

# MARKET COMMENTARY

## A SOLID ENOUGH FOUNDATION? MARKETS LOOK TO BUILD ON EARLY MARCH REBOUND

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So far this year, stocks and bonds have been “running to stand still.” For all the economic data releases, corporate profit reports, government hearings and press conferences, stress tests and scandals, stocks and bonds have basically been flat since the start of the year in total return terms. This has made for an interesting time in the media, but investors feel whipsawed as market volatility remains high; it seems as though there should be some reward for continuing to endure the capital markets’ recent fickleness.

While we do not discount how far in fact capital markets have come since March’s dark days, the question remains how much further capital markets can move given the state of the underlying/real economy. For the three months that followed March 9th, asset prices seemed to shrug off any piece of marginal or even bad news, “it’s in the

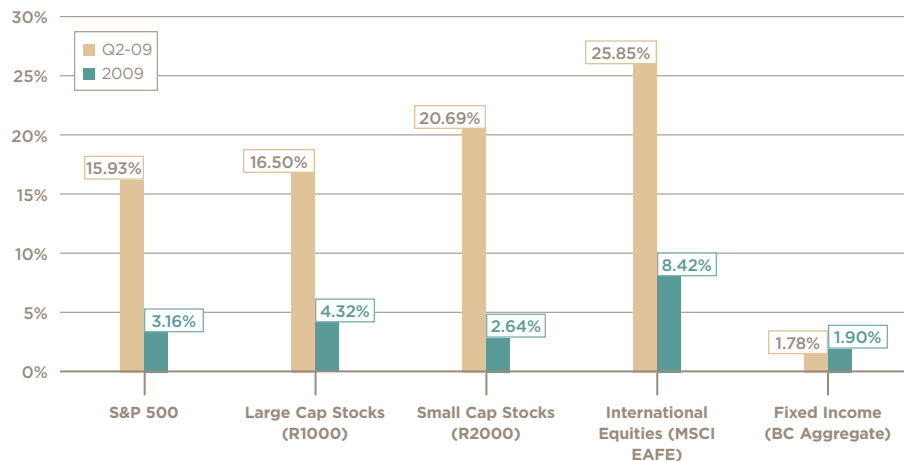
price!” was the drumbeat response from investors. “There’s so much cash on the sidelines,” “Don’t wait for the data to turn positive, it will be too late,” and the all too common “the rate of decline is slowing” littered media outlets as markets moved higher and higher post March.

Now, however, markets need more than just scant evidence that things are improving or even getting “less bad,” in order for risky asset classes to move higher, the market will have to be pleasantly surprised by progress on several fronts. Specifically, we need evidence that consumers are balancing savings with current consumption, job growth improvement, strengthening housing market fundamentals, and companies are looking to expand production beyond replacing depleted inventory. In absentia of some of these developments, expect markets to remain subdued, we need a strong foundation from which to build from here.

### IN SUMMARY:

- We expect Equities to remain volatile yet shift from a “shrug off bad news” mentality to “show me good news.” Expect a slow grind in equities with more sidewise churning than clear direction, but markets are in full reactionary mode and at current levels will likely follow the bias of the day’s news flow.
- Fixed Income should continue to have some bifurcated returns across the asset class with Treasuries only benefiting should a downturn emerge. High quality corporate spreads have tightened towards historical levels, yet lower-grade corporate bonds could move higher in price should economic fundamentals show improvement.
- Alternative asset classes remain mixed, with real estate fundamentals remaining challenged post a large bounce in this depressed asset class. Commodities will likely pause post a massive run-up since March and Hedge Funds will likely perform well in the choppy trading likely ahead. ■

