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Prepared by Daniel R. Shore, Chief Research Analyst, Publisher, and CEO

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Introduction:

Another volatile quarter has passed as we witnessed global stock markets rally off the March lows. During this past quarter, the U.S. Treasury's stress test declared the banking system to be sound and Federal Reserve Chairman Bernanke talked of "green shoots of recovery" in the economy. By the end of June, however, the stock rally leveled off a bit as investors questioned the validity of the recovery. In this newsletter we will cover the following topics:

- 1) Will this recession end this year and is this latest stock market rally the beginning of a new bull market?
- 2) What should investors do now to protect and grow their wealth?

As we have mentioned in previous newsletters, our research shows that the current bear market has many similarities to the 1929-32 and 1970's bear markets. This time around U.S. private and government debt levels are significantly higher as a percentage of GDP than in 1929, and many economic indicators are showing similar declines to those during the Great Depression (we will discuss these indicators in detail later). On a positive note, global government intervention to address the crisis is much more dramatic and rapid this time around. The fact that no major nations had their currencies on a gold standard going into this crisis allowed central banks to quickly print currency and flood their economies with unprecedented levels of money supply. Fiscal stimulus spending has also been larger and faster than in the Great Depression. Will these government interventions prove successful in averting another Great Depression? Only time will tell. Our research suggests that there are only two ways to deal with a credit/asset bubble that results in large levels of non-performing debt: 1) bankruptcy, and 2) currency debasement that leads to inflation. Historically, governments all the way back to the ancient Roman Empire have chosen currency debasement and inflation because mass bankruptcy and debt default are politically unpalatable. Unfortunately, the currency debasement/inflation

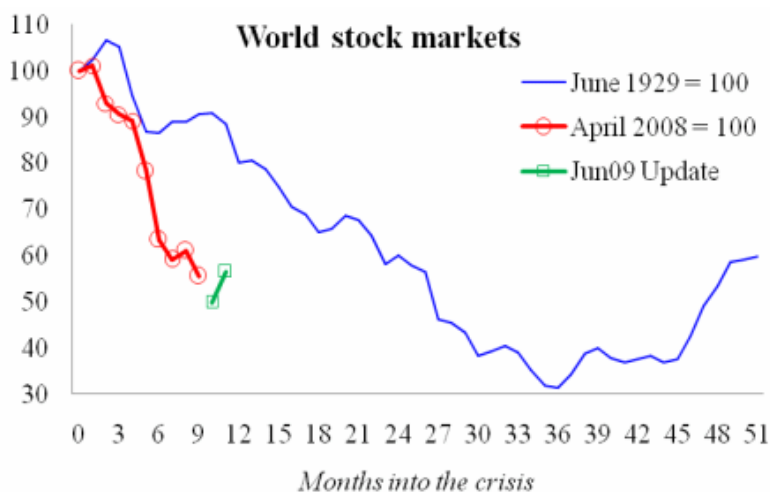
solution doesn't really fix the crisis; it just pushes debt down the road for the next generation to deal with in the form of greatly reduced wealth and purchasing power. Investors who understand these government-induced cycles of boom/bust/inflation will profit from being in the right investments at the right time. Those who ignore these cycles do so at their own financial peril.

Question #1: Will this recession end this year and is the recent stock rally the beginning of a new bull market?

To understand the severity of the current economic cycle, we need to compare it to major cycles in the past. During the past 100 years there have been 3 major boom and bust cycles in the U.S. economy:

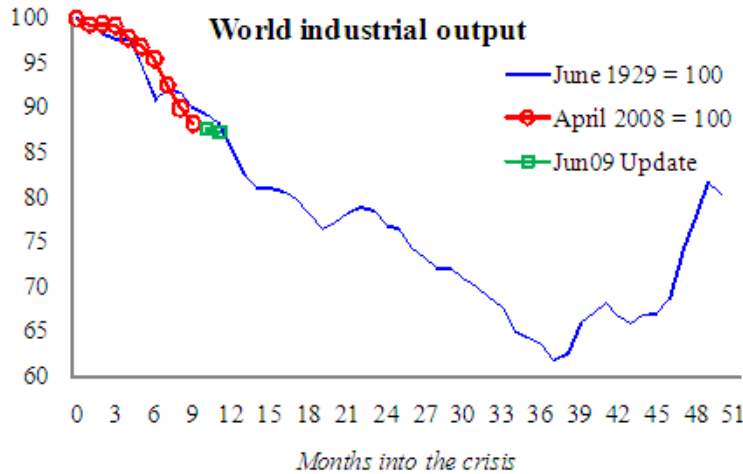
- 1) the bubble of the 1920's resulting in the stock market/real estate/banking crisis of 1929
- 2) the bubble of the 1950's/60's resulting in the stock market/monetary/oil shock crisis of the 1970's
- 3) the bubble of the 1980's/90's resulting in the stock market/real estate/banking crisis we are currently experiencing

Each one of these asset bubbles had elements of psychological mania and panic. Furthermore each boom and bust was influenced by governmental manipulation of the monetary system. Likewise the major boom of the 1960's/70's in Japan and ensuing bust in 1989 was primarily the result of monetary manipulation of the value of the Yen. Of these 3 major cycles, the current crisis seems to have the most in common with the cycle that ended with the crash of 1929. The following charts from professor Kevin O'Rourke of Trinity College, Dublin, Ireland and professor Barry Eichengreen of UC Berkeley, California show that economic data from the current crisis is tracking very closely with the crisis of 1929.



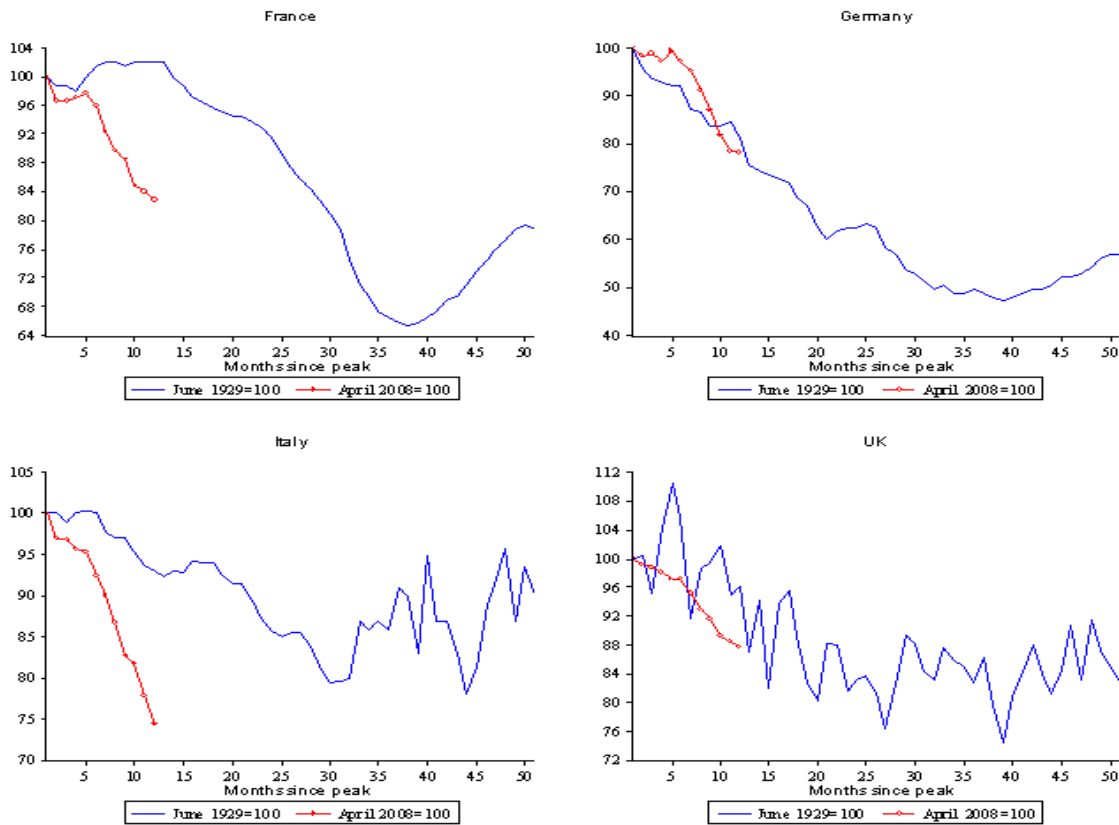
Source: Global Financial Database

Professor O'Rourke and Eichengreen's charts illustrate the fact that the current crisis has actually been much more severe than the crash of 1929 in terms of speed and depth of decline. Perhaps our modern day media, the rapid availability of information, and computer stock trading have caused markets to act on information much more quickly than in the 1929 crash.



