New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

December 12 , 2011

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PERFORMANCE: as of 12-9 -2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	0.9%	9.4%	1.8%
Russell 2000 (small/mid Cap)	1.4%	11.0%	-3.8%
MSCI EAFE (Eurp. Asia, Far East)	-0.9%	2.8%	-11.2%
MSCI Emerging Mkt	-2.8%	-5.7%	-18.9%
US Bonds (Barclay's agg. Index)	0.1%	0.2%	7.1%
High Yield Bonds (US)	0.6%	1.3%	3.3%
GLD (Net asset value)	-2.0%	-7.8%	20.7%
Defensive Sector	0.7%	6.7%	10.3%
Cyclical Sector	1.1%	8.1%	-7.2%

Economic Summary: Strategas Research

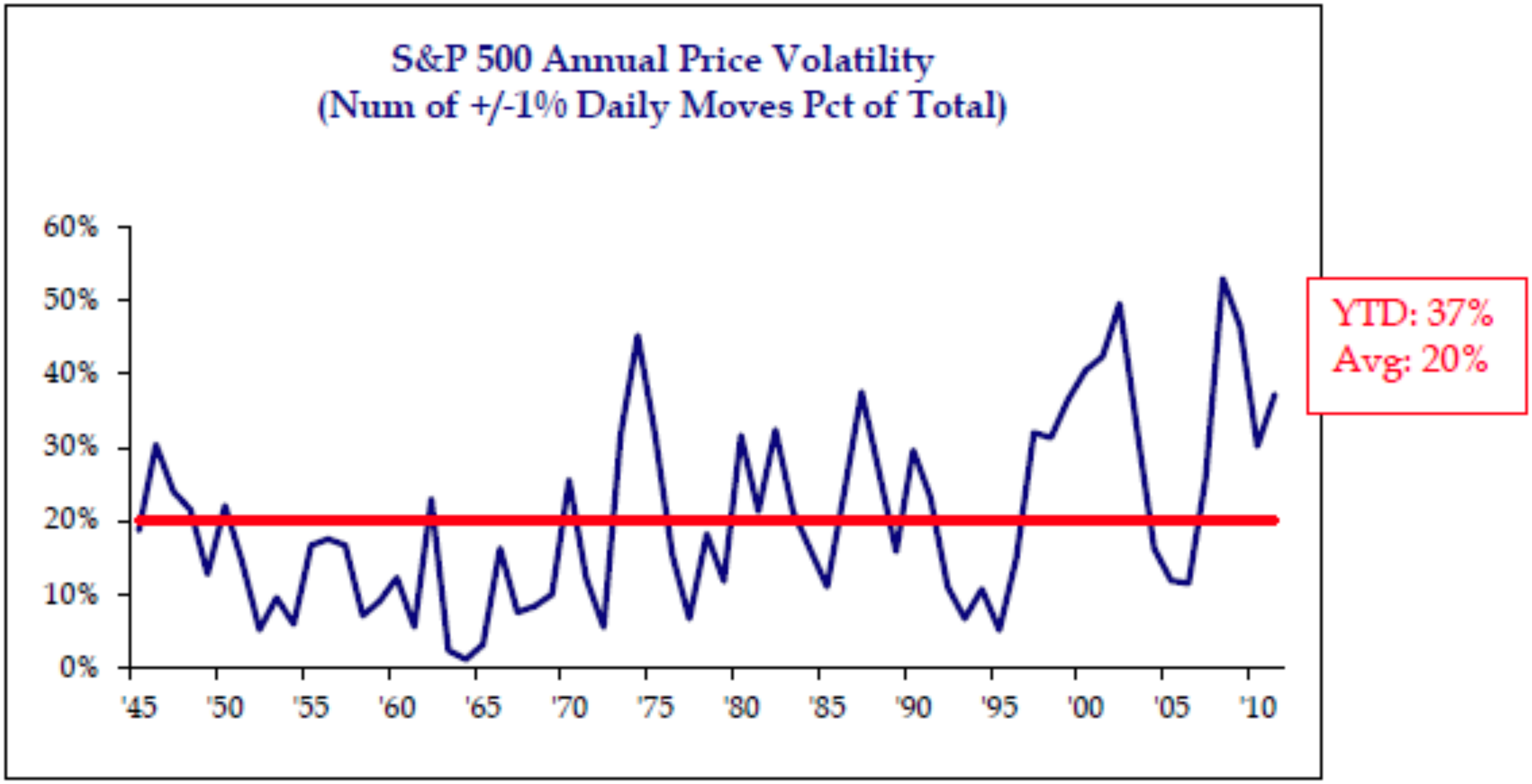
. "Strong patch" economic data also continued last week in the U.S. Initial claims fell -23,000 w/w to 381,000, the svc PMI remained in expansion territory in November (52.0), and U of Mich consumer confidence moved up to 67.7 in early December; the U.S. housing market still appears stable (at a low level) with mortgage apps for purchase up +8.3% w/w. The U.S. trade deficit narrowed slightly to -$43.5 billion in October, with the real goods trade gap narrowing as well. Believe it or not, a 3%+ reading for 4Q real GDP looks likely in the U.S. And the ISM semiannual forecast suggested moderate U.S. overall growth in 2012.

