



Cape Ann Savings Bank Market Review

January 2010

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TRUST & FINANCIAL SERVICES
PLANNING ♦ ADVISING ♦ INVESTING

Economic conditions continue to improve in December.

Recent Economic Indicators

Reuters/Univ. of Michigan Consumer Sentiment	72.5
Consumer Confidence	52.9
Existing Home Sales, Annual Change	7.4%
New Home Sales	355,000
Personal Income, Monthly Change	0.4%
Personal Consumption Expenditures, Monthly Change	0.5%
Non-farm Payroll Increase/Decrease	-85,000
Unemployment Rate	10.0%
ISM Non-Manufacturing Index	50.1%
ISM Manufacturing Index (PMI)	55.9%
Durable Good Orders, Monthly Change	0.2%
Industrial Production, Monthly Change	0.6%
Capacity Utilization	72.0%
Retail Sales, Monthly Change	-0.3%
CPI, Monthly Change	0.1%
CPI Core, Monthly Change	0.1%
PPI, Monthly Change	1.8%
PPI Core, Monthly Change	0.5%
U.S. Trade Deficit	\$-36.4 billion
3Q09 Non-farm Productivity, Quarterly Change	8.1%
3Q09 GDP, Quarterly Change	2.2%

Source: Bureau of Economic Analysis of the U.S. Department of Commerce, U.S. Department of Labor, Federal Reserve, The University of Michigan, Various - Purchasing managers' organizations and Federal Reserve Banks.

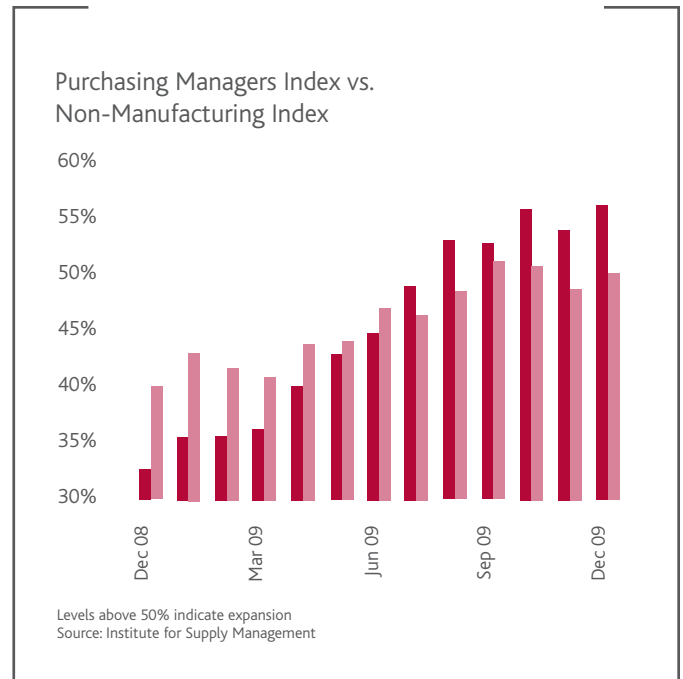
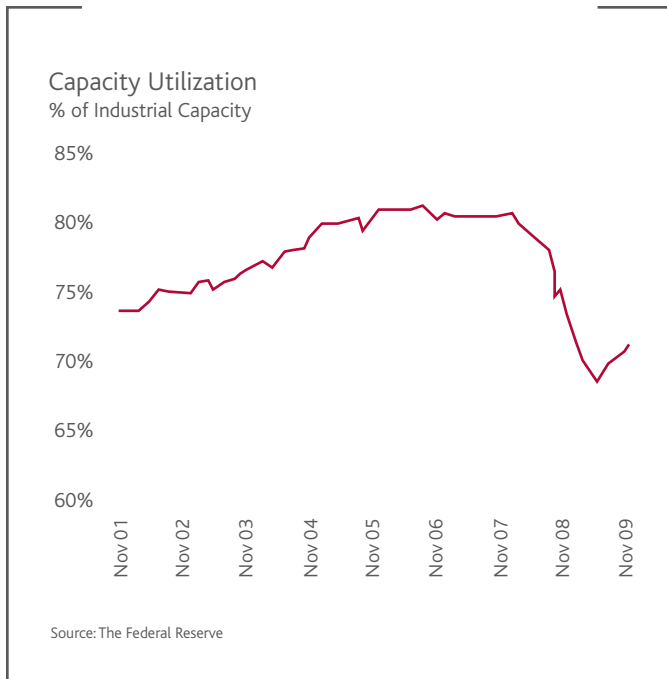
Overview

Economic data signaled continued improvements in the final month of 2009. Consumer confidence strengthened again in December and gauges of business activity indicated expansion. The Conference Board reported that its Leading Economic Index for the U.S. rose 0.9% in November, continuing an uptrend of more than six months as financial conditions, labor market indicators, and housing permits suggest a recovery.

