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# Investment Perspective

FROM BRETHERN FOUNDATION

JANUARY 2011

## MARKETS AND THE ECONOMY

All major indices pushed higher in 2010, marking a second consecutive year of positive market performance. Thanks in large part to continued intervention by governments and central banks, an otherwise fragile economy — as marked by soft housing numbers, persistent high unemployment, and a troubled global financial sector — continued its recovery. Based on December's S&P 500 index figures, the domestic market had recovered 85.9 percent from its March 2009 low, but was still 19.6 percent below its October 2007 high.

Domestically, the majority of economic indicators point to stronger growth in the fourth quarter than was experienced in the third quarter. Although the recovery is still weaker than in past economic cycles, it is gaining traction. The additional fiscal stimulus from tax cuts, as well as additional monetary stimulus from a second round of support from the Federal Reserve Board, encourage an increase in economic momentum.

A 6.7 percent gain in December brought the S&P 500 index quarterly performance to 10.8 percent and the one-year performance to 15.1 percent. The international market, as measured by the MSCI EAFE index, gained 8.1 percent in December, 6.7 percent in the fourth quarter, and 8.2 percent for the year. Bond performance softened as 2010 ended, with the Barclays Capital U.S. Government Credit Bond index dropping 1.4 percent in December and 2.2 percent in the fourth quarter, but still gaining a respectable 6.6 percent for 2010.

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## THE 2010 TAX RELIEF ACT BECOMES LAW

On Dec. 17, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 into law. This act extended many benefits that were scheduled to expire on Jan. 1 and amended, adjusted, or implemented a number of other provisions —

- **Extension of the charitable IRA rollover.** The new law extends the charitable IRA rollover for two years, retroactive to Jan. 1, 2010 (that is, through 2011). Recognizing that there is little time left to take advantage of this extension in 2010, the new law allows qualified donors (age 70 ½ or older) to treat IRA rollover gifts made in January 2011 as if they were made on Dec. 31, 2010. Taxpayers who make this election are permitted to count their gift against the \$100,000 limitation on such gifts in 2010 instead of against the 2011 limitation. They may also count their gift toward fulfilling their required minimum distribution for 2010.
- **One-year reduction in employee payroll tax.** For 2011, the employee portion of the Social Security retirement component of FICA employment tax is reduced by 2 percent (from 6.2 percent to 4.2 percent) on wages up to the 2011 taxable wage base of \$106,800. This 2 percent reduction also applies to self-employed individuals, who normally pay 12.4 percent for the Social Security portion of their self-employment taxes.
- **Other significant changes.** Among its many provisions, the new law extends existing income tax rates for 2011 and 2012, provides a 13-month extension of benefits for the long-term unemployed, extends the alternative minimum tax relief for 2010 and 2011 with slight changes, and initiates several major — though temporary — changes for the federal estate tax. An extensive review of the new law's provisions is available at [www.bbtfoundation.org](http://www.bbtfoundation.org).



Please contact Steve Mason, director of Brethren Foundation, if you have questions or comments.

# Fund Performance Report

for the period ending Dec. 31, 2010



All periods longer than one year are annualized.