Source: Eichengreen and O'Rourke (2009) and IMF.

Industrial output for the largest European economies:



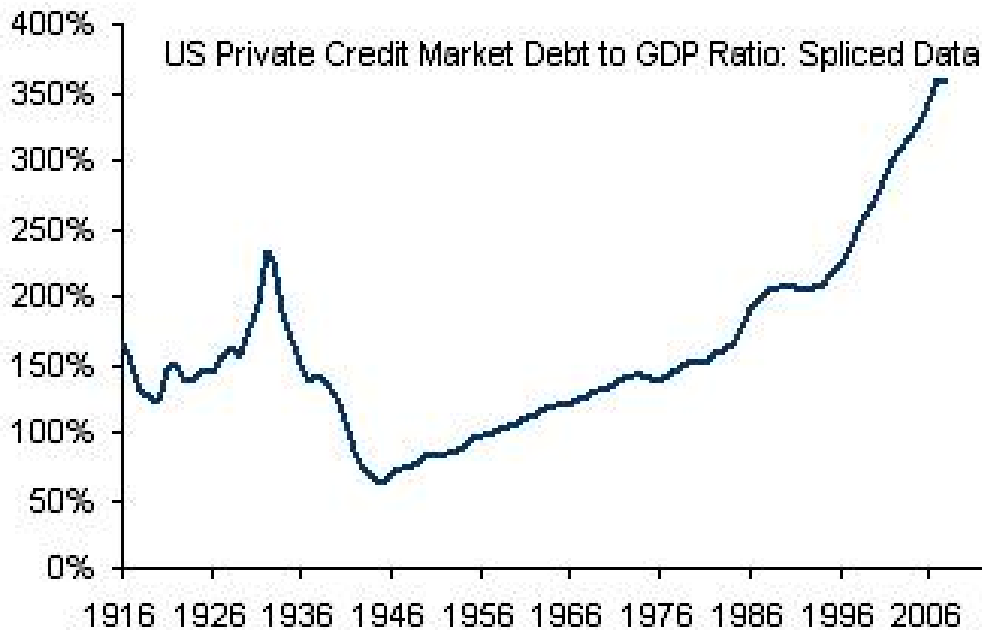
Source: Eichengreen and O'Rourke (2009) and IMF.

The world industrial output charts also show that we are tracking very closely in this recession with the drop in output during 1929. In May and June we saw the so-called "leveling off" period where the rate of decline moderated somewhat. However, we can see that in the 1929 crisis there were also significant periods of moderation and even a few short periods of increased economic activity before the bottom was finally reached.



Source: League of Nations Monthly Bulletin of Statistics

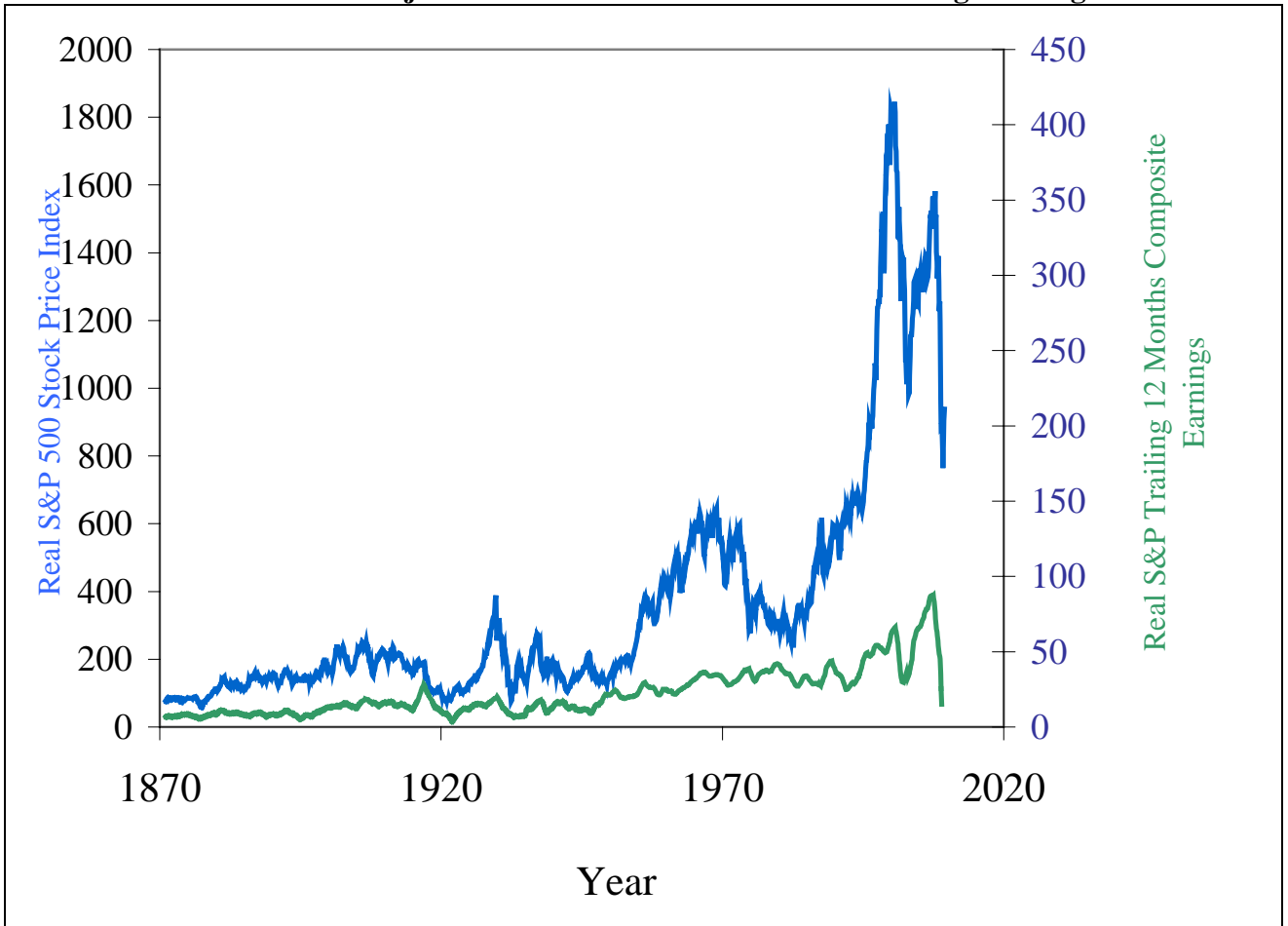
As was the case with stock markets, we see from the chart above that the overall volume of world trade has fallen faster this time around than it did in the 1929 crisis. As discussed in the last newsletter, U.S. private debt to GDP was much higher coming into this crisis than in 1929.



Source: Credit Suisse, Dept of Commerce, Federal Reserve

The chart above shows how big the recent credit bubble really was compared to the credit bubble of the 1920's. U.S. private credit market debt was 345% of GDP coming into the current crisis compared with 240% leading up to the 1929 crisis. This data should be a sobering reminder that the current crisis will not be a "garden variety" recession.

