



Technical Market Update & Outlook

July 2009

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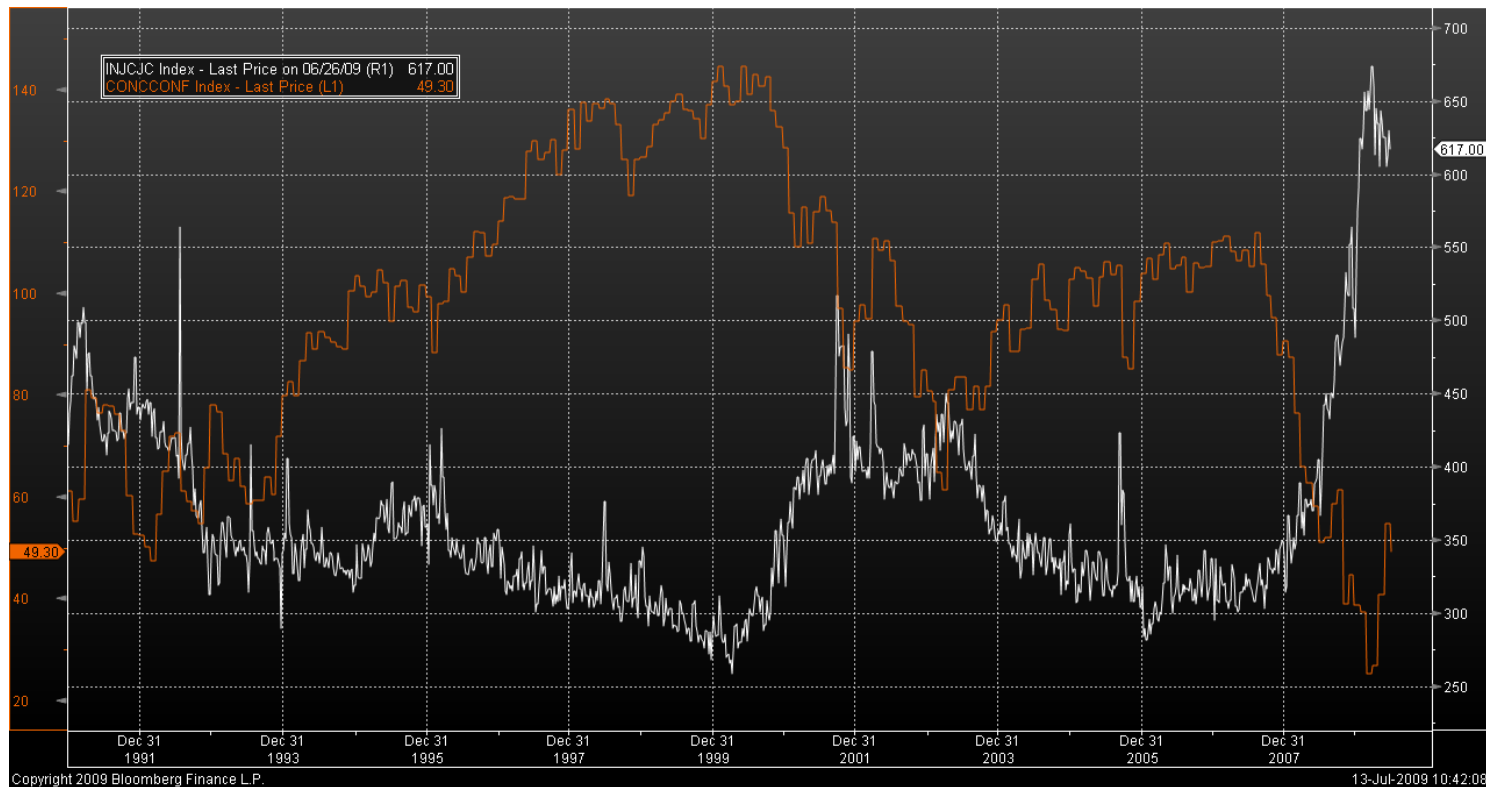
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Economic Outlook

Jobless Claims and Consumer Confidence

- Initial Jobless Claims (white) are negatively correlated with consumer confidence (orange).
- Consumer confidence has rebounded sharply from its lows, but has recently retrenched as job losses have continued and signs of a slower economic recovery have surfaced.
- Initial jobless claims have peaked and seem to be slowing, however actual unemployment remains elevated at approximately 9.5% of the workforce. Most suggest it will move as high as 10.5%. When factoring in the effects of reduced salary and hourly compensation, part-time employment, and furloughs the real unemployment rate as it effects GDP is much higher.



