



**WILLOW CREEK**  
FINANCIAL SERVICES, INC.  
A WEALTH MANAGEMENT FIRM

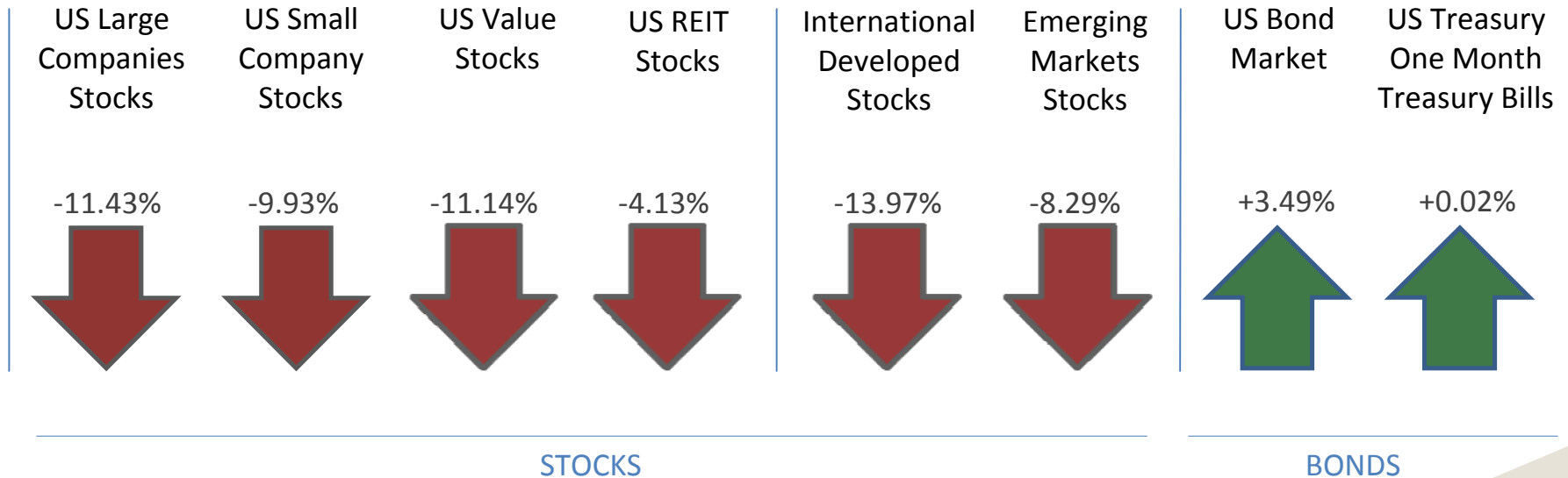
**QUARTERLY INVESTMENT UPDATE**

SECOND QUARTER 2010



# Markets Update: A Quarter in Review

Second Quarter 2010



Market segment (Index representation) as follows: US Large Company Stocks (S&P 500 Index); US Small Company Stocks (Russell 2000 Index), US Value Stocks (Russell 1000 Value Index). US Real Estate Market (Dow Jones US Select REIT Index), International Developed (MSCI EAFE Index (net div.)), Emerging Markets (MSCI Emerging Markets Index (gross div)), US Bond Market (Barclays Capital US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995-2010, all rights reserved. MSCI data copyright MSCI 2010, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