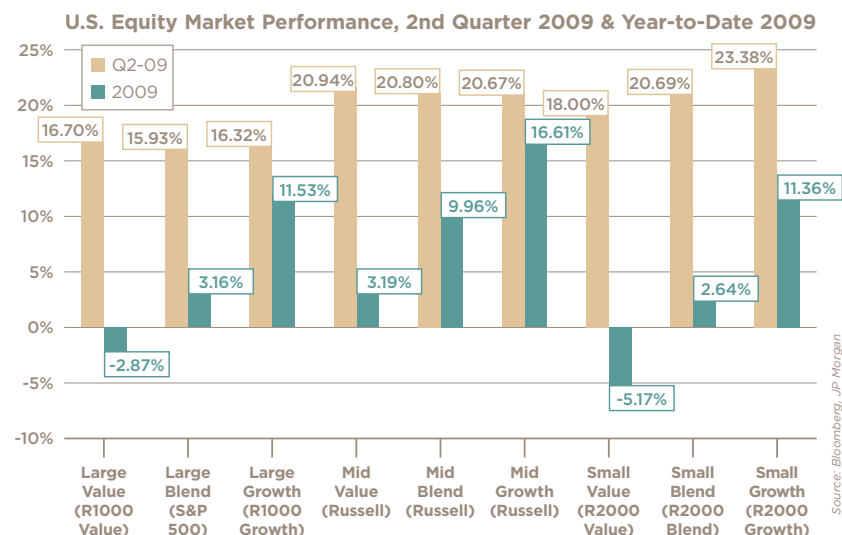
Major Asset Class Returns, 2nd Quarter 2009 & Year-to-Date 2009



Source: Bloomberg, JP Morgan

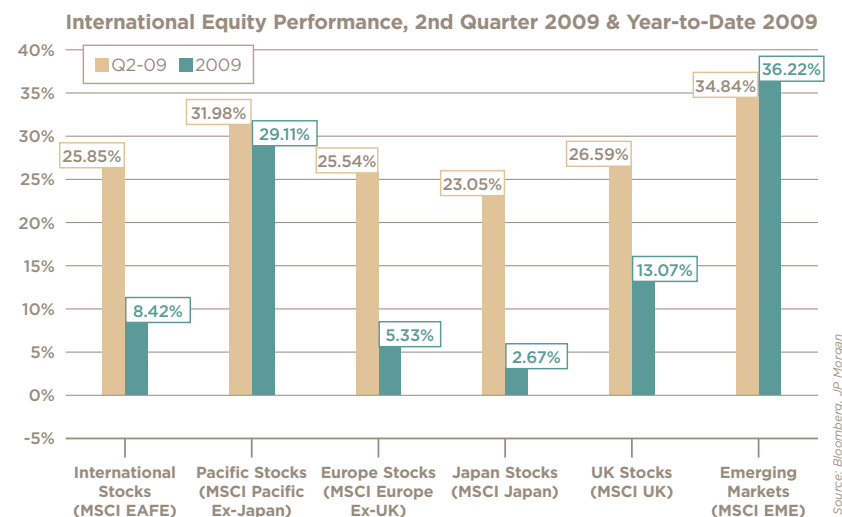
## U.S. EQUITIES

- U.S. Equities continued their strong performance from early March, driving a Second Quarter 15.9% gain for the S&P 500. Large Cap stocks were the weakest while Mid Cap stocks once again were the best performer, closing up 20.8% in Q2 while Small Cap was close behind, up 20.7%. Growth and Value styles were largely equal with the exception of Small Cap, where Growth outperformed Value by over 5%.
- Financials were the strongest performer after finishing in last place in Q1, with a 35.7% return in Q2 still leaving the group in negative territory for the year-to-date. Technology (+19.7%), Industrials (+18.9%) and Consumer Discretionary (+18.1%) were other large gainers, and only Telecom (+3.4%) and Health Care (+8.9%) were relegated with single-digit positive performance.
- Interestingly, based on JP Morgan and Lipper data, U.S. Equities had outflows of \$55 billion through May 30th, inconsistent with the strong Q2 performance highlighted above.



