New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

August 4, 2011

New Albany Investment Management

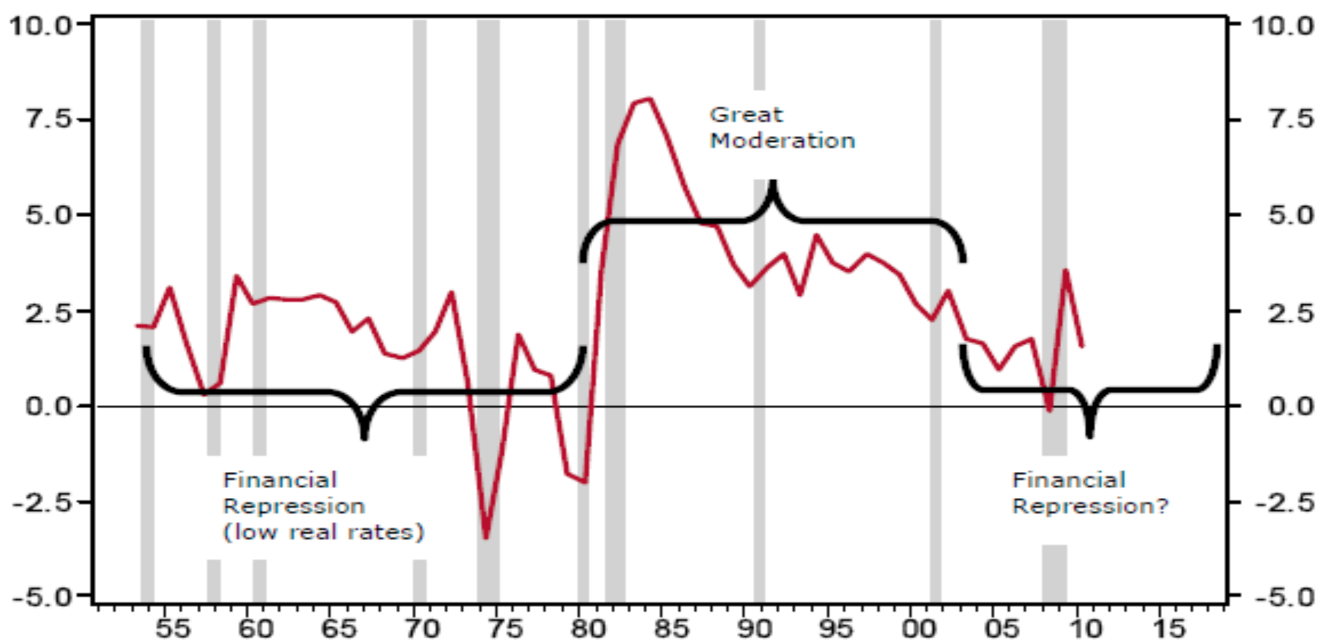
PERFORMANCE: as of 8-4-2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	-7.6%	-10.4%	-3.5%
Russell 2000 (small/mid Cap)	-9.0%	-12.5%	-6.7%
MSCI EAFE (Eurp. Asia, Far East)			
MSCI Emerging Mkt	-8.7%	-10.0%	-9.1%
US Bonds (Barclay's agg. Index)	0.7%	2.6%	4.3%
High Yield Bonds (US)	-4.4%	-4.5%	0.3%
GLD (Net asset value)	2.1%	8.7%	15.8%
Real Estate	-4.9%	-4.8%	6.0%
Energy	-11.0%	-9.3%	1.4%