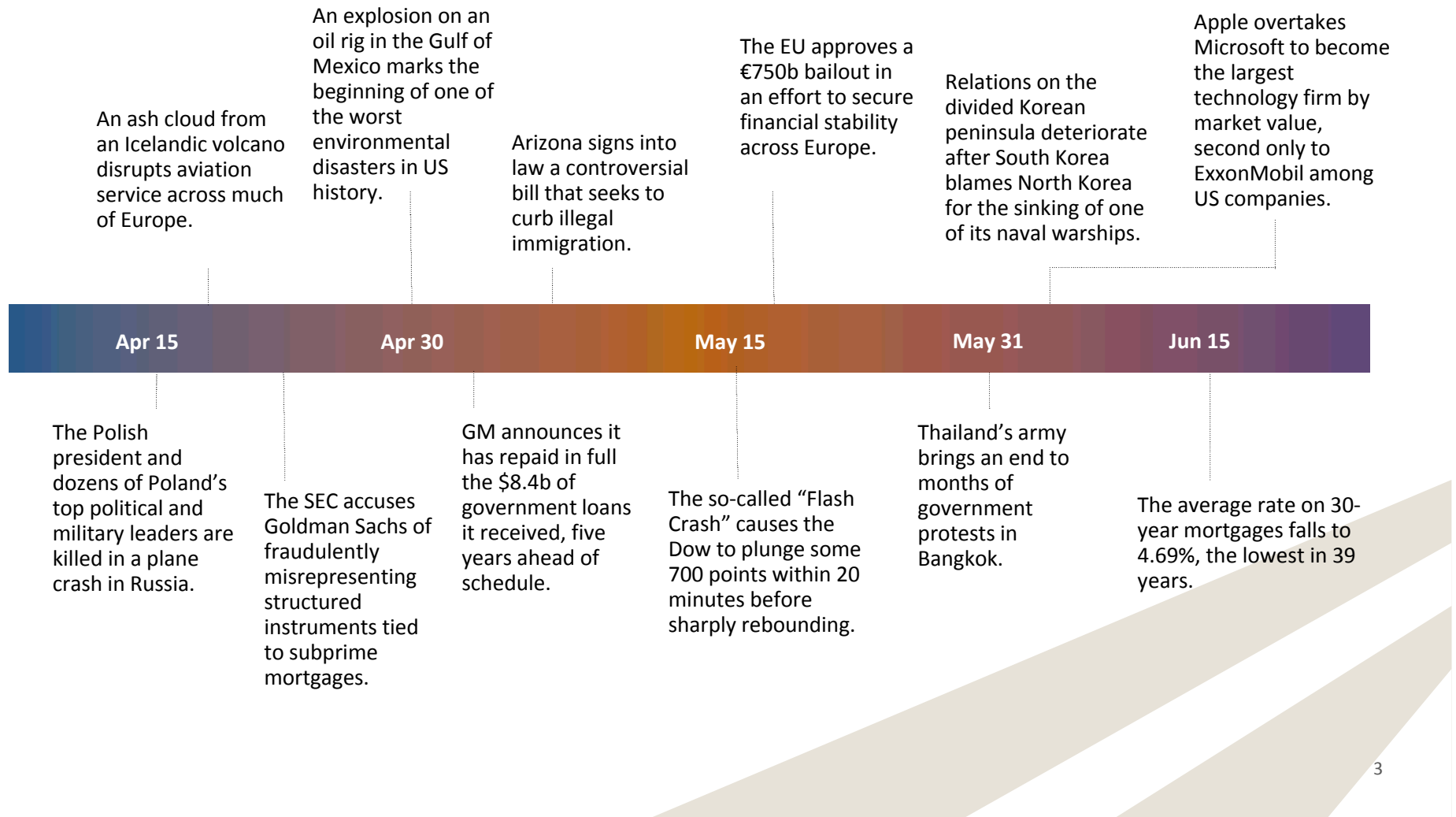
# Markets Update: A Quarter in Review

Second Quarter 2010

- After four consecutive quarters with very strong performance, which continued into April, the US equity market saw a sharp reversal in May and June and ended the second quarter with large negative returns. The broad US market lost over 11% in the quarter, with most asset classes delivering double-digit negative returns.
- Performance in other developed markets around the world was generally worse, especially in Europe. Indeed, the worst-performing developed markets in the quarter were mainly European countries in the midst of severe sovereign-debt crises such as Greece and Spain. Developed markets in the Asia Pacific region generally fared better, especially Singapore, which had a flat return and was by far the best-performing developed market in the second quarter. The US dollar gained ground against most major currencies, especially the euro and the Australian dollar, which hurt the dollar-denominated returns of developed market equities.
- After being the top-performing asset class in 2009, emerging markets continued to cool off in the second quarter, although returns there were generally better than in developed countries. As in the case of developed markets, there was much dispersion in the performance of different emerging markets and asset classes. The fall in commodity prices negatively impacted two of the larger commodity-rich emerging countries, Russia and Brazil, which had sharply negative returns. On the other hand, some smaller emerging markets, such as Chile, Indonesia, and the Philippines managed to post positive returns for the quarter. The US dollar also gained ground against the main emerging market currencies in the second quarter, which hurt the dollar-denominated returns of emerging market equities.
- Value stocks had mixed performance relative to growth stocks in the US during the second quarter. In other developed markets, value stocks greatly underperformed growth stocks across all market capitalization segments. In emerging markets, value stocks outperformed growth stocks across all market capitalization segments.
- Along the market capitalization dimension, small caps outperformed large caps in the US, in other developed markets, and in emerging markets.
- Notwithstanding the continued weakness in the commercial and residential real estate markets, real estate securities had negative returns, but good performance relative to other asset classes.
- Fixed income securities had good returns in the second quarter, as there was a flight to safety in the second quarter as a result of the sovereign debt problems in Europe and weak economic data in the US and abroad. Intermediate government securities and inflation-protected securities did particularly well.

