Investment & Economic Update

Volume 10 Number 4
December 31, 2009

The Economy
Modest Start to Recovery

U.S. real gross domestic product (GDP) turned positive for the third quarter of 2009 with a final reading of 2.2% annual growth. This follows four previous quarters of declines in GDP and appears to reflect a slow rebound from the 2008-2009 recession. Signs pointing to a better economic environment include the purchasing manager index showing expanding new orders for five consecutive months and reports that claims for unemployment are declining. It has also been noted that businesses have cut their inventories. The expectation is that companies will have to ramp up production at some point to replenish their inventories. The holiday shopping season of 2009 showed consumers spending over 3% more than the previous year. Still, there remains uncertainty as to the overall financial health of consumers and how long or strong a recovery might be.

The Stock Market
A Roller Coaster Ride for Stock Prices

The first quarter of 2009 saw the U.S. stock market plummet 19% and then proceed on a powerful roller coaster rally for the remainder of the year, finishing 64% higher than the low point reached in early March. For the full year, the S&P 500 posted a 26.5% return. The rally in equity markets in 2009 occurred in foreign stocks as well, with the Morgan Stanley Europe Australia and Far East Index rising 27.7% for the year.

Stock market sentiment went from extreme pessimism at the start of the year to cautious optimism that the unprecedented amount of stimulus–both fiscal and monetary–would restore the economy. Helping to sustain the rally throughout the year were indications that corporate earnings were on the road to recovery. As good as 2009 was, with the S&P 500 Index ending at a price of 1,115, it is almost unbelievable to look back and see that ten years ago at year end 1999 the S&P 500 stood at 1,469, which now makes it look like a ten year roller coaster ride that has yet to bring investors back to where they started.

The Bond Market
Bottom of the Interest Rate Cycle

Our Federal Reserve Policy makers once again left the Fed Funds near zero at their December 2009 meeting, resulting in twelve months of status quo since cutting the rate to that level back in December 2008. While T-Bill rates remained low, the rest of the Treasury yield curve steepened throughout the year. This meant declining prices for Treasury bonds. For example, the ten year Treasury Note yield was 2.25% at the start of 2009 and rose to 3.8% by Dec 31, 2009 resulting in a negative return of 9.3%. An entirely different story played out in corporate and mortgage backed bonds, where yields started out at the beginning of 2009 at unusually high levels causing investors to pour money into this sector. For example, junk bond yields were 24% at the start of the year and fell to 9.1% by year end, giving investors a high risk return of 58% for the year. Looking forward, most market analysts believe that while inflation is contained and economic activity subdued, low rates are warranted to prevent the economy from slipping back from its fragile recovery. Once we see stronger evidence of a recovery, it is expected that the discussion will turn to a plan for an exit strategy resulting in future moves to raise rates. The prospect of a future rising interest rate environment can pose challenges for bond investors as the mathematics play out, as rising rates lead to falling bond prices. The longer the duration of the bond, typically the greater the risk for price declines.

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Indexes		**YTD**
Stock Indexes		
Dow Jones	10,428	22.68%*
S&P 500	1,115	26.46%
NASDAQ	2,269	45.31%
* Price Return		
Bond Indexes		
10 Year Treasury	3.81%	-9.30%
3 Month Treasury	0.03%	+0.40%
US Corp. High Yield	9.06%	58.21%

Prime Rate	3.25%
LIBOR Rate (3 mos.)	0.25%
Unemployment Rate (Nov. '09)	10.00%
15 Year Mortgage Rate	4.72%
30 Year Mortgage Rate	5.48%
CPI (12 Months Ending 11/30/09)	1.80%
GDP (3rd Quarter 2009)	2.20%
Oil Price (Price/Barrel)	$79.36
Gold (oz.)	$1,104.00

Treasury Yields	
3 Month	0.03%
6 Month	0.19%
2 Year	1.12%
5 Year	2.64%
10 Year	3.81%
30 Year	4.61%

