Monthly Market Review and Outlook

MARCH 2009

Key U.S. Economic News

- Payrolls declined 663,000 in March and the unemployment rate rose from 8.1% to 8.5%. Job losses were broad-based and the average workweek fell to a record-low 33.2 hours.
- The manufacturing PMI ended March at a level of 36.3%, a 0.5% gain over February. The index is still showing contraction, but at a slower rate. New orders were up significantly.
- The service (non-manufacturing) PMI declined -0.8% to 40.8% in March, the six consecutive month of contraction. Unemployment remains a concern.
- The Consumer Price Index (CPI) increased 0.4% in February, with energy prices rising at the fastest rate in seven months. The headline CPI year-over-year is still positive, up 0.2%.
- The headline Producer Price Index (PPI) increased 0.1% in February, but the year-over-year number remains in deflation territory at -1.3%. The core PPI rose 0.2%, a 4.0% year-over-year increase.
- Housing starts surged an unexpected 22% in February after an increase in apartment building construction, representing the first increase in eight months.
- New home sales rose 4.7% in February after hitting a record low in January. However, the inventory of unsold homes remains at a 12.2 month supply, an enormous overhang.
- Durable goods orders surprisingly increased 3.4% in February; however, January's decline was revised even lower. The gain in orders was broad based.
- U.S. real GDP for the fourth quarter of 2008 was revised downward slightly from -6.2% to -6.3%.
- In 2008, household net worth plunged a post-WWII record of $11.2 trillion, or 17.9%, which represents a 4.7% standard deviation event. The negative wealth effect is estimated to have reduced full-year GDP by approximately $500 billion, or 3.5% (*Source: Ned Davis Research*).

Key U.S. Policy News

- The Treasury department provided the details of their Public-Private Investment Program (PPIP) designed to help in removing toxic assets from bank balance sheets. The program will provide up to $500 billion of both debt and equity capital to private institutions to help fund the purchase of legacy assets, both loans and securities.
- The Obama Administration rejected the restructuring plans submitted by both General Motors and Chrysler. GM will receive 60 days of working capital so that they may provide a more detailed restructuring plan. Chrysler, deemed not viable over the long term, will receive 30 days of working capital so they may pursue a deal with Fiat. At this point, a pre-packaged bankruptcy may be in the best interest of the companies, and it would be facilitated by the government's plan to guarantee the warranties of the carmakers.
- The Federal Reserve announced they would purchase $300 billion in longer-term Treasuries to help the economy recover by keeping long-term interest rates low. The purchases began the last week in March. The Fed has also committed to purchasing over $800 billion in additional agency mortgage-backed securities and agency debt.
- The first round of funding for the TALF (Term Asset-Backed Lending Facility) was completed in late March. Currently, only AAA-rated securities, including auto, credit card and small business loans, will be eligible for the TALF.
- The Financial Accounting Standards Board (FASB) agreed to relax mark to market accounting rules to give entities greater flexibility when determining fair value for distressed assets. Banks stand to benefit from this change, and it may result in a boost to earnings. The impact of this rule change on the PPIP and the prices investors would have to pay for the toxic assets is unclear.
- The Treasury outlined its plan for new regulations on the financial sector which includes a systematic risk regulator, higher capital requirements for larger banks, regulation of hedge funds, private equity and venture capital firms, and a clearinghouse for credit default swaps.