# Timeline of Events: A Quarter in Review

Second Quarter 2010



# Beyond the Quarter: Survey of Long Term Performance

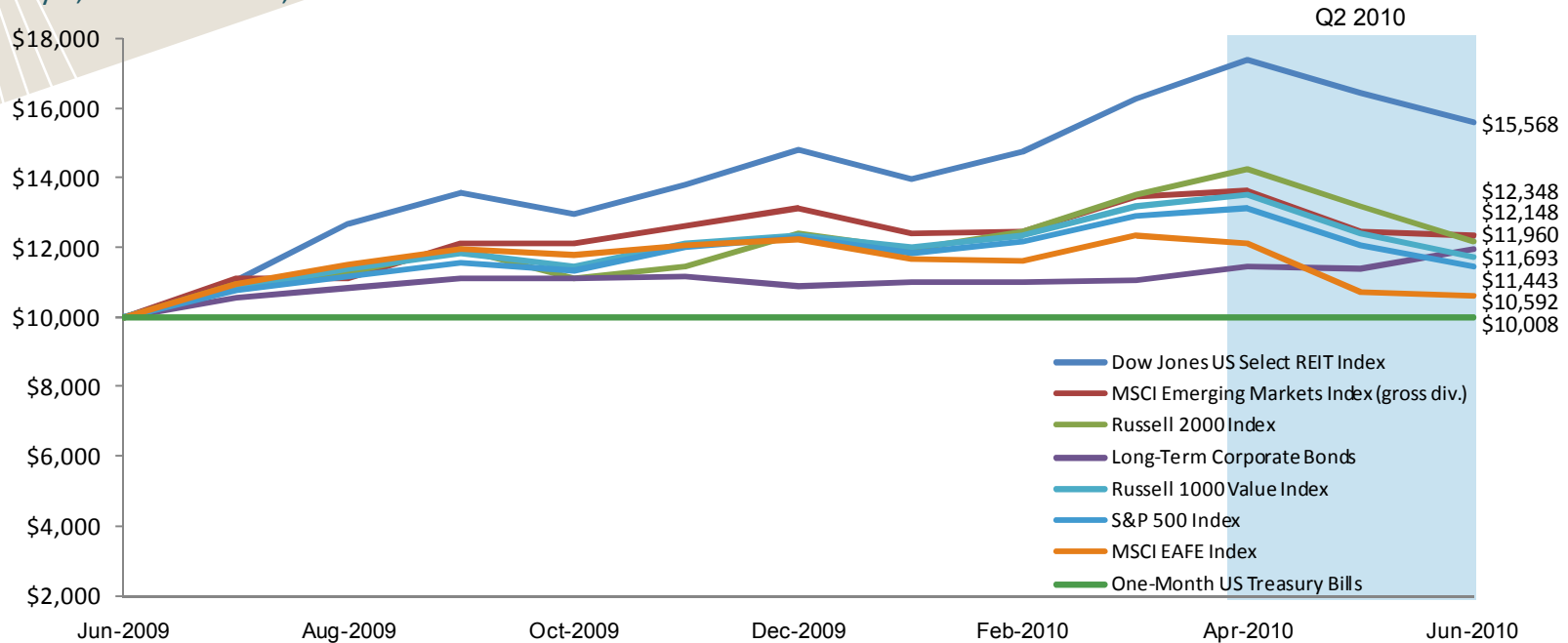
As of June 30, 2010

Index	Annualized (%)					
	1 Year Ending 6/30/2010	3 Years Ending 6/30/2010	5 Years Ending 6/30/2010	10 Years Ending 6/30/2010	20 Years Ending 6/30/2010	Since Inception (Inception date)
<b>US Large Company Stocks</b>						
S&P 500 Index	14.43	-9.81	-0.79	-1.59	7.67	9.66 (01/1926)
<b>US Small Cap Stocks</b>						
Russell 2000 Index	21.48	-8.61	0.37	3.00	8.15	11.00 (01/1979)
<b>US Value Stocks</b>						
Russell 1000 Value Index	16.93	-12.32	-1.64	2.37	8.62	11.69 (01/1979)
<b>US Real Estate Investment Trust Stocks</b>						
Dow Jones US Select REIT Index	55.68	-10.33	-0.36	9.74	9.42	12.06 (01/1978)
<b>International Stocks</b>						
MSCI EAFE Foreign Stock Index	5.92	-13.38	0.88	0.16	3.99	8.98 (01/1970)
MSCI Emerging Markets Index (gross div.)	23.48	-2.22	13.07	10.34	9.64	13.19 (01/1988)
<b>Bonds</b>						
SBBI Long-Term Corporate Bonds	19.60	8.85	5.03	8.38	8.31	5.91 (01/1926)
SBBI One-Month US Treasury Bills	0.08	1.30	2.59	2.50	3.65	3.64 (01/1926)