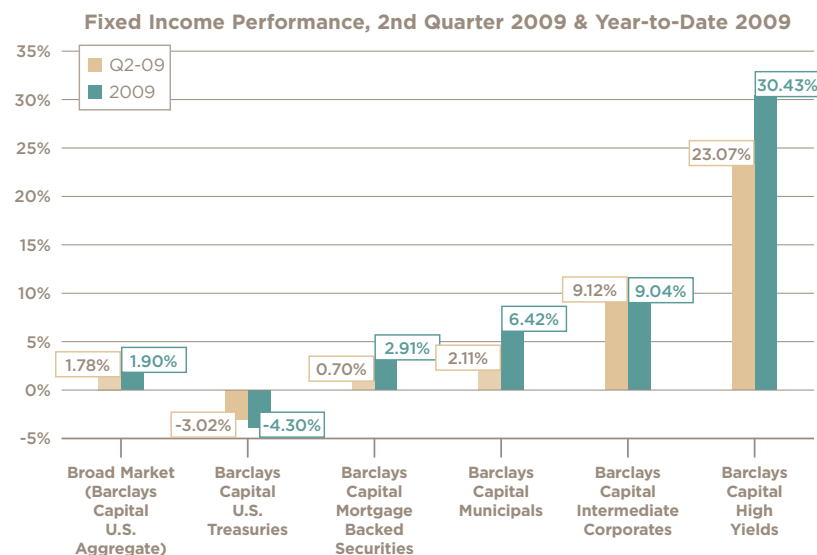
## INTERNATIONAL EQUITIES

- Developed International Equities had their first positive quarter in four, gaining 8.4% in U.S. dollar terms. Emerging Market stocks had their second consecutive positive quarter gaining 36.2% in dollar terms. In Developed Markets, Growth stocks underperformed Value stocks (contrary to the U.S. experience) and Small Cap stocks outperformed Large.
- Developed market currencies largely appreciated relative to the U.S. dollar, which helped returns for most countries when translating back to dollars, especially with Euro-based countries, the UK, and Brazil.
- From a regional perspective, the Pacific Ex-Japan region performed the best for a second straight quarter, the UK rallied 26.6%, and Japan rose 23.1%, all handily outperforming the U.S.



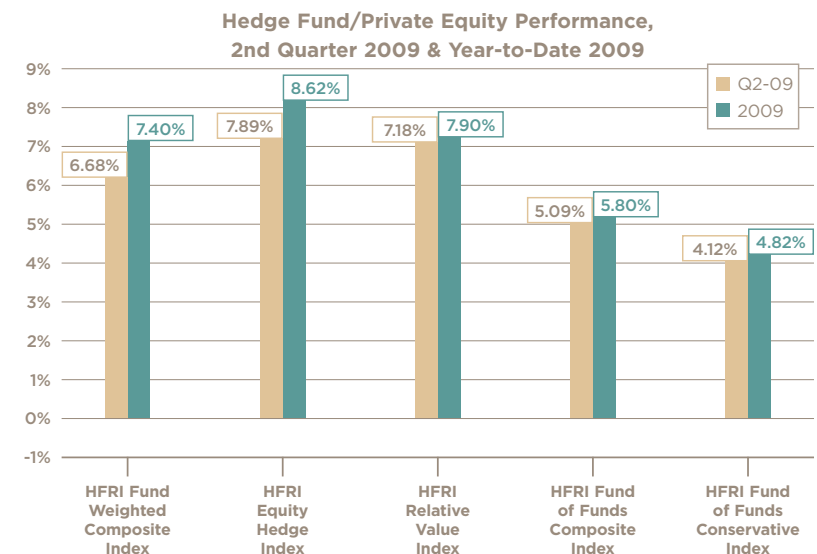
## FIXED INCOME

- The Barclays Aggregate once again provided a positive quarter, closing up 1.8% after a meager 0.1% gain in Q1.
- The fixed income market's riskier components were once again the best performers in Q2. High Yield (+23.1%) and Investment Grade Corporates (+10.4%) were standout sectors while Treasuries fell for a second straight quarter for a -3% return in Q2 and -4.3% year-to-date. Treasury Inflation Protected Securities (TIPS, +0.7%) continued to be volatile given fluctuating views on inflation and Mortgage-backed Securities (+0.7%) and Municipals (+4.2%) continued their positive momentum from Q1.
- Corporate bond spreads over Treasuries tightened meaningfully in Q2, with AAA spreads very close to historical averages while BBB corporate spreads remaining wide by historical standards but over half as tight as they had become at the end of 2008.



