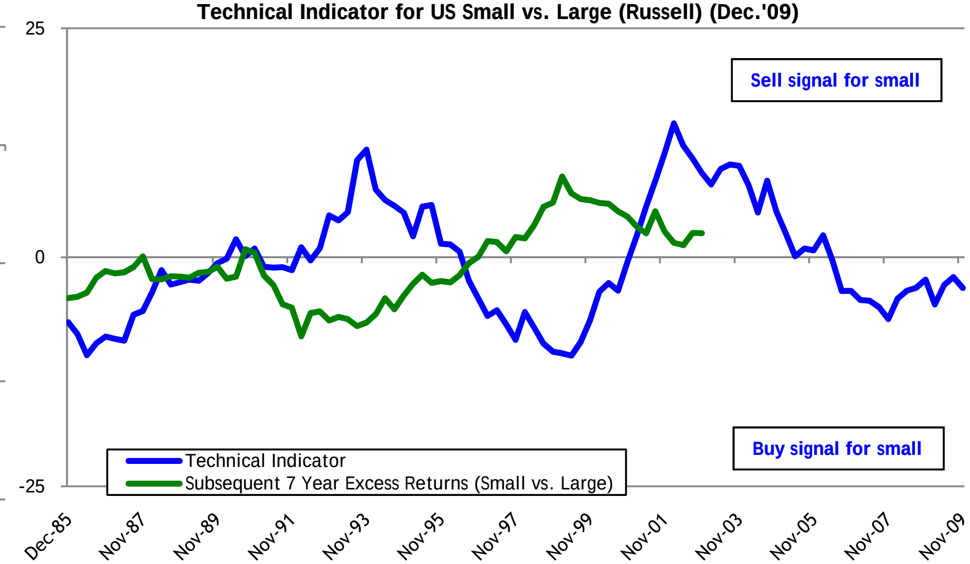
Source: Russell, Wurts & Associates

Fundamental vs. Technical Indicators and Subsequent Performance



Source: Russell, Wurts & Associates

Technical Indicator for US Small vs. Large (Russell) (Dec.'09)