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# Change in Value of \$10,000 Invested in Various Markets

July 1, 2009 – June 30, 2010



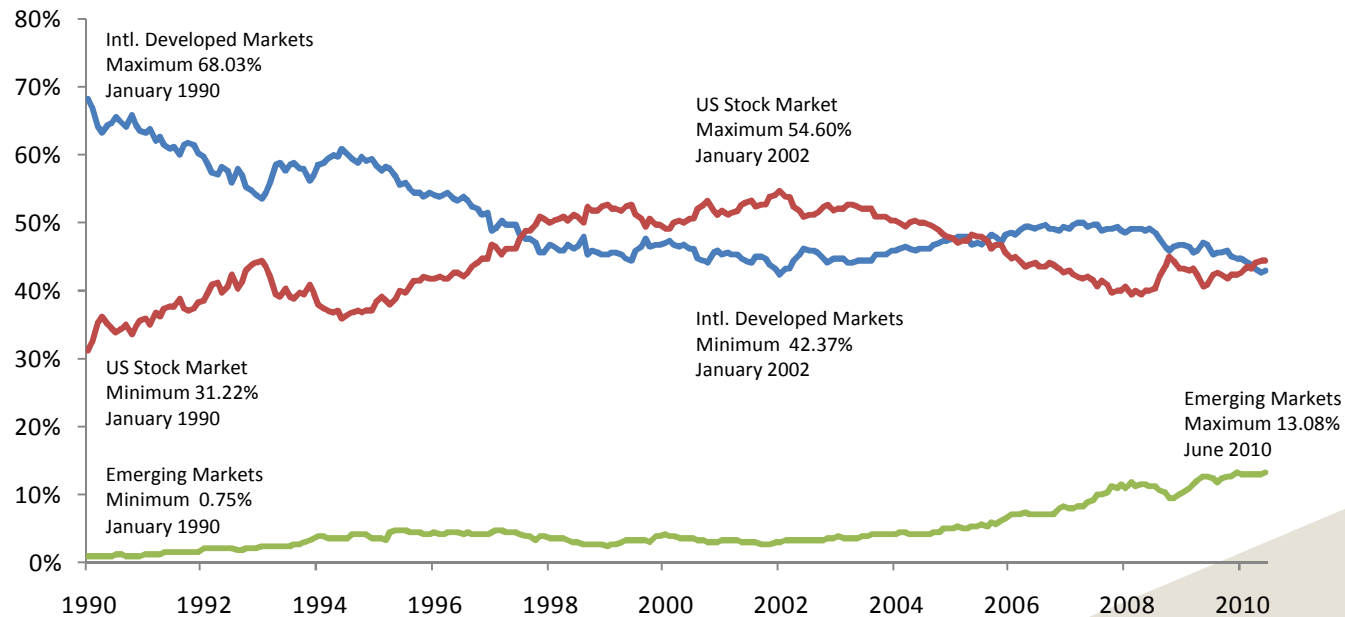
Asset Class	Index	CHANGE IN VALUE OF \$1			
		1 Year	5 Years	10 Years	20 Years
US Large Company Stocks	S&P 500	\$1.14	\$0.96	\$0.85	\$4.39
US Small Cap Stocks	Russell 2000	\$1.21	\$1.02	\$1.34	\$4.80
US Value Stocks	Russell 1000 Value	\$1.17	\$0.92	\$1.26	\$5.23
US Real Estate Investment Trust Stocks	Dow Jones US Select REIT	\$1.56	\$0.98	\$2.53	\$6.05
International Developed Stocks	MSCI EAFE	\$1.06	\$1.04	\$1.02	\$2.19
Emerging Market Stocks	MSCI Emerging Markets (gross div.)	\$1.23	\$1.85	\$2.68	\$6.30
Fixed Income Corporate Bonds	Long-Term Corporate Bonds	\$1.20	\$1.28	\$2.24	\$4.94
Short Term Government Bonds	One-Month US Treasury Bills	\$1.00	\$1.14	\$1.28	\$2.05

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# Value of Stock Markets Around the World

January 1990 – June 2010

	Number of Countries	Number of Stocks	Total Value	Weights		
				June 30, 2010	Change From Previous Quarter	01/90-6/10 Average
United States	1	2,994	11.57 Trillion	44.20%	▲ 0.99%	44.67%
Developed Markets	23	3,631	11.19 Trillion	42.72%	▼ -0.38%	50.56%
Emerging Markets	21	2,645	3.42 Trillion	13.08%	▲ 0.12%	4.77%
Total	45	9,270	26.18 Trillion	100.00%		



- Global market capitalization weights are not static, they change across time.