Source: Bloomberg

The Gold Rush

Safe havens for investors have seen demand increase

- The price of gold has stabilized after the liquidity crunch forced technical weakness.
- Investor fears of inflation are keeping prices elevated, although recent deflationary fears are keeping price in check.



Source: Bloomberg

Oil Prices

- Oil and equity markets have remained very highly correlated. Oil is up 111% from lows.
- Recently, oil prices have softened as deflation fears still exist and demand projections remain subdued.



Source: Bloomberg

Currency

US Dollar versus Euro

- The US dollar weakened significantly (-7.8% vs. the euro) in the 2nd quarter.
- Signs of slower recovery and high monetary spending by the government is providing headwinds.
- Increased risk appetite of global investors also weakened the USD.



Source: Bloomberg

Credit Conditions

Still seeing promise in credit spreads

Investment grade corporate spreads recovering

- Increased risk appetite over the quarter led to a large contraction of approximately 143 bps in corporate bond spreads.
- Uptick in widening in the second half of June is in conjunction with slower recovery signs.

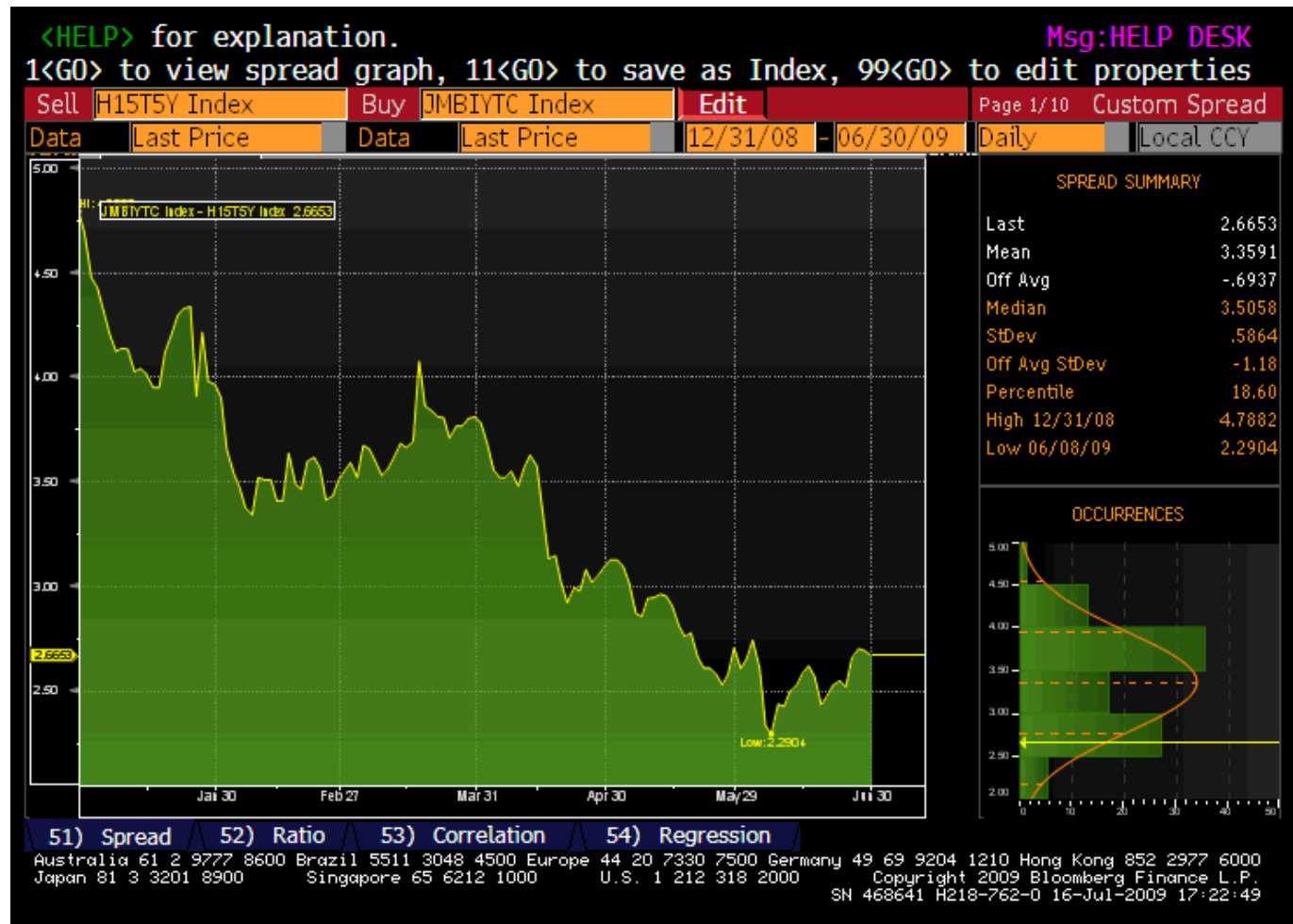


Source: Bloomberg

Municipal Bond Spreads

Municipal bonds have made a significant recovery

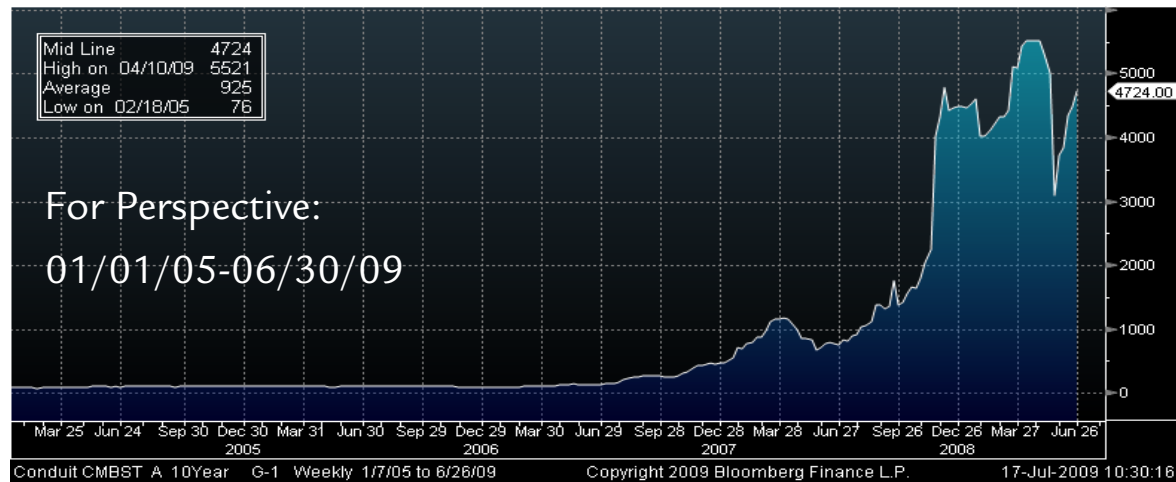
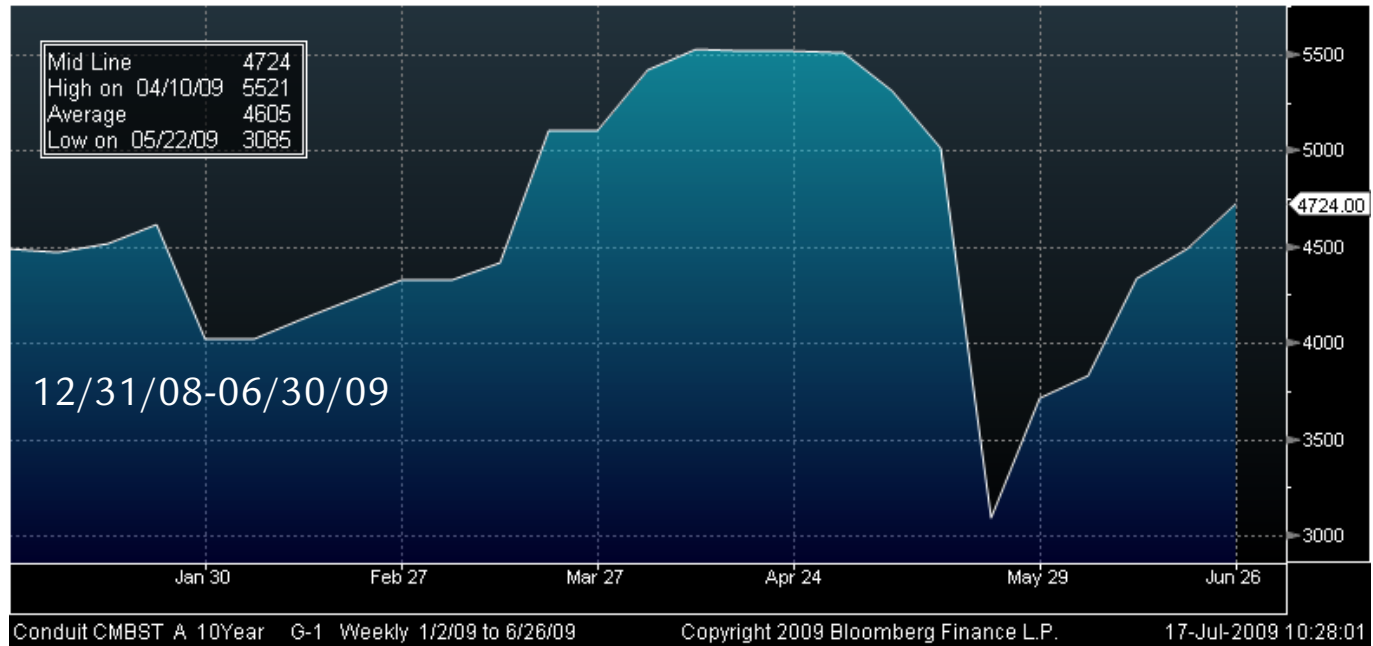
- Muni spreads have continued improving, sub 300 bps at end of 2nd quarter.