China has moved toward easing (inflation slowed to 4.2% y/y in November), and the BoE maintained an easy posture last week.

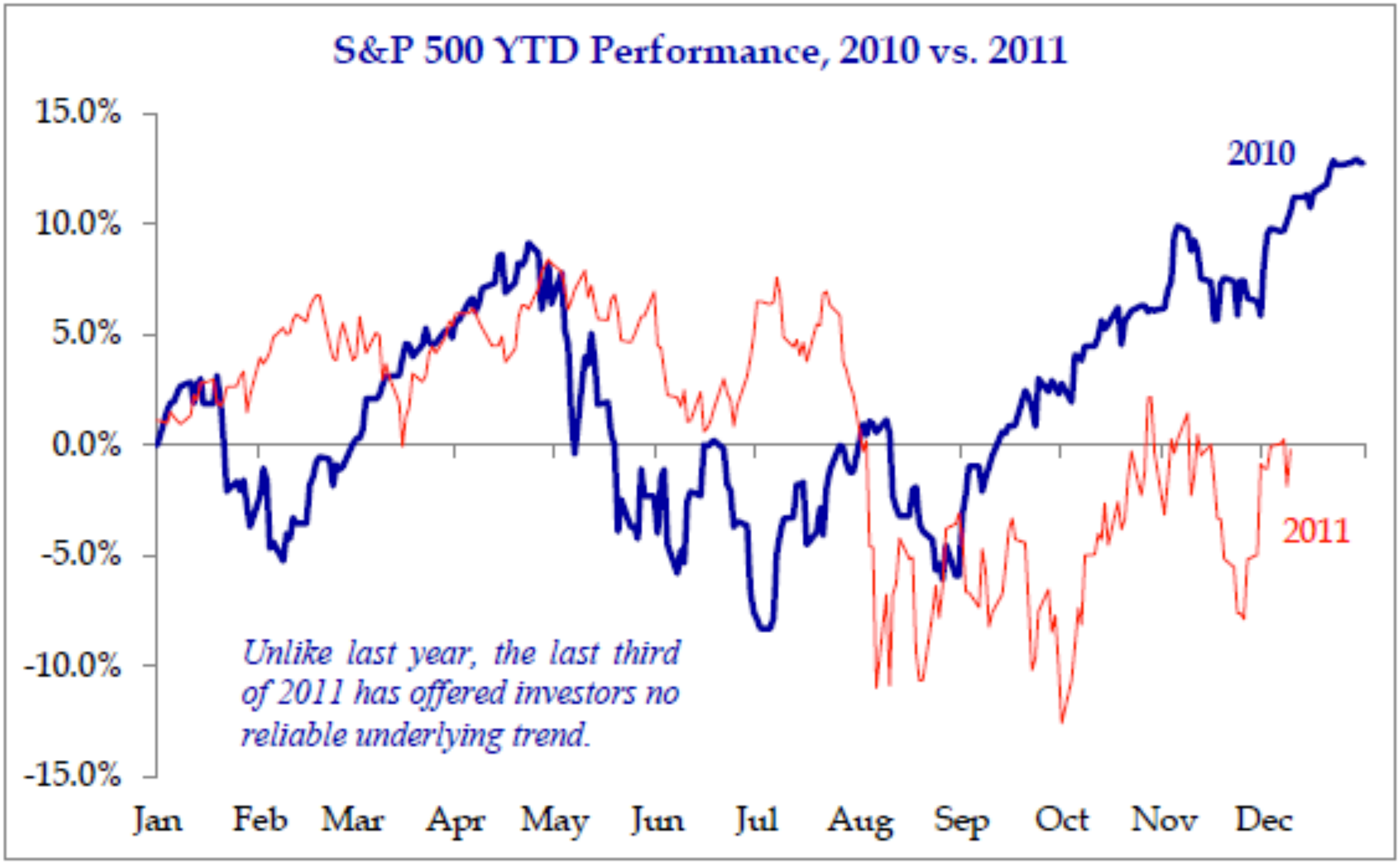
German orders rose +5.2% m/m in Oct after plunging in Sep), suggesting a recession is not a done deal.