Developed markets' securities and commodities data provided by Bloomberg. Emerging Markets' data provided by International Finance Corporation. The Russell 3000 Index is used as the proxy for the US market. The proxies for the non-US developed and emerging markets are the respective developed country and emerging country portions from the MSCI All Country World IMI ex USA Index. The proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy.

# The Randomness of Quarterly Returns

This table shows from top to bottom the highest returning asset classes each year over the last 14 quarters. Each asset class is color coded based on the legend below.

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
Highest Return	4.01	15.05	14.52	3.66	2.14	0.58	4.78	23.36	1.02	34.84	35.44	9.18	9.81	8.40	?
	3.74	6.98	2.71	1.97	0.52	0.53	0.43	0.20	0.03	31.46	21.04	8.58	8.85	0.02	?
	2.35	6.28	2.56	0.93	-1.13	-0.80	-1.12	-21.15	-11.01	25.86	19.36	6.04	6.79	-4.13	?
	1.95	4.93	2.03	-1.62	-8.69	-1.17	-6.11	-21.94	-12.43	20.68	19.28	4.22	5.39	-8.29	?
	1.26	4.42	1.42	-3.33	-8.72	-2.49	-8.37	-22.18	-13.14	16.69	18.24	3.88	2.45	-9.93	?
	1.24	1.26	1.14	-4.58	-9.45	-2.72	-8.54	-26.12	-14.95	15.93	15.61	2.44	1.53	-11.14	?
	0.64	-1.88	-0.24	-5.80	-9.90	-5.32	-20.67	-27.56	-16.77	8.24	11.09	0.01	1.35	-11.43	?
Lowest Return	-0.02	-9.36	-3.09	-13.54	-10.92	-5.39	-26.86	-39.95	-33.92	0.02	0.03	-2.17	0.01	-13.63	?

US Large Cap Stocks (S&P 500)
US Small Cap Stocks (Russell 2000)
US Large Value Stocks (Russell 1000 Value)
International Developed Stocks (MSCI World ex USA)
MSCI Emerging Markets Stocks
Dow Jones US Select REIT
One-Month US Treasury Bills
Long-Term Corporate Bonds

The lack of a pattern indicates that picking which asset classes will be the best or worst performers is virtually impossible.

In Q4 2008, for example, the MSCI Emerging Markets Index was the second to worst performing asset class. A quarter later it was right up at the top.

Portfolios combining these various investments will avoid extreme returns.

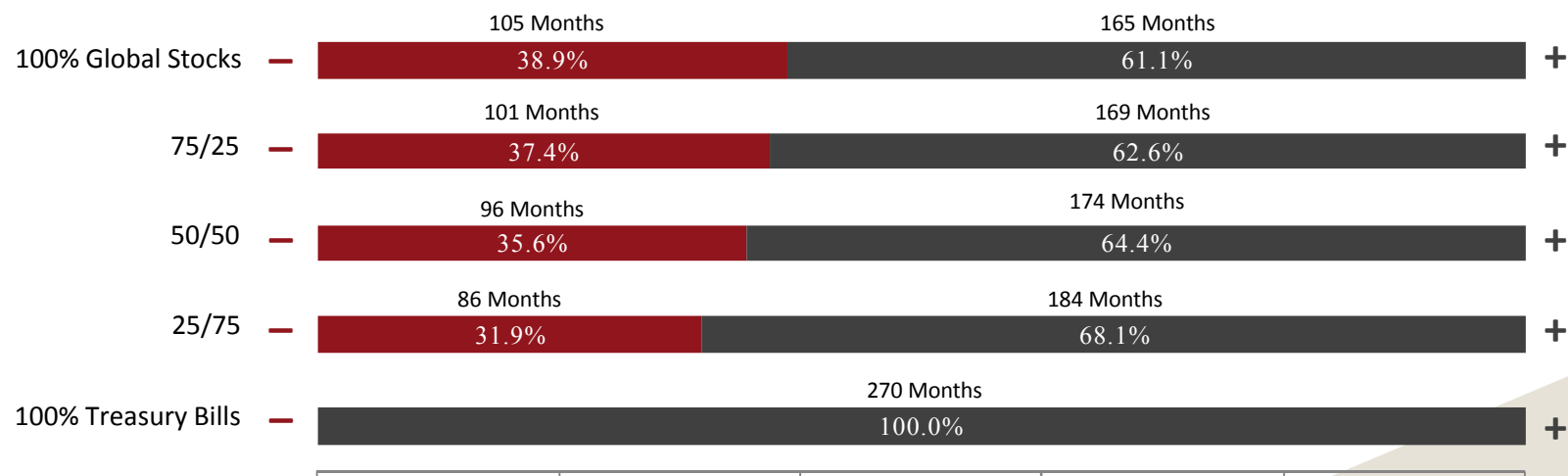
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# Returns of Globally Diversified Portfolios