Source: Bloomberg, JP Morgan Chase

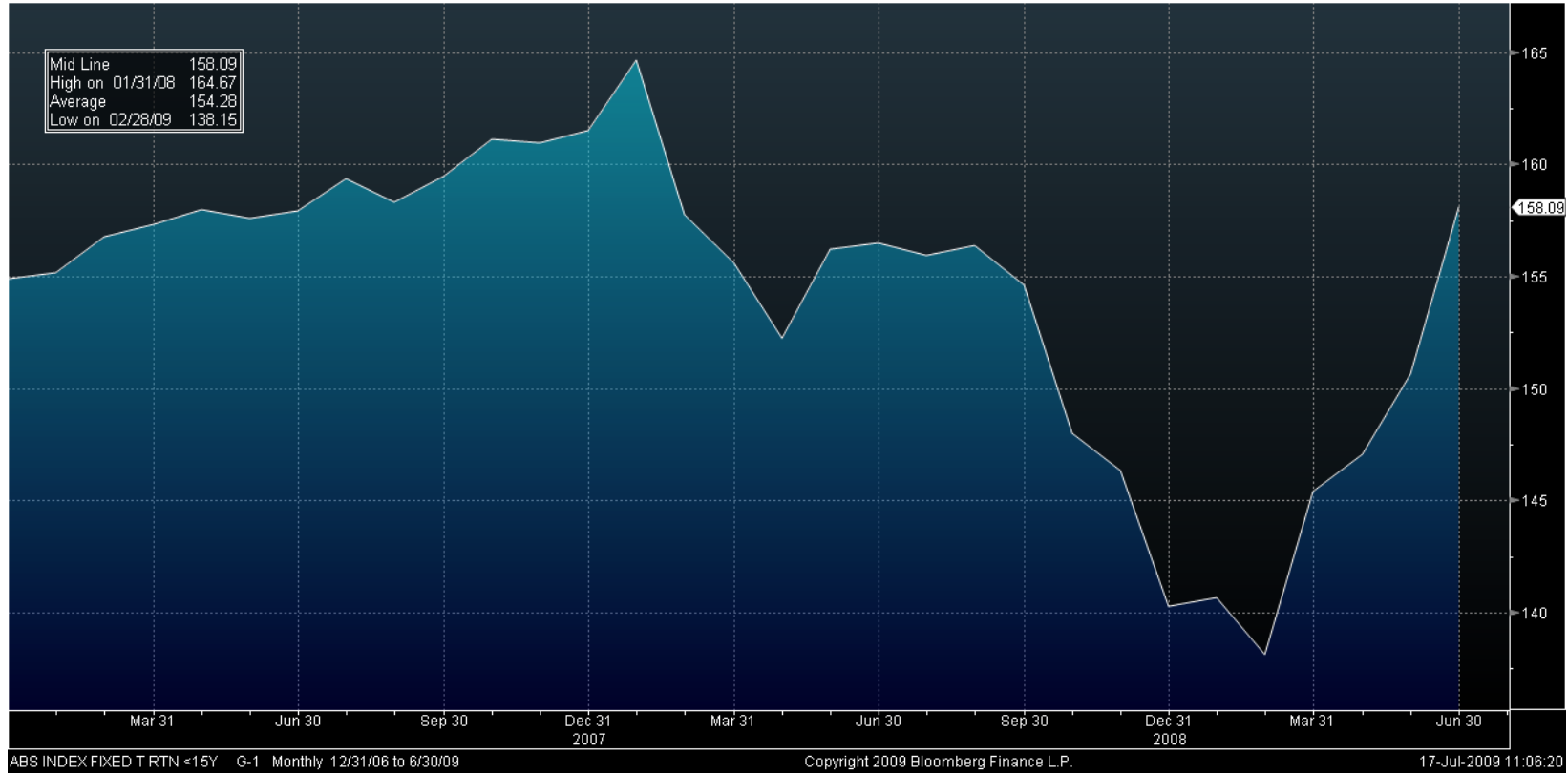
CMBS Spreads to Treasuries A – 10Y

- Possible exclusion from TALF program caused spreads to widen significantly for Single A CMBS in June, but still improved substantially for the quarter.