Economy: Financial Repression = Government led Recession

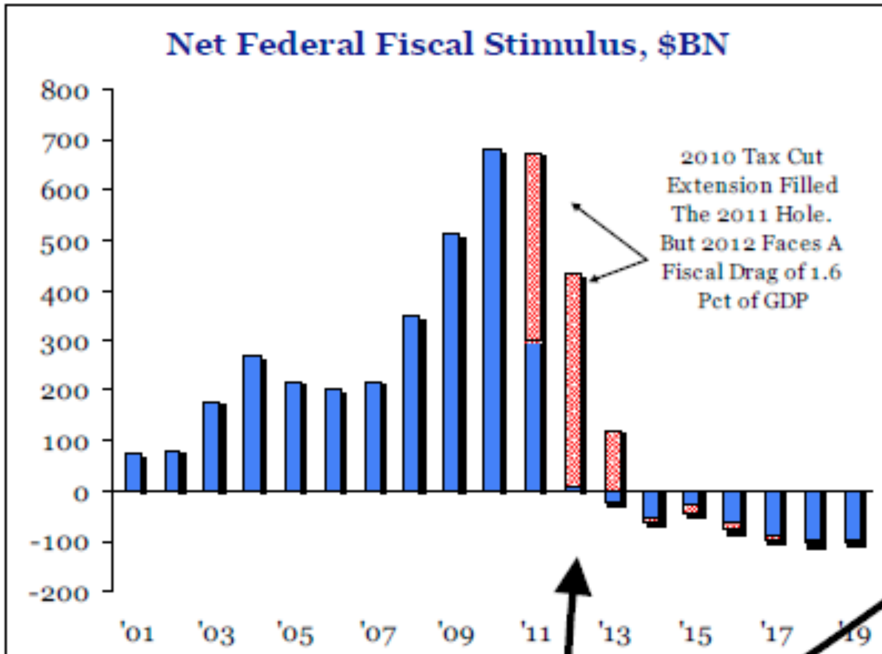
Four Sectors of Economy: 1) households, 2) business, 3) foreign, and 4) government. The past 30 years of the U.S. economy as household-led – that is, real interest rates came down every time the economy weakened (eg, 1985 and 1995) and the household sector leveraged up (mainly using their homes as collateral), supporting growth. **This story is over**, "financial repression" (low real interest rates for a long time) is now the base case.



Financial Repression (low real interest rates) should mean that the investment environment going forward may be more similar to the (more volatile) investing environment of the 1950s or 1970s, rather than the "Great Moderation" of the 1980s and 1990s.

Economy: Need Pro-Growth Fiscal Policy to avoid Recession

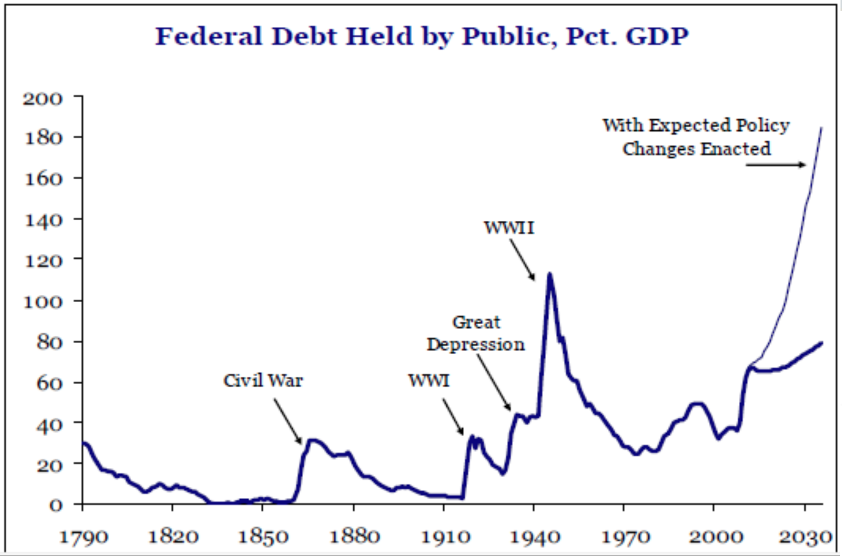
Fiscal drag of -1.6% of GDP begins in 2012 and worsens in 2013.

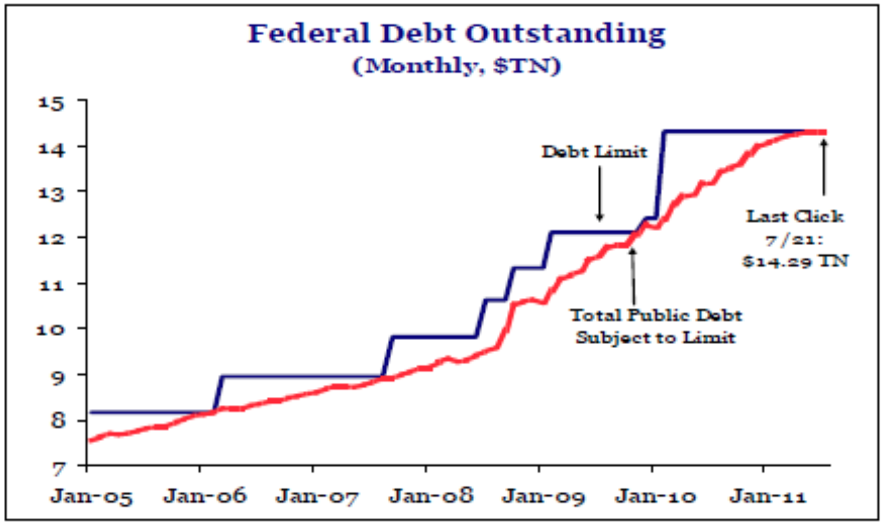


This is Dan Clifton's chart on fiscal drag. It is scary.