As of June 30, 2010

		Annualized (%)				
	Q2 2010	One Year	Three Years	Five Years	Ten Years	Twenty Years
100% Global Stocks	-11.96	12.30	-10.01	1.69	0.20	6.04
75/25	-9.01	9.42	-6.79	2.28	1.07	5.69
50/50	-6.03	6.41	-3.82	2.63	1.73	5.17
25/75	-3.02	3.29	-1.12	2.73	2.21	4.49
100% Treasury Bills	0.02	0.08	1.30	2.59	2.50	3.65

## Positive vs. Negative Months: January 1988 – June 2010, Total 270 months



January 1988 start date based on the latest common index inception. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Data copyright MSCI 2010, all rights reserved. © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# US Stock Returns

As of June 30, 2010

## Returns (%)

Asset Class	Index	Q2 2010	One Year	Three Years Annualized
Marketwide	Russell 3000	-11.32	15.72	-9.47
Large Cap	S&P 500	-11.43	14.43	-9.81
Large Cap	Russell 1000	-11.45	15.22	-9.54
Large Cap Value	Russell 1000 Value	-11.14	16.93	-12.32
Large Cap Growth	Russell 1000 Growth	-11.74	13.62	-6.91
Small Cap	Russell 2000	-9.93	21.48	-8.61
Small Cap Value	Russell 2000 Value	-10.59	25.07	-9.85
Small Cap Growth	Russell 2000 Growth	-9.22	17.96	-7.54

- A look at the determinants of equity performance—relative price and market capitalization—provides insight into the sources of returns.
- Historically, value stocks, as measured by the ratio of book-to-market equity (BtM), have outperformed growth stocks. During the second quarter they had mixed performance when considering the stocks' market capitalization.
- Historically, small stocks have experienced higher returns than large stocks, and that was indeed the case in the second quarter.

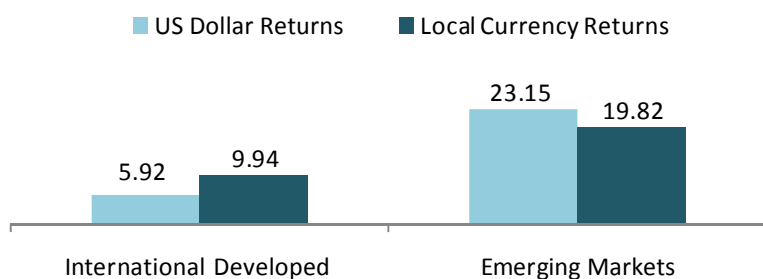
# International Stock Returns

As of June 30, 2010

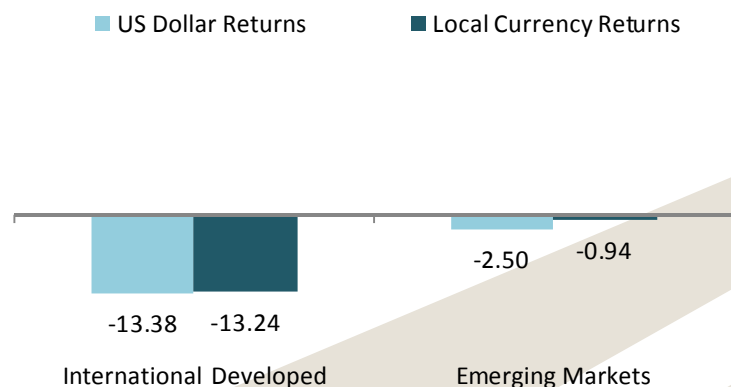
Asset Class	Index	Returns (%)		
		Q2 2010	One Year	Three Years Annualized
Marketwide	MSCI All Country World ex USA	-12.45	10.43	-10.70
Developed Large Cap	MSCI EAFE	-13.97	5.92	-13.38
Developed Small Cap	MSCI EAFE Small	-11.33	12.30	-13.08
Developed Value	MSCI EAFE Value	-15.53	3.21	-15.11
Developed Growth	MSCI EAFE Growth	-12.44	8.59	-11.70
Emerging Markets Large Cap	MSCI Emerging Markets	-8.37	23.15	-2.50
Emerging Markets Small Cap	MSCI Emerging Markets Small	-6.91	35.16	-1.70
Emerging Markets Value	MSCI Emerging Markets Value	-7.90	23.73	0.20
Emerging Markets Growth	MSCI Emerging Markets Growth	-8.84	22.57	-5.19

