



## Centier Bank Market Review

March 2010  
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## Data continues to indicate global economic recovery.

### Recent Economic Indicators

Reuters/Univ. of Michigan Consumer Sentiment	73.6
Consumer Confidence	46.0
Existing Home Sales, Annual Change	-7.2%
New Home Sales	309,000
Personal Income, Monthly Change	0.1%
Personal Consumption Expenditures, Monthly Change	0.5%
Non-farm Payroll Increase/Decrease	-36,000
Unemployment Rate	9.7%
ISM Non-Manufacturing Index	53.0%
ISM Manufacturing Index (PMI)	56.5%
Durable Good Orders, Monthly Change	3.0%
Industrial Production, Monthly Change	0.9%
Capacity Utilization	72.6%
Retail Sales, Monthly Change	0.5%
CPI, Monthly Change	0.2%
CPI Core, Monthly Change	-0.1%
PPI, Monthly Change	1.4%
PPI Core, Monthly Change	0.3%
U.S. Trade Deficit	\$-40.2 billion
4Q09 Non-farm Productivity, Quarterly Change	6.9%
4Q09 GDP, Quarterly Change	5.9%

Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, the Federal Reserve, Thomson Reuters/University of Michigan, Institute for Supply Management, National Association of Realtors, The Conference Board.

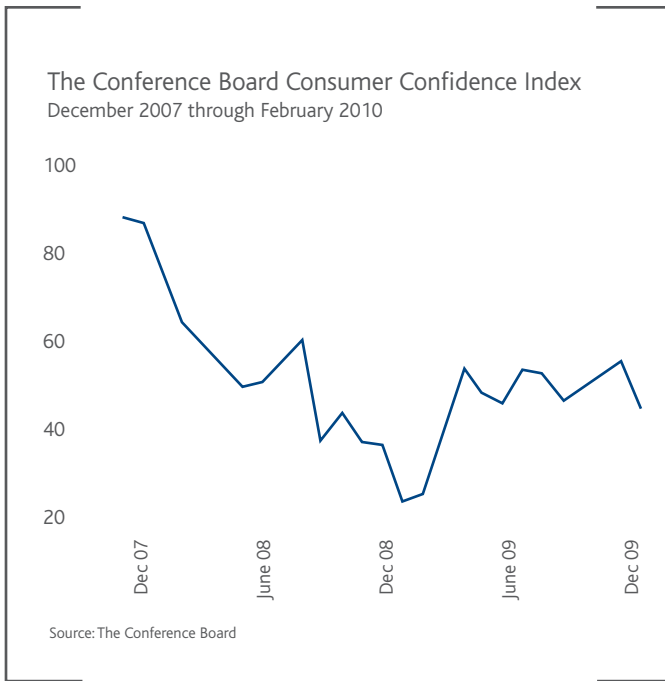
### Overview

The U.S. Department of Commerce revised estimates for fourth quarter gross domestic product (GDP) higher to a seasonally adjusted annual rate of 5.9%. The revision largely reflected positive contributions made from private inventory investment as businesses restock inventory levels that declined during the recession, suggesting that the strong growth rate is not sustainable. Personal consumption expenditures also contributed positively to GDP; however, recent declines in consumer confidence suggest that consumer spending may remain weak in the coming months.

Minutes from the Federal Open Market Committee (FOMC) January meeting expressed expectations for a modest economic recovery for the remainder of the year before reaccelerating in 2011 and 2012. Although continued weakness in the labor market and slowing momentum in the housing market threaten to hinder economic growth, the Fed acknowledged further improvements both in consumer and business spending as well as slowing inventory liquidations. Interestingly, the FOMC noted that participants view "the upside and downside risks to the outlook for economic growth as roughly balanced."

The Conference Board Leading Economic Index for the U.S. advanced for the tenth consecutive month in January, climbing 0.3%. The Conference Board attributed continued improvements to the stabilization of the financial markets and the recovery in the manufacturing sector.

According to the National Association of Realtors (NAR), sales of existing single-family homes decreased for the second consecutive month in January. The 5.05 million seasonally adjusted annual rate represented a 7.2% decline from the previous month, yet the level remained 11.5% above January 2009 sales. NAR Chief Economist Lawrence Yun concluded that while the slowdown likely resulted because it will take a few months for sales made after the extension of the first time home buyer tax credit to close, easing activity "raises concerns about the strength of the recovery."



### Employment

U.S. payrolls shed 36,000 jobs in February causing the unemployment rate to remain unchanged at 9.7%, according to the U.S. Department of Labor. Temporary help services added jobs for the month while weakness in the construction industry continued. The report acknowledged the impact severe winter storms may have had on payroll employment and hours—the average workweek declined 0.1 hour to 33.8 hours for the month. Average hourly earnings rose 0.1% and have increased 1.9% since February 2009. Separately, the Labor Department reported that unit labor costs for non-farm businesses declined 5.9% in the fourth quarter as workers increased productivity faster than compensation increased. Unit labor costs fell 4.7% from the fourth quarter of 2008, marking the most significant four-quarter decline since the series began 52 years ago.