[1] Policy Outlook, 8/1/2011
www.strategasrp.com

Debt Limit: US Federal Debt presently 94% of GDP





Government is likely the best (only) option for stimulus.

Sector	Current State
1. Households	Too Overleveraged
2. Corporate	Too Choppy
3. Foreign	Too Small
4. Government	?

	Core CPI (M/M%)
Jul '10	0.10
Aug '10	0.06
Sep '10	0.03
Oct '10	0.01
Nov '10	0.12
Dec '10	0.07

Fed is less likely to be aggressive with core inflation rising,

New Albany Investment Management

MARKET: Macro uncertainty will keep prices low

Current level S & P = 1220. Rallies are opportunity to sell.

2011 S&P 500 Expected Value Table

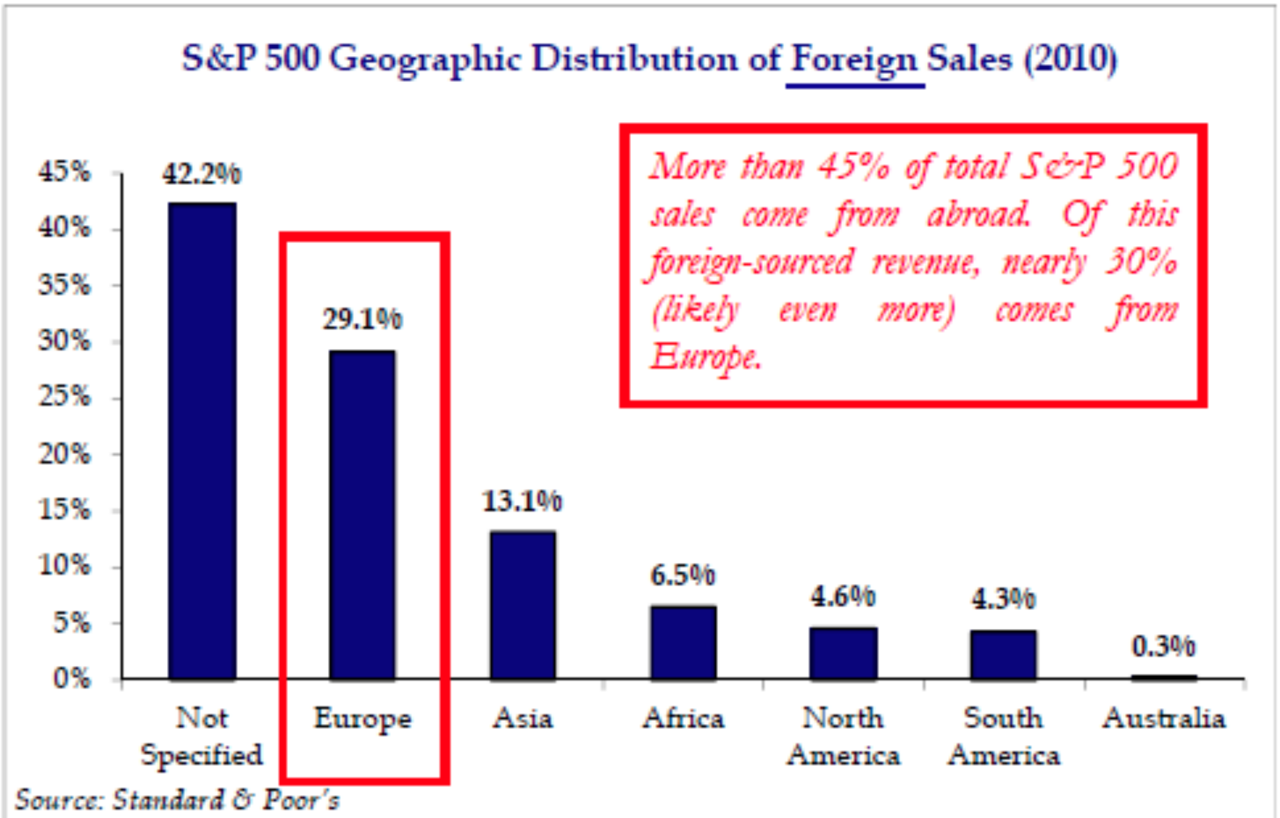
Probability	Economy	S&P Earnings	Expected Multiple	Implied S&P 500
5%	Recession	$84.00	11x	924
65%	Base Case: Macro Uncertainty	$94.25	13x	1,225
20%	Positive Policy Response	$94.25	16x	1,508
10%	Upside Surprise	$98.00	14x	1,372
		Expected Value		1,281

