

Highlights

The negative October 2009 monthly returns for most of the regularly reported equity indices ended the series of positive returns that began in March of this year. Taxable fixed income managed to earn a positive return, while tax-exempt fixed income declined. Despite the weaker monthly returns, the year-to-date returns for all of the regularly reported equity and fixed income indices remain impressive. Fundamentally, the month included further signs of an improved U.S. economy that include generally favorable 3Q 2009 earnings results, as well as an improved global economy. The persistently anemic condition of the labor market and credit problems in the banking industry remain significant risks to sustained improvement.

Asset Class	Index	10/31/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	9,713	0.14%	6.65%	13.65%	7.72%
	S&P 500	1,036	-1.86%	5.48%	17.05%	9.80%
	S&P 400 Mid-Cap	659	-4.54%	5.33%	24.23%	18.18%
	Russell 2000	563	-6.79%	1.41%	14.11%	6.48%
International Equities	EAFE Index	1,533	-1.24%	8.18%	27.62%	28.03%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	0.44%	2.30%	5.39%	12.03%
	Barclays Capital 7 Yr Muni	-	-1.94%	0.89%	6.21%	10.73%

Source: Bloomberg

Market Update

Equities. Equity market returns for the month of October 2009 reversed several of the return patterns established in prior months. First, the series of positive monthly equity market returns that started in March of this year ended. All of the regularly reported equity market indices reported losses for October 2009 with the sole exception of the Dow Jones Industrial Average whose +0.14% monthly return flirted with a loss as well. Second, medium and small market capitalization stocks (S&P 400 Mid-Cap and Russell 2000 respectively), underperformed large market capitalization stocks (S&P 500 and Dow Jones Industrial Average). And third, economically stable sectors like Consumer Staples outperformed more economically sensitive sectors like Consumer Discretionary. Despite October's respite, all of the regularly reported equity indices still possess double-digit positive year-to-date total returns.

Source: Bloomberg

Fixed Income. The yield curve steepened during October 2009, meaning longer-term interest rates increased and shorter-term interest rates declined. Since bond prices and interest rates move in opposite directions, shorter maturity bonds outperformed longer maturity bonds. Both the taxable and tax-exempt fixed income markets shared this return pattern for the month.

Taxable fixed income (Barclay's Capital Intermediate Gov/Cr) earned a +0.44% total return for the month of October 2009. By sector, corporate bonds and TIPS were the largest positive contributors to the index's return. Treasury and agency bonds detracted from the index's return.

Tax-exempt fixed income (Barclay's Capital 7 Yr Muni) declined to -1.94% for the month of October 2009. The biggest differentiator of tax-exempt returns is maturity. Longer maturity bonds declined noticeably more than shorter maturity bonds.

Source: Bloomberg

Bottom Line

From a macroeconomic perspective, the month included comments from the Federal Open Market Committee that the U.S. economy has strengthened, a 3Q 2009 U.S. GDP growth rate of +3.5%, and the first central bank (Reserve Bank of Australia) interest rate increase in response to an improved economic outlook.

From a microeconomic perspective the 3Q 2009 earnings season has been good. Brown Brothers Harriman reports that with 346 companies in the S&P 500 having reported 3Q 2009 results as of 10/30/2009, 80.0% and 59.0% positively surprised investors in terms of earnings per share and revenues respectively.

A healthier labor market and banking industry will be critical to sustaining these improvements.

Investment Team

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