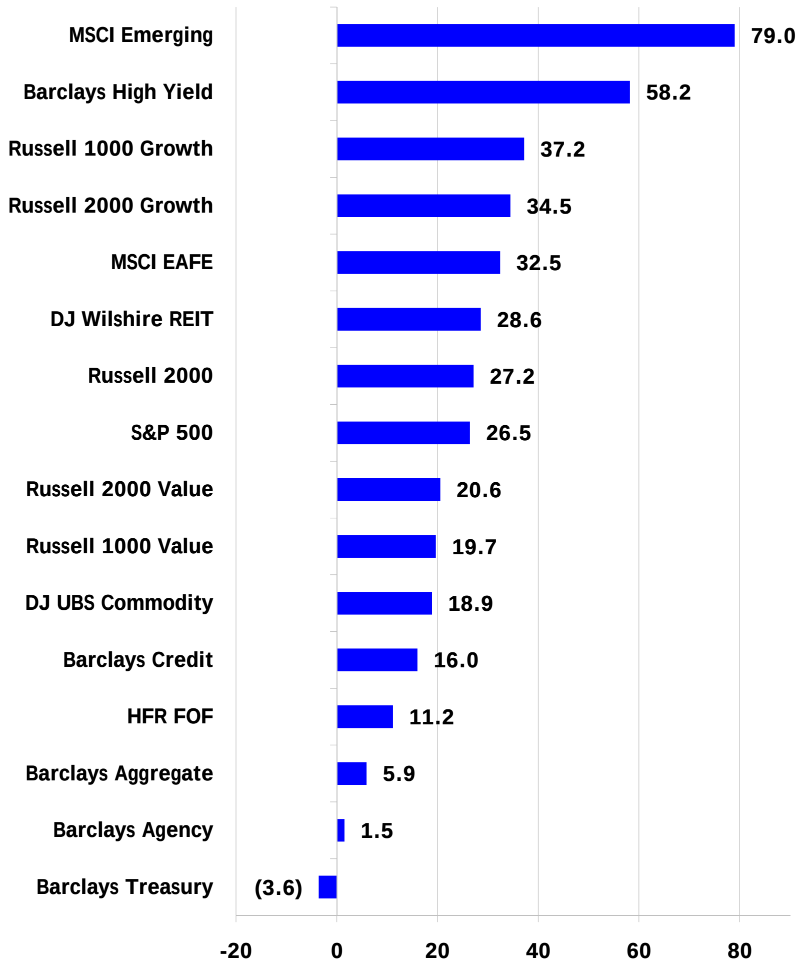


Source: Ibbotson, and Wurts & Associates

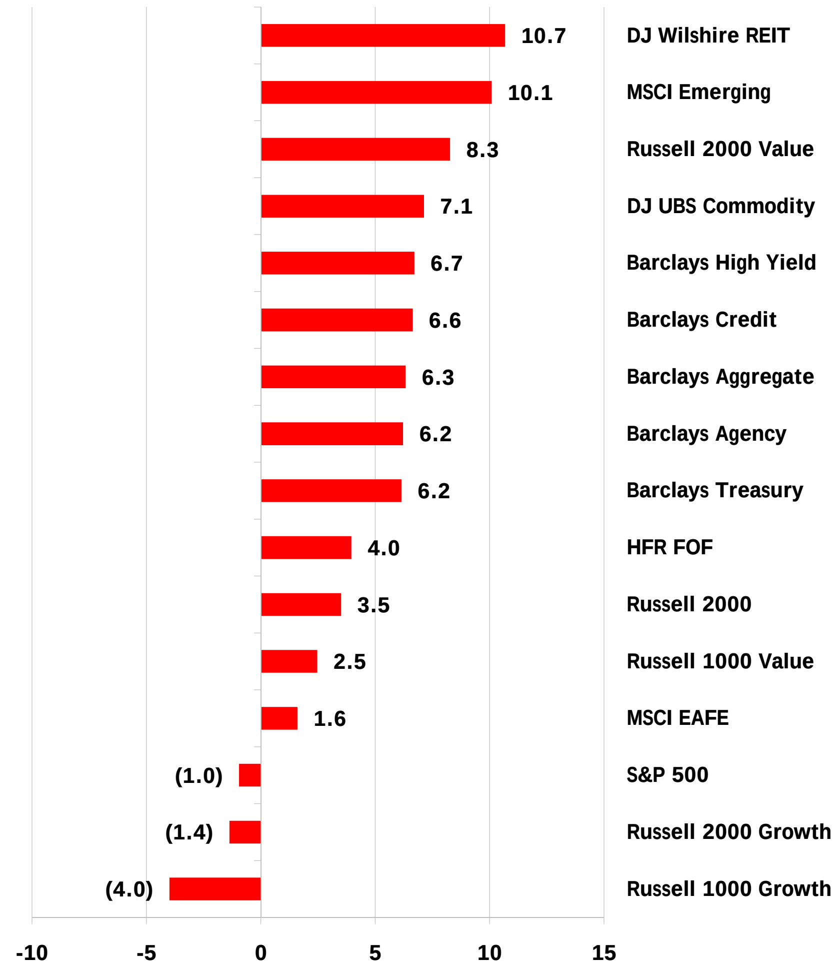
IV. Appendix: Asset Class & Sector Returns