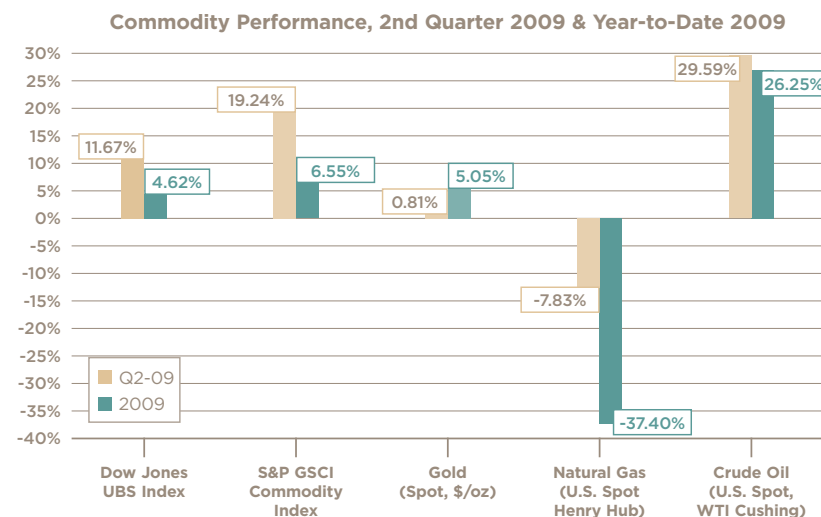
## HEDGE FUNDS/PRIVATE EQUITY

- Hedge Fund strategies have outperformed broad U.S. stock and bond indices year-to-date with the HFRX Global Hedge Fund Index up 5.6% as of June 30 and the HFRI Fund of Funds Conservative Index up 4.6%.
- From a sub strategy standpoint, Relative Value continued building on momentum with Convertible Arbitrage a standout performer (+30% year-to-date). Hedged Equity also performed well but Macro strategies and Equity Market Neutral performed poorly relative to peers.
- Private Equity and Venture Capital remain challenged in the near-term due to difficulty in securing debt financing as well as decreased risk appetites despite a large bounce in risky assets in Q2.



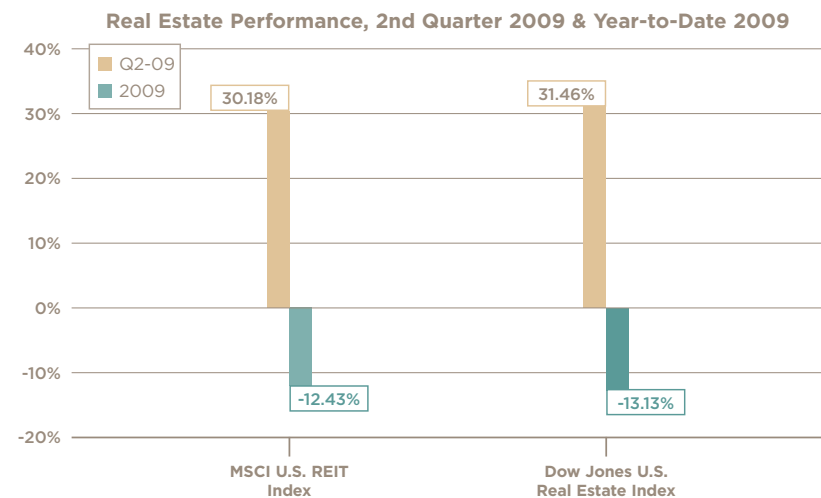
## COMMODITIES

- Commodities enjoyed the return to risk felt by the broader market, with the S&P GSCI Index rallying 19.2% and the Dow Jones AIG finishing up 15% for the quarter. The indices have risen 6.6% and 7.7% respectively for the year through June 30th.
- Oil rose over 30% in Q2 while Natural Gas continued a slide that leaves it down almost 36% year-to-date. The metals complex was all positive in Q2, driven by Nickel (+73%), Lead (+33%), and Copper (+24%). Agriculture was mixed with Corn and Wheat falling 14% and 6% respectively while Sugar and Soybeans both rallied over 30%.
- The much-watched and reported Gold performance was largely flat in Q2 despite a weakening dollar and higher oil prices.



## REAL ESTATE

- Despite a nearly 30% rise in Q2, Public Real Estate (as measured by the MSCI Real Estate Index) remains down over 12% year-to-date. Public Real Estate fell 38% in 2008 and another 33% in the first quarter. Real Estate fundamentals remain weak despite a few glimmers of hope emerging in the second quarter.
- We continue to monitor Commercial Mortgage Backed Security (CMBS) issuance and U.S. unsecured debt markets witnessed their first month of issuance in the past year with \$556 million issued in June, a healthy sign but too soon to chalk up as a trend.
- Government spending programs to date have largely focused on residential mortgages and consumer credit, but the Federal Reserve estimates that commercial real estate represents \$3.5 trillion in debt. A Joint Economic Committee hearing on Commercial Real Estate in early July suggests that increased government focus could result from high rent payment projections over the next two years. ■