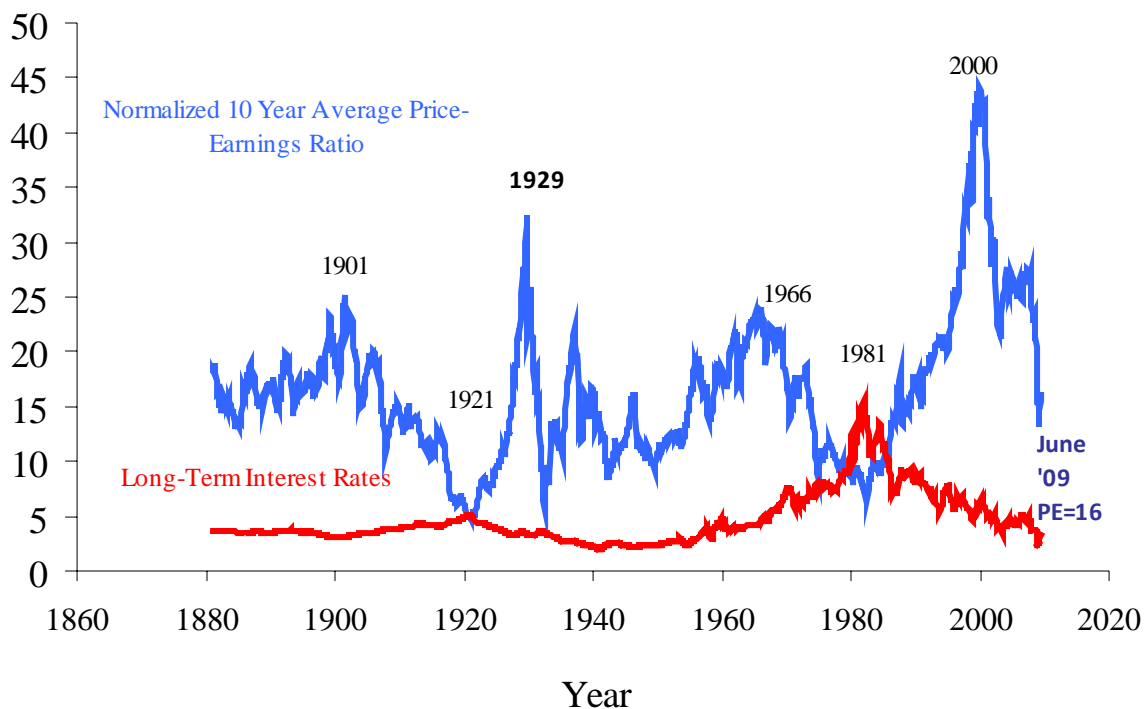
Chart of S&P500 Inflation Adjusted Price Level and 12 Months Trailing Earnings:



Source: Professor Shiller Database Princeton University

From the chart above of real inflation adjusted S&P500 stock prices and earnings we see that inflation adjusted 12 months trailing earnings have fallen from a high of almost \$90 per share in 2006 to around \$15 per share in 2008. Likewise when we look at the chart above we see that the most recent bubble in stock prices was much larger than the bubble of the 1920's. In fact, the stock market bubble of the 1980's/90's is unprecedented in its size and overvaluation (see chart below of normalized 10 year average PE ratios):

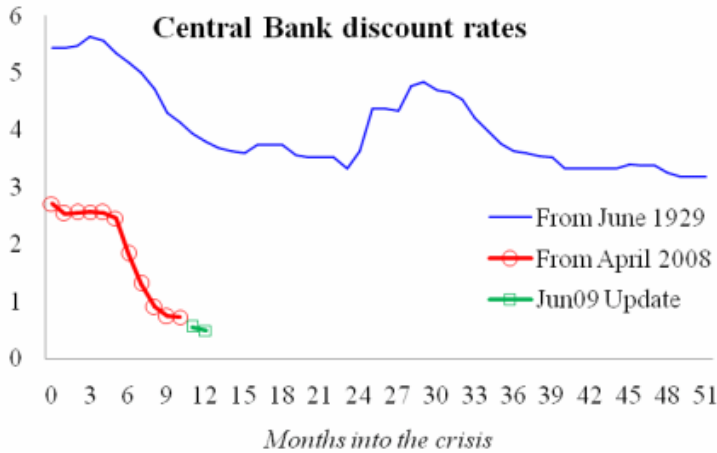
Chart of Normalized 10 Year Average PE Ratios and Long-term Interest Rates:



Source: Professor Shiller, Princeton University 2009

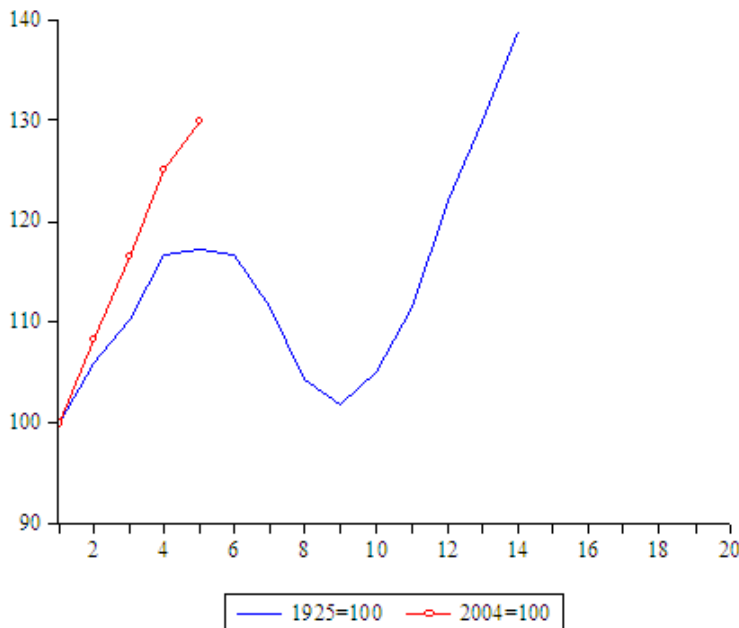
The chart above illustrates the magnitude of the most recent stock market asset bubble with regard to over-valuation. In 1929 the normalized PE ratio reached a high of 34 whereas in 2000 it reached 45. We also see that the market did not fully correct in the bear market of 2000 to 2002 because the normalized PE ratio only dropped to a low of around 22. Historically low interest rates and the real estate bubble allowed stock markets to recover briefly before crashing again in 2008. In both the 1930's bear market and the 1970's bear market the normalized PE ratio dropped into the single digit range before the new bull market began in earnest. So far in the current bear market the normalized PE ratio hit a low of around 12 during the March 9th sell off and has since rebounded to around 16. Have the rapid and dramatic government interventions averted the crisis already? Will stock markets rebound without reaching single digit normalized PE ratios as they did in the 1930's and 1970's? The following charts show the magnitude of this government intervention and how it has been much more timely than in the 1929 crisis. One of the biggest differences this time around is in the speed of interest rate cuts. Central banks have been much quicker to cut discount rates. In 1929, most major economies had real assets like gold backing their currencies. This may have prevented

them from acting as quickly with regard to reducing interest rates and increasing money supply. Since virtually all currencies are free floating fiat currencies now, central banks have been able to reduce rates, print money, and greatly increase the money supply much quicker than in the past.



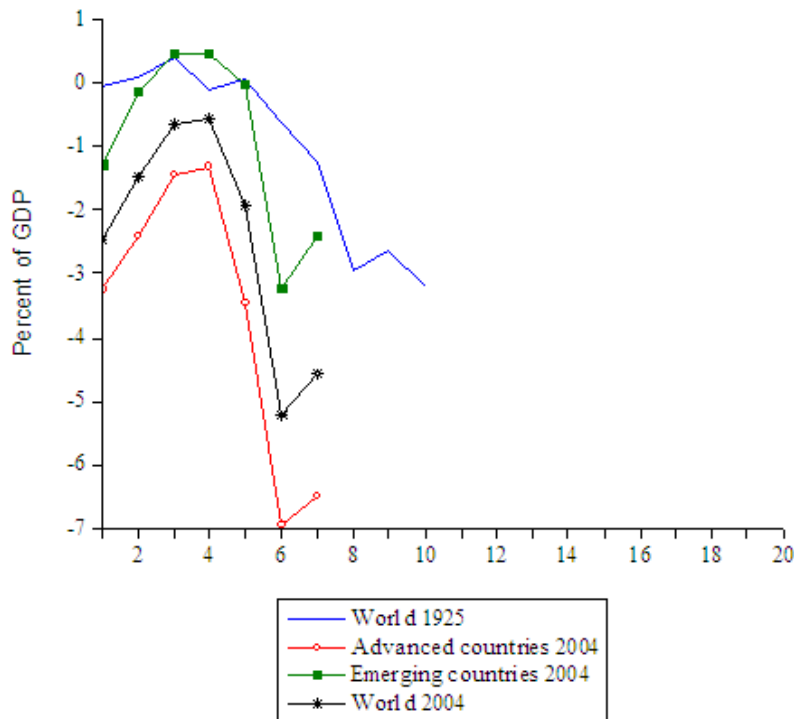
Source: Eichengreen and O'Rourke, IMF

Chart of Money Supply Increases Leading Up to the Crisis for the 19 Largest Economies, GDP Weighted, Charted in Years Starting 4 Years Prior to Crisis:



Source: Bordo et al. (2001), IMF International Financial Statistics, OECD Monthly Economic Indicators.

Chart of Government Budget Surpluses (Deficits) as a Percentage of GDP at Various Years into the Crisis:



Source: Bordo et al. (2001), IMF World Economic Outlook, January 2009.