### Consumer Confidence & Spending

Consumer confidence, as shown by The Conference Board Consumer Confidence Index, declined significantly in February as concerns about current business conditions and the jobs market stifled consumers' short-term economic outlook. Director of The Conference Board Consumer Research Center Lynn Franco noted that consumers remain very negative about their personal income prospects. Similarly, the Thompson Reuters/University of Michigan Surveys of Consumers found that recent advances in consumer sentiment have stalled as consumers realize that job and income prospects will likely remain negative this year.

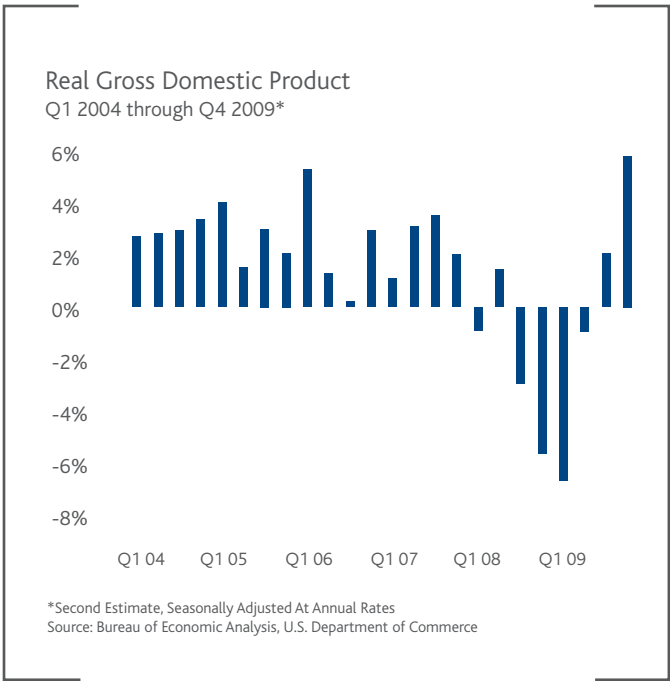
Bloomberg noted that manufacturing has become the source of economic strength rather than the labor or housing market, areas typically closer to the consumer. Although this would imply that consumer spending could continue to suffer, the U.S. Department of Commerce announced that personal consumption expenditures (PCE) rose 0.5% in January, up 0.3% when adjusted for inflation. Personal income, however, increased just 0.1% from December 2009 and personal savings, as a percentage of disposable personal income, declined to 3.3% January.

### Inflation

Gauges of inflation released in February continued to reflect subdued inflationary pressures. January price indexes for PCE excluding food and energy, the Federal Reserve's preferred measure of inflation, climbed 1.4% from January 2009. However, FOMC minutes acknowledged that headline consumer inflation has increased recently as a result of higher energy prices. The Consumer Price Index rose 0.2% in January, marking a 2.6% increase for a 12-month period. Energy prices climbed 2.8% for the month and have risen 19.1% in the last year. Excluding food and energy, prices declined 0.1% in January. Producer prices, however, have increased at a faster rate as prices for input goods rise. The Producer Price Index, which represents prices of finished goods, increased 1.4% in January. Prices for intermediate and crude goods advanced 1.7% and 9.6%, respectively.

### Business Spending

The manufacturing sector expanded for the seventh consecutive month in February, according to the Institute for Supply Management (ISM) Report on Business. The Purchasing Managers Index (PMI) slipped to 56.5% from 58.4% the previous month, indicating that the sector is growing albeit at a slower pace. New orders and production composite indexes expanded at decelerating rates while the employment composite index grew at a fast rate. Of the 18 industries surveyed, 11 reported growth for the month. Survey responses varied yet were notably more positive than in recent months. Separately, ISM announced that its Non-Manufacturing Index expanded at a faster rate in February, with business activity, production and new orders composite indexes growing at an accelerating pace. Many survey responses reflected cautious optimism; however, participants from the utilities and retail trade industries noted continued challenges from current economic conditions. The Federal Reserve reported that industrial production increased 0.9% in January, from January 2009. Capacity utilization climbed to 72.6%—down 1.1% from January 2009. Manufacturing production rose 1.0% for the month.



**Trade**

The U.S. Department of Commerce's second estimate for fourth quarter GDP indicated that trade activity contributed to economic growth whereas it detracted from it in the third quarter. Real exports of goods and services rose 22.4% in the fourth quarter, versus a 17.8% increase July through September. Real imports of goods and services, which are a subtraction when calculating GDP, increased 15.3% in the fourth quarter, compared with a 21.3% increase in the third quarter. Net exports added 0.30% to GDP in the final three months of 2009.

Although world trade volumes rebounded in the fourth quarter, uncertainties surrounding the sustainability of renewed activity remain, according to data prepared by the CPB Netherlands Bureau for Economic Policy Analysis. December 2009 trade volumes increased 4.8% from the previous month. Emerging economies continue to play an increased role in world trade activity. Monthly import volumes in emerging economies grew 7.8% in December compared with 2.7% in advanced economies. The report also showed that although world trade volumes are 8% lower than in April 2008 high, levels have rebounded 15% off the March 2009 lows. It is important to note that December commerce levels are typically higher than other months.

The U.S. Import Price Index climbed 1.4% in January from the previous month, up 11.5% from January 2009. Rising petroleum prices were largely attributable for the increase. Export prices have also increased, but at a slower pace. Export prices advanced for the third consecutive month in January, up 0.8% from December and 3.4% from January 2009. The report reflected increasing price pressure for producers and relatively stable consumer prices.