Major Asset Class Returns

One Year ending Dec. 2009



Ten Years ending Dec. 2009



Periodic Table of Returns – December 2009

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Best	40.4	65.0	17.5	59.9	29.1	74.8	8.1	38.3	23.1	35.2	38.7	66.4	22.8	14.0	10.3	56.3	26.0	34.5	32.6	39.8	5.2	79.0
	29.5	35.9	8.9	51.2	13.8	32.9	6.4	37.2	21.6	31.8	20.3	43.1	12.3	8.4	6.7	48.5	22.3	18.9	26.9	15.8	1.8	37.2
	28.6	25.2	7.9	41.7	12.3	26.3	4.2	31.0	21.4	30.5	16.2	33.2	11.6	7.3	1.7	46.0	20.7	14.0	23.5	11.8	-6.5	34.5
	23.2	20.2	2.6	41.2	11.4	23.8	2.7	25.8	14.4	18.6	15.6	27.3	7.0	4.1	1.0	38.6	16.5	7.5	22.2	11.6	-20.7	32.5
	20.4	18.8	2.3	24.6	8.0	18.1	-0.8	24.6	14.1	16.2	13.6	26.5	6.0	2.8	-6.0	30.0	14.3	7.1	16.1	10.3	-24.0	20.6
	11.7	14.5	-0.3	21.7	7.8	13.4	-1.5	18.5	11.3	13.9	8.7	13.0	4.1	-2.4	-8.6	29.7	13.1	7.1	13.4	7.9	-28.9	19.7
	11.3	12.4	-8.1	16.0	7.4	11.5	-2.0	11.6	10.3	12.9	5.1	11.4	1.9	-2.7	-11.4	21.6	11.1	5.3	12.8	7.1	-36.9	11.2
	9.6	10.8	-10.6	14.5	5.0	9.8	-2.4	11.1	6.4	9.7	1.2	7.3	-14.0	-5.6	-15.5	11.6	6.9	4.7	10.4	7.0	-38.4	5.9
	7.9	8.6	-17.4	12.5	3.6	3.1	-2.9	7.5	6.0	5.3	-5.1	4.7	-22.4	-9.2	-15.7	9.0	6.3	4.1	9.1	4.7	-38.5	0.2
	6.8	7.8	-21.8	5.8	-4.3	2.9	-3.5	5.8	5.3	2.1	-6.5	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.0	4.8	-0.2	-43.1	NA
Worst	N/A	N/A	-23.2	-5.6	-11.9	1.4	-7.3	-5.2	3.6	-11.6	-25.3	-1.5	-30.6	-21.2	-30.3	1.1	1.2	2.4	4.3	-9.8	-53.2	NA

- Large Cap Growth US Stocks (Russell 1000 Growth Index)
- Large Cap Value US Stocks (Russell 1000 Value Index)
- Small Cap Growth US Stocks (Russell 2000 Growth Index)
- Small Cap Value US Stocks (Russell 2000 Value Index)
- Developed International Stocks (MSCI EAFE Index)
- Emerging Market Stocks (MSCI EM Index)
- Hedge Fund of Funds (HFRI Fund of Funds Index)
- Domestic Fixed Income (Barclays Capital Aggregate Bond Index)
- Real Estate (NCREIF Property Index)
- Cash (Citigroup 3-Mo Treasury)
- ICC Universe Median (Total Funds)

Data: Ibbotson Associates, As of 12/31/2009; Independent Consultants Cooperative.