## IMPACT OF CURRENCY FLUCTUATIONS ON RETURNS FOR INVESTORS IN US DOLLARS

One Year Returns in US Dollars and Local Currency



Three Year Annualized Returns in US Dollars and Local Currency








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# MSCI Country Returns in US Dollars and Local Currency

As of June 30, 2010

## Second Quarter 2010 Returns

	Return US Dollars	Return Local Currency	Impact of Currency
 1. Indonesia	4.22%	3.82%	0.40%
 2. Peru	4.20%	4.20%	-
.			
.			
 23. United States	-11.68%	11.68%	-
.			
.			
 44. Hungary	-30.24%	-17.33%	-12.91%
 45. Greece	-40.50%	-34.27%	-6.23%

## One Year Returns in US Dollars and Local Currency

	Return US Dollars	Return Local Currency	Impact of Currency
 1. Indonesia	66.01%	47.43%	18.58%
 2. Colombia	53.62%	37.12%	16.50%
.			
.			
 25. United States	13.61%	13.61%	-
.			
.			
 44. Spain	-13.51%	-0.95%	-12.56%
 45. Greece	-46.78%	-39.06%	-7.72%

## TEN YEAR PERFORMANCE RANKING OF MARKETS AROUND THE WORLD IN US DOLLARS AS OF JUNE 30, 2010

1. Colombia 2. Peru 3. Indonesia 4. Czech Republic 5. Egypt 6. Brazil 7. Russia 8. India 9. Chile 10. Mexico 11. Thailand 12. South Africa 13. Morocco 14. Korea 15. Denmark 16. Hungary 17. Australia 18. Malaysia 19. China 20. Norway 21. Philippines 22. Singapore 23. Canada 24. Austria 25. Poland 26. Switzerland 27. Turkey 28. Israel 29. Hong Kong 30. Spain 31. New Zealand 32. Sweden 33. Germany 34. United Kingdom 35. Portugal 36. Netherlands 37. Belgium 38. France **39. USA** 40. Taiwan 41. Japan 42. Italy 43. Ireland 44. Greece 45. Finland

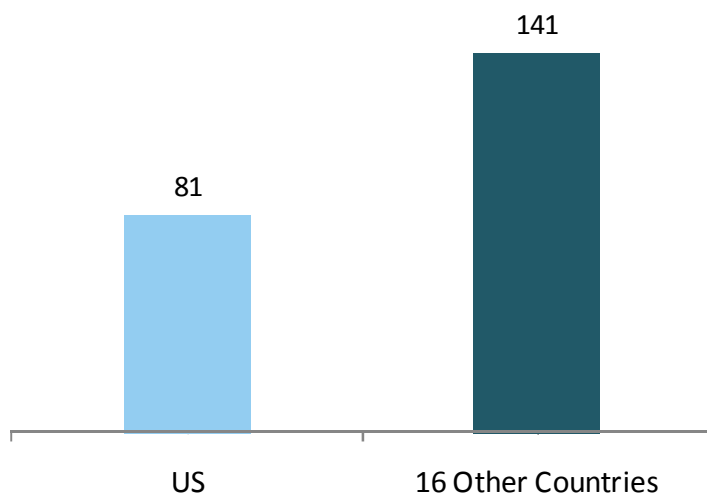
# Real Estate Investment Trusts (REIT) Stocks

As of June 30, 2010

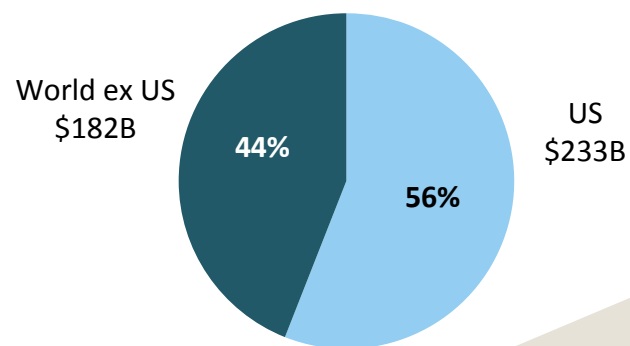
## Returns (%)

Index	Q2 2010	One Year	Three Years Annualized
Dow Jones US Select REIT Index	-3.93	54.39	-9.65
S&P Global ex US REIT Index	-9.54	17.08	-18.94