**World Economy**

The global manufacturing and services sectors continued to expand in February, as shown by the JPMorgan Global All-Industry Output Index, produced by JPMorgan in association with Markit Economics. The index has remained above the neutral 50.0 level for seven consecutive months, yet the 53.6 level reached in February marked the strongest growth in business activity since October 2009. The rebound in global manufacturing continues to dominate that of the services sector. Down from a January high, the JPMorgan Global Manufacturing PMI reached its second strongest month of expansion in nearly four years in February. Director of Global Economics Coordination at JPMorgan David Hensley predicts the pickup in global manufacturing is likely sustainable as "growth is still coming from a broad-base and labor markets are moving closer to stabilizing."

The Organization for Economic Coordination and Development (OECD) announced that its composite leading indicators advanced in January, suggesting an economic expansion for the Group of Seven (G7) countries. Regarding the BRIC countries of Brazil, Russia, India, and China, the indicators signaled recoveries in Brazil and India and expansions in China and Russia. Separately, the OECD reported that climbing energy prices have increased annual inflation to 2.1% in January for the OECD area member countries. According to the OECD, energy prices increased 10.1% in the year ending in January while food prices declined by 0.7%. Excluding food and energy, consumer prices rose 1.6% in January, the same as in December.

Concerns regarding the debt crisis in Greece continued throughout February. By month-end, investors and economists alike were anxious to hear the Greek government's austerity plan to overhaul the budget deficit. Significant efforts to cut government spending and raise taxes have created concerns about the ability of the Greek economy to recover. According to Economist.com, Greece needs \$27 billion in the next few months in order to be able to roll over its debt.

## Bond market sectors post positive returns with the exception of U.S. TIPS.

Fixed Income Current Yields	2/28/10
3 Month U.S. T-bill	0.13%
2 Year U.S. Treasury	0.81%
5 Year U.S. Treasury	2.30%
10 Year U.S. Treasury	3.61%
30 Year U.S. Treasury	4.55%

Total Returns	1 Month	12 Months
Barclays U.S. Aggregate	0.37%	9.32%
Barclays U.S. Govt./Credit	0.41%	9.08%
Barclays U.S. Municipal Bond	0.97%	9.98%
Barclays U.S. Corp. High Yield	0.17%	56.26%
Barclays U.S. Long Credit A	0.28%	26.79%
Barclays U.S. Treasury 20+ Year	0.11%	-5.67%
Barclays Global Aggregate	0.07%	13.62%
Barclays Emerging Markets	0.80%	35.57%

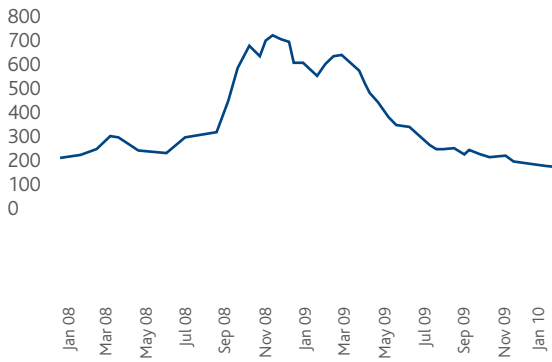
<sup>1</sup> Month and 12 Month ending 2/28/10.  
Source: U.S. Department of the Treasury, Barclays Capital

### Overview

Most sectors in the broad market posted positive returns in February, despite a noteworthy rally in the equity markets and an investor focus on riskier assets. As evidenced by mutual fund money flows, retail investors continue to sell into equity rallies, while rebalancing into the fixed income markets. According to the Investment Company Institute (ICI), stock and money market funds experienced significant outflows during the month, while bond funds took in over \$28 billion. Meanwhile, U.S. Treasuries rallied during the last week of February after two weeks of losses to end the month mostly unchanged. Mixed economic reports and the threat of a ratings cut for Greece were the primary influences on the government debt markets. Concerns that supply will overwhelm demand as China seeks to diversify its reserves away from U.S. Treasuries also weighed on the markets. By late February, traders cut bets the Fed will raise the cost of borrowing as interest rate futures on the Chicago Board of Trade showed a 47% chance central bankers would raise the target lending rate by November, down from 61% earlier in the month, according to Bloomberg.

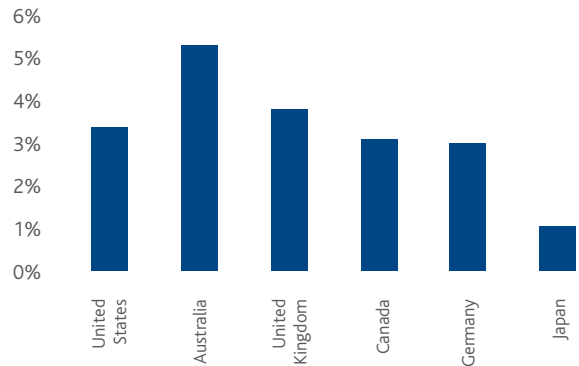
Remarks earlier in the month from Federal Reserve Chairman Ben Bernanke hinted that the central bank might be preparing to unwind some of its monetary stimulus policies. On February 18, they followed through by raising the largely symbolic discount rate, which is the rate charged to banks for direct loans from the Fed, to 0.75% from 0.50%. According to the central bank, the move will encourage banks to rely more on the money market sector rather than the Fed for short-term liquidity needs. They also noted "the modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or monetary policy."