Key Market Data and Events

Major Asset Class	Representative Market Index	1 Month	1Q09	1 Year	3 Year	5 Year	10 Year	10 Yr Std Dev*
US Equities	Dow Jones US Total Stock Market	8.70%	-10.56%	-37.96%	-13.33%	-4.36%	-2.11%	16.20%
Foreign Equities	MSCI All Country World Index ex U.S.	8.07%	-10.62%	-46.18%	-12.75%	-0.24%	0.89%	17.77%
Fixed Income	Barclays US Aggregate Bond	1.39%	0.12%	3.13%	5.77%	4.13%	5.70%	3.80%
	Barclays TIPS	5.84%	5.52%	-2.04%	5.72%	4.14%	7.31%	6.57%
Absolute Return	HFRX Global Hedge Fund	-0.03%	0.69%	-20.51%	-5.36%	-1.83%	5.07%	6.90%
Real Assets	FTSE EPRA NAREIT Global REIT	7.06%	-22.09%	-56.84%	-22.07%	-5.43%	4.03%	19.09%
	Dow Jones AIG Commodity	3.60%	-6.31%	-45.00%	-9.84%	-3.25%	6.36%	17.27%
Private Equity	Red Rocks Listed Private Equity	19.11%	-20.24%	-67.02%	-34.52%	-18.10%	1.06%	30.79%

*Annualized for periods greater than one year. Past performance is no guarantee of future results. Source: FactSet, Red Rocks Capital. *5 year standard deviation for Global Sectors. Total returns as of March 31, 2009.*

- The equity markets made new lows on March 9, but experienced a nice rally through the end of March, with the S&P 500 Index increasing 16.9%.
- The information technology sector was the top performing sector in the first quarter and the only sector with positive returns (4.3%). Although financials led the rally after the March 9 low with a 45.8% gain, they were the worst performing sector for the first quarter with a -28.8% return.
- Market implied volatility has come down to more reasonable levels as we are slowly gaining more visibility. The VIX Index ended March at a level of 44.1 versus the peak of 80.9 reached in 2008.
- Valuation metrics show that the U.S. equity markets are trading at cheaper multiples than their historic averages. In addition, the S&P 500 dividend yield is almost 100 basis points higher than the yield on 10-year Treasuries.
- It appears that defensive sectors, such as healthcare and consumer staples, are losing steam and are potentially making room for the outperformance of more early cyclical sectors such as consumer discretionary and information technology.
- Growth stocks significantly outperformed value stocks in the first quarter despite the rally in financials in March. The difference in performance by market capitalization was less pronounced, but large caps outperformed small caps. Large cap growth stocks (Russell 1000 Growth Index) outperformed small cap value (Russell 2000 Value Index) by over 15% in the first quarter.
- Developed Europe faired worse than the U.S. equity markets, while Japan was slightly ahead. The U.S. dollar gained ground on both the Yen and the Euro in the first quarter.
- The MSCI Emerging Markets Index was the only major equity index with a positive return for the first quarter (4% in local terms). Strong performance was concentrated in Latin America (Chile and Brazil), China and Russia. The MSCI China Index is up 50% since its low reached in October. Emerging markets tend to outperform when volatility subsides due to an improving global outlook.
- The 10-year Treasury yield increased over 40 basis points during the quarter to end at a level of 2.69% and the yield curve steepened. The Fed is determined to keep both short-term and long-term rates low which may work in the short-term, but eventually economic recovery will push rates higher.
- As fear of deflation ebbed, TIPS gained 5.84% in March, their best monthly advance ever.
- High yield bonds performed well in the first quarter, returning 6%. Spreads came in, but still remain at historically wide levels. The market is pricing in a default rate of close to 20%.
- Investment grade corporate bond performance was mixed, with BBB-rated bonds performing well but higher quality bonds still in the red.
- The municipal bond market is seeing signs of recovery as supply has picked back up and higher quality deals are trading with sufficient liquidity.
- The price of crude oil increased in the first quarter, ending March at a price of $49.64 per barrel.
- Almost 1,500 hedge funds, or 15% of the entire asset class, were liquidated in 2008.
- So far in 2009, mutual fund flows have been positive for money market and fixed income funds and negative for both U.S. and International equity funds.