BBDXTRA Index – 12/31/06-06/30/09, ABS A Rated

Asset Backed Securities prices have increased 14% since the beginning of the year.



2009: Credit is Still the Key

Yields	7/15/2009	6/30/2009	5/31/2009	4/30/2009	3/31/2009	2/27/2009	1/30/2009	12/31/2008	11/28/2008	10/31/2008
Fed Funds Target	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.00	1.00
3-Month LIBOR	0.51	0.59	0.66	1.02	1.19	1.26	1.18	1.44	2.22	3.03
90-Day T-bill	0.18	0.17	0.15	0.09	0.16	0.23	0.21	0.02	0.05	0.44
10-Year Treasury	3.63	3.72	3.29	2.01	2.73	2.98	2.87	2.11	2.93	4.01
JPMorgan Muni Bond	5.11	5.21	4.96	5.06	5.52	5.50	5.85	6.55	6.78	6.65
Moody's AAA (10-Year)	5.43	5.37	5.75	5.50	5.45	5.31	5.32	4.74	5.60	6.54
JP Morgan Global	3.01	2.99	3.05	2.85	2.73	2.81	2.86	2.56	2.94	3.46
JP Morgan Emerging	7.75	7.76	8.06	8.48	9.09	9.35	9.06	8.95	10.04	9.99
US High Yield	13.00	13.06	14.02	16.50	18.64	19.24	18.12	19.84	21.78	18.83
Spreads										
US High Yield	1076	1055	1170	1446	1689	1718	1622	1848	1977	1591
Moody's AAA (10-Year)	180	165	246	238	272	233	245	263	267	253
JP Morgan Emerging	437	450	451	566	644	678	662	733	748	684
JP Morgan Muni Bond	259	250	250	305	380	343	398	508	476	381

Source: Bloomberg

Positives

- Credit markets continue to stabilize through central bank and government actions.
- Commercial lenders have begun to re-enter the market.

Negatives

- Still little to no credit available for consumers and small businesses.
- Unemployment continues to rise. Real impact to the economy more damaging than government statistics show.

Source: Bloomberg

Market Data and Performance

Index Levels

- Equity indexes across the board posted positive returns for the second quarter ending a streak of six consecutive negative return quarters for the S&P 500.
- MSCI Emerging Markets was the best performing index for the second quarter in a row, bringing the year to date return to +35.72%.