Investment Grade Corporate Spread  
In Basis Points through February 2010



Source: Merrill Lynch

10-Year Government Bond Rates  
Latest Yield as of 2/28/10



Source: Bloomberg

### Corporate

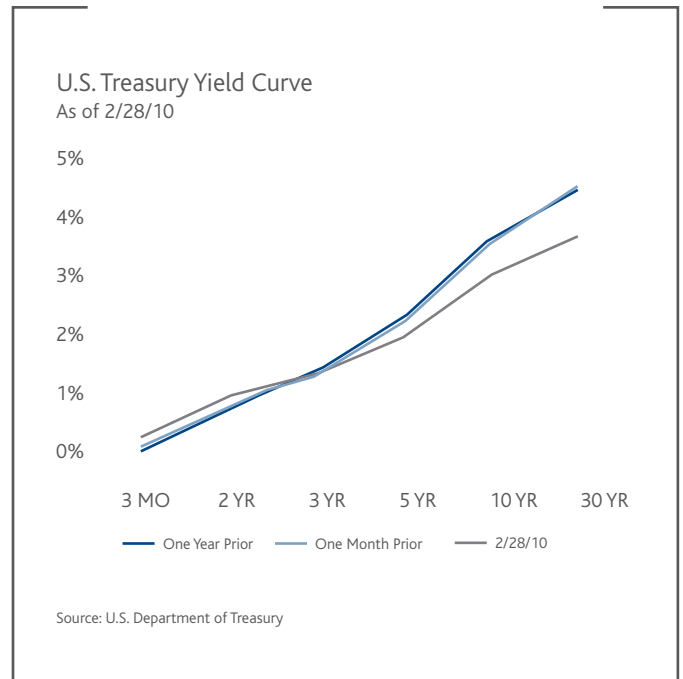
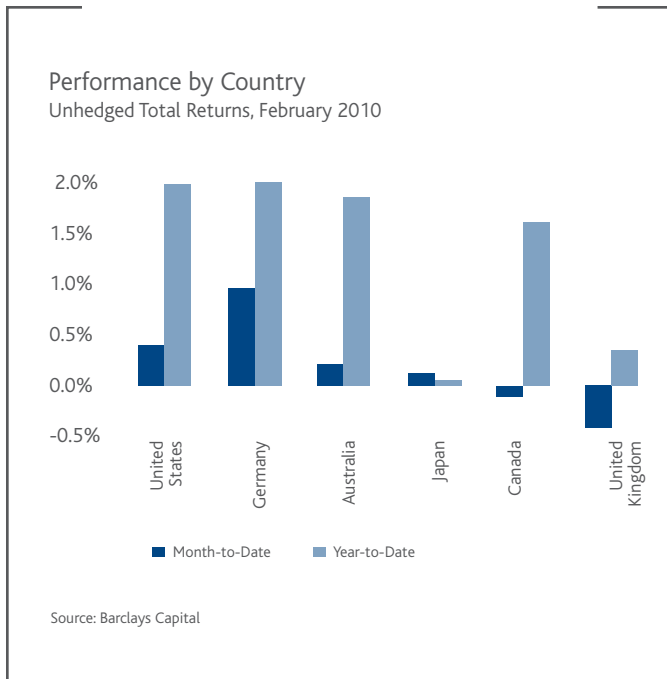
The investment grade corporate sector gained 0.36% during February, following last month's rally of 0.76%. A record rally in corporate bonds has caused the Barclay's U.S. Corporate Investment Grade Index to post gains of 22.92% over the last 12 months. Corporate bond spreads remained mostly unchanged for the month having fallen from 814 to 185 basis points since December 2008, which is still somewhat higher than the historical average of 110 basis points, according to Merrill Lynch. Despite the significant tightening in spreads, credit markets are still far from normal, as financial sector bonds have lagged the recovery in industrials. Although industrials have returned to pre-crisis levels, financials remain significantly wider than they would normally be at this point in the cycle. Today, financials still trade approximately 86 basis points higher than industrial bond yields, making them attractive relative to other sectors in the corporate debt market. Strategists continue to believe that corporate spreads are still at attractive levels and would focus on select high-quality credits, particularly bank and non-bank financials, utilities, and health care.

High yield bonds returned 0.17% for the month, notwithstanding increased volatility in the financial markets and increased uncertainty surrounding proposed changes to the government's regulatory landscape. Over the past 12 months, the high yield sector returned 56.26%, mostly attributable to record level spreads at the beginning of last year combined with an aggressive monetary and fiscal response to the credit crisis. High yield spreads widened to 6.71% by the end of the month from a low of 5.99% in early January, after widening to as high as 7.03% mid-February. On a positive note, high yield mutual funds experienced a \$470 million inflow during the last week of the month after two consecutive weeks of significant outflows, according to Barclays. This quick reversal of flows is important because the last time this segment witnessed large outflows, which included three consecutive weeks of substantial redemptions in March 2005, it took eight weeks for the direction of flows to change. Meanwhile, rating upgrades outpaced downgrades in February, marking the second month in a row of a positive ratings ratio.