Final estimates for third quarter gross domestic product (GDP) showed that the economy expanded at a 2.2% annual rate in the third quarter. Positive contributions to GDP were led by higher personal consumption expenditures followed by exports. Separately, the report showed that corporate profits increased \$132.4 billion in the third quarter—significantly higher than the \$43.8 billion increase that occurred in the second quarter.

The National Association of Realtors (NAR) announced that sales of existing homes increased 7.4% to a seasonally adjusted rate of 6.54 million in November. The current level of sales represents a 44.1% increase from November 2008. Although NAR Chief Economist Lawrence Yun expects temporary sales to pullback in the coming months, he anticipates a rebound in activity for the spring market and hopes to see a “self-sustaining market in the second half of 2010.”

According to the International Council of Shopping Centers, U.S. retail sales rebounded in December with their strongest monthly gain since April 2008. A survey of 33 retail-chain stores showed that sales at stores open more than one year advanced 2.8% compared with December 2008. The holiday shopping season, which includes November and December, experienced a 1.8% increase in sales—the greatest increase since 2006.



Employment

Non-farm payrolls shed 85,000 jobs in December, missing consensus estimates. The highly anticipated report indicated that, despite further payroll declines, the unemployment rate held steady at 10% in December. Separately, the Labor Department reported that the November job openings rate has remained essentially flat since March. Minutes from the Federal Open Market Committee (FOMC) December meeting, confirmed the Committee's belief that further signs of improvement in the jobs market are needed to "provide convincing evidence of recovery in the labor market." Meanwhile, The Conference Board Employment Trends Index jumped 1.7 points to a reading of 91.8 in December, marking the sixth consecutive gain. The uptrend has improved The Conference Board's outlook for the jobs market.

Consumer Confidence and Spending

Consumer expectations for conditions in the labor market to improve were apparent in The Conference Board Consumer Confidence Index report. Consumers' brighter forecast for business and job market conditions led the index higher in December and expectations for the short-term rose to the strongest level since December 2007. The Reuters/University of Michigan Survey of Consumers also indicated that sentiment strengthened in December. However, Surveys of Consumers Chief Economist, Richard Curtin, warned that while consumers' outlook for the economy has improved, they remain very uncertain about personal financial situations.

Personal consumption expenditures rose 0.5% in November, while personal income increased 0.4%, according to the Department of Commerce. The personal savings rate, as a percentage of disposable personal income, remained unchanged at 4.7%.

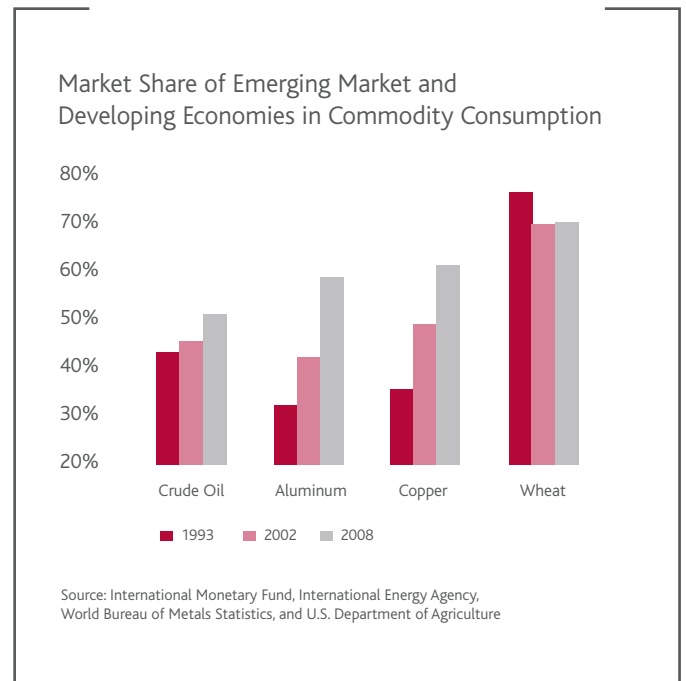
Inflation

The Department of Labor announced that the Consumer Price Index advanced 0.1% in December, in-line with consensus estimates. In 2009, total consumer prices climbed 2.7%, largely driven by an 18.2% increase in prices for all energy-related goods. Excluding food and energy, consumer prices also increased 0.1% in December and rose a modest 1.8% for the year. The Federal Reserve's Beige Book, which reflects economic conditions in its 12 districts, noted that upward pressures on prices has remained fairly muted, with the exception of higher metals prices in four districts. Both raw material and retail prices were reported as stable.