"Directionless volatility" best describes the market action, with the market swinging from fears of apocalyptic endings to new false dawns. Historically, the financial markets of countries that have become overly dependent upon deficit spending (US, Japan, and Europe) have shown the greatest penchant for such wild swings.

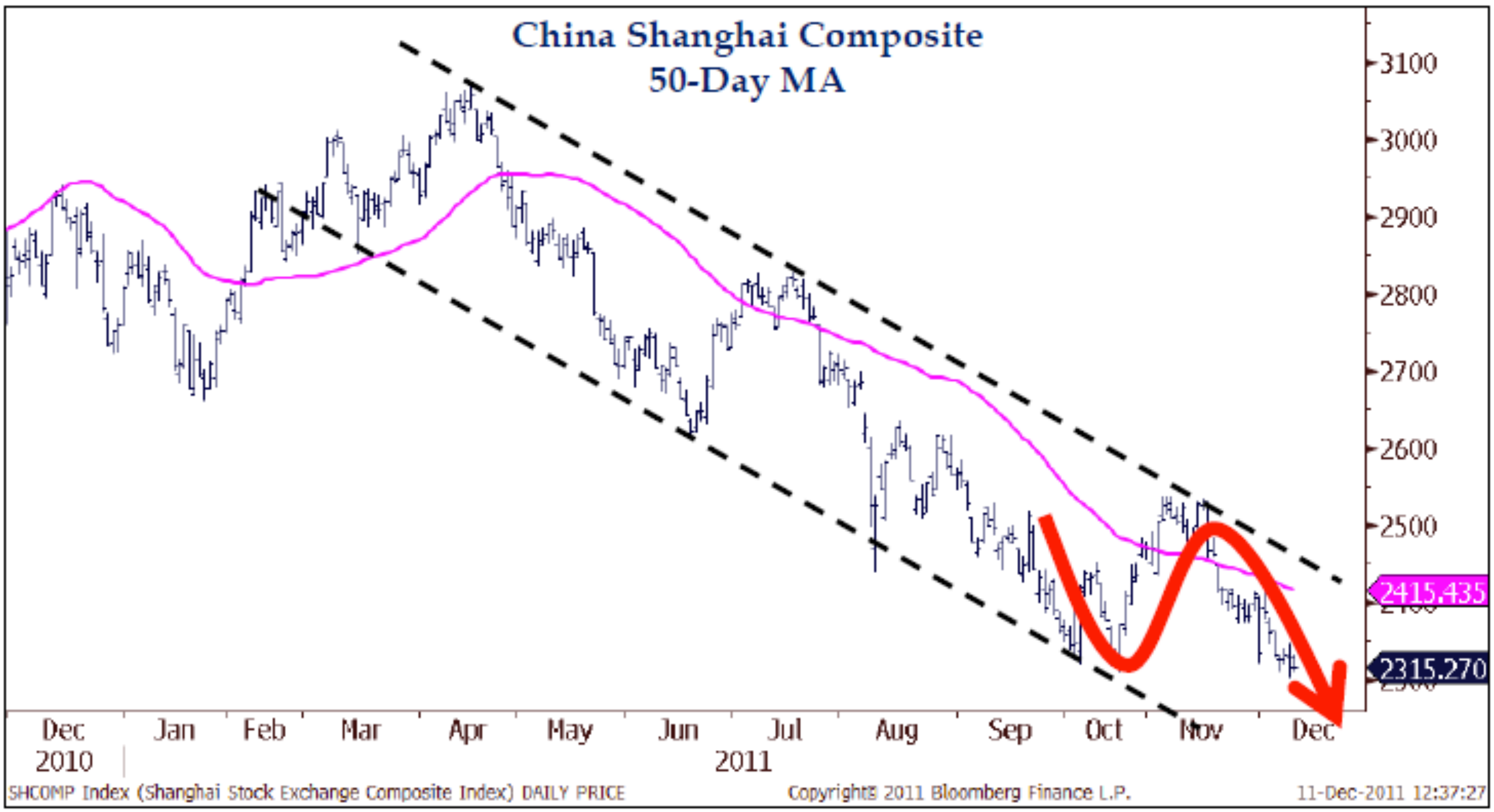
Markets: Volatility way above average for year and likely to continue as long as world Fiscal Policy dominates.