### Municipals

The rally in the muni market continued this month with the Barclays Municipal Bond Index gaining 0.97%, bringing year-to-date gains to 1.50%. The yield curve remains near historically steep levels, particularly in the 2013 to 2019 segment of the market. Many analysts feel the muni yield curve will remain steep as the short-end remains at historically low levels and longer-term rates remain range-bound amid tepid tax-exempt new issuance. Meanwhile, the High Yield Muni Index returned 1.50% for February, outperforming the Municipal Index in nine of the last 12 months. The year-to-date return of 3.06% is now more than 1.5% ahead of the Investment-Grade Index. Although the spread between investment grade and high yield munis has tightened by approximately 2.5% since February 2008, this difference in yields remains well above historical averages.

Tax-exempt new issuance for the month totaled \$38.3 billion, down 8% from the same period last year, according to Bloomberg, as more municipalities borrowed for infrastructure projects using taxable Build America Bonds. Many strategists expect municipal tax-exempt yields to remain at low levels, as demand for these bonds is likely to remain strong, while supply falls below traditional levels given this increase in BAB issuance. Demand will likely remain robust given expectations for tax increases. Lower issuance of tax-exempt bonds and expectations of higher tax rates have guided many strategists to forecast munis outperforming Treasuries in a stable or rising interest rate environment. Meanwhile, tax-exempt mutual fund flows have been consistently positive and may likely continue given equity market volatility and higher expected taxable-equivalent yields. The spread between munis and similar maturity Treasuries will likely widen given the aforementioned expectation of low tax-exempt supply and higher Treasury yields. In an effort to reduce risk and boost returns in this sector, investors may focus on the "sweet spot" of the curve (five-to ten-year maturities) and concentrate on general obligation and essential service revenue bonds.



## International

The Barclay's Global Treasury ex-U.S. Index posted positive results in February, delivering a monthly return of 0.22% on an unhedged basis and gaining 0.57% on a local currency basis, consistent with a strengthening U.S. dollar. Volatility in the European sovereign space dominated headlines again as fears continued that the less credit worthy nations will struggle to reduce bloated budget deficits. The better performers for the month included Germany (+1.43%), Austria (+1.05%) and France (+0.79%). Greece, Spain and Ireland also posted strong gains, as investors flocked back to the sovereign debt of oversold countries. In a sign that market participants transitioned from conservative to riskier securities during the month, the weakest results came from safe-haven countries including the United Kingdom (-0.74%), Canada (-0.37%) and Australia (-0.24%), which raised interest rates earlier this year.

Standard & Poor's and Moody's warned that Greece's long-term sovereign debt rating could be downgraded from BBB+, citing downside risks to growth that could hinder the country's deficit-cutting plan. Greece's new government, which took office in October 2008, will also need to tackle corruption more effectively than its conservative predecessors. According to Reuters, Greece continues to rank as the most corrupt state in the Euro zone, costing the country nearly \$1 billion last year, up 5% from the previous year, with state hospitals, urban planning and tax offices most corrupt. Prime Minister Papandreou recently identified corruption as a key cause of the country's debt crisis and noted that the government will need to resolve this issue in order to overcome its fiscal problems.

Emerging market bond funds took in approximately \$1 billion for the month, bringing year-to-date net inflows to more than \$3.5 billion. At this pace, net new money into these funds will surpass 2009's record inflows of \$8 billion. Many strategists feel the appetite for emerging market debt will not fade, as government bonds from these countries tend to move in the same direction as perceptions about their economies.

## Municipal Bonds and the Proposed Overhaul of the U.S. Tax System

At the end of February, Senators Ron Wyden of Oregon and Judd Gregg of New Hampshire proposed a revised tax bill that would become effective in 2011, making a case for the elimination of the tax-exemption on municipal bonds and prohibiting advanced refunding, which refers to municipalities refinancing debt before its first call date or maturity. In the Bipartisan Tax Fairness and Simplification Act of 2010, the senators argue that shifting toward the issuance of tax-credit bonds would make the U.S. tax code more equitable. Tax-credit bonds require investors to pay taxes on income but give a credit that would cover 25% of that income. "Unlike a tax exemption, a tax credit allows tax payers at all income levels to realize the same tax benefits," the senators said in a statement. Tax-credit bonds have existed for more than a decade but have failed to attract a strong following, according to the Wall Street Journal.

The Regional Bond Dealers Association contends it would be a serious mistake to curtail municipalities' ability to issue tax-exempt bonds. The tax-exempt municipal bond market "is deep and liquid with ready investors who are fully accustomed to and comfortable with the products," Mike Nicholas, the association's chief executive said.

Congress will also likely focus on adjusting the 35% federal subsidy awarded to issuers of Build America Bonds as part of an effort to reduce a burgeoning federal budget deficit. Subsidies issued in 2009 will cost the U.S. approximately \$1.38 billion each year until these bonds mature, according to Bloomberg. In the unlikely event that this legislation passes, market strategists feel municipalities will rush to issue as much debt as is practical and refinance outstanding high-coupon debt. Despite this increase in supply, demand will likely overwhelm the markets as investors flock to one of the last legal tax shelters, thus resulting in what may be the mother of all bull markets in municipal bonds.