Business Spending

Federal Reserve Governor Elizabeth Duke recently presented at the Economic Forecast Forum and noted that spending on equipment and software has stabilized within the business sector. Furthermore, Duke announced that the outlook for a recovery in the business sector have continued to improve amid a rally in business sentiment and increases in capital spending. However, she concluded that unused capacity in the business sector may cause the recovery in business spending to be gradual. Capacity utilization edged higher to 72% in December and while this is a great improvement from lows seen earlier this year, it is still less than levels observed in either the 1990-1991 or 2001-2002 recessions.

The Institute for Supply Management (ISM) reported that the manufacturing sector expanded for the fifth consecutive month in December as the Purchasing Managers Index increased to 55.9%. The national report indicated that new orders, production, and employment within the sector all grew at an accelerated rate. ISM also reported that the Non-Manufacturing Index increased above the 50% level, indicating that the non-manufacturing sector began to expand again in December. ISM concluded that survey responses were generally "neutral or slightly more optimistic about business conditions."



Trade

The U.S. international trade deficit widened to \$36.4 billion in November amid a \$1.2 billion increase in exports and a \$4.4 billion rise in imports. Higher imports were largely attributed to climbing crude oil prices. Crude oil prices reached \$72.54 per barrel in November, the highest since October 2008. However, December data for the U.S. Import Price Index, prepared by the Department of Labor, showed that import prices remained flat for the month as a result of lower crude oil prices. Conversely, the data indicated that export prices climbed 0.6% in December, up 3.4% in 2009. Import prices for the year gained 8.6%.

The U.S. Census Bureau reported that manufacturing and trade sales, adjusted for seasonal and trading-day differences but not for price changes, increased 2.0% in November from October yet remained 0.4% below November 2008 levels. Inventories however, increased 0.4% in November and were 11.1% lower than the previous year. This is a positive sign in that businesses have posted month-over-month increases in inventories for the second consecutive month, possibly signaling an end to the correction in business inventories. The ratio of inventories to sales continued to decline, which indicates a more favorable mix of inventory levels and rising sales.

After examining the state of global trade, the International Monetary Fund (IMF) reported that world trade activity seems on track to "its tentative recovery in 2010." The IMF concluded that policy action is likely to determine the sustainability of the recovery. The article noted that despite recent improvements in trade volume, activity remains well below levels seen before the global recession. Trade values also remain significantly lower than pre-recession levels. During the recession, global trade volumes dropped by 18%, whereas trade values declined by 30%.

World Economy

The global economy continued to display signs of stabilization. Both the manufacturing and service sectors expanded in December, according to the JPMorgan Global All-Industry Output Index, produced by JPMorgan and Markit Economics in association with ISM and the International Federation of Purchasing and Supply Management. The index reading of 51.6 represented the fourth consecutive month of growth. Renewed activity remained stronger in the manufacturing sector, with growth rates at the strongest level in more than three years. Director of Global Economics Coordination at JPMorgan, David Hensley, concluded that rising new business is expected to support growth going forward and that the level of activity suggests "the underlying recovery remains intact."

The Organization of Economic Cooperation and Development (OECD) released the composite leading indicators (CLIs) for November, which reflected clearer signs of recovery. The Group of Seven (G-7), with the exception of Canada and the United Kingdom, has experienced troughs. Additionally, the OECD announced that the CLIs for each of the G-7 have exceeded their respective long-term trends and that the economic outlook for non-OECD member countries has improved as well.

In its outlook for 2010, the IMF discussed its commodity price index and explored the affect the global economy has and is likely to have on commodity prices. Commodity prices have surged more than 40% since global industrial production bottomed in February, much faster than normally follows a trough. The IMF has partially attributed this to the extent that emerging and developing economies were able to recover from the recession. Emerging market and developing economies have continued to increase market share in commodity consumption. Demand prospects for commodities, and consequently the price of commodities, more and more are dependent on economic conditions in these economies.

Many fixed income sectors suffer first declines since February

Fixed Income Current Yields	12/31/09
3 Month U.S. T-bill	0.06%
2 Year U.S. Treasury	1.14%
5 Year U.S. Treasury	2.69%
10 Year U.S. Treasury	3.85%
30 Year U.S. Treasury	4.63%

Total Returns ¹	1 Month	12 Months
Barclays U.S. Aggregate	-1.56%	5.93%
Barclays U.S. Govt./Credit	-1.77%	4.52%
Barclays U.S. Municipal Bond	0.34%	12.91%
Barclays U.S. Corp. High Yield	3.28%	58.21%
Barclays U.S. Long Credit A	-1.70%	16.80%
Barclays U.S. Treasury 20+ Year	-6.22%	-21.40%
Barclays Global Aggregate	-3.76%	6.93%
Barclays Emerging Markets	0.20%	34.23%

