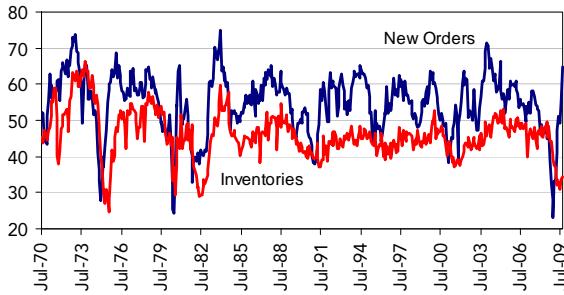


Economic Review

The S&P 500 index posted a sixth consecutive monthly gain in August. The six month return of 40.5% is the largest six-month gain since the period ending in June 1975. Many economic indicators signaled a likely end to the recession, although growth prospects remained subdued. New orders for manufacturing companies reached their highest levels since December 2004, signaling increased activity and boosting exports. Manufacturing is expected to gain strength, as inventories have been drawn down to multi-year lows. Germany, France, and Japan reported positive GDP growth during the second quarter. The Chinese government took steps to slow the bank lending expansion it had allowed in 2008 and 2009. The White House released revised 10-year budget estimates that show the deficit increasing by \$9 trillion. The current-year deficit was lowered nearly \$200 billion to \$1.6 trillion, as support programs for financial institutions diminished and TARP monies were repaid.

ISM New Orders and Inventories

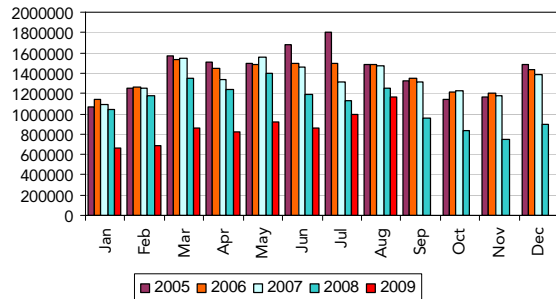


Sources: Institute for Supply Management; Bloomberg
Values over 50 indicate expansion, under 50 indicate contraction

Unemployment in the U.S. unexpectedly fell to 9.4%. The change resulted largely from workers who have stopped looking for work and seasonal adjustments in the data, which typically increase employment figures to account for summer employment, despite being difficult to accurately gauge. The rate is expected to climb higher in the upcoming months.

Labor productivity advanced 6.4% in the second quarter, as aggregate non-farm output fell less than the drop in aggregate hours worked. Technology stocks were among the best performing in 2009, as companies turned to technology to improve efficiency. The jump in productivity is likely to preclude a quick turnaround in hiring.

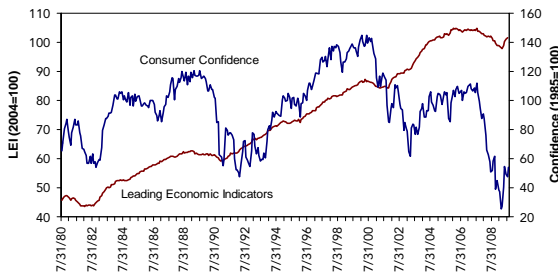
Monthly Auto Sales Improving



Source: Bloomberg

The “cash for clunkers” program was expanded to \$3 billion after the initial \$1 billion was claimed in the opening days. Nearly 700,000 cars were purchased under the program. Carmakers increased production slightly to cover the decrease in dealer inventories. Historically, September sales are 8% lower than August. The upcoming months will uncover the true success of the program, showing whether or not new buyers were enticed into purchases, or if future purchases were pulled forward to capture the incentives. Congress has plans for energy-efficient appliance rebates of \$50 to \$200, starting in 2010.

Economic Fundamentals Improving



Sources: Conference Board; Bloomberg

President Obama re-nominated Ben Bernanke to head the Federal Reserve. The Federal Reserve held interest rates steady, and is likely to keep rates unchanged for the foreseeable future. The Fed announced it will complete its \$300 billion Treasury bond purchase program in October, while continuing to purchase mortgage-backed securities from government agencies. The Fed has purchased about half of its expected total of agency securities, which is seen as an ongoing necessity to hold mortgage rates low. The TALF program was extended through mid-2010 for certain securities.

Home sales continued to improve, as the market cleared out inventory swelled by foreclosed properties. First time homebuyers accounted for 30% of recent purchases, while distressed homes accounted for slightly over 31% of homes sold, according to the National Association of Realtors. Existing home sales posted an increase of 7% from June levels. The federal tax credit for new buyers has shored up sales, while Congress has hinted at an extension beyond the current 2009 conclusion. Homebuilders showed cautious optimism, as increases in land purchases pointed to an expected stabilization in the housing markets.

Market Returns

	As of August 31, 2009		
	August	3 Months	YTD
S&P 500	3.6%	11.7%	15.0%
Russell 1000 Value	5.2%	13.0%	10.6%
Russell 1000 Growth	2.1%	10.6%	21.9%
Russell 2000	2.9%	14.4%	15.8%
MSCI EAFE	5.2%	13.8%	21.1%
Barclays Agg	1.0%	3.2%	4.6%
3-Month T-Bills	0.0%	0.1%	0.1%

The Social Security cost of living adjustment for 2010 will be zero, as current inflation rates remain negative. Payments in 2009 rose 5.8%, a rate determined at the peak of energy and food inflation in 2008.