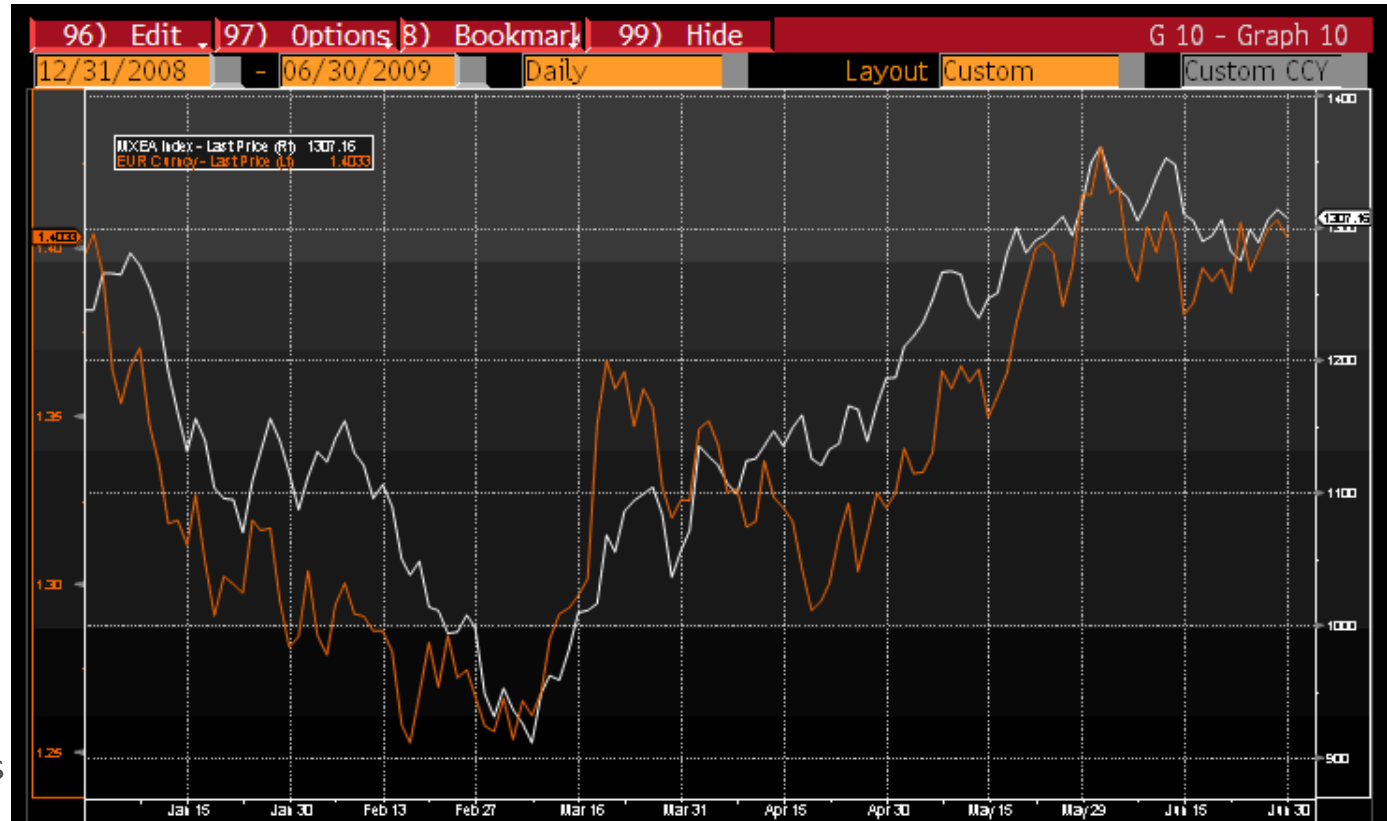
As of June 30, 2009

Index Levels	Yesterday Close	Month to Date Return	Qtr to Date Return	Year to Date Return	3-Year Annualized Return
Dow Jones 30	8447.00	-0.41%	11.96%	-2.01%	-6.33%
S&P 500	919.32	0.20%	15.93%	3.16%	-8.22%
Nasdaq	1835.04	3.47%	20.34%	16.98%	-4.64%
Russell 2000	508.28	1.48%	20.69%	2.64%	-9.87%
MSCI EAFE	1307.16	-0.52%	25.64%	8.09%	-7.57%
MSCI EM	761.30	-1.33%	34.79%	35.72%	2.82%
MSCI World Ex. US	197.51	-1.06%	27.77%	14.01%	-5.40%
S&P / Citi EPAC EMI	195.06	0.69%	30.59%	14.90%	-10.26%

Source: Bloomberg

International Markets and Currency Effects

- The EAFE rallied +25% during the second quarter.
- Increased values of foreign currencies helped overall index returns during that time period.
- Unprecedented spending by the US Federal Government should continue to exert downward pressure on the dollar versus many currencies in the short run.