## Earnings, economic news boost U.S. stocks in February.

Price Change <sup>1</sup>	Month	12 Months
Russell 2000	4.41%	61.58%
S&P Mid Cap 400	5.06%	64.28%
S&P 100	2.22%	45.33%
S&P 500	2.85%	50.25%
Wilshire 5000 Equity Index	3.19%	53.24%
Dow Jones Industrial Average	2.56%	46.19%
NASDAQ Composite	4.23%	62.45%
MSCI EAFE	-0.88%	50.09%
MSCI EM Emerging Markets	0.25%	87.45%
MSCI EAFE Small Cap	-1.46%	64.69%

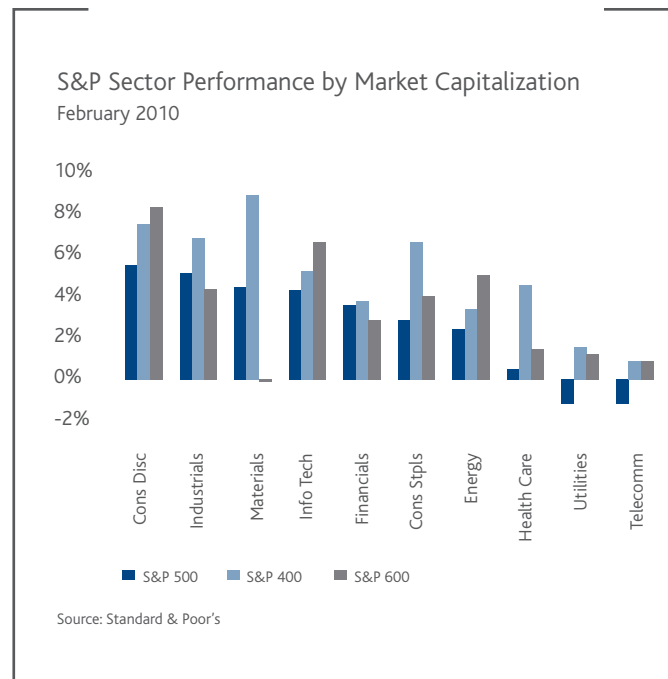
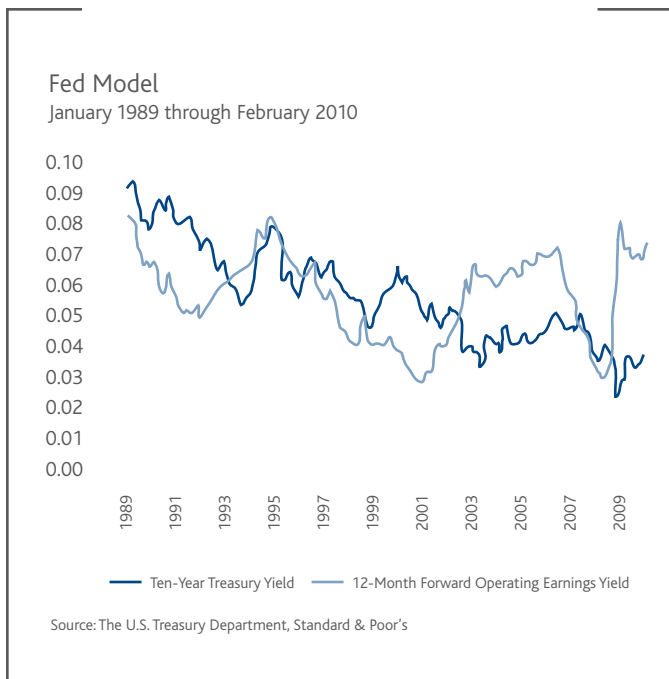
<sup>1</sup> Month and 12 Month price change as of 2/28/10.  
 Source: Dow Jones Indexes, Morgan Stanley Capital International, Russell Investment Group, Standard & Poor's, NASDAQ, Yahoo! Finance

### Overview

In February stocks snapped a four-week losing streak that started in mid-January and saw the S&P 500 drop by 9.21% on an intraday basis. The S&P 500 rallied 5.74% off the intraday low to end the month at 1,104.49, up 2.85% for the month of February and up 0.81% year to date. The Dow Jones Industrial Average (DJIA) gained 257.93 points, or 2.56%, in February to end the month at 10,325.26. On the heels of fourth quarter earnings, analysts have steadily increased their expectations for 2010 operating earnings from \$76.03 at year-end to \$77.88 at the end of February, according to Standard & Poor's. Given these increased expectations and rising equity markets, it is a good time to take another look at equity valuations.

The most conventional look at valuations is the price to earnings ratio, or P/E. Unfortunately the large losses at many companies during the financial crisis and ensuing recession caused the aggregate net income of the S&P 500 to fall into negative territory, making the P/E ratio during this period meaningless. Instead, we can look at operating earnings, which declined significantly, but never negative for a 12-month period. The current operating earnings estimate for 2010 for the S&P 500 is \$77.88 a share, with the S&P 500 ending February at 1,104.49, we divide the numbers and get a ratio of 13.65 times estimated operating earnings, which compares favorably to the historical average of 18.72 times since 1988 indicating that stocks remain historically cheap by this measure.

It is also useful to compare the equity markets to other investment opportunities, such as the 10-year U.S. Treasury Bond. If we compare the yield on the 10-year U.S. Treasury to the operating earnings yield (the inverse of the P/E ratio calculated above) we get what Ed Yardeni of Prudential securities called the "Fed Model." As can be seen on the top left chart on the following page, the S&P 500 operating earnings yield remains well above the yield on the 10 year Treasury, indicating that large cap stocks remain relatively more attractive than Treasury bonds.