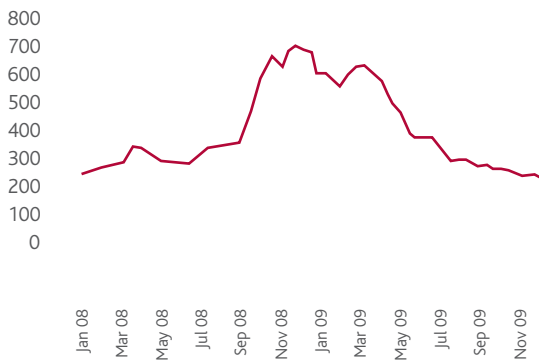
¹ Month and 12 month ending 12/31/09
Source: U.S. Department of the Treasury, Barclays Capital

Overview

Most sectors in the broad market posted negative returns, spurred by a noteworthy decline in international bonds, Treasury Inflation-Protected Securities (TIPS), and U.S. Treasuries. High yield bonds returned 3.28% for the month, bringing year-to-date performance to 58.21%, the strongest yearly return ever and besting the prior record by 20%. The investment grade corporate sector fell modestly for the month, losing 0.78% and bringing year-to-date gains to 18.68%. The rally in the muni market continued this month with the Barclays Municipal Bond index gaining 0.34%, bringing year-to-date returns to 12.91%.

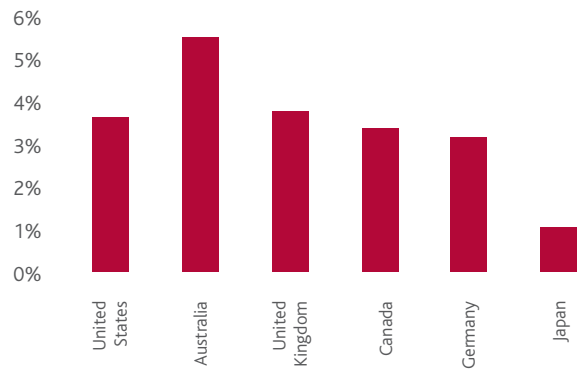
The Barclays U.S. Treasury: 20+ Year Index fell 6.22% in December, bringing year-to-date losses to 21.40%, the largest decline since at least 1978. Relative to other G-7 countries, Treasuries fell the most in 2009 as the U.S. government sold record amounts of securities to fund unprecedented stimulus programs. The recent decline in Treasury prices appears well founded given a more than trillion dollar budget deficit and declining dollar. For this reason, investors may avoid long dated Treasuries, even in the unlikely event that inflation remains low. The spread between 10-year TIPS and Treasuries, a measure of the outlook for consumer prices, widened to 2.44%, the highest level since July 2008. Although TIPS spreads have widened to near normal historical levels, they continue to offer cheap insurance against inflation and warrant a strategic long-term allocation in portfolios.

Investment Grade Corporate Spread
In Basis Points through December 2009



Source: Merrill Lynch

10-Year Government Bond Rates
Latest % Yield as of 12/31/09



Source: Bloomberg

Corporate

The investment grade corporate sector fell modestly for the month, losing 0.78% and bringing year-to-date gains to 18.68%. Corporate bond spreads tightened and have fallen from 814 to approximately 150 basis points this year, according to Barclays. Looking ahead, many analysts continue to feel credit spreads can tighten further given the still relatively wide spreads in the financials sector. Although financials tightened markedly in December, spreads relative to the overall investment grade index remain wide. Historically, financials trade 16 basis points less than industrials bonds. Today, financials still trade 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.