Source: Bloomberg

S&P Implied Volatility Easing

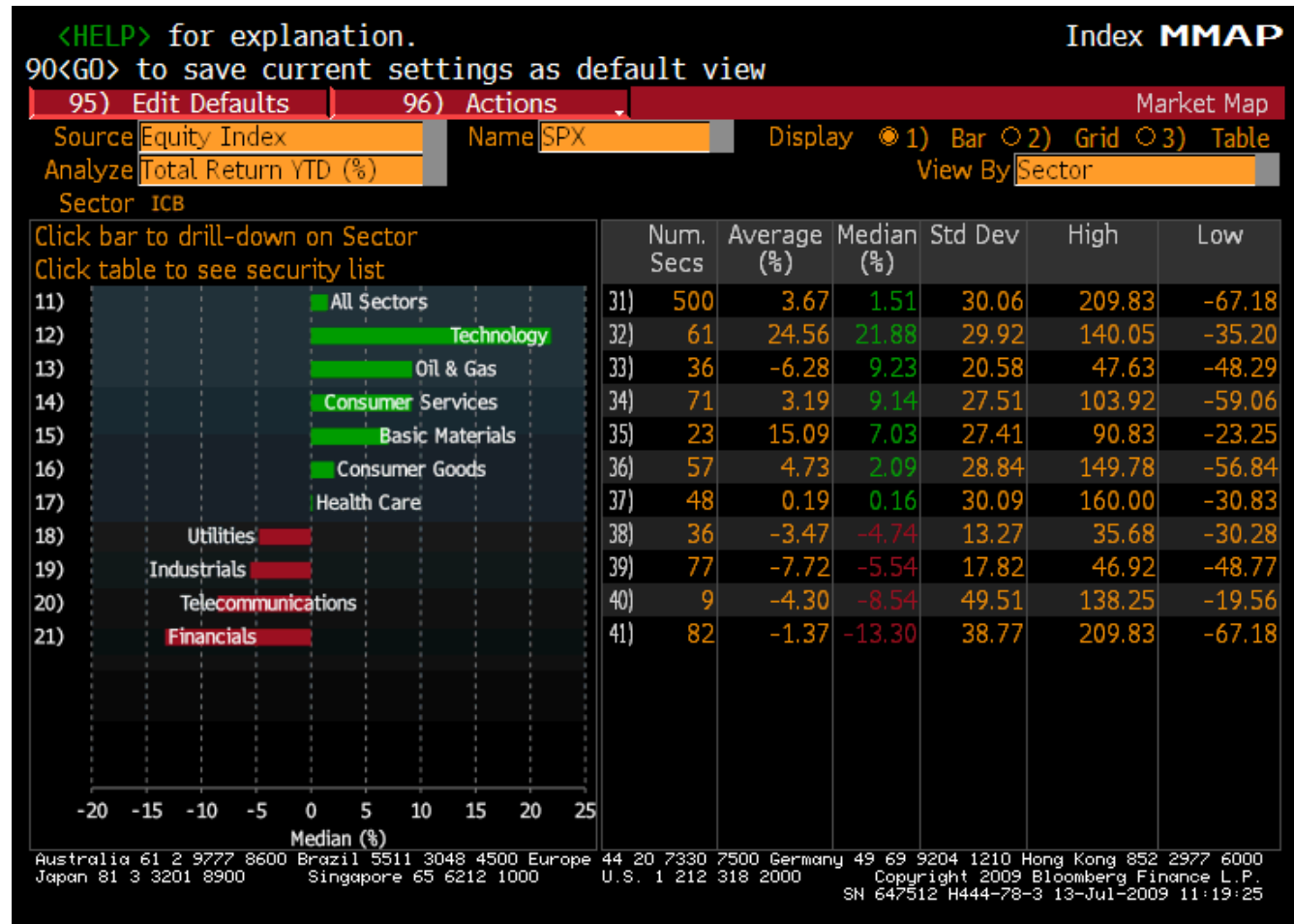


- Implied volatility has fallen dramatically as massive financial stimulus has taken hold. Credit concerns have abated.
- Could see uptick in VIX as double-dip fears persist, being long volatility prudent at these levels.
- Remaining watchful of markets interpretation of CIT situation.
- Currently the VIX is down more than half from its 2009 highs (56.65), back to 2007 volatility levels.

Source: Bloomberg

Sector Performance Year-to-Date

- Growth sectors are leading the recovery in equity markets.
- Technology and Oil & Gas are top performers YTD.
- Financials continue to be the worst performing sector in the S&P though mid-year.