## 2009 2ND QUARTER ASSET CLASS RETURNS

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD
Large Cap Growth 23.12%	Large Cap Value 35.18%	Large Cap Growth 38.71%	Mid Cap Growth 51.29%	Small Cap Value 22.83%	Small Cap Value 14.02%	Fixed Income 9.84%	Small Cap Growth 48.54%	Mid Cap Value 23.70%	International Equities 14.02%	International Equities 26.86%	Large Cap Growth 11.81%	Fixed Income 5.08%	Mid Cap Growth 16.61%
Large Cap Value 21.64%	Mid Cap Value 34.37%	International Equities 20.33%	Small Cap Growth 43.09%	Mid Cap Value 19.18%	Fixed Income 8.96%	Cash 1.68%	Small Cap Value 46.03%	Small Cap Value 22.25%	Mid Cap Value 12.65%	Small Cap Value 23.48%	International Equities 11.63%	Cash 1.51%	Large Cap Growth 11.53%
Small Cap Value 21.37%	Small Cap Value 31.79%	Mid Cap Growth 17.86%	Large Cap Growth 33.16%	Fixed Income 10.12%	Cash 3.64%	Mid Cap Value -9.64%	Mid Cap Growth 42.71%	International Equities 20.70%	Mid Cap Growth 12.10%	Large Cap Value 22.25%	Mid Cap Growth 11.43%	Small Cap Value -28.92%	Small Cap Growth 11.36%
Mid Cap Value 20.26%	Large Cap Growth 30.49%	Large Cap Value 15.63%	International Equities 27.37%	Large Cap Value 7.02%	Mid Cap Value 2.33%	Small Cap Value -11.42%	International Equities 39.17%	Large Cap Value 16.49%	Large Cap Value 7.05%	Mid Cap Value 20.22%	Fixed Income 7.39%	Large Cap Value -36.85%	International Equities 8.42%
Mid Cap Growth 17.48%	Mid Cap Growth 22.54%	Fixed Income 8.44%	Large Cap Value 7.35%	Cash 6.36%	Large Cap Value -5.59%	Large Cap Value -15.52%	Mid Cap Value 38.07%	Mid Cap Growth 15.48%	Large Cap Growth 5.26%	Small Cap Growth 13.35%	Small Cap Growth 7.05%	Mid Cap Value -38.44%	Mid Cap Value 3.19%
Small Cap Growth 11.26%	Small Cap Growth 12.95%	Cash 5.15%	Cash 5.01%	Mid Cap Growth -11.75%	Small Cap Growth -9.23%	International Equities -15.66%	Large Cap Value 30.03%	Small Cap Growth 14.31%	Small Cap Value 4.71%	Mid Cap Growth 10.66%	Cash 4.71%	Large Cap Growth -38.44%	Fixed Income 1.62%
International Equities 6.36%	Fixed Income 7.87%	Mid Cap Value 5.08%	Fixed Income 0.39%	International Equities -13.96%	Mid Cap Growth -20.15%	Mid Cap Growth -27.41%	Large Cap Growth 29.75%	Large Cap Growth 6.30%	Small Cap Growth 4.15%	Large Cap Growth 9.07%	Large Cap Value -0.17%	Small Cap Growth -38.54%	Cash 0.10%
Cash 5.21%	Cash 5.32%	Small Cap Growth 1.23%	Mid Cap Value -0.11%	Large Cap Growth -22.42%	Large Cap Growth -20.42%	Large Cap Growth -27.88%	Fixed Income 4.31%	Fixed Income 3.04%	Cash 3.35%	Cash 5.08%	Mid Cap Value -1.42%	International Equities -43.06%	Large Cap Value -2.87%
Fixed Income 4.05%	International Equities 2.06%	Small Cap Value -6.45%	Small Cap Value -1.49%	Small Cap Growth -22.43%	International Equities -21.21%	Small Cap Growth -30.26%	Cash 1.05%	Cash 1.44%	Fixed Income 1.58%	Fixed Income 4.08%	Small Cap Value -9.78%	Mid Cap Growth -44.32%	Small Cap Value -5.17%

Source: Morningstar Principia Pro, M-Search

- Small Cap Value Stocks (Russell 2000 Value)
- Small Cap Growth Stocks (Russell 2000 Growth)
- Large Cap Growth Stocks (Russell 1000 Growth)
- Large Cap Value Stocks (Russell 1000 Value)
- Mid Cap Growth Stocks (Russell Mid Cap Growth Index)
- Mid Cap Value Stocks (Russell Mid Cap Value Index)
- International Equities (EAFE)
- Fixed Income (Barclay's Capital U.S. Intermediate Govt./Credit)
- Cash (Merrill Lynch 3-Month Treasury Bill)

The information contained in the report is from sources believed to be reliable, but not warranted by CAPTRUST Financial Advisors to be accurate or complete.