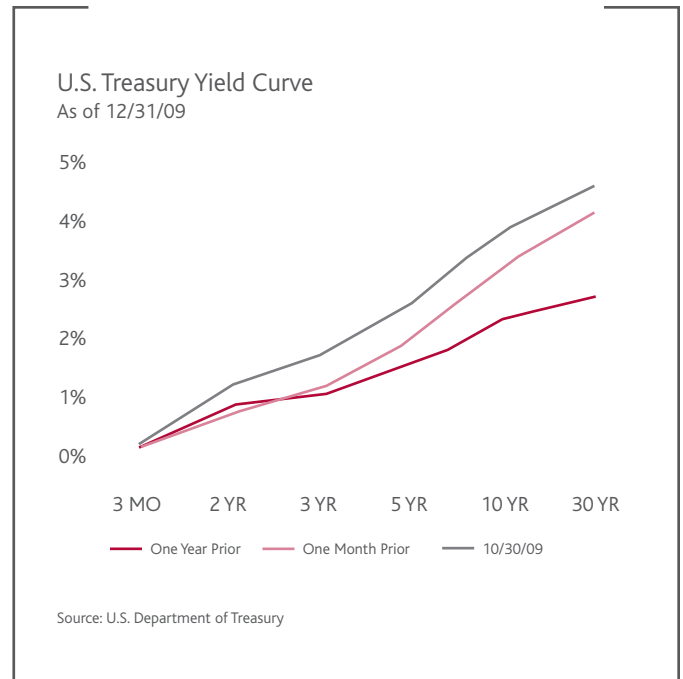
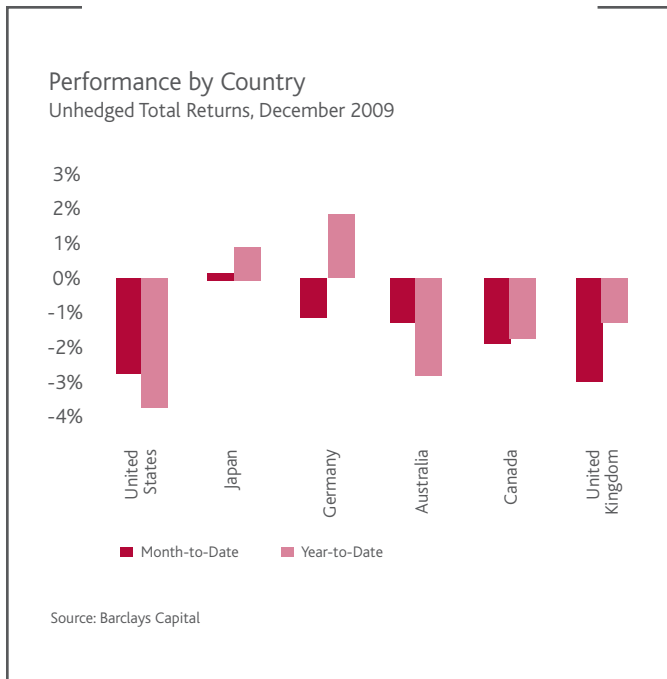
The record rally in corporate bonds drove borrowing costs to almost a five-year low, enticing firms to extend debt maturities and avoid the refinancing risk seen during last year's credit freeze. Because non-financial corporate bond new issuance was strong in 2009, companies now have high cash levels and low near-term debt maturities. Meanwhile, Standard & Poor's raised their ratings on 183 borrowers this quarter while cutting 180, the first time upgrades exceeded downgrades since 2007.

High yield bonds returned 3.28% for the month, bringing year-to-date performance to 58.21%, the strongest yearly return ever and besting the prior record by 20%. These returns have been largely attributable to record level spreads at the beginning of the year combined with an aggressive monetary and fiscal response to the credit crisis. Although strategists feel default rates will likely decline in 2010, high-yield credit is now close to being fairly priced given concerns about the robustness of the economic recovery and many still highly leveraged balance sheets.

Municipals

Municipals finished the year with their best returns since 1995. The rally in the muni market continued this month with the Barclays Municipal Bond Index gaining 0.34%, bringing year-to-date returns to 12.91%. After having one of their worst relative performance years in 2008, municipal bonds had their best year ever in 2009 relative to the U.S. Treasury Index, outperforming it by over 34%. The yield curve finished the year near historically steep levels, particularly in the 2013 to 2019 segment of the market. Looking forward, 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.

Municipalities issued \$409.13 billion in new debt in 2009, the second highest level on record, according to data from Thomson Reuters. A number of factors likely contributed to this expansion including a recovery in the bond market and support from federal government programs. The government's Build America Bond (BAB) program has been, by far, the largest factor increasing new issuance. With tax revenues continuing to decline and state and local governments reluctant to raise taxes given a national unemployment rate over 10%, municipalities will likely continue to finance their budgets by borrowing. Many strategists expect municipal tax-exempt yields to remain at low levels, as demand for tax-exempt municipals is likely to remain strong, while tax-exempt supply falls below traditional levels given the increase in BAB issuance. In an effort to reduce risk in this sector, investors may focus on general obligation and essential service revenue bonds.



International

The Barclays Global Treasury ex-U.S. Index posted weak results, delivering a monthly return of -5.59% on an unhedged basis and dropping -0.60% on a local currency basis, an indication of a strengthening U.S. dollar. Year-to-date gains remained in positive territory with the index gaining 4.35% on an unhedged basis and 2.26% on a local currency basis. One of the better performers for the month was Japan with a gain of 0.10%. Although this is certainly a modest return, Japanese Government Bonds played a significant role in buoying the overall index on a local currency basis given their large market weighting of approximately 30%. The weakest results came mostly from markets with ballooning budget deficits including the United Kingdom (-2.79%), and Greece (-4.38%). Canada and Australia also suffered losses for the month as investors locked in profits for the year.

Emerging market bond funds closed 2009 with record annual inflows as a global economic recovery increased demand for riskier assets, according to research company EPFR Global. Emerging market debt rallied by over 34% in 2009, the best return in 14 years, as investors became more comfortable with solid economic growth expectations for non-developed countries. 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.

As expected, S&P, Moody's and Fitch downgraded their sovereign debt ratings for Greece, the lowest rated country in the euro region. The country is struggling to improve its balance sheet amid a year-long recession and a spiraling deficit. In a sign that the country will receive little outside aid, Jurgen Stark, the European Central Bank's chief economist said Greece's problems are entirely "home-made" and do not meet the terms required to trigger a rescue package under European Union treaty law.

