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August 2010: Market Review

After a strong rally in July, August proved to be a challenging month for the major U.S. equity indexes, as money flowed out of riskier asset classes such as equities and into fixed income. The Dow Jones Industrial Average fell (3.91%) in the month and is down (2.11%) year-to-date. The S&P 500 Index lost (4.51%) during August and remains down (4.62%) for the 2010 calendar year.

Economic news did little to inspire investors to stick with the equity markets in August. Sales of existing homes dropped 27% from June to July, reaching a 15-year low, even as both 15- and 30-year mortgage rates fell to the lowest levels on record. Consumer confidence rose after 2 months of declines, but is still significantly below the level that indicates a healthy economy. With unemployment still hovering at just under 10%, consumers may continue to save more and spend less until economic prospects improve.

Growth and value stocks fell at about the same rate within each capitalization range in August, with value maintaining an advantage over growth year-to-date. The Russell 1000 Value Index dropped (4.28%) during the month, while the Russell 1000 Growth was down (4.67%). Year-to-date, the Russell 1000 Value Index is off (3.03%), while the Russell 1000 Growth Index is down (5.68%). Small cap stocks were the worst performing equities in August, as the Russell 2000 Value Index fell (7.52%) and the Russell 2000 Growth Index lost (7.29%). Year-to-date, the Russell 2000 Value Index is down (2.54%), while the Russell 2000 Growth Index is down (3.44%).

International equities performed better than U.S. equities in August, but were still negative. The MSCI EAFE Index fell (3.34%) for the month and has lost (9.81%) year-to-date. Emerging markets fared slightly better, as the MSCI Emerging Markets Index was down (2.15%). Year-to-date, emerging markets are off (1.96%). European markets continue to struggle – the MSCI Europe Index fell (3.89%) during the month and has lost (12.51%) year-to-date.

Bonds were the lone bright spot in August, as investors pulled money out of equities and plowed it into fixed income. The Barclays U.S. Treasury Composite Index gained 2.01% for the month and is up 8.72% year-to-date. Longer term treasury bonds, as measured by the Barclays Treasury 20+ Year Index, had an amazing month, up 8.08% in August and 23.40% year-to-date. The Barclays U.S. Aggregate Index added 1.29% during the month and is up 7.83% so far in 2010. The Barclays Corporate High Yield Index was essentially flat for the month, gaining 0.04%, but has been solid year-to-date, up 8.27%. At the end of August, the 10-year Treasury bond had a current yield of 2.50%, while the 30-year Treasury bond yield was at 3.50%.

It is a difficult time for investors as the U.S. economy is struggling to find a stable foothold upon which a full recovery may be based. Market volatility could persist for some time, but the markets often rebound just as quickly as they fall. A carefully developed investment plan is essential in dealing with the challenges of the current environment.