## 2009 2ND QUARTER INDEX PERFORMANCE

INDICES	Q2-09	YTD'09	2008	2007	2006	2005	2004	1 YEAR	3 YEAR	5 YEAR	10 YEAR
S&P 500	15.93%	3.16%	-37.00%	5.49%	15.79%	4.91%	10.88%	-26.21%	-8.22%	-2.24%	-2.22%
Dow Jones Industrial Average	11.96%	-2.01%	-31.93%	8.88%	19.05%	1.72%	5.31%	-23.00%	-6.34%	-1.68%	-0.41%
NASDAQ Composite	20.05%	16.36%	-40.54%	9.81%	9.52%	1.37%	8.59%	-19.97%	-5.47%	-2.17%	-3.74%
Russell 1000	16.50%	4.32%	-37.60%	5.77%	15.46%	6.27%	11.40%	-26.69%	-8.20%	-1.85%	-1.75%
Russell 1000 Growth	16.32%	11.53%	-38.44%	11.81%	9.07%	5.26%	6.30%	-24.50%	-5.45%	-1.83%	-4.18%
Russell 1000 Value	16.70%	-2.87%	-36.85%	-0.17%	22.25%	7.05%	16.49%	-29.03%	-11.11%	-2.13%	-0.15%
Russell Mid Cap Index	20.80%	9.96%	-41.46%	5.60%	15.26%	12.65%	20.22%	-30.36%	-9.25%	-0.11%	3.15%
Russell 2000	20.69%	2.64%	-33.79%	-1.57%	18.37%	4.55%	18.33%	-25.01%	-9.89%	-1.71%	2.38%
Russell 2000 Growth	23.38%	11.36%	-38.54%	7.05%	13.35%	4.15%	14.31%	-24.85%	-7.83%	-1.32%	-0.89%
Russell 2000 Value	18.00%	-5.17%	-28.92%	-9.78%	23.48%	4.71%	22.25%	-25.24%	-12.07%	-2.27%	5.00%
MSCI Europe, Australia, Far East	25.85%	8.42%	-43.06%	11.63%	26.86%	14.02%	20.70%	-30.96%	-7.51%	2.79%	1.56%
Wilshire REIT Index	31.46%	-13.13%	-39.20%	-17.55%	-35.76%	14.00%	33.16%	-45.35%	-19.73%	-3.28%	5.53%
Barclays Government Intermediate Bond	-1.44%	-1.52%	10.43%	8.47%	3.84%	1.68%	2.33%	6.42%	7.00%	5.00%	5.63%
Barclays Corporate Bond	10.45%	8.32%	-4.94%	4.56%	4.30%	1.68%	5.39%	3.84%	4.49%	3.82%	5.64%
Barclays Aggregate Bond	1.78%	1.90%	5.24%	6.97%	4.33%	2.43%	4.34%	6.05%	6.43%	5.01%	5.98%
Barclays Intermediate Govt./Credit	1.67%	1.62%	5.08%	7.39%	4.08%	1.58%	3.04%	5.27%	6.13%	4.57%	5.66%
Barclays High Yield	23.07%	30.43%	-26.16%	1.87%	11.85%	2.74%	11.13%	-2.40%	2.09%	4.33%	4.69%
90-Day U.S. Treasury	0.05%	0.10%	1.51%	4.71%	5.08%	3.35%	1.44%	0.62%	2.97%	3.12%	3.14%
Consumer Price Index (Inflation)	0.65%	1.84%	0.09%	4.08%	2.54%	3.42%	3.26%	-2.16%	1.81%	2.45%	2.56%

