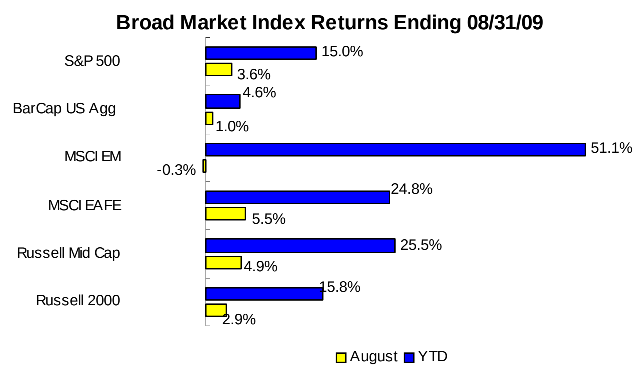
August 2009 Market Commentary

U.S. and overseas equity markets moved mostly higher on hopes that the global economic environment was stabilizing.

For the month, the S&P 500 Index and the Russell 2000 Index of smaller companies advanced 4% and 3%, respectively. Financials, industrials and consumer discretionary were among the top performing sectors, while energy, utilities and telecommunications services underperformed. Across market capitalizations, large- and mid-cap companies generally outperformed smaller companies, while value stocks outperformed their growth counterparts. On a year-to-date basis, growth retains a significant advantage over value across all market capitalizations.

U.S. fixed income markets posted positive results during the month of August as yields fell by about 10-15 basis points across the yield curve. Lower quality, higher yielding corporate securities posted solid gains, with lower quality issues outperforming. Investment grade corporate securities also posted gains with the lower the quality, the higher the return. Treasuries ended higher as the government continued its record setting borrowing. Meanwhile, the Obama Administration's new initiatives such as healthcare and energy reform will require an enormous amount of additional capital to fund. The mortgage-backed securities sector also ended the month positive.

International markets moved higher, with the MSCI EAFE ending up 6%. Among the largest European markets, France and Germany advanced 8% and 4%, respectively. Within the Pacific region, results were mixed. Hong Kong declined 7%, while Australia gained 8%. Meanwhile, Japan advanced 4% as unpopular Prime Minister Taro Aso resigned as head of the Liberal Democratic Party after a landslide election defeat that ended his party's five decade dominance in office. In the emerging markets, the MSCI EM ended unchanged as strength from select Latin American and EMEA countries was offset by weakness from select Emerging Asian countries.



World Market Recap

Economy

- Second quarter GDP declined 1% according to preliminary estimates. The decrease primarily reflected negative contributions from private inventory investment, nonresidential fixed investment, personal consumption expenditures, residential fixed investment and exports that were partly offset by positive contributions from federal, state and local government spending.

- The latest statement from the Federal Open Market Committee (FOMC) indicated that economic activity is leveling out and that conditions in financial markets have improved further in recent weeks. Household spending has continued to show signs of stabilizing but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit.

- President Obama nominated Ben Bernanke to a second four-year term as Federal Reserve Chairman. In his first term Bernanke has lowered interest rates to near zero and pumped billions of dollars into the financial markets amid the economic crisis. Bernanke now faces the daunting task and appropriate timing of unwinding the enormous amount of financial support while simultaneously fighting off any threat of inflation.

U.S. Equity

- The financial sector soared during the month, led by a small group of stocks. Five stocks - Citigroup, Bank of America, AIG, Fannie Mae and Freddie Mac - accounted for an average of more than 30% of New York Stock Exchange composite volume since August 5th, according to calculations by The Wall Street Journal's Market Data Group.

- The consumer discretionary sector performed well as the consumer, enticed by sales and promotions, has slowing started spending again. Within the auto industry, the federal government's "Cash for Clunkers" program drew hordes of buyers by offering rebates of up to $4500 for their trade-ins on the purchase of new, more fuel-efficient cars and trucks.

