

MONTHLY MARKET REVIEW

February 2011

U.S. Economy

Despite the unrest overseas that has driven oil prices higher, recent economic data continues to indicate an accelerating U.S. economic expansion. GDP growth appears to be running in line with many economists' long-term expectations at a level greater than 3%.

The acceleration in economic growth is evident in the sustained high levels of the Institute for Supply Management's (ISM) economic activity indices. The ISM manufacturing index, which tracks activity in approximately 20% of the economy, rose to a seven-year high of 61.4 in February. Likewise, the ISM service sector index, which tracks the rest of the economy, hit a five-year high of 59.7 (ISM readings above 50 indicate expansion in the sector for the month). A weighted average of 80% ISM service sector index and 20% ISM manufacturing index is currently at 60.0, the highest in seven years and a level only hit three times in the last 14 years. A combined 80/20 ISM reading this high is consistent with real GDP growth in the 3.0% to 4.0% range. The 80/20 ISM index finished at more than 55.0 in 21 of the 54 quarters since September 1997, coinciding with average annualized quarterly GDP growth of 3.76%, well above GDP growth levels seen at lower 80/20 ISM index levels (see chart). The correlation between the 80/20 ISM and quarterly GDP growth has been a strong 0.70 over the entire 1997-2010 time period.

September 1997 - December 2010

80% Service / 20% Manuf. ISM Index	Number of Quarter Ends	Average Annualized GDP Growth
< 45	2	-5.82%
45 - 50	9	-0.17%
50 - 55	22	2.80%
55 - 60	21	3.76%

Source: Bloomberg, USI Research

With the level of economic growth appearing to surprise on the high side in recent months, the labor markets have finally begun to exhibit material signs of improvement. Initial weekly jobless claims fell to 368,000 in the last week of February, the lowest since May 2008. The less-volatile four-week average fell below 400,000 for the first time since the recession ended. Consistent with the decline in jobless claims, the U.S. economy added 192,000 new jobs for the entire month of February. The increase was the highest since last May as the unemployment rate also fell to a two-year low of 8.9%. While the recent declines in the unemployment rate are largely attributable to a shrinking workforce due to discouraged job seekers, the payroll gains are still significant. Sustained payroll growth is a necessary component to a self-sustaining economic recovery once the Federal Reserve eventually begins to tighten monetary policy. With wrangling over the fiscal budget in high gear in Washington, further fiscal stimulus does not appear likely at this point.

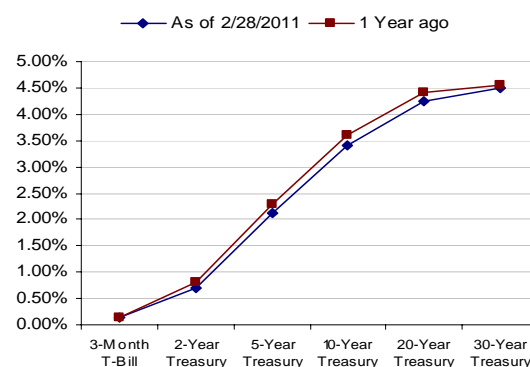
Looking ahead, the Conference Board's U.S. Leading Economic Indicators Index (LEI) rose for the seventh straight month rising 0.1% in January after an increasing solid 0.8% in December and 1.1% in November. The index showed continued weakness in housing permits and tepid labor market indicators but rising consumer expectations, strong business investment, and positive financial indicators signify economic growth should continue. The LEI is up a strong 3% over the last six months, suggesting continued solid economic growth into the summer.

Market Data

Change in Price

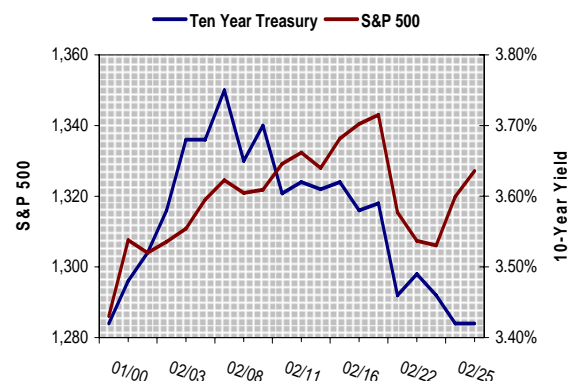
Equity Indices	2.28.11 Close	1-Month		YTD		1-Year	
		Pts.	%	Pts.	%	Pts.	%
Dow Jones Ind. Avg	12226.30	334.40	2.81%	648.80	5.60%	1901.00	18.41%
S&P 500	1327.22	41.10	3.20%	69.58	5.53%	222.73	20.17%
Nasdaq Composite	2782.27	82.19	3.04%	129.40	4.88%	544.01	24.31%
Commodities							
Oil: \$ Per Barrel	96.97	4.78	5.18%	5.59	6.12%	17.31	21.73%
Gold: \$ Per Ounce	1409.90	76.10	5.71%	-11.50	-0.81%	291.00	26.01%
Currencies							
\$ per € (euro)	1.38	0.01	0.82%	0.04	3.13%	0.02	1.29%
¥ (yen) per \$	81.78	-0.26	-0.32%	0.62	0.76%	-7.16	-8.05%
\$ per £ (pound)	1.63	0.02	1.52%	0.06	4.13%	0.10	6.68%