MANAGER UNIVERSE	Q2-09	YTD'09	2008	2007	2006	2005	2004	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Average Large Cap Growth Fund	15.73%	10.48%	-40.71%	13.85%	7.35%	7.13%	8.46%	-27.14%	-6.91%	-1.79%	-2.27%
Average Large Cap Blend Fund	16.76%	4.91%	-37.71%	5.57%	14.20%	5.80%	10.35%	-26.44%	-8.37%	-2.08%	-1.45%
Average Large Cap Value Fund	16.68%	1.71%	-37.12%	1.36%	18.33%	6.09%	13.40%	-26.61%	-9.84%	-2.09%	0.13%
Average Mid Cap Blend Fund	20.03%	10.11%	-39.30%	4.91%	13.85%	9.16%	16.18%	-27.99%	-8.93%	-1.27%	3.07%
Average Small Cap Value Fund	22.72%	3.68%	-32.37%	-6.30%	16.63%	6.16%	20.53%	-23.57%	-10.53%	-1.62%	5.44%
Average Small Cap Blend Fund	22.26%	6.09%	-36.25%	-1.40%	15.50%	7.01%	19.15%	-25.97%	-10.56%	-1.61%	4.52%
Average Small Cap Growth Fund	21.01%	10.65%	-41.60%	8.06%	10.56%	5.93%	12.38%	-26.85%	-9.40%	-2.15%	1.50%
Average Foreign Fund	25.85%	11.18%	-44.85%	13.27%	25.91%	16.49%	19.28%	-31.50%	-7.55%	2.94%	2.60%
Average Emerging Market Fund	35.10%	32.91%	-54.43%	36.80%	32.54%	31.96%	23.61%	-31.64%	0.39%	12.58%	8.24%
Average Conservative Allocation	10.35%	6.84%	-18.69%	4.64%	8.29%	3.42%	5.96%	-10.01%	-1.01%	1.59%	2.43%
Average Moderate Allocation	13.17%	6.47%	-28.07%	6.08%	11.35%	4.94%	8.87%	-17.78%	-4.12%	0.26%	1.56%
Average Fixed Income Fund	5.67%	8.43%	-7.95%	3.42%	4.96%	2.27%	4.42%	-0.46%	2.39%	2.94%	4.06%
Average High Yield Bond Fund	18.13%	22.60%	-26.28%	1.46%	10.16%	2.62%	10.06%	-7.66%	-0.44%	2.39%	3.00%
Average Real Estate Fund	29.83%	-8.55%	-39.58%	-17.29%	32.95%	11.44%	31.72%	-43.01%	-18.89%	-3.52%	4.95%
Average Aggressive Growth Fund	17.00%	9.89%	-41.25%	12.46%	9.98%	8.35%	11.93%	-29.59%	-8.06%	-1.46%	-0.17%

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Source: Morningstar, Mobius, MPI

## HAVE WORKFORCE REDUCTIONS RESULTED IN AN UNPLANNED EVENT?

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The economic downturn has forced employers to reduce their staff. As a result, Plan Sponsors need to be aware of the potential for a partial plan termination.

A partial termination occurs when an employer initiated action results in a group of plan participants (20% or more) no longer being covered by the plan. A partial termination is determined on a facts and circumstances basis.

**The economic downturn has forced employers to reduce their staff and as a result, Plan Sponsors need to be aware of the potential for a partial plan termination.**

The biggest issue a Plan Sponsor has to deal with when a partial plan termination occurs is the requirement to vest all effected participants at 100%. If you have reduced your staff by 20% during the year, you may want to investigate the partial plan termination rules.

## SECTION 409A PLANS

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Given the current economic climate, many employers have reduced or discontinued matching contributions under their 401(k) plans. As a result, employers have considered addressing the reduced or discontinued match by establishing a replacement for such contributions through a nonqualified program under Code Section 409A. Certain issues should be considered in developing any such program:

1. *Eligibility must be confined to a select group of employees.*
2. *Establishment of a mid-year plan involves potential issues with any associated salary reduction contributions.*
3. *Care is required in determining the basis for making matching contributions in order not to run afoul of Section 409A.*
4. *Review of replacement investments should be undertaken.*



## EXCHANGE TRADED FUNDS OVERVIEW

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Actively managed exchange traded funds (ETFs) are a hybrid between an actively managed mutual fund and a traditional ETF. Actively managed ETFs offer many of the same features as traditional ETFs including transparency, a low cost structure, tax efficiency, and intraday liquidity.

Grail Advisors, LLC pioneered the space by launching the first ETF using traditional active management earlier this year. iShares has also filed with the SEC requesting approval to launch two actively managed ETFs. iShares expressing interest likely means that the space is poised for substantial growth.

The evolution of ETFs into actively managed vehicles came sooner than most expected. These ETFs are likely to gain traction and should bring a healthy dose of competition to mutual funds. ■

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