Foreign Demand

Demand for U.S. debt securities from foreign central banks has remained robust over the past several years, although the focus has shifted recently to Treasuries, according to Barclays. In response to the credit crisis of 2008, foreign investors moved out of agency bonds and into Treasury bills and notes. Today, these investors are transitioning out of T-Bills and into short- to intermediate-term notes due to waning risk aversion. Strategists expect the trend to continue in 2010, which, along with the anticipated deployment of foreign exchange reserves, will likely absorb a significant amount of new government debt supply. Barclays expects foreign central banks to purchase somewhere in the area of \$600 billion of Treasury and agency notes, with the bulk in Treasuries.

As a result of stronger global economic growth and a depreciated U.S. dollar, foreign exchange reserves have begun to grow after remaining weak over the past year. Reserves could grow by 15% in 2010, or \$1 trillion, should the dollar remain at current levels. Historically, 60% to 70% of these reserves have been invested in U.S. securities. However, foreign central banks have been gradually diversifying away from the dollar. Nonetheless, strategists still expect \$400 to \$450 billion to be invested in U.S. government debt. Short-term Treasury-Bill maturities should add another \$150 billion to potential demand from foreign investors.

In 2009, the Fed expanded its balance sheet to \$2.2 trillion after purchasing \$1.7 trillion in bonds via several emergency programs. The government is now considering a program of limited bond sales as a tool for withdrawing record monetary stimulus. Fortunately, continued demand from foreign investors will help soften concerns about an increase in government debt supply and potentially higher interest rates.

Stocks post strong results in December to end 2009 on a high note.

Price Change ¹	Month	12 Months
Russell 2000	7.88%	25.22%
S&P Mid Cap 400	6.12%	35.00%
S&P 100	0.66%	19.13%
S&P 500	1.78%	23.45%
Wilshire 5000 Equity Index	2.72%	26.52%
Dow Jones Industrial Average	0.80%	18.82%
NASDAQ Composite	5.81%	43.89%
MSCI EAFE	1.36%	27.75%
MSCI EM Emerging Markets	3.81%	74.50%
MSCI EAFE Small Cap	0.62%	43.20%

¹ Month and 12 Month price change as of 12/31/09.
 Source: Dow Jones Indexes, Morgan Stanley Capital International, Russell Investment Group, Standard & Poor's, NASDAQ, Yahoo! Finance

Overview

Stocks extending the year's rally in December on optimism that the economic recovery would continue into 2010. Small and mid cap stocks posted strong returns in December, but mid cap dominated in 2009, outperforming small cap by nearly 1000 bps and large cap stocks by over 1150 bps. The technology-heavy Nasdaq Composite also posted strong results in the last month of trading adding 5.81% to bring its 2009 gain to 43.89%, the largest gain of the major U.S. indices. Developed international stocks performed in-line with domestic equities; however, emerging market equities performed the best, rising nearly 75% in 2009.

Domestic Equity

Stocks added to their year-to-date tally in December with the Dow Jones Industrial Average gaining 0.80% to end the year at 10,428.05, up 1,651.66 points, or 18.82% on a price basis. The broader S&P 500 gained 1.78% in December to end the year at 1,115.10, up 23.45% in 2009. The technology-heavy NASDAQ Composite posted a gain of 5.81% in December and 43.89% for the year, the largest gain year-to-date gain of the major indices. Mid and small cap stocks also gained in December with the S&P MidCap 400 Index adding 6.12% to bring its 2009 return to 35.00%. The Russell 2000 gained 7.88% for the month and closed 2009 25.22% higher than 2008.

In its largest deal since the purchase of Mobil in 1999, Exxon Mobil Corp. (XOM) announced that it agreed to purchase the largest publicly-traded natural gas company, XTO Energy (XTO). Exxon will pay XTO shareholders \$31 billion in stock, which represents a 25% premium over XTO's prior closing price. The Wall Street Journal reported the move would boost Exxon's participation in the natural gas market, a market that is expected to grow faster than Exxon's traditional oil market. Insurers Cigna (CI), Aetna (AET) and Humana (HUM) posted strong gains on the news and gained 9.93%, 8.90% and 5.73%, respectively, on the news.