U.S. Treasury Yields:



Term	Yield at month end	One-Month Change	One-Year Change
3 Months	0.15%	0.00%	0.02%
2 Years	0.69%	0.11%	-0.12%
5 Years	2.13%	0.18%	-0.17%
10 Years	3.42%	0.00%	-0.19%
20 Years	4.25%	-0.08%	-0.15%
30 Years	4.49%	-0.09%	-0.06%

Intra-Month Markets



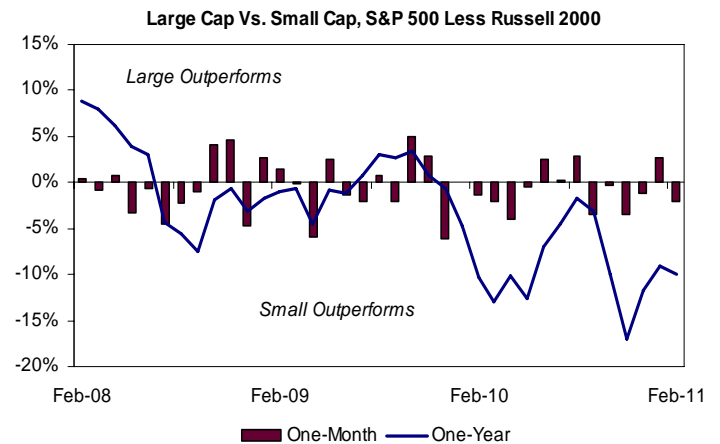
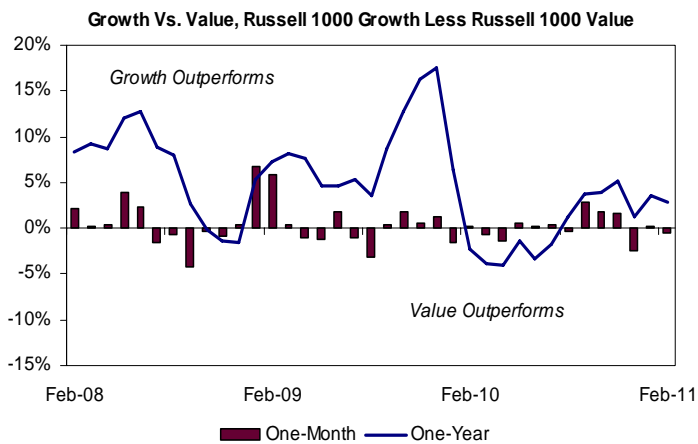
U.S. Equities

The S&P 500 index rose for the sixth straight month in February, rising 3.43%. The index is up 22.58% over the last 12 months. Small-cap stocks shifted back into a leadership position in February as the Russell 2000 index surged 5.48%, beating the larger S&P 500 for the fifth time in the last six months. Over the last 12 months, the Russell 2000 is up 32.59%. The Russell 1000 Value index returned 3.69% in February, outperforming its Growth counterpart by 0.42%.

Since its low on March 9, 2009, the S&P 500 index has now returned more than 100% on a total return basis and is up 95% on a price basis, representing the sharpest 24-month increase in the index's price since 1955 and only the fifth time the index has ever risen so sharply over a two-year period of time. So far, the index has risen faster than it did during the equity bubble of the late 1990's.

History suggests that the S&P 500's strong return over the last few years tells little about the future direction of the stock market. A 24-month increase of more than 100% in mid-1934 was followed by a one-year gain of 6% and a two-year gain of 53%. In contrast, 24-month gains of 90% or more in 1936 and 1937 were followed by 20% to 40% cumulative losses over the following two-years. After rising more than 98% over the 24 months leading into September 1955, the only other period of such sharp gains, the S&P 500 rose 2.6% over the next 12 months, but declined 5.9% over the subsequent 24 months.