MARKET STRATEGY: Sell Equity Rallies

1) Equities now viewed as source of yield, not appreciation. Look for dividend growers
2) Technology remain relatively strong.
3) Avoid Discretionary and Stocks dependent on Government Spending.
4) Long Precious Metals; Gold & Silver
5) Avoid Energy, Financials, Small caps
6) Bonds: High Quality Corporates should hold up well
7) US Dollar strong against Euro, weak against Asian currencies
8) Global Operators can continue to be profitable
9) Long Volatility

New Albany Investment Management

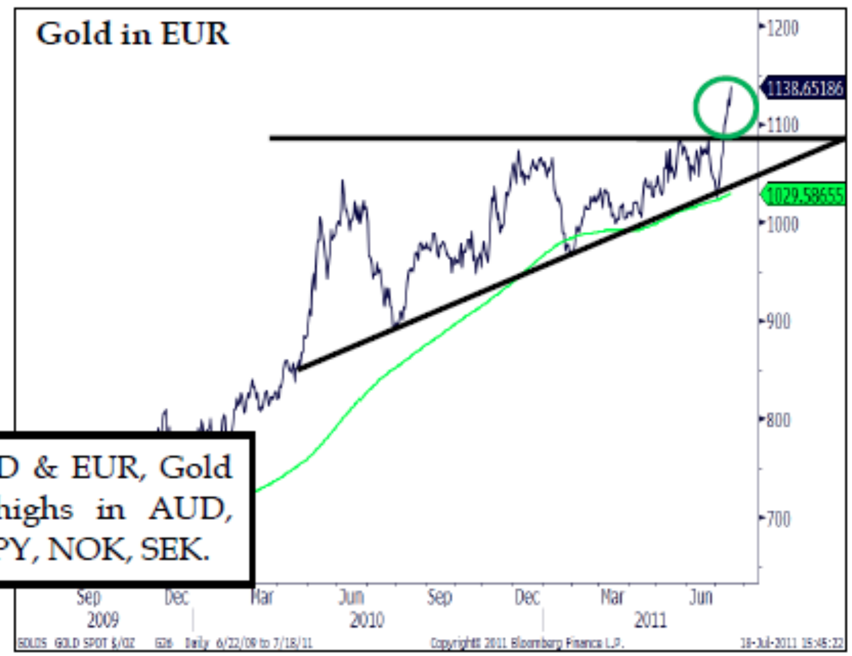
Global Economy: 45% of Total S&P sales come from Abroad



New Albany Investment Management

Strength in Gold likely to continue

Gold is making new highs across multiple currencies – this has been a bullish signal in the past. In U.S. Dollar terms, the move through $1580 points to the $1690 neighborhood as next resistance. The price ratio of Gold to the S&P is currently about 1.2 to 1. The 80-year average is closer to 1.6 to 1. It would be unusual for a 10-year bull market in Gold to end before approaching this threshold.



In addition to USD & EUR, Gold is also at new highs in AUD, CAD, GBP, INR, JPY, NOK, SEK.

New Albany Investment Management

VALUATION: Dividends have contributed 50% of total return of stocks.

Dividend Contribution to Total Return

	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg. Payout Ratio
1930s	-41.9%	56.0%	14.1%	NA	90.1%
1940s	34.8%	100.3%	135.0%	74.3%	59.4%
1950s	256.7%	180.0%	436.7%	41.2%	54.6%
1960s	53.7%	54.2%	107.9%	50.2%	56.0%
1970s	17.2%	59.1%	76.4%	77.4%	45.5%
1980s	227.4%	143.1%	370.5%	38.6%	48.6%
1990s	315.7%	117.1%	432.8%	27.0%	47.6%
2000s	-24.1%	15.0%	-9.1%	NA	35.3%
Avg.	*104.9%*	*90.6%*	*195.6%*	*51.5%*	*54.6%*

Companies that pay dividends have had higher growth rates than companies that don't throughout time.

S&P 500 Sector Dividend Contribution to Yield Ratio

S&P 500 Sector	Dividend Contribution	Dividend Yield	Ratio (Sorted)
Technology	9.5%	1.1%	8.9
Financials	11.9%	1.6%	7.6
Energy	11.3%	1.8%	6.3
Health Care	12.4%	2.1%	5.9
Industrials	12.0%	2.1%	5.6
Discretionary	7.9%	1.5%	5.3
Staples	15.9%	3.0%	5.3
Materials	3.6%	2.0%	1.8
Utilities	7.5%	4.4%	1.7
Telecom	7.8%	5.0%	1.5

Tech offers the biggest bang for the buck…

Strategy: Diversification is Key in Volatile Markets