

## MARKET COMMENTARY

4th Quarter, 2009

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**Tom Seto**  
Director — Portfolio Management

### Domestic

US stocks rallied in the fourth quarter, with the S&P 500 Index up 6% in the final three months of the year, its third consecutive positive quarter. The Index finished 2009 up 26.5%; remarkable considering the fragile state of the US economy and the uncertain environment for capital and credit markets. After leading the stock market recovery the past two quarters, the financial services sector cooled off in the fourth quarter. Bank stocks dragged financials into negative territory, making it the worst performing sector of the quarter, down 3.3%. The best performing sectors were the cyclical technology (+10.8%) and consumer discretionary (+9.1%), sectors that are more sensitive to changes in the overall economy. Growth outperformed value (S&P 500/Citigroup Growth Index, 7.8%; S&P 500/Citigroup Value Index, 4.2%), essentially due to the concentration of technology in growth versus financials in value. Small and mid-cap stocks performed similarly to large-caps (S&P SmallCap 600 Index, 5.1%; S&P MidCap 400 Index, 5.6%). The US equity market clearly did not recover on its own. The Federal Reserve kept interest rates at near zero all year and, with the Treasury, went on an unprecedented buying spree, injecting capital into the economy and encouraging investors to buy stocks. But inflation could limit the Fed's ability to keep capital cheap. Also unclear is the longer-term effect of the government's massive deficit spending programs, not to mention the impact if and when they are rolled back. As this unfolds, our broadly diversified, sector-neutral Tax Managed Core portfolios will provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.



# Parametric™

Leaders in Structured Portfolio Management



**Brooke Beresh**  
Portfolio Manager

## International

In international markets, the MSCI EAFE Index was up 2.2% in the fourth quarter and up 32% in 2009. The MSCI EM Index was up 8.5% in the quarter and up an impressive 78% in 2009. In the fourth quarter, Norway was the strongest performer (15%), followed by Singapore (10%), while the worst performer was Greece (-21%). For the year, Norway had the highest return (87%) while Japan had the lowest (6.3%). Similar to US markets, the financial sector was the weakest during the fourth quarter (-4.5%) dragged down by bank stocks. Strength in mining stocks buoyed the materials sector in the fourth quarter (13%) and all 2009 (68%) making it the best performing sector. In the fourth quarter, the US dollar reversed course and strengthened versus major currencies. For 2009, however, all major currencies except the Japanese yen appreciated versus the US dollar. The Australian dollar experienced the greatest currency appreciation versus the US dollar, strengthening 30% in 2009.

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### 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™).

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