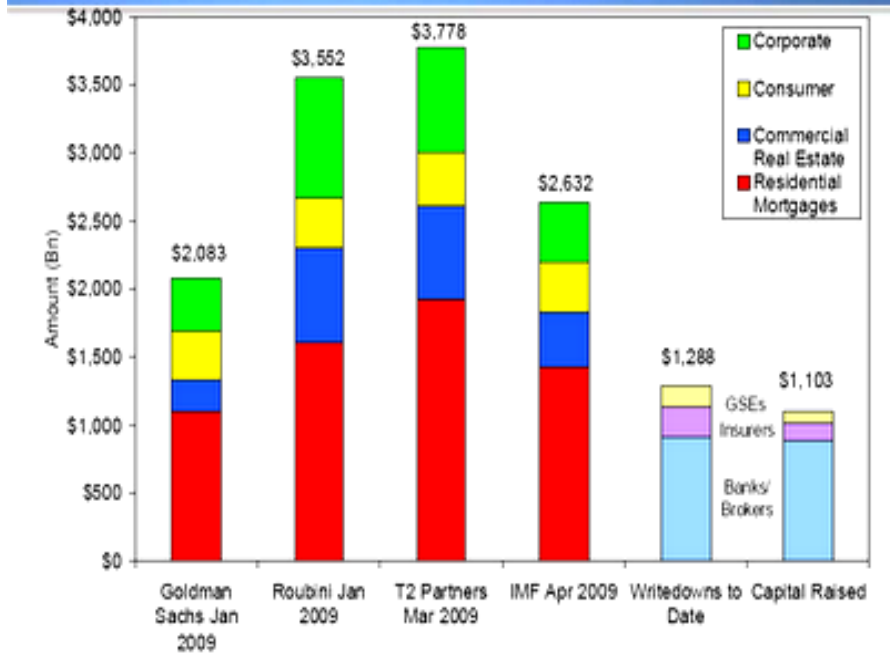
In addition to flooding the markets with money supply and liquidity, governments also enacted fiscal stimulus programs to combat the crisis. The chart above illustrates the fact that government deficit spending on stimulus programs is much larger and was enacted much faster in the current crisis than in 1929. Again, the fact that currencies are not backed by gold has allowed governments more flexibility in deficit spending and money supply expansion... for now. Ultimately, the debts will have to be repaid and excess money supply will have to be removed if inflation is to be avoided.

Depression Sized Crisis... With Unprecedented Governmental Intervention... Is It Working... Will We Bounce Back Quickly?

So as we see from these charts, this crisis is certainly shaping up to be a depression-sized event in terms of the severity of decline in economic and market activity. The question then remains as to whether or not these unprecedented levels of money supply creation and fiscal stimulus will in fact solve the problems and create the quick "V-shaped" recovery that the media and governments are predicting? To better understand the possible answer, we need to look at whether or not the massive government intervention is resulting in an improvement in the underlying issues that caused the crisis in the first place. Namely we have to look at bank solvency, the real estate market, consumer credit,

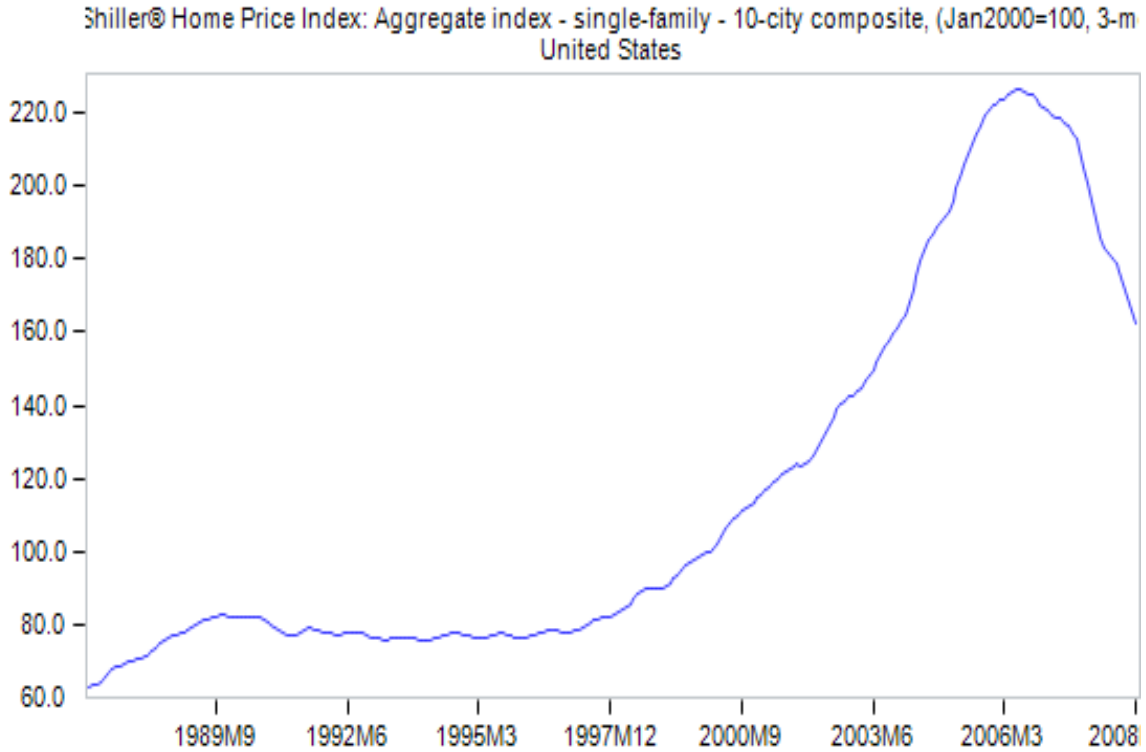
and consumer spending. T2 Partners has compiled a chart recently that compares various forecasts of future losses in the U.S. banking system.

Forecasts of Total U.S. Banking System Writedowns During This Credit Crisis:



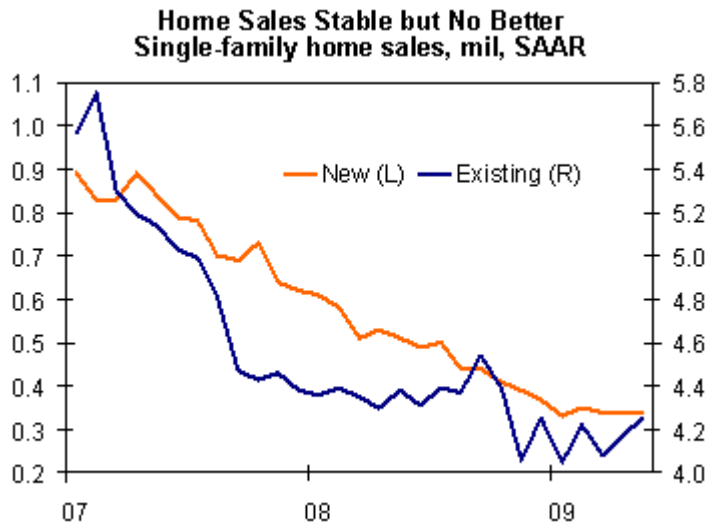
Source: T2 Partners LLC

As we see in the above chart there are large differences in opinion between the Goldman Sachs forecast of \$2.083 trillion and T2 Partners forecast at \$3.8 trillion. However, the fact remains that only \$1.29 trillion of bad debt has been written off so far and that means that banks are still vulnerable to massive write-offs and capital deficiencies in the future. So far government bailouts and optimism surrounding the "green shoots of economic recovery" have allowed banks to raise over \$1 trillion in new capital. Where will the additional \$1 to \$2 trillion come from? So far the government and the banks hope that the economic recovery will provide this capital through rising profits while the bad debts become less toxic. Our research shows that it would take a recovery back to 2007 levels of bank profitability and 2006 peak real estate prices to make that happen. We believe that bank profitability will not return to 2007 levels because those profits were heavily dependent upon the securitization of mortgages and highly leveraged corporate debt. This securitization market has all but vanished. Furthermore, the toxic assets on bank balance sheets are still largely dependent upon the level of U.S. residential home prices. Most of these toxic mortgage loans were originated during the boom that ended in 2006. As we can see from the chart below of home prices, it is very unlikely that home prices will return to 2006 peak levels in the near term. This suggests that the toxic assets on bank balance sheets are still toxic and getting more toxic as home prices decline further. Furthermore, toxic commercial real estate debt will become a major problem soon for the banking system if this recession drags on and business spending for office and retail space continues to decline.