The charts below illustrate the relative rolling returns of growth vs. value stocks and large-cap vs. small-cap stocks.



Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Wilshire 5000	All-Cap Core	3.55	12.70	5.64	24.59	3.50	3.63	3.87
S&P 500	Large-Cap Core	3.43	12.95	5.88	22.58	2.19	2.87	2.62
S&P 500/Citigroup Growth	Large-Cap Growth	3.17	10.24	4.76	22.84	4.50	4.19	1.30
S&P 500/Citigroup Value	Large-Cap Value	3.69	15.84	7.04	22.37	(0.27)	1.44	3.74
S&P 400	Mid-Cap Core	4.65	13.74	6.75	32.76	8.74	6.08	8.26
S&P 600	Small-Cap Core	4.41	12.58	4.57	31.07	7.44	4.05	8.37
Russell 1000	Large-Cap Core	3.48	13.04	5.97	23.54	2.66	3.17	3.09
Russell 1000 Growth	Large-Cap Growth	3.27	11.73	5.90	24.94	4.93	4.62	1.80
Russell 1000 Value	Large-Cap Value	3.69	14.40	6.03	22.16	0.22	1.57	4.12
Russell Midcap	Mid-Cap Core	3.80	13.34	6.01	31.05	6.19	4.86	7.67
Russell Midcap Growth	Mid-Cap Growth	4.05	12.74	6.12	33.09	6.41	5.17	5.13
Russell Midcap Value	Mid-Cap Value	3.58	13.90	5.90	29.30	5.75	4.19	8.77
Russell 2500	SMID-Cap Core	4.88	14.35	6.29	32.74	7.80	4.72	8.00
Russell 2500 Growth	SMID-Cap Growth	5.48	14.64	6.67	36.42	8.17	5.51	5.97
Russell 2500 Value	SMID-Cap Value	4.34	14.09	5.94	29.55	7.30	3.70	9.10
Russell 2000	Small-Cap Core	5.48	13.57	5.21	32.59	7.79	3.80	7.06
Russell 2000 Growth	Small-Cap Growth	5.88	13.28	5.29	36.33	8.61	4.56	5.04
Russell 2000 Value	Small-Cap Value	5.08	13.87	5.14	28.87	6.80	2.91	8.68
Russell Micro Cap	Micro Cap Core	5.08	13.56	3.98	31.88	5.04	0.20	7.36
NAREIT Composite Index	REITS	3.80	13.60	8.47	38.23	4.71	2.20	11.13

U.S. Fixed Income

The Barclays Aggregate index gained 0.25% in February. The Treasury curve flattened slightly in February as the yields on the long end fell about nine basis points while shorter duration Treasury yields rose (2-year Treasury yields rose 11 basis points and 5-year Treasury yields gained 18 basis points to 2.13%). Spread sectors performed well led by CMBS which saw 1.07% in excess returns versus comparable Treasuries.

Municipal bonds rebounded in February as the Barclays Muni Index gained 1.59%. Issuance has been relatively light so far this year with roughly \$32 billion in new issuance compared to \$60 billion during the first two months of 2010. Despite rising muni default expectations being a widely discussed topic amongst talking heads, actual defaults this year appear to be in line with prior years and occurring primarily in lower rated revenue bonds.

Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Citigroup 3-Month T-Bill	Cash	0.01	0.04	0.02	0.14	0.53	2.17	2.16
Merrill Lynch 1-3 Year U.S. Treasury	Short Treasuries	(0.09)	(0.11)	0.08	1.46	2.31	4.14	3.73
Barclays 1-3 Yr Govt/Credit	Short Govt/Credit Bonds	(0.02)	0.06	0.19	1.98	3.03	4.50	4.14
Barclays Interm. Aggregate	Interm. Core Bonds	0.10	(0.55)	0.41	4.63	5.28	5.82	5.45
Barclays Interm. Govt/Credit	Interm. Govt/Credit Bonds	(0.03)	(0.89)	0.36	4.36	4.49	5.59	5.28
Barclays Aggregate	Core Bonds	0.25	(0.72)	0.37	4.93	5.40	5.80	5.61
Barclays Long Govt/Credit	Long Govt/Credit Bonds	1.50	(2.07)	0.06	7.76	6.52	5.89	6.80
Barclays Government	Government Bonds	(0.06)	(1.67)	(0.05)	3.53	3.90	5.44	5.19
Barclays Credit	Corporate Bonds	0.72	(0.09)	0.93	7.37	6.69	6.12	6.26
Barclays Mortgage	Mortgage-Backed Bonds	0.25	(0.25)	0.30	4.12	5.98	6.24	5.70
Barclays US TIPS	TIPS	0.86	(0.51)	1.05	6.96	3.56	5.56	6.74
Barclays Municipals	Municipal Bonds	1.59	(1.11)	0.84	1.72	5.57	4.07	4.79
Barclays High Yield	High Yield Bonds	1.31	5.42	3.55	17.51	12.69	9.18	8.33
Merrill Lynch All U.S. Convertible	Convertible Securities	2.45	8.41	4.58	20.90	6.29	5.85	5.62

