

Highlights

The strong momentum in the stock market continued in December as equities reacted positively to signs of global economic growth. The rally was very broad as small and mid caps significantly outperformed large caps. In general, smaller stocks are viewed as being more economically sensitive. Most commodities also participated in the rally with the CRB Rind Index up 3.4% last month. Gold was an exception, with negative returns of -7.5%. The U.S. dollar weakness also reversed in December with the U.S. Dollar Index rising by 4.0%. Reflecting the change in the economic recovery and increased expectations of inflation, bond prices fell during the month. For 2009, returns in equities, bonds and commodities were strong.

Source: Bloomberg

Asset Class	Index	12/31/09	Total Return 1 Month	Total Return 3 Month	Total Return YTD	Total Return 1 Year
Domestic Equities	Dow Jones Industrial Average	10,428	0.95%	8.10%	22.68%	22.68%
	S&P 500	1,115	1.93%	6.04%	26.47%	26.47%
	S&P 400 Mid-Cap	727	6.27%	5.56%	37.38%	37.38%
	Russell 2000	625	8.07%	3.89%	27.19%	27.19%
International Equities	EAFE Index	1,581	1.46%	2.25%	32.18%	32.18%
Fixed Income	Barclays Capital Intermediate Gov/Cr	-	-1.46%	0.30%	5.24%	5.24%
	Barclays Capital 7 Yr Muni	-	-0.56%	-0.64%	7.61%	7.61%

Source: Bloomberg

Market Update

Equities. December: The stock market continued its upward trend with small and mid caps, represented by the Russell 2000 and S&P 400 Mid-Cap, leading the rally. For the month, small caps were up +8.1% with mid cap returns +6.3%. International developed markets also experienced positive returns with the MSCI EAFE Index rising by 1.5%. On a sector basis, information technology and utilities led the market advance. Only two sectors, financials and energy, reported negative returns in December.

2009: On March 9th, the S&P 500 Index was down -24.6% in 2009. As concerns of a second great depression and bank nationalization eased, the market began to rally. This relief rally was followed by an overall improvement to the economy with a return to growth in the 3rd quarter. Companies also reported better than expected earnings in April, July and October. As a result, the full year returns were very positive with S&P 500 returns of +26.5% for 2009. On a sector basis, information technology and basic materials had the strongest returns.

Fixed Income. December: The bond market rally ended this month with the Barclays Capital U.S. Government/Credit Index down -1.5%. U.S. Treasuries were particularly weak with negative returns of -2.6% in December. Corporate bonds held up better as prices fell with negative returns of -0.8%. Municipal bonds also performed better than government bonds with the Barclays Capital 7-year Municipal Bond Index off -0.6%. Revenue bonds outperformed general obligation bonds in the month.

2009: Bond prices, both taxable and tax-exempt, appreciated during the full year. 2009 returns were a complete reversal of 2008, in which government bonds were the best performing area. In 2009, corporate bonds were up +18.7% whereas U.S. Treasuries were down -3.6%. Tax-exempt bonds also performed well during the year with the Barclays Capital 7-year Municipal Bond Index up 7.6%.

Source: Bloomberg

Bottom Line

The economic recovery and strong company earnings led to a significant rebound in equities and corporate bonds. The key to stock and fixed income markets in 2010 is the sustainability of global economic growth. The outlook for jobs and employment growth is extremely important due to the high unemployment rate and the strong correlation between consumption and real disposable income. Effectively, the key question is whether we have a job-less recovery or a job-creation recovery. In terms of valuation, the stock market is reasonably valued with the S&P 500 Index trading on a Price to Forward Earnings ("P/E") Ratio of 14.5x (Source: FactSet). By historical standards, bonds are relatively expensive with lower than normal yields.

Investment Team

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