Source: Standard and Poor's

The chart above shows just how large the housing bubble really was and how unlikely it will be for prices to reverse and go back to peak levels in the near term.

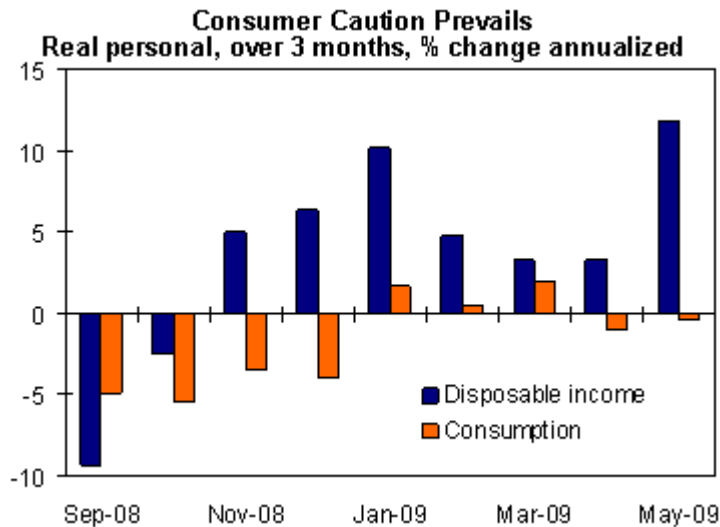


Source: Moody's

As we see from the chart of new and existing home sales, the pace of declines is moderating but sales could stay at a low level for quite some time. Inventories of unsold homes remain high across the country as job losses mount and foreclosures increase.

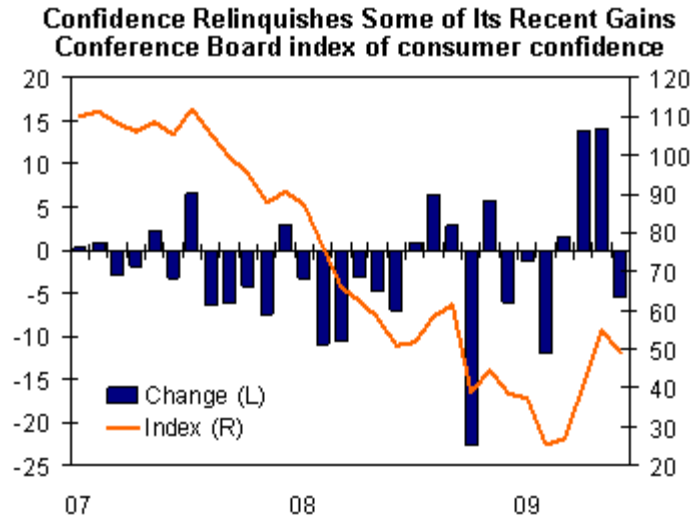
Is Consumer Spending Rebounding?

David Rosenberg (former chief economist for Merrill Lynch) recently analyzed recent stimulus programs and their effect on consumer spending. He found that total stimulus spending from the U.S. federal government in the form of tax reduction and increased benefits, came to \$121 billion in April at an annualized rate. Even with this stimulus, in nominal terms, consumer spending only increased \$1 billion. In May, the total stimulus came to \$163 billion at an annualized rate, and consumer spending increased by a measly \$25 billion (again at an annualized rate). Why the small increases in spending when the government is handing out such large sums of money? The answer lies in the savings rate. The personal savings rate surged again to a new 16-year high of 6.9% from 5.6% in April and 4.3% in March. Rosenberg states that this is a repeat of the fiscal impact from the tax relief a year ago when the savings rate jumped from 0.2% in March 2008 to 4.8% in May 2008. Consumers are using the stimulus to boost savings and balance sheets instead of spending. In real terms, as was the case with the tax rebates of just over a year ago, the real impact is on the savings rate, and it is very clear that not even the most aggressive monetary and fiscal policy since the 1930's is going to stop consumer spending in volume terms from rolling over in the second quarter of 2009.



Source: Moody's

Moody's research shows that real inflation adjusted consumer spending increased just 0.2% in May, which leaves the second quarter annualized pace tracking between -0.5% and 0%. Consumption has been slow to rise so far despite massive government income support. Over the last three months, real consumer spending is nearly unchanged, while real disposable income is up about 12% at an annual rate. We also continue to see weakness in consumer confidence surveys. This suggests that this weak consumption pattern may last for quite some time. The most recent Conference Board Index of Consumer Confidence fell to a level of 49.3 down from its revised May level of 54.8. A reading above 90 means the economy is on solid footing and a reading above 100 signals strong growth.



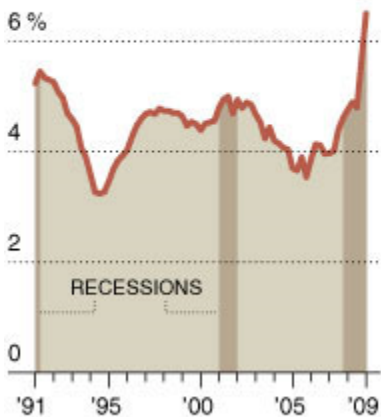
Source: Moody's

Another factor adding to weak consumer spending is the lack of consumer credit availability. Credit card issuers are cutting back on credit lines, raising rates, and tightening lending standards as credit card delinquencies surge. The chart below from the Federal Reserve shows how credit card delinquencies have spiked over the past 12 months and continue to climb higher. If this trend continues, lending will decline further in the consumer credit industry and consumption will fall further.

Delinquent Debtors

The percentage of credit card debt 30 days or more past due.

DELINQUENCY RATE

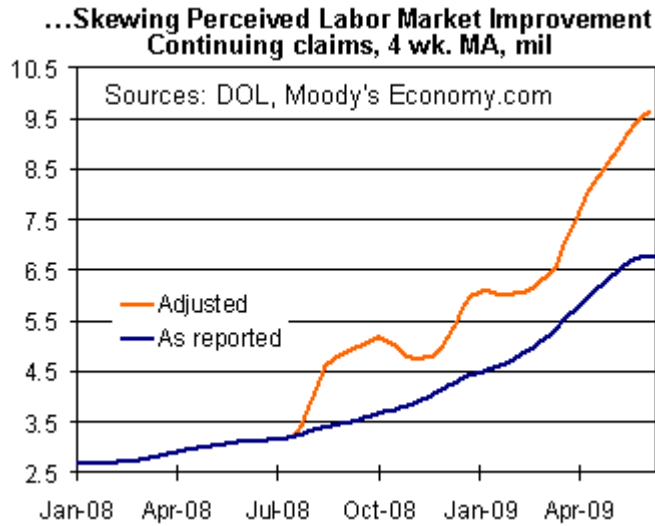


Source: Federal Reserve

Since consumer spending accounts for over 70% of GDP, we should not expect a recovery in GDP and corporate profitability until consumers are able to dramatically increase their consumption again. A recovery in jobs will be needed to make this happen. Even though government data on continuing unemployment claims tends to suggest that

the labor market is improving, this is misleading because the continuing claims data does not include data from two new programs that have been initiated during this crisis. When the data is adjusted to include the Extended Unemployment Benefits Program and the Emergency Unemployment Compensation Program, we see that there has been no improvement or moderation in the rise of unemployment (see chart below from Moody's Research):

Jobless Claims Data Mask Labor Market Erosion

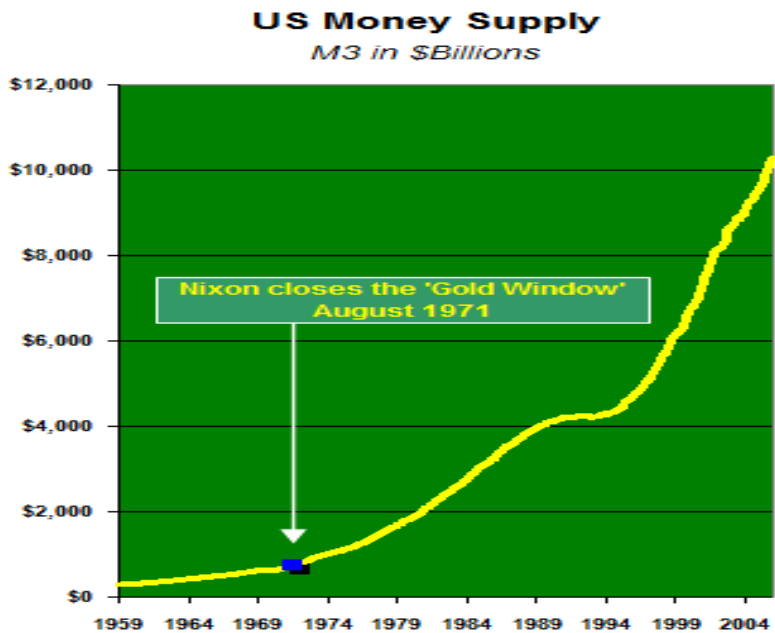


Source: Moody's

One Last Reason For Questioning the "Green Shoots" Recovery Hype: The DOW Measured In Gold Instead Of Dollars:

One last reason to question the recent stock market rally and "green shoots of recovery" hype is the fact that the stock market has not bottomed like it did in past major bear markets when its price level is measured in the only true currency: gold. Precious metals are the only true currency because they do not have politicians, a government printing press, or central banks to manipulate them. For thousands of years, precious metals such as gold and silver have been relied upon as the only true store of value and medium of exchange because of their timeless ability to hold value. Even though new quantities of precious metals are mined every year and put into circulation, the addition of newly mined precious metals to the currently held stock is so small that its value does not get inflated away as in the case of paper fiat currencies. This is one of the reasons politicians, governments, and central banks do not like gold. Politicians from the beginning of time have played a game of buying influence and power through deficit spending. To finance this deficit spending these politicians must either steal wealth from other countries or steal the wealth from future generations by debasing their currency through inflation. When the ancient Romans were going broke due to overspending on military conquests and social programs at home, they began mixing copper in with their silver coins to debase the currency. From 200 B.C. to 300 A.D. the Roman denarius lost

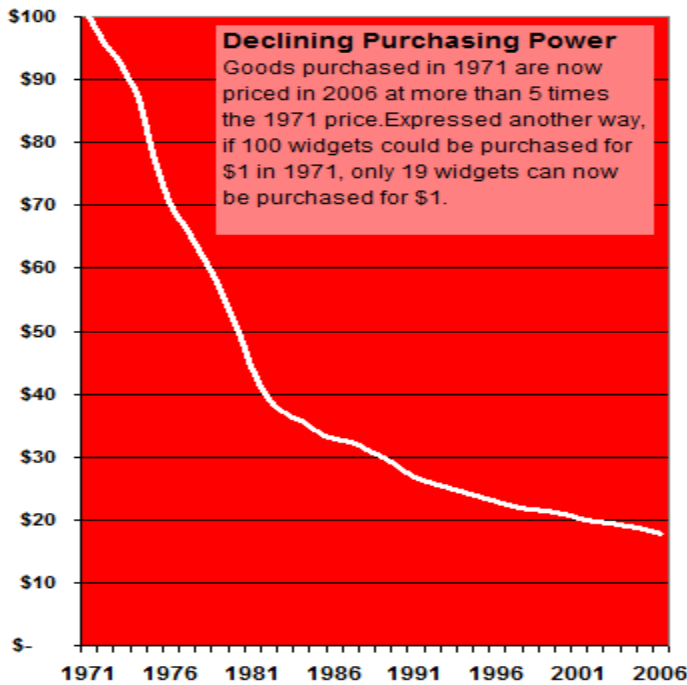
99% of its value through devaluation. Over this time period the silver content of the denarius went from 99% pure silver to 1% pure silver! Wars and overspending on domestic programs usually drive nations to debase their currencies unless the war is successful enough to allow wealth to be transferred from the loser to the winner. The U.S. was on the gold standard up until March of 1933 when Franklin Roosevelt's administration confiscated gold and devalued the U.S. dollar from \$ 20.67 per ounce of gold to \$ 35 per ounce. This was a 41% devaluation of the dollar and had the effect of inflating away the bad debts on the books of insolvent banks across the country. This devaluation of the dollar helped banks, consumers, and businesses feel like they were solvent again and thus ended three years of severe deflation. However, a few years later it also led to double-digit inflation and a large reduction in purchasing power for American citizens. After World War II, the influx of gold to the U.S. in war reparation payments allowed America to go back on the gold standard in 1946. The 1946 Bretton Woods I Agreement put the U.S. dollar back on the gold standard at \$35 per ounce and linked foreign currencies to the U.S. dollar. Most foreign nations also started migrating away from gold to the dollar for their central bank reserves after 1946. This arrangement gave tremendous economic power to the United States as the dollar became the world's financial reference point. However by the early 1970's deficit spending on the Vietnam War and Lyndon Johnson's Great Society program caused an outflow of gold from U.S. reserves as other nations started to exchange their dollars for gold. They did this because of concerns over the ability of the U.S. to pay off these massive government debts while continuing to back every dollar by a dollar of gold. Their concerns were well founded. The outflow of gold reached crisis proportions during the early days of the Nixon administration and Nixon closed the gold window and abruptly stopped exchanging gold for dollars in 1971. This shocked other nations that had their currencies linked to the dollar and culminated in the Bretton Woods II currency summit of 1973. It was at Bretton Woods II that other nations decided to de-link from the dollar and let their currencies float freely.



Source: Financialsense.com

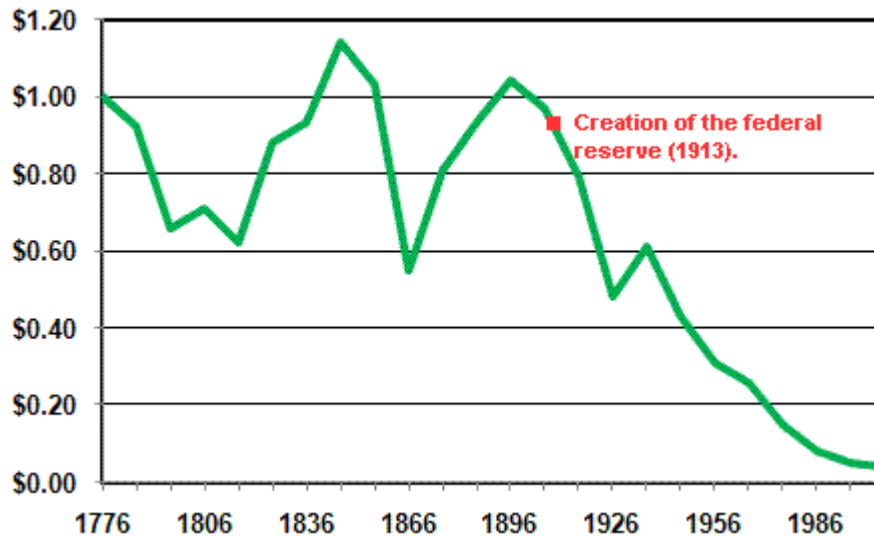
US Dollar Purchasing Power

As Calculated from CPI



Source: Financialsense.com

Chart of Historical American Purchasing Power:



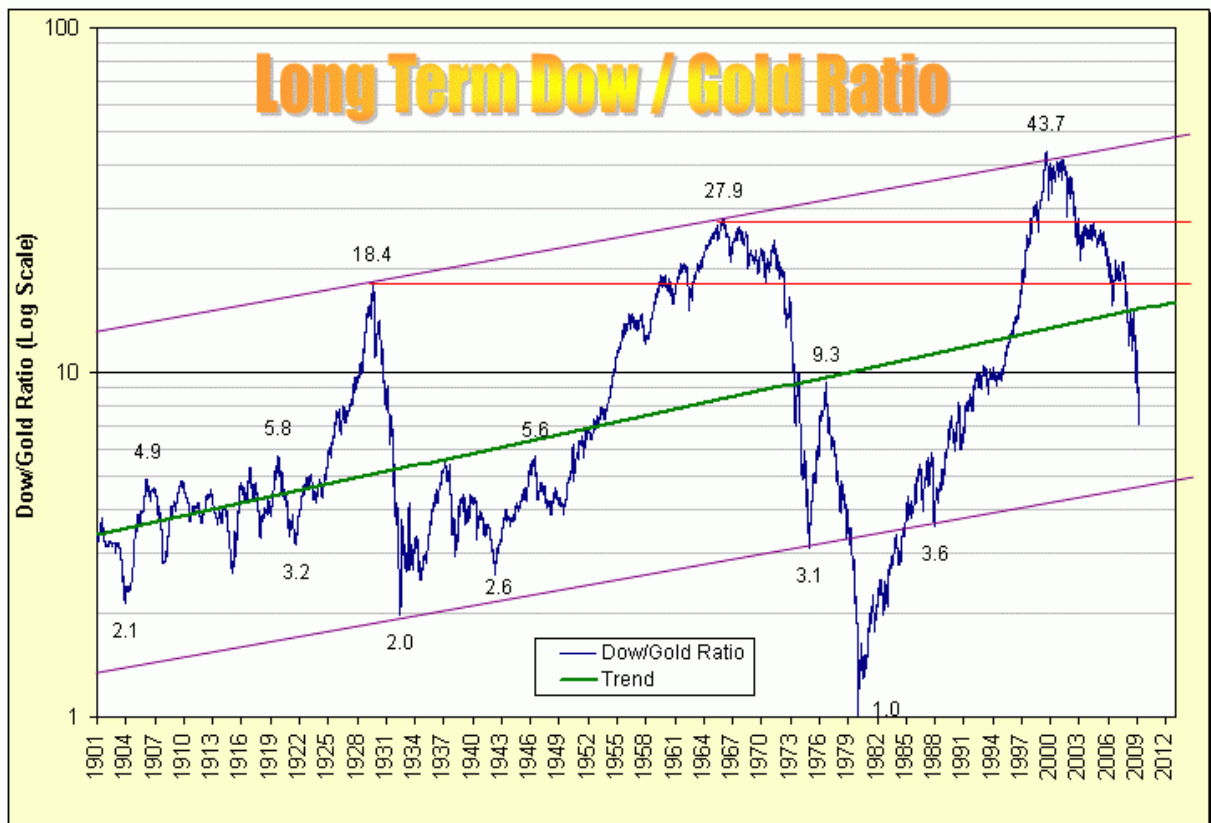
Source: BEA, US Treasury

As we can see from the charts above, purchasing power of the United States dollar fluctuated back and forth through various wars and economic cycles. Periods of economic recession often resulted in deflation and purchasing power gains only to be followed by renewed rounds of inflation and purchasing power losses. However, since

the creation of the Federal Reserve Bank in 1913 the U.S. has been on a steady path of price inflation and currency devaluation. This trend accelerated after the Roosevelt dollar devaluation of 1933, Nixon's closure of the gold window in 1971, and the final abandonment of the gold standard with the 1973 Bretton Woods II agreement. Now that we have established that gold is a better financial reference point than the U.S. dollar, let's see what the Dow measured in gold can tell us about the current economic crisis.

The Dow measured in Gold:

When we remove the manipulative and misleading effects of dollar manipulation and measure the Historical Dow Jones Industrial Average in terms of gold, we find that every 30 or so years since 1900 there has been a major boom/bust cycle. The cycles show that markets have gone through prolonged periods where money supply is expanded too rapidly, credit is issued too freely, and asset bubbles occur in stocks and real estate. Then the cycle reverses as the boom goes bust, bad debts turn into bankruptcies, and the government attempts to re-inflate asset prices and insolvent debt through currency debasement. This usually leads to a bubble in gold (and other precious metals) as investors rush to precious metals as a safe haven and inflation hedge. Thanks to Doug Short who created a historical chart of the Dow measured in gold, we can see these cycles:



Source: Dougshort.com

We see from the above chart that the Dow Jones Industrial Average bubbled up to a high of 18.4 ounces of gold in 1929 and then crashed down to 2 ounces of gold in 1933 when the Roosevelt administration devalued the dollar just as the stock market had lost 89% of its value measured in dollars. Then the stock market bubbled up again to a high of 27.9 ounces of gold in 1966 just before the Nixon dollar devaluation and Bretton Woods II summit took the U.S. off of the gold standard in 1973. By 1976, one share of the Dow could be bought for 3 ounces of gold and by 1982 one share of the Dow could be purchased for one ounce of gold! The purple trend lines measure an upward sloping high and low range of these cycles while the green trend line measures the average trend since 1901. The reason these trends are upward sloping is that the overall stock (supply) of gold has been increasing over the years due to gold mining operations. Therefore, we have to factor in this slight amount of gold mining induced price inflation. Even with the slight increase in gold supplies over the years, we see that the year 2000 marked the most overvalued cycle yet for stocks measured in gold. It is clear from the chart that by the year 2000, paper assets like stocks had become extremely overvalued while precious metals like gold had become extremely undervalued. When stock markets hit new multi-year lows in March of 2009, the Dow measured in gold ratio hit 7 ounces of gold. While this was slightly below the long-term average trend line, it was nowhere near the lower range where the Dow had fallen during the last two major financial meltdowns of the 1930's and 1970's. So we can conclude from this analysis that either this recent financial crisis was really not a major crisis like we had in the 1930's and 1970's, or it really is a major crisis and the Dow must fall further and/or gold prices must rise further before a final bottom is put in and a new bull cycle in stocks begins. Will this final stock market bottom be put in this year or next? It is impossible to know for sure. However, we believe that it is best to be cautious until real lasting signs of economic recovery are seen and the Dow measured in gold ratio falls closer to its historical lower range trend line. We believe the ratio will probably go to 5 before the new long-term bull cycle in stocks begins. High inflation leading to high interest rates and a choked off recovery will probably be the factors that finally drive the Dow/gold ratio to 5 over the next few years. If gold stays around \$900 per ounce, then the Dow will need to fall to around 4,500... a decline of 47% from here. If the Dow stays at 8,500, then gold will need to climb to \$1,700 per ounce... an 85% increase from here. We believe the actual scenario will be a mixture of the two with the Dow falling below 6,000 and gold rising above \$1,200 per ounce before the cycle reverses and a new bull market in stocks begins.

Question #2: What Should Investors Do Now?

The Alphareturns Model Portfolios for Q3 2009:

Because of the increasingly bearish position we have discussed so far, we will continue with our cautious and defensive asset allocation posture. Many financial experts are telling you not to miss out on the recovery off the bottom, but we believe it is better to miss the first gains of the recovery than to keep losing 15% in every successive bear market rally. In the last bear market of 2000-2003 there were 6 bear market rallies of 15% or more before the bottom was finally put in. It is important to note that the bottom in stocks did not finally occur until early 2003... a full year after the recession had

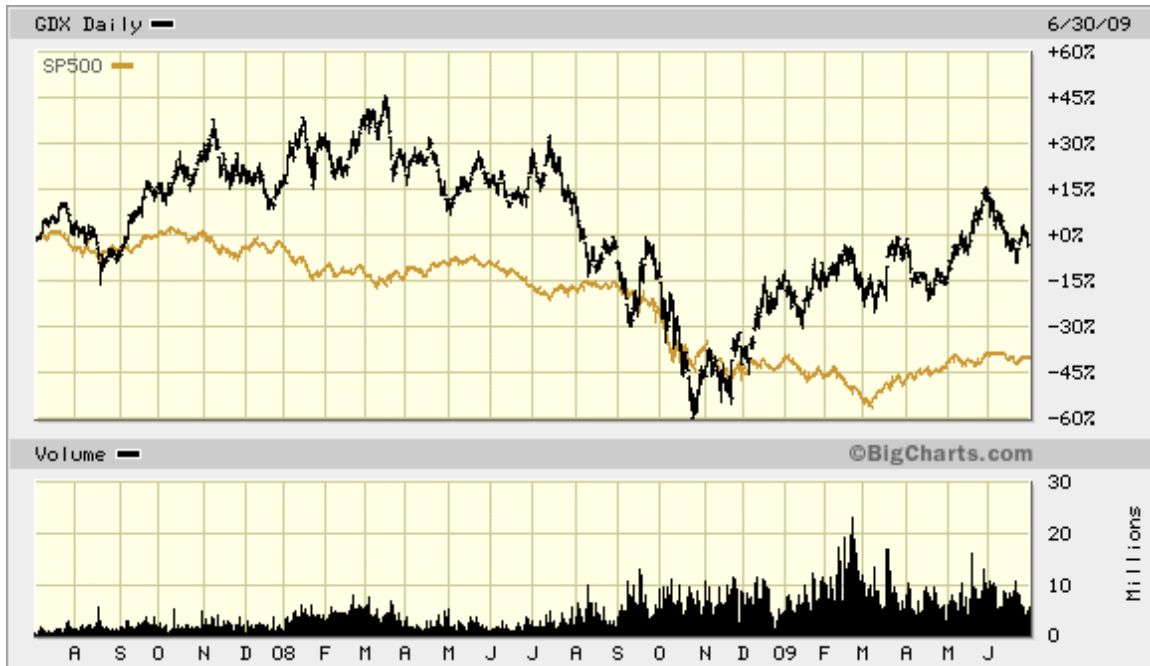
officially ended. So don't fall for the hype that the bottom always occurs 6 months before the recession ends. That is simply not true based on the historical facts. In the bear market of the Great Depression there were 9 bear market rallies of 15% or more before a bottom was put in. Once again this is Wall Street desperately trying to get investors to "stay in the game" and keep paying commissions and fees while the market continues to go lower. In a recent study by economist Richard Bernstein of the last 10 bear market troughs, he proved that an investor would have been better off keeping money in treasuries and only buying into the stock market six months after the bottom as opposed to buying in six months before the bottom. So it is better to be patient and invest six months after the bottom than be too early and catch the proverbial falling knife. There will be plenty of time during the next bull market in stocks to make money... you don't have to be invested at the bottom to make money during the next bull. *Remember the wise old Wall Street saying that the stock market takes the elevator down and the stairs up!* Research also shows that the majority of the gains in a bull market come toward the last half of the bull market when everyone is piling in! So again there is no need to be in a hurry to get back into the market. In fact we believe we may have been too early on our allocation to emerging markets and high yield debt. Given our most recent analysis, we believe it is time to take our gains from the past quarter and get very defensive again. The table below details the model portfolio allocations we are recommending for the 3rd quarter of 2009:

Alphareturns Model Portfolio Allocations For Q3 Calendar 2009:

Symbol	Asset Class	Conservative Risk 1-3 year horizon	Moderate Risk 4-7 year horizon	Aggressive Risk 7+ year horizon
GDX	Gold Mining Stock ETF	10%	20%	30%
TIP	Inflation Protected Treasury Bond ETF	25%	25%	25%
GLD	Gold Bullion ETF	20%	20%	20%
SHY	Short Term Treasury Bond ETF	45%	35%	25%

Rationale Behind The Asset Allocation Choices:

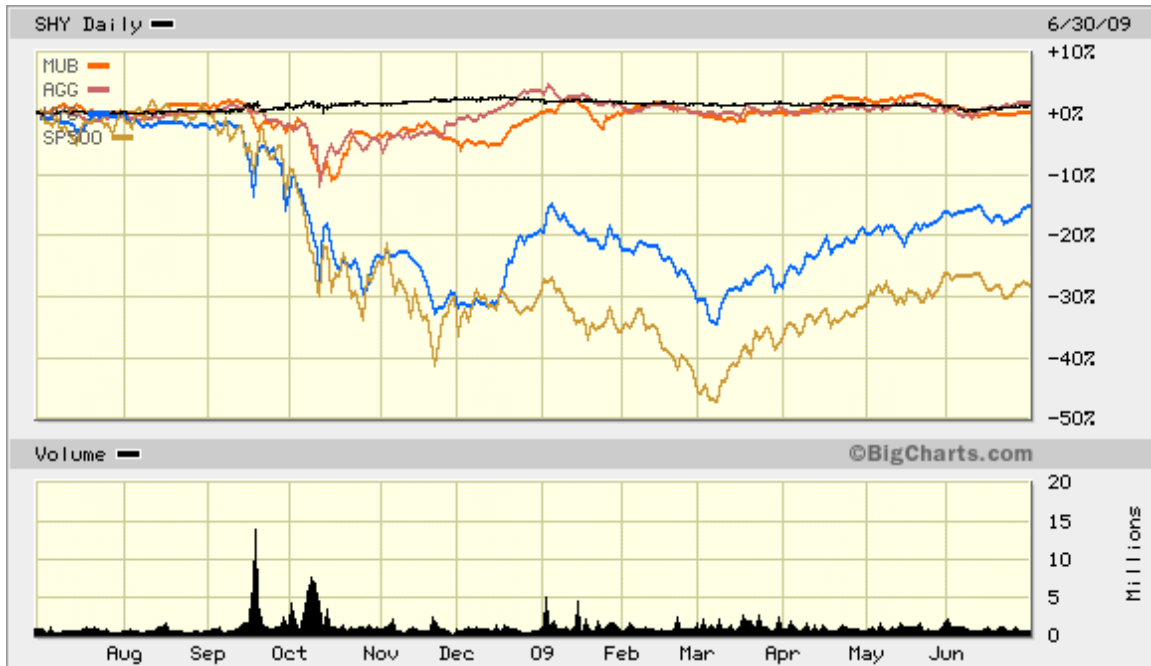
Stocks: With our cautious posture, we will only invest in the stocks of global gold mining companies at this time. Gold mining stocks have become less correlated with the broad markets and we believe the GDX ETF is now beginning a bull market trend. We will wait for the broad stock markets to correct to more reasonable valuation levels before investing in broad equity markets again. The chart below shows how gold mining stocks have recovered well and outperformed the S&P500 during this financial crisis.



Gold Mining Stocks (GDJ) outperform the S&P500 (SP500) since start of the bear market.
Source: Bigcharts.com

Emerging Market Stocks: Even though we remain bullish long term on emerging stock markets in Brazil, China, and India, we believe the recent rally has gotten ahead of itself in terms of valuation. Therefore we will exit our position in the emerging markets stock ETF with symbol EEM and wait for the market to correct to more reasonable valuation levels.

Fixed Income: We have enjoyed nice gains in our corporate bond (LQD) and high yield bond (HYG) allocations. However, we now believe the future gains for these sectors will be muted due to the re-emergence of economic distress later this year. The High Yield sector is likely to see defaults pick up as bankruptcies increase. We also believe interest rates have nowhere to go but up and this does not bode well for corporate bonds and municipal bonds. Therefore, we are exiting our positions in LQD, MUB, and HYG while increasing our position in the Ishares Barclays Inflation Protected Treasuries ETF with symbol TIP and the Ishares Short Term Treasury Bond Index ETF with symbol SHY. Treasury Inflation Protected Securities (TIPS) are selling at record low valuations as inflation expectations have been discounted to just an average of 1.8% annually over the next 20 years. However, as discussed earlier we believe that deflation will be short-lived due to the massive amount of money being printed to fight the crisis. At these bargain valuation levels, the TIP fund is paying a dividend yield north of 6%. When inflation does pick up, we expect double-digit returns in TIPS. These inflation-adjusted returns should offset the negative effects of rising interest rates on the value of TIPS bonds. The Short Term Treasury Index held up well during the last round of market turmoil and we believe it will perform well again during the next round of market turmoil:



Short Term Treasuries (black line) outperform municipal bonds (red line), high yield bonds (blue line), Barclays Aggregate Bond (maroon line), and the S&P500 (gold line) during the market turmoil last Fall. Source: Bigcharts.com

Q2 2009 Performance Discussion:

The performance table below outlines our year to date model portfolio performance as well as performance since inception 01/01/07. Although we are back in positive return territory year to date, our moderate and aggressive portfolios are still negative since inception. Year to date our portfolios are falling behind the Dow Jones Global Portfolio Benchmarks although we are still outperforming in our moderate and aggressive portfolios on a since inception basis. The Dow Jones Benchmarks are more heavily weighted toward more risky and volatile emerging market stocks and have benefited greatly from the recent rally in these sectors. By year-end we expect our portfolios to be outperforming all of the benchmarks again.

Alphareturns Model Portfolios →	Conservative Risk 1 to 3 year horizon	Moderate Risk 4 to 7 year horizon	Aggressive Risk 7 + year horizon
YTD 2009	0.11%	1.54%	2.89%
Since inception 01/01/07	0.73%	-8.58%	-17.55%
Dow Jones Benchmarks* →	Dow Jones Relative Risk Conservative Global Portfolio	Dow Jones Relative Risk Moderate Global Portfolio	Dow Jones Relative Risk Aggressive Global Portfolio
YTD 2009	3.49%	7.43%	11.52%
Since inception 01/01/07	6.81%	-12.68%	-28.14%

**Note: The Dow Jones Relative Risk Indexes measure the performance of conservative, moderate and aggressive portfolios based on incremental levels of potential risk. The indexes are designed to systematically measure various levels of risk relative to the risk of a global all-stock index. Investors can identify an appropriate benchmark as the index that has the most similar historic risk characteristics. Stock exposure will typically range from 20% in the conservative portfolio up to 100% in the aggressive portfolio. For more information see: www.djindexes.com/mdsidx/portfolio/index.cfm?event=showPortfolioGlobalRelativeRisk*
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Conclusion:

2009 is starting out much like 2008 ...an initial first quarter market sell off followed by a second quarter rally. Unfortunately, we expect 2009 to also end like 2008 with more market turmoil before year-end. These are very difficult times and we believe that this is not the time to take on risk. For Q3 2009 we will stay defensive with investments in Treasuries, gold, and a small allocation to gold mining stocks.

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