#### Domestic Equity

In a sign that 2010 will likely see more bank failures, the Federal Deposit Insurance Corporation (FDIC) reported that the number of institutions on the agency's "problem list" rose in the fourth quarter to 702 institutions from 552 in the third quarter. Despite the increase in problem banks, the FDIC "saw signs of improvement in industry performance," according to FDIC Chairman Sheila C. Bair. Main contributors to the industry performance relative to the fourth quarter of 2008 were higher non-interest income, lower non-interest expense and lower loan loss provisions, according to the FDIC report.

Berkshire Hathaway (BRK) was added to the S&P 500 replacing its acquisition target, Burlington Northern Santa Fe. As part of the acquisition agreement Berkshire split its "B" shares 50 to 1, increasing the number of shares traded per day allowing the company to meet the liquidity criteria for inclusion in the S&P 500. At the end of February, Berkshire represented approximately 1.36% of the S&P 500, the index's 15th largest company.

Walgreen Co. (WAG) announced plans mid-month to buy Duane Reade for \$620 million, plus \$480 million in debt. The purchase is intended to increase presence in New York City by adding 257 stores in the area. Walgreen CEO Greg Wasson said the acquisition was the only way to achieve growth in the city and it allows the company to take advantage of Duane Reade's product and marketing initiatives in order to keep pace with rival CVS Caremark Corp. (CVS).

Coca-Cola Co. (KO) announced that it would take over the North American operations of its top bottler, Coca-Cola Enterprises (CCE). The deviation from Coke's long standing practice of keeping core operations separate from bottling operations is intended to allow Coke greater flexibility to react to new beverage industry trends that bottlers may have been hesitant to adopt.

#### International Equity

International stocks remained weak in February on continued worry about the sovereign debt of Greece. While the MSCI EAFE Index gained 0.34% in local currency terms, when converted into U.S. dollar returns the index lost 0.88% in February, implying a decline in developed market currencies relative to the dollar. The MSCI EAFE is now down 5.28% in U.S. dollar terms for the year.

Although the Greek government has taken steps to reduce government programs and increase tax revenue, stock markets are worried that such steps will hamper economic growth sending markets lower. The MSCI Greece Index shed 9.77% in February and is down 19.17% since the beginning of the year.

Emerging markets were little changed in February, with the MSCI Emerging Markets Index gaining 0.25% for the month, to bring the year-to-date to a loss of 5.41%.

## Foreign debt concerns linger; hedge funds short the euro.

Price Change <sup>1</sup>	Month	12 Months
Dow Jones UBS		
Commodity Index	3.70%	-36.99%
Oil	8.48%	-33.04%
Copper	6.94%	3.30%
Gold	3.24%	-41.35%
NAREIT- All REITS	5.06%	89.78%
NAREIT-Industrial/Office	2.86%	95.19%
NAREIT- Residential	8.12%	108.39%
S&P Global Property Ex-U.S.	1.50%	80.24%
HFRI Emerging Markets Index	-0.71%	42.20%
HFRI Fund Wtd Comp. Index	0.52%	21.33%
HFRI Equity Market Neutral	0.62%	2.57%
HFRI Event Driven	-0.11%	27.04%
HFRI Market Defensive	-0.42%	1.06%
HFRI Merger Arbitrage	0.45%	12.00%
HFRI Short Bias	-3.22%	-29.81%

Month and 12 month price change as of 2/28/10  
 Source: Dow Jones, National Association of Real Estate Investment Trusts,  
 Hedge Fund Research, Standard and Poor's.

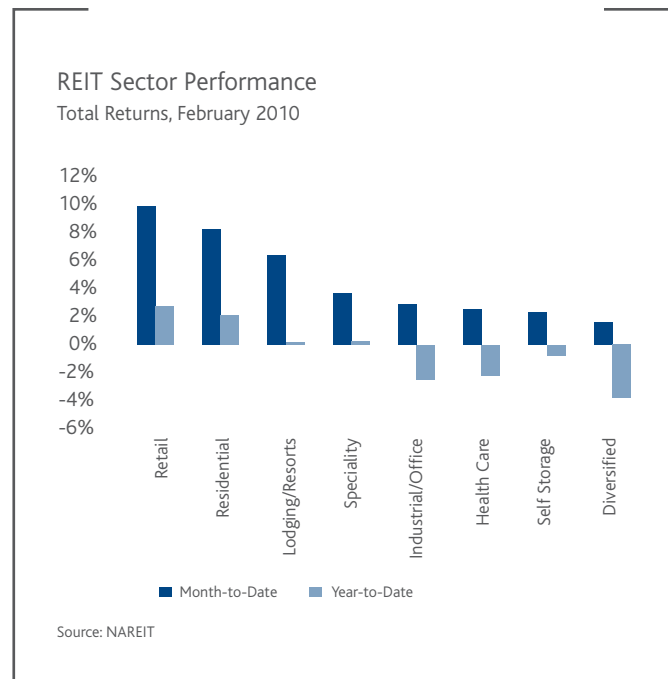
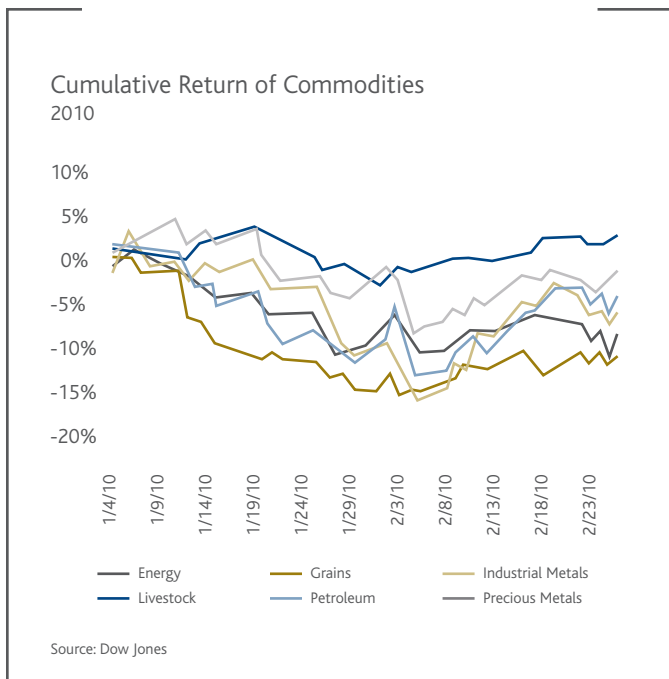
### Overview