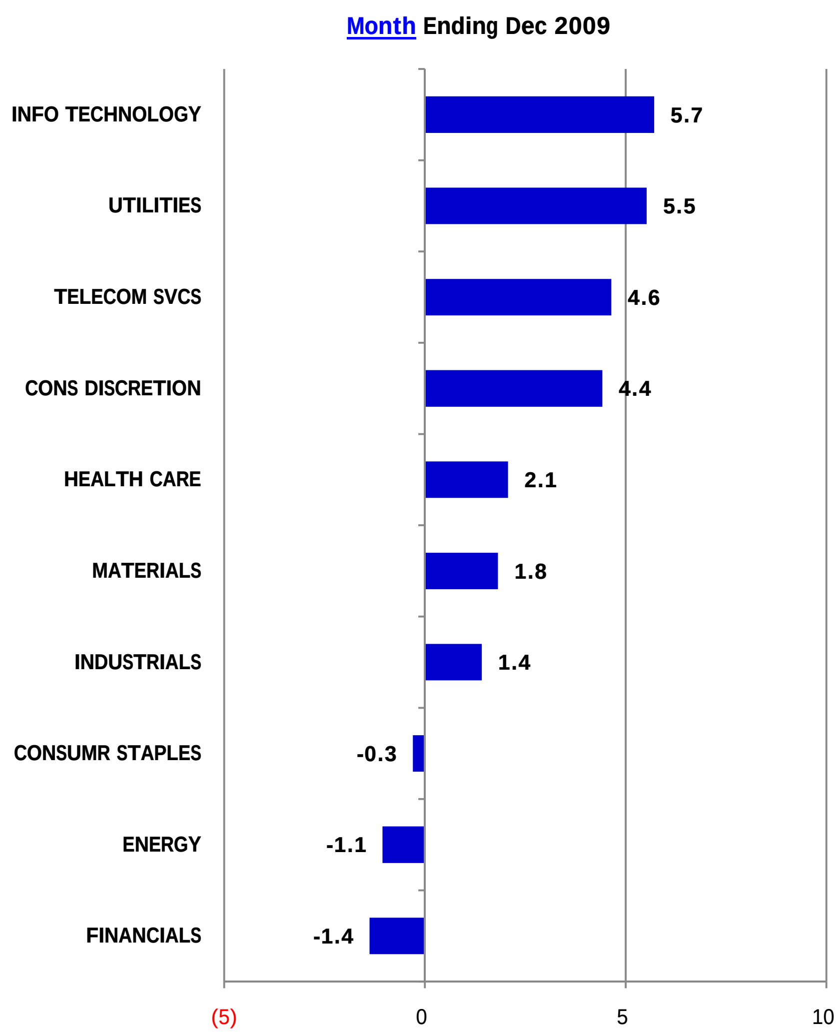
Detailed Equity & Fixed Income Returns

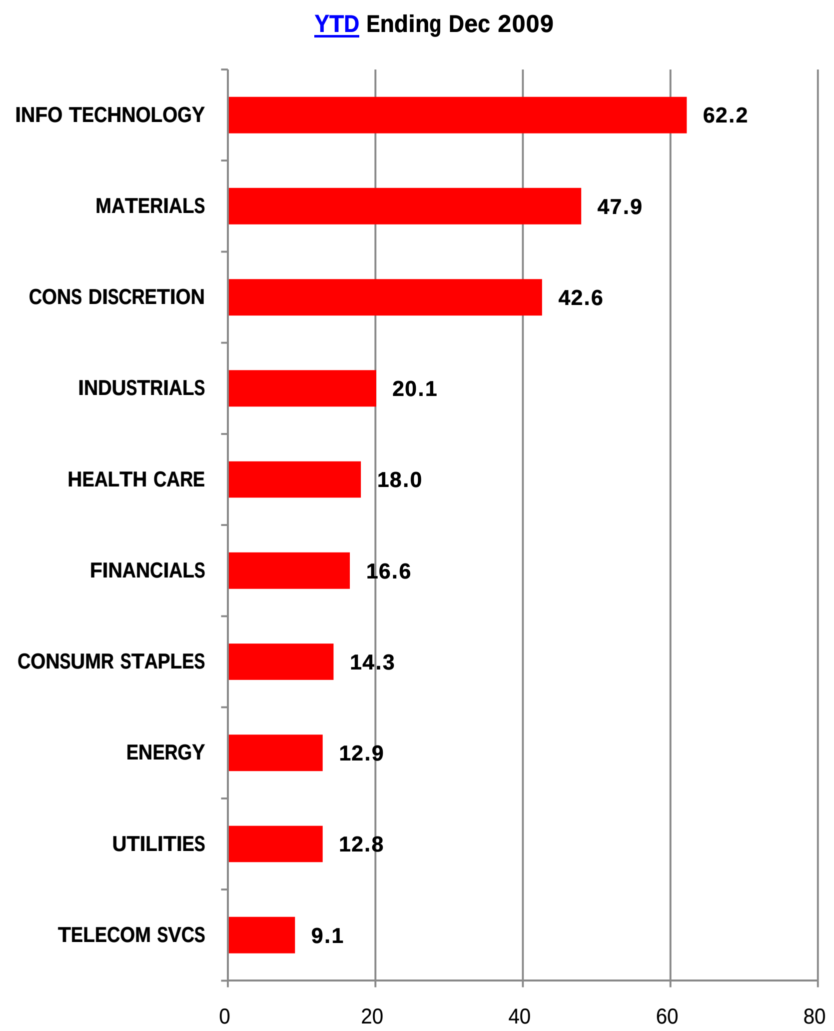
Domestic Equity	Dec	YTD	1-Year	3-Year	5-Year	10-Year
Core Index Performance						
S&P 500	1.9	26.5	26.5	(5.6)	0.4	(1.0)
S&P 500 Equal Weighted	4.6	46.3	46.3	(3.6)	2.3	5.1
DJ Industrial Average	1.0	22.7	22.7	(3.1)	2.0	1.3
Russell Top 200	1.2	24.2	24.2	(5.6)	0.2	(2.3)
Russell 1000	2.4	28.4	28.4	(5.4)	0.8	(0.5)
Russell 2000	8.1	27.2	27.2	(6.1)	0.5	3.5
Russell 3000	2.9	28.3	28.3	(5.4)	0.8	(0.2)
Russell Mid Cap	5.7	40.5	40.5	(4.6)	2.4	5.0
Style Index Performance						
Russell 1000 Growth	3.1	37.2	37.2	(1.9)	1.6	(4.0)
Russell 1000 Value	1.8	19.7	19.7	(9.0)	(0.3)	2.5
Russell 2000 Growth	8.6	34.5	34.5	(4.0)	0.9	(1.4)
Russell 2000 Value	7.6	20.6	20.6	(8.2)	(0.0)	8.3