## Performance Report

Funds (Net of Investment Fees) Benchmarks (Gross)	Current Month	Three Months	Year-to-Date	Three Years	Five Years
<b>SHORT-TERM</b>					
<b>Short-Term Fund</b>	0.1%	0.2%	1.4%	2.1%	3.2%
<i>Merrill Lynch 6-Month Treasury Bill Index</i> <sup>1</sup>	0.0%	0.1%	0.4%	0.7%	2.3%
<b>COMMUNITY DEVELOPMENT</b>					
<b>Community Development Investment Fund</b> <sup>2</sup>	0.5%	1.4%	4.5%	3.5%	3.2%
<i>No Benchmark</i>	N/A	N/A	N/A	N/A	N/A
<b>FIXED INCOME</b>					
<b>Bond Core Fund</b>	(1.4)%	(2.0)%	8.2%	6.8%	6.4%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	(1.4)%	(2.2)%	6.6%	5.6%	5.6%
<b>Bond Fund</b>	(1.3)%	(2.0)%	8.5%	7.0%	6.5%
<i>Barclays Capital U.S. Government/Credit Bond Index</i>	(1.4)%	(2.2)%	6.6%	5.6%	5.6%
<b>Treasury Inflation-Protected Securities Fund</b> <sup>3</sup>	(2.1)%	(1.5)%	N/A	N/A	N/A
<i>Barclays Capital U.S. TIPS Index</i>	(1.6)%	(0.7)%	N/A	N/A	N/A
<b>High Yield Bond Fund</b> <sup>3</sup>	0.6%	2.1%	N/A	N/A	N/A
<i>Barclays Capital U.S. Corporate High Yield Bond Index</i>	1.8%	3.2%	N/A	N/A	N/A
<b>DOMESTIC EQUITY</b>					
<b>Domestic Stock Core Fund</b>	6.7%	10.3%	13.0%	(2.8)%	3.5%
<i>S&amp;P 500 Index</i>	6.7%	10.8%	15.1%	(2.9)%	2.3%
<b>Domestic Stock Value Fund</b>	7.7%	15.7%	N/A	N/A	N/A
<i>Russell 1000 Value Index</i>	7.9%	10.5%	N/A	N/A	N/A
<b>Domestic Stock Growth Fund</b>	6.1%	N/A	N/A	N/A	N/A
<i>Russell 1000 Growth Index</i>	5.5%	N/A	N/A	N/A	N/A
<b>Domestic Stock Fund</b>	6.9%	12.1%	17.2%	(0.2)%	4.5%
<i>S&amp;P 500 Index</i>	6.7%	10.8%	15.1%	(2.9)%	2.3%
<b>Small Cap Fund</b>	5.6%	14.6%	25.0%	6.3%	7.7%
<i>Russell 2000 Index</i>	7.9%	16.3%	26.9%	2.2%	4.5%
<b>Public Real Estate Fund</b> <sup>3,4</sup>	6.0%	6.0%	N/A	N/A	N/A
<i>FTSE EPRA/NAREIT Global Real Estate Index</i>	6.3%	6.2%	N/A	N/A	N/A
<b>INTERNATIONAL EQUITY</b>					
<b>International Stock Core Fund</b>	8.3%	8.5%	10.7%	(4.9)%	3.0%
<i>MSCI EAFE Index</i>	8.1%	6.7%	8.2%	(6.6)%	2.9%
<b>Emerging Markets Stock Fund</b> <sup>3</sup>	7.5%	8.2%	N/A	N/A	N/A
<i>MSCI Emerging Markets Index</i>	7.2%	7.4%	N/A	N/A	N/A
<b>ALTERNATIVES</b>					
<b>Commodities-Based Fund</b> <sup>3</sup>	6.6%	9.6%	N/A	N/A	N/A
<i>Dow Jones UBS Commodity Index</i>	10.7%	15.8%	N/A	N/A	N/A
<b>EQUITY AND FIXED INCOME</b>					
<b>Balanced Fund</b>	3.7%	6.5%	14.3%	3.3%	5.8%
<i>Blended Balanced Index</i> <sup>5</sup>	3.3%	5.3%	11.0%	(0.1)%	3.2%
<b>U.S. INFLATION</b>					
<b>Consumer Price Index</b> (November 2010) <sup>6</sup>	0.0%	0.2%	1.2%	1.3%	2.0%

<sup>1</sup> Changed May 1, 2009. 3-year and 5-year blended with 90-day Treasury Bill. <sup>2</sup> CDIF interest accrues on a quarterly basis. <sup>3</sup> These investment funds may not meet socially responsible investing guidelines because they are invested in mutual funds. All other investment funds must meet socially responsible investing guidelines. <sup>4</sup> Net of mutual fund expenses only; no assets under BFI management are currently invested in this fund. <sup>5</sup> Weighted average of the S&P 500 Index (60 percent) and the Barclays U.S. Capital Government/Credit Bond Index (40 percent). <sup>6</sup> Most recent data available.