- Healthcare posted gains, but much uncertainty remains within the sector as lawmakers attempt to reform the U.S. healthcare system amid escalating costs and a growing number of uninsured. At the heart of the debate is whether to create a government-run option, or "public plan", that would compete against private insurers. Critics fear that such a plan could drive private insurers out of business because they would not be able to compete with government prices.

- The telecommunications services and utilities sectors underperformed as investors shunned these defensive areas, instead seeking riskier assets.

Fixed Income

- Lower quality, higher yielding corporate securities posted solid gains, with lower quality issues outperforming. The lowest quality high yield issues posted a gain of 6.5%, which was far better than the 1.7% gains for BB-rated issues.

- Investment grade corporate securities also posted gains with the lower the quality, the higher the return. The BBB Index recorded a total return of 2.0% versus 1.1% for the AAA Index.

- Treasuries ended higher as the government continued its record setting borrowing to finance a growing fiscal deficit. Meanwhile, the Obama Administration's new initiatives such as healthcare and energy reform will require an enormous amount of additional capital to fund. Some budget experts have reiterated their belief that tax increases may need to hit families that President Obama has vowed to protect.

- The asset-backed securities (ABS) sector rallied as investors took advantage of the government's Term Asset-Backed Securities Loan Facility (TALF).

- The mortgage-backed securities (MBS) sector also ended the month positive.

International Developed Markets

- Canada declined 1%. Interest rates are on hold at 0.25% as the Bank of Canada has reiterated its conditional commitment to hold the current policy rate until the end of the second quarter of 2010 as the central bank attempts to jump start the economy. The higher Canadian dollar is still playing a role in moderating the pace of growth.

- The United Kingdom advanced 6% as the Bank of England (BOE) left interest rates at a historic low of 0.5%. The central bank also boosted its quantitative easing program by an unexpectedly large 50 billion pounds, as worries about the fragility of the economic outlook overshadowed evidence that the pace of the recession is beginning to ease.

- The European Central Bank (ECB) left interest rates unchanged at 1%. The move was widely expected after ECB president Jean-Claude Trichet described the current level as “appropriate” in recent days. Since the collapse of Lehman Brothers, the ECB has slashed official borrowing costs faster and further than ever before and pumped hundreds of billions of extra liquidity into the banking system.

- In the Pacific region, results were mixed. Singapore and Hong Kong declined 2% and 7%, respectively. Meanwhile, New Zealand and Australia rallied 7% and 8%, respectively. Japan advanced 4%. Prime Minister Taro Aso resigned as head of the Liberal Democratic Party (LDP) after a landslide election defeat that ended his party’s five decade dominance in office. The popularity of the LPD party surged under the well-liked former PM Junichiro Koizumi. His 28-year old son, Shinjiro Koizumi, won a seat for the LDP in the elections.

International Emerging Markets

- In Emerging Asia, China declined 7% as the Shanghai Composite Index fell to its lowest level since the end of May as fears about an overhang of new stock issues added to concerns over tightening credit. Investors have become increasingly worried that Chinese banks are turning off the large flow of credit opened earlier this year to help boost the economy. Elsewhere in the region, India, Indonesia and the Philippines each fell 1%, while Taiwan declined 3%.

- Within Latin America, Mexico advanced 5% on improving economic data in the U.S. Mexico's economy benefits from better economic conditions in the U.S. because the country sends about 80% of its goods to the U.S. Brazil gained 2% despite proposed oil reform legislation that could lead to further nationalization. Brazilian President Lula da Silva proposed a more state-centric legal framework that will ensure greater controls on the sector.

- Among the EMEA countries, South Africa gained 6%. Within Eastern Europe, the smaller markets of the Czech Republic, Poland and Hungary gained 2%, 6% and 13%, respectively, despite lingering debt crisis concerns. Elsewhere in the region, Russia advanced 2%.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor’s.

The Dow Jones Industrial Average is based on the average performance of the 30 blue-chip stocks monitored.

Russell 2000 Index measures the performance of the small-cap stocks.

The NASDAQ Composite measures all domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.