Outlook

We continue to believe that economic weakness will be felt throughout 2009; however, there are indications that the rate of decline in the global economy may be moderating as some the data is becoming "less bad." Two major keys to recovery are the stabilization of the housing market and improving consumer confidence. Recent housing market data has shown signs of improvement and affordability is at record high levels. The decline in home mortgage rates to below 5% will further improve affordability and help to work through the excess supply, in addition to starting a wave of refinancing that will improve the balance sheets of consumers. Consumer confidence, while still at very low levels, appears to have steadied in recent weeks. An uptick in consumer confidence may signal that the stimulus and other government programs are working, and investors may be again willing to take on additional risk, boosting the equity market.

The employment situation continues to weaken; however, employment tends to lag economic activity and will bottom months after we experience the bottom in the equity markets. We would also like to see further improvement in the credit markets, with tightening of spreads on BBB-rated bonds and jumbo mortgage spreads. Both measures have declined from their peaks, but more progress is needed. We would also look for further loosening of credit standards by loan officers, a mechanism to increase the velocity of money.

The massive global policy responses have been remarkable. Over the last six months alone, we've had over 450 policy initiatives enacted across the globe. Such aggressive policy responses include rate cuts, bailouts, fiscal stimulus packages and quantitative easing initiatives. Global money growth is rapid, which should fuel asset prices first, followed by economic activity, and eventually inflation. The Fed's balance sheet has grown to over $2 trillion, and with the purchase of Treasuries and mortgages, the TALF and the PPIP, it is likely to increase further as it, along with the administration, tries to counter business and consumer weakness. Nonetheless, the immense stimulus causes concern regarding the government's involvement in the private sector, and the risk that accelerating levels of government spending could continue unbridled.

We have a cautious, balanced view on the market. We will continue to look closely at leading economic indicators and other economic and market sign posts as a signal that the market rally may be sustained. We maintain our belief in the equity market discounting mechanism, and even if the economic recovery is choppy over the year ahead, stocks remain a leading indicator of economic activity. During the initial phase of recovery, market drivers tend to be systemic, with market influences overshadowing company-specific influences. More industry and company specifics are likely to assert themselves as we near the end of the recession.

Our portfolios are positioned with a slight underweight to equity versus fixed income. Within the domestic equity allocation, we are neutral with respect to both market capitalization and style. We are underweight international equity versus domestic, but have a bias towards emerging markets, especially China. Within fixed income, we favor mortgage-backed securities and investment-grade corporate bonds, and have initiated a small position in high yield. We continue to seek opportunities in the absolute return space, and maintain considerable positions in equity market neutral, merger arbitrage, tactical asset allocation and closed-end fund strategies.

Notable Numbers

- **Good Month** — The S&P 500 gained +8.8% (total return) in March 2009, its best monthly performance since October 2002 when the stock index also gained +8.8%. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market (source: BTN Research).
- **Reduced Housing Inventory** — The number of existing homes for sale has declined for seven consecutive months and was 3.8 million as of the end of February 2009. The number was 4.6 million at the end of July last summer (source: National Association of Realtors).
- **Multi-Billion Dollar Month** —The total capitalization of the U.S. stock market increased by $700 billion during the month of March to $9.4 trillion. The value of the U.S. stock market was $10.6 trillion at the end of last year (source: Wilshire).
- **What Type?** —70% of all mortgages originated in 2009 are expected to involve the refinancing of an existing mortgage as opposed to a mortgage created based upon the new purchase of a home (source: MBA).

This newsletter is intended to provide opinions and analysis of the general conditions of the market and economy, but is not intended to provide personalized investment advice. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital's Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. This commentary includes statistical information obtained from various third-party sources. Brinker Capital believes those sources to be accurate and reliable; however, we are not responsible for errors by third-party sources on which we reasonably rely. Performance data represents general indexes representative of certain asset classes and is not indicative of actual past performance of any specific portfolio managed or sponsored by Brinker Capital.