Relative Performance of Russell 1000 Growth to Russell 1000 Value

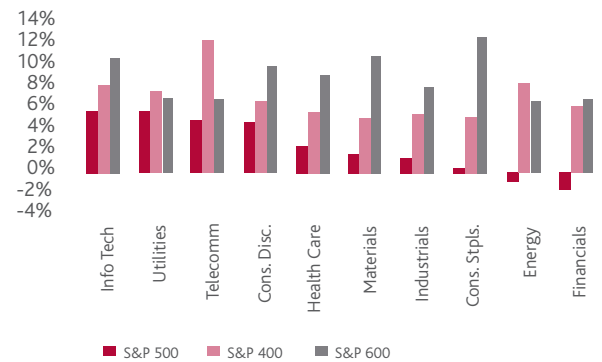
From January 2008 through December 2009



Source: Yahoo! Finance

S&P Sector Performance by Market Capitalization

December 2009



Source: Standard & Poor's

Bank of America Corp's (BAC) moved a step closer to repaying the \$45 billion of government loans it received when it sold \$19.29 of stock early in December. Conditional to repaying the government loans, Bank of America had to prove it could raise cash in the capital markets. The offering priced two business days early as it was met with strong investor demand. Separately, Bank of America announced that it had promoted Brian Moynihan to president and chief executive officer filling the vacancy created by the resignation of Kenneth Lewis earlier in the year. Moynihan, a longtime insider, ran the bank's retail and small business operations.

Health insurance stocks breathed a collective sigh of relief when the Senate passed its version of the health care reform bill. While the Senate version must now be reconciled with the version passed by the House of Representatives before a final bill can be passed, it appears that the final bill will be without a government run insurance plan that would compete with private insurers.

The CBOE Volatility Index, or VIX, continued its decline in December dropping to its lowest point since August of 2008. The VIX, a measure of market fear derived from S&P 500 options traded on the Chicago Board Options Exchange hit a low of 19.47, well below the high made in November of 2008 in the wake of the Lehman Brothers bankruptcy.

Information technology led the rally in December gaining 5.59% on improving outlooks from software developer Oracle Corp. (ORCL) and Blackberry maker Research in Motion (RIM). Utility stocks followed closely, gaining 5.21%. Financials, energy, and consumer staples were the laggards for the month, down 1.64%, 0.99%, and 0.66%, respectively.

Growth stocks of all sizes outperformed their respective value counterparts in December. The large cap stock Russell 1000 Growth Index adding 3.09% while the Russell 1000 Value added 1.77%, on a year-to-date basis those indices gained 37.21% and 19.69%, respectively. The chart above right depicts the relative performance of the Russell 1000 Growth and the Russell 1000 Value. When the line is rising, growth is outperforming and when the line is falling value is outperforming. As you can see, the bulk of growth's outperformance was made in the first three months of 2009 with the ratio oscillating for the remainder of the year.

International Equity

Emerging markets added to their stellar 2009 performance with a 3.81% rally in December to bring the total year-to-date gain to 74.50%. The BRIC countries of Brazil, Russia, India and China, gained 1.54% as a group for the month and 88.80% in 2009. The MSCI Brazil Index led the upside with a 121.25% return for the year, while MSCI China was the 2009 laggard, gaining 58.10%.

Developed market performance was more muted than that of emerging markets with the MSCI EAFE adding 1.36% in December to bring the year-to-date return to 27.75% for a U.S. investor. When the affect of the U.S. dollar's depreciation is taken out, the MSCI EAFE gained 20.90% in 2009. A notable laggard in the developed markets was the MSCI Greece Index, which lost 9.52% in December when Standard & Poor's and Fitch downgraded the sovereign debt of Greece.

Divergent results in commodities, hedge funds, REITs, and private equity in December.

Price Change ¹	Month	12 Months
Dow Jones UBS		
Commodity Index	1.97%	18.72%
Oil	-1.20%	4.19%
Copper	5.34%	129.61%
Gold	-7.28%	22.66%
NAREIT- All REITS	6.43%	27.45%
NAREIT-Industrial/Office	7.86%	29.17%
NAREIT- Residential	8.69%	30.82%
S&P Global Property Ex-U.S.	1.25%	63.71%
HFRI Emerging Markets Index	1.87%	40.46%
HFRI Fund Wtd Comp. Index	1.32%	20.12%
HFRI Equity Market Neutral	0.58%	1.73%
HFRI Event Driven	3.82%	25.89%
HFRI Market Defensive	-1.05%	3.43%
HFRI Merger Arbitrage	1.09%	11.59%
HFRI Short Bias	-4.14%	-23.49%

Month and 12 month price change as of 12/31/09
 Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Standard & Poor's

Overview

Despite a strong dollar, energy based commodities broke the typical relationship and traded higher for the month, while metals were weaker. Political uncertainty and a continued dearth of liquidity kept private equity on the sidelines. Real estate investment trusts (REITs) continued to see improvements in December. The hedge fund industry makes progress despite the biggest insider trading fiasco since Ivan Boesky back in the 1980s.