Fixed Income	Dec	YTD	1-Year	3-Year	5-Year	10-Year
Index Performance						
BC US Aggregate Bond	(1.6)	5.9	5.9	6.0	5.0	6.3
BC US Treasury US TIPS	(2.2)	11.4	11.4	6.7	4.6	7.7
BC US Treasury Bills	(0.0)	0.3	0.3	2.6	3.1	3.0
Maturity Evaluation						
BC US Treasury 1-3 Yr	(0.8)	0.8	0.8	4.9	4.0	4.5
BC US Treasury Interm.	(2.1)	(1.4)	(1.4)	6.1	4.7	5.5
BC US Treasury Long	(5.6)	(12.9)	(12.9)	5.9	5.2	7.6
Issuer Performance						
BC US Agcy Intermediate	(1.1)	2.3	2.3	6.2	5.0	6.0
BC US Credit	(1.0)	16.0	16.0	5.7	467.0	6.6
BC US MBS	(1.4)	5.9	5.9	7.0	5.8	6.5
BC US Corporate High Yield	3.3	58.2	58.2	6.0	6.5	6.7
BC Emerging Markets	0.2	34.2	34.2	6.4	8.2	10.7

International Equity	Dec	YTD	1-Year	3-Year	5-Year	10-Year
Broad Index Performance						
MSCI EAFE	1.5	32.5	32.5	(5.6)	4.0	1.6
MSCI AC World ex US	2.0	37.4	37.4	(6.0)	3.2	0.5
MSCI Emerging Mkts	4.0	79.0	79.0	5.4	15.9	10.1
MSCI EAFE Small Cap	0.6	43.2	43.2	(9.7)	1.4	4.3
Style Index Performance						
MSCI EAFE Growth	1.9	26.0	26.0	(6.9)	1.5	(3.1)
MSCI EAFE Value	0.8	29.6	29.6	(10.5)	0.1	0.8
Regional Index Performance						
MSCI United Kingdom	2.6	43.4	43.4	(7.1)	2.4	1.4
MSCI Japan	0.8	6.4	6.4	(10.3)	(0.7)	(3.5)
MSCI EM Asia	4.5	70.3	70.3	2.6	11.6	4.9
MSCI EM Latin America	1.6	98.1	98.1	11.2	22.6	13.9

S&P 500 Sector Returns





Source: ICC