Appendix

	Month	1Q09	1-Year	3-Year	5-Year	10-Year
DJIA	7.94%	-12.48%	-35.94%	-9.52%	-3.64%	-0.36%
S&P 500	8.76%	-11.01%	-38.09%	-13.06%	-4.76%	-3.00%
NASDAQ*	10.94%	-3.07%	-32.93%	-13.23%	-5.18%	-4.65%
Russell 1000	8.75%	-10.45%	-38.27%	-13.24%	-4.54%	-2.57%
Russell 1000 Growth	8.92%	-4.12%	-34.28%	-11.28%	-4.38%	-5.26%
Russell 1000 Value	8.55%	-16.77%	-42.42%	-15.40%	-4.94%	-0.62%
Russell Mid Cap	9.15%	-8.98%	-40.81%	-15.53%	-3.53%	2.27%
Russell Mid Cap Growth	9.53%	-3.36%	-39.58%	-14.89%	-3.91%	-0.86%
Russell Mid Cap Value	8.73%	-14.67%	-42.51%	-16.68%	-3.81%	3.13%
Russell 2500	9.13%	-11.43%	-38.23%	-15.98%	-4.45%	3.33%
Russell 2500 Growth	9.53%	-5.97%	-38.14%	-15.39%	-4.47%	0.24%
Russell 2500 Value	8.73%	-16.32%	-38.66%	-16.89%	-4.79%	4.73%
Russell 2000	8.93%	-14.95%	-37.50%	-16.80%	-5.24%	1.93%
Russell 2000 Growth	8.98%	-9.74%	-36.36%	-16.20%	-5.37%	-1.60%
Russell 2000 Value	8.88%	-19.64%	-38.89%	-17.54%	-5.30%	4.87%
MSCI EAFE	6.39%	-13.85%	-46.20%	-14.07%	-1.75%	-0.47%
MS Emerging Markets	14.38%	1.02%	-46.90%	-7.88%	6.25%	8.14%
Merrill Lynch 3-7 Year Muni	0.26%	2.01%	6.07%	5.58%	3.89%	4.88%

**Returns as of March 31, 2009. Annualized for periods greater than one year. Past performance is no guarantee of future results. Source: FactSet*

Glossary

DJ/AIG Commodity (Dow Jones/American International Group) **–** A rolling commodities index composed of futures contracts on 19 physical commodities traded on U.S. exchanges. The Index serves as a liquid and diversified benchmark for the commodities asset class.

DJIA (Dow Jones Industrial Average) – The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

Dow Jones Wilshire 5000 – The Dow Jones Wilshire 5000 Total Market Index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index was created in 1974.

FTSE EPRA/NAREIT Global Real Estate (Financial Times and London Stock Exchange European Public Real Estate Association/National Association of Real Estate Investment Trusts®) –The FTSE EPRA/NAREIT Global Real Estate Index is designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate. Only closed-end companies listed on an official stock exchange are included in the index.

HFRX Global Hedge Fund Index (Hedge Fund Research Inc.) – The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of eight strategies: convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

ISM Manufacturing Index - A monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month. This data is considered a very important and trusted economic measure. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth. The values for the index can be between 0 and 100.

ISM Non-Manufacturing Index - ISM Non-Manufacturing gauge of business conditions in non-manufacturing industries, based on measures of employment trends, prices and new orders. Though non-manufacturing sectors make up the majority of the economy, the ISM Non-Manufacturing has less market impact because non-manufacturing data tends to be more cyclical and predictable. However, these sectors do account for a considerable portion of CPI. As a result, the figure gives insight into conditions which can impact output growth and inflationary pressures.

Lehman Brothers Aggregate – An unmanaged market-value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.
Lehman Brothers Muni – A benchmark index that includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than two years) selected from issues larger than $50 million.

Lehman Brothers TIPS (Treasury Inflation-Protected Securities) –The Lehman U.S. TIPS Index consists of inflation-protection securities issued by the U.S. Treasury.

LIBOR (London Interbank Offered Rate) – the interest rate offered by a specific group of London banks for U.S. dollar deposits of a stated maturity. LIBOR is used as a base index for setting rates of some adjustable rate financial instruments, including Adjustable Rate Mortgages (ARMs) and other loans.