International

The MSCI EAFE index gained 3.32% in February and is up 5.77% through the first two months of the year.

The European Central Bank hinted toward raising interest rates in the near future as officials raised their growth predictions for the next two years and increased their outlook for inflation. In early March, Moody's cut Greece's credit rating while citing an increased risk of default or restructuring before 2013. Moody's also cut Spain's debt rating, estimating that the country's capital shortfall is at 40-50 billion euros, well above the 15 billion shortfall estimate that the Bank of Spain has provided.

Emerging market equities have struggled this year, especially relative to developed markets which are up sharply. The MSCI Emerging Markets index fell 0.92% in February and is down 3.59% year-to-date. According to fund tracker EPFR Global, more than \$20 billion has flowed out of emerging market funds this year. In comparison, nearly \$36 billion has flowed into U.S. equity funds this year.

The People's Bank of China raised one-year lending rates by 0.25% to 6.06% and the one-year deposit rate to 3%. With consumer prices rising 4.9% in January after a 4.6% gain in December, the bank is expected to continue raising rates this year. Surprisingly, China reported an unexpected \$7.3 billion trade deficit in February as exports rose 2.4% from the year before as imports rose 19.4%. Nonetheless, China will maintain an annual surplus as the central bank is forecasting a \$150 billion surplus this year, down from \$183 billion in 2010, \$196 billion in 2009, and the record \$295 billion in 2008.

Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
International Equities								
MSCI World	Global Developed Mkt Equity	3.55	13.73	5.91	22.31	0.35	3.29	4.12
MSCI EAFE	Intl Developed Market Equity	3.32	14.35	5.77	20.54	(2.13)	2.91	5.34
MSCI Europe	European Equity	3.31	16.43	7.41	21.67	(3.12)	3.60	5.47
MSCI Japan	Japanese Equity	4.56	12.68	4.70	17.45	(1.70)	(2.23)	2.20
MSCI Pacific	Pacific Equity	3.45	10.93	3.09	19.11	0.14	1.54	5.07
MSCI Emerging Markets	Emerging Market Equity	(0.92)	3.30	(3.59)	21.23	0.80	9.94	15.26
International Fixed Income								
Barclays Global Aggregate	Global Invest. Grade Bonds	0.59	2.08	0.77	5.84	4.48	6.64	6.75
Citigroup World Government Bond	Intl Developed Market Bonds	0.38	2.13	0.37	5.16	4.15	7.00	7.06
JP Morgan EMBI+	Emerging Market Bonds	(0.16)	(1.40)	(0.75)	9.38	7.93	7.42	10.11

Alternative Investments

Index	Asset Class	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Goldman Sachs Commodity Ind.	Commodities	3.75	16.96	6.91	19.89	(13.98)	(3.19)	3.16
HFRI Equity Hedge	HF - Equity Long/Short	1.26	5.36	1.77	12.87	2.02	4.05	5.68
HFRI Equity Mkt Neutral	HF - Equity Market Neutral	0.62	2.30	1.35	4.02	(0.30)	2.02	3.17
HFRI Convert Arb	HF - Convertible Arbitrage	1.40	5.52	3.26	16.29	8.24	7.19	6.59
HFRI Distressed Sec	HF - Distressed Securities	1.06	5.29	2.74	12.67	4.28	5.43	9.89
HFRI Event Driven	HF - Event Driven Strategies	1.45	5.92	3.26	13.68	4.85	5.86	8.25
HFRI Fixed Income	HF - Fixed Income Strategies	0.91	3.55	2.11	12.42	5.15	4.63	6.35
HFRI Macro	HF - Macro Strategies	1.29	4.04	0.63	10.79	4.15	7.01	8.30