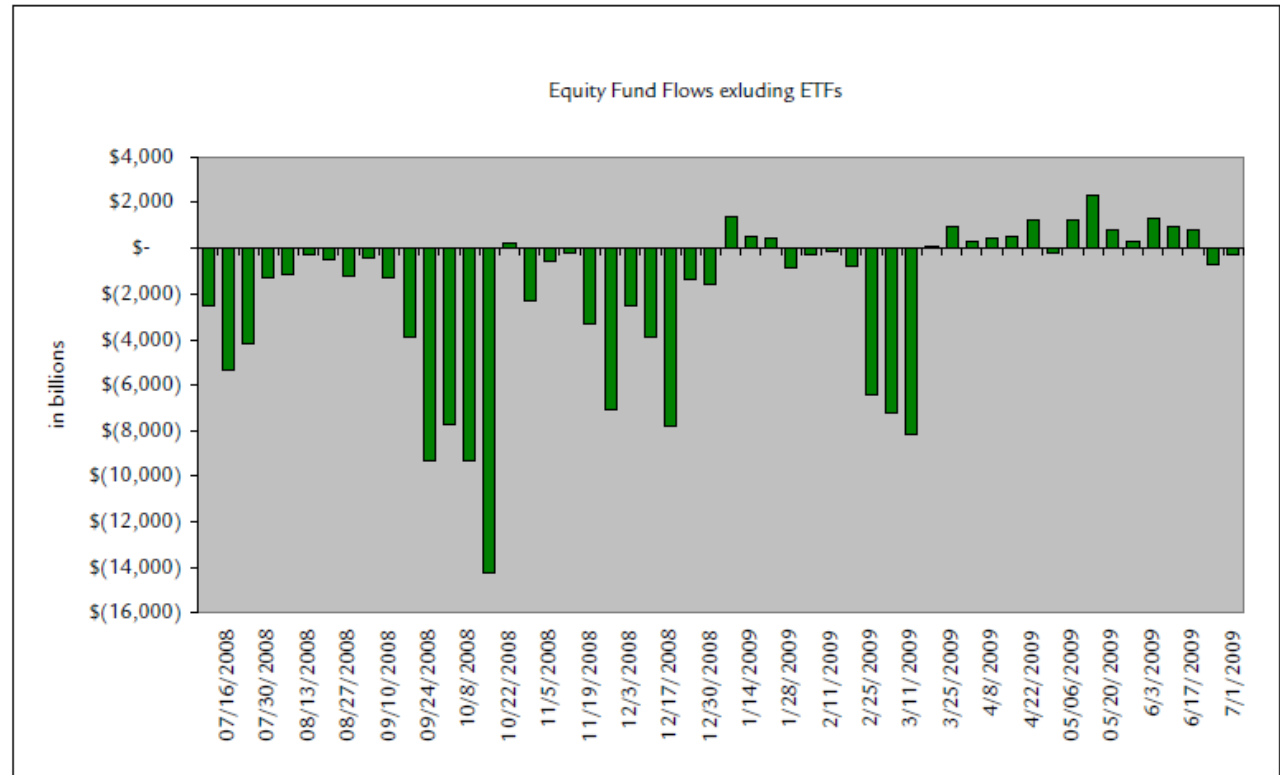


Source: Bloomberg

Mutual Fund Flows, Positive and Steady

Investors tentatively wading back into the markets

- Investors were still moving out of the market in late January and through February.
- Late March started to show positive inflows into the equity market.
- In general, positive flows sustained.



Source: AMG Data Services

Equity valuations have reverted to more historical norms

As of June 30, 2009

12-Month Forward PE Ratios	Q209	Q408	YTD % Change
S&P 500*	14.56	14.92	-2.4%
Russell 1000	14.08	11.95	17.8%
Russell 2000	25.37	17.98	41.1%
Russell 3000	14.56	12.26	18.8%
Russell 3000 Growth	14.99	12.46	20.3%
Russell 3000 Value	14.13	12.06	17.2%
MSCI EAFE	13.98	9.86	41.8%
MSCI EAFE Small Cap	15.75	9.45	66.7%
MSCI Emerging Markets	14.88	10.20	45.9%

Source: Thomson Portfolio Analytics & *Bloomberg

How are Hedge Funds Performing in 2009?

- Goldman report suggests that redemptions from hedge funds are finally curbing.
- Hedged strategies benefit from trading on fundamentals.
- All fixed income sectors have posted very strong performance. The convertible arbitrage space in particular has posted stellar returns.

	April '09	May '09	June '09	Year to Date Return
HFRX US Global Hedge Fund	1.61%	3.15%	0.04%	5.56%
HFRX Equal Weighted Strategies	1.13%	2.28%	0.11%	4.54%
HFRX US Convertible Arbitrage	4.32%	3.97%	1.47%	20.44%
HFRX US Distressed Securities	0.15%	-1.52%	-2.34%	-8.65%
HFRX US Equity Hedge	1.74%	4.48%	-1.06%	5.97%
HFRX US Equity Market Neutral	-1.45%	1.44%	-0.97%	-3.48%
HFRX US Event Driven	2.03%	2.39%	2.05%	9.05%
HFRX US Macro	-1.10%	-1.04%	-3.33%	-5.96%
HFRX US Merger Arbitrage	-0.65%	1.35%	1.40%	3.82%
HFRX US Relative Value Arbitrage	4.07%	6.81%	3.09%	16.26%
HFRX US Absolute Return	-0.50%	-0.38%	-1.19%	-2.57%
HFRX US Market Directional	2.50%	5.20%	0.97%	12.61%
S&P 500	9.57%	5.59%	0.20%	3.16%

Source: Bloomberg

Investment Themes

Investment Themes and Actions for remainder of 2009

- Dislocations caused by credit crisis are correcting themselves, but most credit sectors remain at very attractive historical levels. There is still ample opportunity in distressed, high yield, mortgages, bank loans, and corporate bonds.
- Hedge funds that survive 2009 should be positioned to deliver very acceptable risk/return profiles with pre-2000 leverage levels. Fundamentals continue to become more important.
- Vintage year 2009, 2010 private equity should garner much higher IRR's than historical mean.
- Although deflation is a concern in the short-term, we also think that inflation will be an issue within 12 months. We are actively evaluating hedging opportunities to implement.
- Long-term, emerging markets remain the most attractive equity asset class though there will be opportunities to tactically allocate to styles.
- Must diligently monitor government policies toward stimulus programs and proposed regulation and implement investment strategies accordingly (i.e. TALF and PPIP).

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Disclaimers

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Contact Information

100 Congress Avenue
Suite 1400
Austin, Texas 78701
www.eklektikoscapital.com

Contact: Jim Stoker
T: 512.493.3500 | ljstoker@eklektikoscapital.com