## Number of REIT Stocks



## Total Value of REIT Stocks



Number of REIT stocks and total value based on the two indices. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's ©. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# Bond Returns

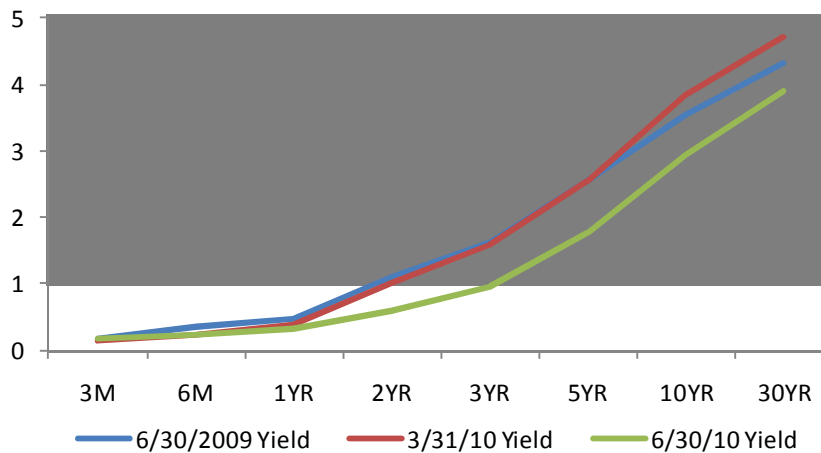
As of June 30, 2010

## Returns (%)

Index	Q2 2010	One Year	Three Years Annualized
One-Month US Treasury Bills (SBBI)	0.02	0.08	1.30
Bank of America Merrill Lynch Three-Month T-Bills	0.04	0.16	1.57
Bank of America Merrill Lynch One-Year US Treasury Note	0.26	0.99	3.15
Citigroup World Government Bond 1-5 Years (hedged)	0.95	3.04	5.02
US Long Term Government Bonds (SBBI)	12.33	11.94	10.62
Barclays Capital Corporate High Yield	-0.11	26.77	6.54
Barclays Capital Municipal Bonds	2.03	9.61	5.50
Barclays Capital US TIPS Index	3.82	9.52	7.62

Yields on very short-term Treasury bills were little changed in the second quarter relative to the end of the first quarter, while yields on longer-term Treasury securities fell substantially in the second quarter.

US Treasury Yield Curve



As a result, the yield curve flattened over the quarter. The difference in yield between ten-year Treasury bonds and one-month US Treasury bills was 280 basis points at the end of the second quarter, compared to 369 basis points at the end of the first quarter.

# Quarterly Topic: Forecasting Interest Rates

Second Quarter 2010

It seemed so obvious. With the economy slowly recovering last year from the worst recession in decades and the federal government spending tens of billions to stimulate job growth, both laymen and experts alike seemed to agree that interest rates had nowhere to go but up. The yield on the ten-year U.S. Treasury note as of June 30, 2009 was 3.52%, down from 5.25% in June 2007 but well above the 2.09% level registered amidst the worst of the credit crisis the previous December. With retail sales and housing activity showing signs of gradual improvement, the only question appeared to be how much higher interest rates would go.

Among fifty economic forecasters surveyed by the WSJ in 2009, forty-three expected the ten-year U.S. Treasury note yield to move higher over the year ahead, with an average estimate of 4.13%. Seven expected a rate of 5.00% or higher while only two predicted rates to fall below 3.00%. The result? The ten-year Treasury yield slumped to 2.95% on June 30, 2010 and rates on 30-year mortgages fell to their lowest level since Fannie Mae began tracking them in 1971.

Some observers may be tempted to poke fun at these hapless “experts”, implying they are incompetent or poorly informed. This interpretation is flawed since it suggests that a team of better experts would achieve a more accurate result. A more useful explanation is that even the most talented analysts are unlikely to make reliable predictions and the poor showing by this particular group is simply what we would expect to see, just as often as not, if markets are working freely and fairly. Today’s bond prices already reflect expectations for tomorrow’s business conditions and inflation and these expectations can change quickly in response to new information. However tempting it may be to believe that we can predict the future better than other market participants through careful study, the results of the WSJ survey as well as numerous other efforts suggest this confidence is misplaced.

What is the message for investors? Predicting interest rates and bond prices is no easier than predicting stock prices, and making decisions based on what appear to be certain outcomes at the time can often prove costly. Many investors reconfigured their portfolios in anticipation of higher interest rates and have penalized their results while they are waiting. Instead of seeking to predict the unpredictable, investors are much more likely to enhance their results by focusing on the elements they *can* control – risk exposure, diversification and minimizing costs and taxes.