MSCI All Country World ex-U.S. (Morgan Stanley Capital International) –The MSCI All Country World Index ex-U.S. is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, except the U.S. The index consists of 47 country indices comprising 22 developed and 25 emerging market country indices.

MSCI ACWI Energy (Morgan Stanley Capital International All Country World Index) – The MSCI All Country World Index Energy Index is a subset of the MSCI All Country World Index, a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets that consists of 48 country indices comprising 23 developed and 25 emerging market country indices, in the Energy sector.

MSCI ACWI Materials (Morgan Stanley Capital International All Country World Index) –The MSCI All Country World Index Materials Index is a subset of the MSCI All Country World Index, a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets that consists of 48 country indices comprising 23 developed and 25 emerging market country indices, in the Materials sector.

MSCI ACWI Information Technology (Morgan Stanley Capital International All Country World Index) –The MSCI All Country World Index Information Technology Index is a subset of the MSCI All Country World Index, a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets that consists of 48 country indices comprising 23 developed and 25 emerging market country indices, in the Information Technology sector.

MSCI EAFE (Morgan Stanley Capital International Europe, Australasia and Far East) **–**The MSCI EAFE Index is recognized as the preeminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australasia and the Far East.

MSCI Emerging Markets (Morgan Stanley Capital International) **–**The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

NASDAQ (National Association of Securities Dealers Automated Quotations) – The NASDAQ Composite Index is a market-capitalization-weighted, unmanaged index that is designed to represent the performance of the National Association of Securities Dealers Quotation System, which includes more than 5,000 stocks traded only over the counter and not on an exchange. The Index does not include the reinvestment of dividends.

Red Rocks Listed Private Equity Index – The Red Rocks Listed Private Equity Index is designed to track the performance of the largest and most liquid publicly traded private equity firms principally invested in the United States and publicly traded private equity portfolios with principal investments in the United States. The publicly traded stocks within the Index are traded on any nationally recognized exchange worldwide.

Russell 1000 – Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately $13.9 billion; the median market capitalization was approximately $4.9 billion. The smallest company in the Index had an approximate market capitalization of $2.0 billion.

Russell 1000 Growth – Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value – Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid Cap – Measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 30% of the total market capitalization of the Russell 1000 Index. As of the latest reconstitution, the average market capitalization was approximately $5.3 billion; the median market capitalization was approximately $3.9 billion. The largest company in the Index had an approximate market capitalization of $14.9 billion.

Russell Mid Cap Growth – Measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index.

Russell Mid Cap Value – Measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value Index.

Russell 2500 – Measures the performance of the 2,500 smallest companies in the Russell 3000 Index.

Russell 2500 Growth – Measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2500 Value – Measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Small Cap – Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately $762.8 million; the median market capitalization was approximately $613.5 million. The largest company in the Index had an approximate market capitalization of $2.0 billion and a smallest of $218.4 million.

Russell Small Cap Growth – Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Small Cap Value – Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

S&P 500 – (Standard & Poor's 500 Index) An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market-value-weighted index -- each stock's weight in the Index is proportionate to its market value.

Standard & Poor's/Case-Shiller Home Price Index – The S&P/Case-Shiller Home Price Index measures the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States. The Index uses the repeat sales pricing technique to measure housing markets. The Index is calculated monthly and published with a two-month lag.

TED Spread (acronym formed from T-Bill and ED, the ticker symbol for the Eurodollar futures contract) – the difference between the interest rates on interbank loans and short-term U.S. government debt. It is an indicator of perceived credit risk in the general economy.

Troubled Assets Relief Program (TARP) – a program in which the federal government can buy bad assets from financial institutions, with the government getting stock warrants in return.

VIX (Market Volatility Index) – An index designed to track market volatility as an independent entity. The Market Volatility Index is calculated based on option activity and is used as an indicator of investor sentiment, with high values implying pessimism and low values implying optimism.