



**Parametric™**

Leaders in Structured Portfolio Management

# MARKET COMMENTARY

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**Tom Seto**

Director — Portfolio Management

### About Parametric

Parametric is an industry-leading provider of structured portfolio management, headquartered in Seattle, Washington. Parametric and its affiliate, Parametric Risk Advisors, offer a variety of structured portfolio solutions, including customized core equity portfolios (U.S., Non-U.S., Global Tax-Managed Core™), options strategies (DeltaShift<sup>SM</sup>), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

### Parametric

1151 Fairview Avenue N.

Seattle, WA 98109

T 206 694 5500

F 206 694 5581

[www.ParametricPortfolio.com](http://www.ParametricPortfolio.com)

### Domestic

The US equity market, as measured by the S&P 500 Index, was down 8.4% for the third quarter. Considering the credit market crisis and subsequent failures and seizures of high-profile financial institutions, it is notable that financial services stocks were actually in positive territory, up 0.8% for the quarter. Much of the broad market decline can be attributed to energy stocks as the price of crude oil plummeted 28% in the past three months. Only consumer staples had better economic sector performance, up 4.8%. Energy stocks were the worst performing sector, down 24.7% for the quarter. Raw materials stocks also plunged 23% on fears of slowing economic growth. Value outperformed growth (S&P 500/Citigroup Value Index, -5%; S&P 500/Citigroup Growth Index, -11.2%), as investors moved away from energy and technology stocks dominating the Growth Index. Mid-cap stocks performed similarly to large caps, but small-cap stocks were surprisingly flat in a tough quarter for virtually all segments of the market (S&P MidCap 400 Index, -10.9%; S&P SmallCap 600 Index, -0.9%). There is no question the resolution of the credit market crisis, or lack thereof, will have a significant impact on the US economy going forward. Among this uncertainty, our broadly diversified, sector-neutral *Tax Managed Core* portfolios provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

### International

International markets were down each month in the third quarter, with September most extreme as the liquidity crisis and increasing fears of a global economic slow down crushed equity markets. The MSCI EAFE Index was down 20.6% and the emerging markets MSCI EM Index was down 26.9% for the quarter. In developed markets, all countries and sectors were negative. The worst performing sectors were energy and materials. Financial sector stocks, down 17% and comprising a significant portion of the index, weighed heavily on returns as several European banks approached failure. Index heavyweights the UK and Japan, down 21% and 18%, respectively, also contributed substantially. In emerging markets, commodity dominated markets were hammered, with Russia plunging 45% and Brazil 38%. As the outlook for global growth weighs on investors and central banks dash to rescue their ailing financial systems, market volatility will likely persist through year end.

### Disclosures

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