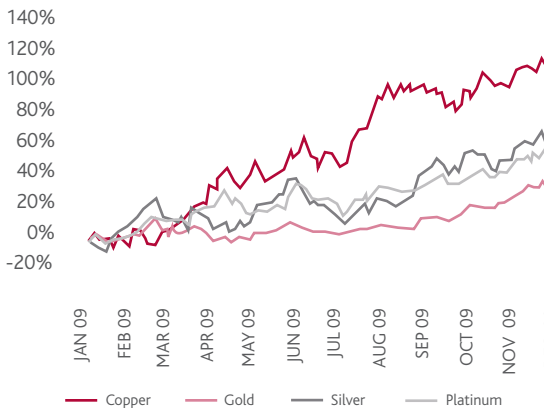
Commodities

The rise in the dollar competed with rising energy usage and a world wide early season cold snap for the attention of investors in commodities during the month of December. In the first half of the month, as measured by the JPMorgan U.S. Dollar Index, the dollar rallied 5.2%, only to give back a small fraction of that by month's end. As nearly all commodities are priced in dollars, with a rise in the dollar, and all else being equal, a decline in commodity prices ought to be expected, as one dollar now would buy more gold, wheat or corn.

However, some commodities rose in December, despite the dollar strength. For example, both oil and natural gas were up strongly for the month. Observers point to growing demand in oil as the world's economy climbs out of the recession induced by the credit crisis. Perhaps lack of any definitive agreement from November's Global Climate Change conference indicated to some traders that the developed world is not yet serious about cutting back on carbon emissions any time soon. Without these cutbacks, oil markets may now be expecting a continuing gradual acceleration in the rising consumption of fossil fuels for energy.

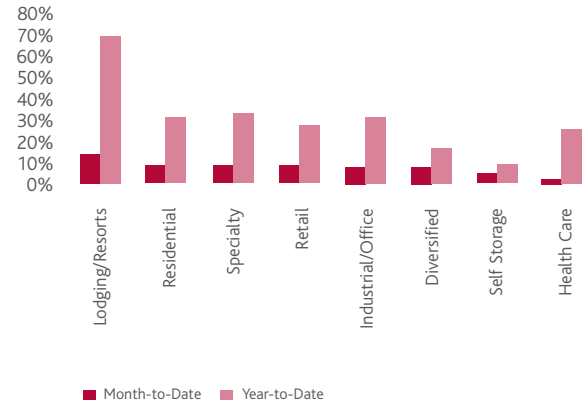
The nearest alternative to oil and coal is often thought to be natural gas. Despite what some observers point to as a rapidly growing supply of natural gas and declining prices early in the year, natural gas may be the fuel of tomorrow. Exxon has recognized opportunity in this field, acquiring natural gas exploration and production company XTO Energy Inc. for \$31 billion dollars in December.

Cumulative Return of Precious Metals
2009 Year-to-Date



Source: Dow Jones

REIT Sector Performance
Total Returns, December 2009



Source: NAREIT

Private Equity

The big story in December for private equity continued to be lack of groundbreaking new deals or exciting partnerships launched. The lingering effects of the credit crisis, combined with potential changes to tax code on things like carried interest and a general worrisome climate over government business regulation kept private equity on the quiet side for the month.

Real Estate

Signs that the worries of the credit crisis are behind us continue to line up, as seen by the issuance of \$500 million of Collateralized Mortgage Backed Securities (CMBS) by Inland Western Real Estate Trust. JPMorgan provided \$625 million in new financing for Inland in December, and \$500 million of that was converted into CMBS. Much of the real estate market had depended on the ability to securitize bank loans and lines of credit, and in 2007 over \$200 billion in CMBS deals were announced. In 2008 only \$10 billion in CMBS were issued. Prior to this latest deal, only \$400 million in CMBS had been issued in all of 2009. The success and size of this deal is thought to bode well for improving liquidity in commercial real estate.

One of the largest paper and forest products companies in the U.S. Weyerhaeuser Co, announced that it will convert from common stock ownership to a REIT. An advantage cited in this change is the tax rate falling to near zero, as an industry wide precedent has shown that none of the other timber companies organized as a REIT pay income tax. However, in converting to a REIT, the company must make a one time \$6 billion special dividend distribution to shareholders of accumulated undistributed earnings in the form of additional common stock.

Hedge Funds

The insider trading allegations at hedge fund Galleon Group reached formal indictments this month. Founder Raj Rajaratnam and a former technology consultant, Danielle Chiesi, were both indicted by a federal grand jury on charges of operating a \$20 million insider trading scheme. The 17 count indictment would carry sentences of 155 years for Rajaratnam and 145 years for Chiesi, both have pleaded not guilty.

Despite the negative attention the hedge fund industry may have received from the Galleon fiasco, and also despite industry assets still being down from their peak, some hedge funds are now gaining new investors. According to a December report by Barclays, \$150 billion has been invested in hedge funds through September 2009. According to the report, mid sized hedge funds – those worth between \$1 billion and \$5 billion – had net inflows, while small and large hedge funds still have outflows. Large hedge funds experienced less significant outflows than small funds.



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Cape Ann Savings Bank
109 Main Street
Gloucester, Massachusetts 01930
978.283.7079

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