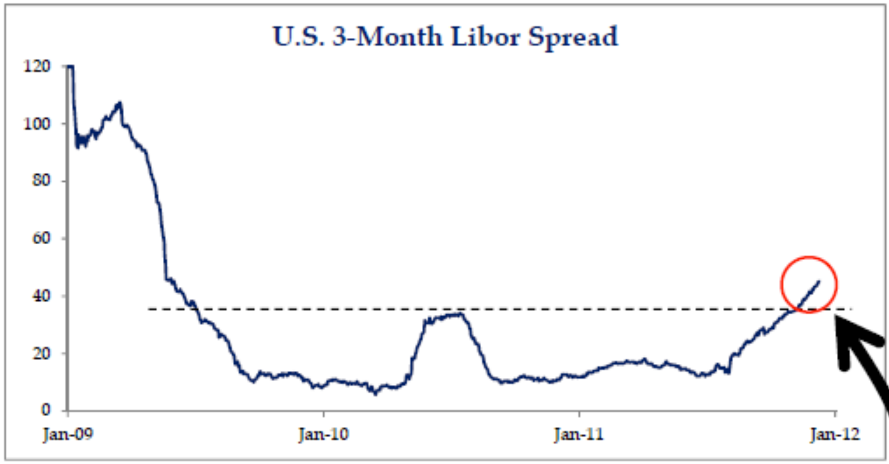
Markets: Directionless Volatility best describes 2011



Emerging Markets: Signaling global slowdown



Credit Markets: Typically Lead the Market and are Barometer of Economic Health



It's difficult to add much value when the fate of a continent may well rest in the hands of a select number of policy elites 3000 miles away. Absent much insight there, we're taking our cues from the credit charts. <u>While equities continue to express optimism as they trade near the top-end of the 2011 range, we struggle to find much improvement among the debt charts – and this trouble us.</u>

At left we highlight both Libor OIS and Euribor spreads – <u>both continue to trade near multi-year highs.</u>

We're also struck that the effective ECB rate trades roughly 50 basis points below that of the 1.00% target. In other words, European banks are borrowing at 1.00%, and depositing at 0.50% – as a client put it to us in San Francisco last week, *"that's the opposite of banking."*

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MARKET STRATEGY: Ride Through the Volatility

Given the extreme choppiness in the market and reliance on government policy to direct economic policy, core positions are positioned to ride through the volatility with a small portion available to participate in shorter term swings. Five themes employed to generate return and lower risk using a variety of asset classes:

1) **Income:** High Yield Bonds currently paying out over 7.5%, are pricing in an economic slowdown with high default and low recovery rates. Also Corporate Bonds yielding 3.5% and dividend paying stocks.
2) **Low Volatility:** Low Beta stocks = US Large cap growth stocks
3) **Non-Correlating Assets:** Use of specialty funds that adjust risk up/down and across asset sectors as market conditions change
4) **Inflation Hedge**: Gold and Treasury Inflation protected Bonds
5) **Flexibility:** Use Exchange Traded Funds (ETF's) for a small portion of portfolio to enable better intra-day access when markets become exceptionally volatile.