Alternative asset classes posted mixed returns in February. Growing concerns over Greece's sovereign debt quality spread into a host of other countries including: Spain, Portugal, and Italy. Activity in February suggested that real estate investment trusts (REITs) may slowly begin to consolidate. A \$1 billion private equity deal was announced, while shorting the Euro became a crowded trade for hedge funds.

### Commodities

Concerns about Greece's sovereign debt ratings were first reflected in falling prices for their bonds and rising prices for their credit default swap contracts; and then, as it was feared, Greece's woes were indicative of trouble for other countries and may continue to spread causing the Euro to decline rapidly against the dollar. The dollar's rally in foreign exchange markets increases purchasing power resulting in declining commodity prices, since commodities are often priced in dollars. It is likely that weakness in gold throughout the month of February was directly impacted by both Greece's woes and the dollar's rise against the Euro.

Surprisingly, crude oil did not trade in conjunction with the Greek debt news. At the beginning of the month, oil sold off steeply with other commodities. On news that the European Central Bank, Germany and France were likely to lead efforts for a bailout, oil jumped \$3 per barrel, the largest one day gain since September 2009. A continued slate of slightly improved economic data resulted in oil recovering early losses, ending the month up more than 5%. Oil continued to trade in the \$70-\$80 per barrel range with investors cheering as it reached the lower end and reeling as it traded near the top.



### Private Equity

According to a poll by Private Equity News, the private equity industry may experience a wave of consolidation or closures because debt financing is expected to be more difficult to obtain and more expensive to access compared to last year. Worries over the continued weakened shape of large commercial banks, concerns of a gradual and feeble recovery, and an unfavorable climate for fundraising may encourage private equity firms, particularly those involved in the largest deals, to consolidate in order to survive.

Despite these forecasts, one substantial buyout occurred in February. An Irish software company, SkilSoft PLC, agreed to be acquired by a trio of Boston based private equity firms, including Bain Capital for \$1.1 billion. The buyout price per share was only modestly higher than its recent market close, but closed to 25% higher than its average daily close for the previous 12 months. This is the second largest deal since the beginning of 2009, behind TPG Capital and the CCP Investment Board's \$4 billion takeover of healthcare data consulting firm IMS Health.

### Real Estate

The FTSE NAREIT Equity REIT Index returned 5.34% during the month of February, led by a surge of 9.82% in the retail sector. The retail sector, composed mainly of shopping centers and regional malls, is largely related to consumer spending, which is one indicator of a recovering economy. Also performing well during the month of February were residential REIT's, returning 9.12%.

Part of February's strong performance in retail REITs stems from a late month rally of approximately 25% in General Growth Properties. In late February, shopping mall operator Simon Property Group made a surprise offer for now bankrupt General Growth at \$9 per share. Other major retail-based REITs, like Canada's Brookfield Asset Management and Australia's Westfield Group, are expected to make counter offers. On news of the offer, General Growth's stock soared past the offer price to close near \$13 per share. The market appears to be girding for a bidding war.

### Hedge Funds

A report from Citigroup and Standard & Poor's Capital IQ offered insights into the holdings of Hedge Funds during the past several years. Although exact values are not determinable given the scant reporting requirements by hedge funds, this industry survey has indicated that in the past year hedge funds as a group increased their allocation to large capitalization stocks at the expense of small and mid capitalization stocks. Over the course of 2009, they took significant positions in large capitalization financials. Disclosure of high level hedge fund allocations is expected to begin in September under new rules from the U.S., the Securities Exchange Commission, and other international securities regulators.

Many prominent hedge fund managers met and discussed the plight of the euro in light of the growing concerns over Greece's debt problems. A consensus of managers thought that the euro could weaken to the point of parity with the U.S. dollar. The euro has declined significantly against the dollar year-to-date, from € 1.51 to € 1.35, a near 10% decline.



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