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		December 31, 2009			Calendar Year Ended					5 Year Average Annual Return
		Last 1 Month	Last 3 Months	Calendar Year-to-Date	2008	2007	2006	2005	2004	
Large Cap	Dodge & Cox Stock Fund	2.3%	4.5%	31.3%	-43.3%	0.1%	18.5%	9.4%	19.2%	-2.6%
	T. Rowe Price Equity Income	1.9%	5.4%	25.6%	-35.8%	3.3%	19.1%	4.3%	15.1%	-1.1%
	Selected American Shares	2.5%	6.3%	31.6%	-39.4%	4.8%	15.2%	9.9%	12.0%	-2.1%
	American Century Value Inv.	2.4%	5.8%	19.4%	-26.7%	-5.2%	18.5%	5.0%	14.4%	-0.2%
	FMI Large Cap Fund	1.3%	7.9%	29.7%	-26.9%	4.1%	16.7%	9.1%	17.5%	2.6%
	Vanguard Index 500	2.0%	6.0%	26.5%	-37.0%	5.4%	15.6%	4.8%	10.7%	-2.3%
	Schwab S&P 500 Index Fund	2.3%	6.0%	26.3%	-36.9%	5.5%	15.8%	4.9%	10.7%	-2.2%
	Janus Growth & Income	3.3%	5.0%	38.6%	-42.5%	8.7%	7.8%	12.5%	11.9%	-3.2%
	SIT Large-Cap Growth	2.7%	5.6%	28.1%	-34.1%	14.1%	9.5%	9.6%	12.8%	0.4%
	Harbor Capital Appreciation	3.1%	8.9%	41.9%	-37.1%	12.3%	2.3%	14.0%	9.3%	-2.1%
	AF Growth Fund of America A	2.7%	5.8%	34.5%	-39.1%	11.0%	10.9%	14.2%	12.0%	-0.8%
Mid Cap	Perkins Mid Cap Value Investor	3.5%	4.0%	30.4%	-27.3%	7.4%	15.3%	10.4%	18.4%	3.3%
	Dreyfus Mid Cap Index	6.2%	5.5%	37.0%	-36.5%	7.6%	9.9%	12.1%	15.9%	-0.5%
	Vanguard Mid Cap Index	6.2%	6.5%	40.2%	-41.8%	6.0%	13.6%	13.9%	20.4%	-0.8%
	Columbia Acorn Fund	6.1%	5.7%	39.7%	-38.6%	7.7%	14.5%	13.1%	21.5%	0.8%
	T. Rowe Price Mid-Cap Growth	5.2%	4.9%	45.5%	-39.7%	17.7%	6.8%	14.8%	18.4%	0.6%
	JP Morgan Diversified Mid Cap Gr	6.7%	7.6%	43.2%	-43.8%	17.1%	11.3%	10.9%	12.9%	-1.7%
	Eagle Mid Cap Stock	4.5%	6.8%	31.0%	-37.6%	13.4%	13.2%	9.3%	17.5%	0.6%
Small Cap	Perkins Small-Cap Value L	5.4%	5.7%	36.9%	-21.6%	3.2%	12.6%	9.1%	13.8%	2.5%
	Heartland Value Plus	6.5%	5.6%	26.4%	-17.9%	4.7%	13.6%	1.3%	17.0%	3.0%
	Royce Total Return	5.0%	4.3%	26.2%	-31.2%	2.4%	14.5%	8.2%	17.5%	0.5%
	Vanguard Small Cap Index	7.9%	4.1%	36.1%	-36.1%	1.2%	15.7%	7.4%	19.9%	-0.7%
	Keeley Small Cap Value	6.8%	3.8%	21.7%	-40.2%	7.2%	19.6%	16.1%	32.9%	3.4%
	T. Rowe Price Small-Cap Stock	7.5%	5.0%	38.5%	-33.4%	-1.8%	12.8%	8.4%	18.8%	-1.0%
	Scout Small Cap	6.6%	4.3%	21.0%	-40.2%	13.3%	12.1%	5.6%	24.7%	0.0%
Inter national	Oppenheimer Global A	1.9%	4.8%	39.2%	-41.0%	6.0%	17.4%	13.8%	18.7%	-0.2%
	Scout International	1.8%	4.0%	35.5%	-38.1%	17.8%	21.5%	19.6%	18.0%	4.6%
	AF Euro Pacific Fund A	1.2%	3.4%	39.1%	-40.5%	19.0%	21.9%	21.1%	19.7%	4.6%
	Harbor International	1.6%	5.6%	38.6%	-42.7%	21.8%	32.7%	20.8%	18.0%	5.7%

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