New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

December 31 , 2011

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2011: Year in Review in a Word…'Volatility'

2011: A YEAR IN REVIEW

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PERFORMANCE: as of 12-31 -2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	-0.68%	11.8%	-2.1%
Russell 2000 (small/mid Cap)	-0.9%	15.5%	-4.8%
MSCI EAFE (Eurp.Asia, Far East)	-.5%	5.0%	-11.5%
MSCI Emerging Mkt	-1.1%	6.0%	-20.5%
US Bonds (Barclay's agg. Index)	0.7%	6.3%	7.8%
High Yield Bonds (US)	0.5%	1.3%	4.3%
GLD (Net asset value)	-6.7%	-11.2%	12.6%
Defensive Sector	-0.3%	9.6%	13.5%
Cyclical Sector	-1.0%	12.6%	-7.5%

Markets: Index Masking Pain of Average Stock Performance

S&P 500 Average Stock Performance vs. Headline Index Performance

	2H Index Performance	2H Eq-Wtd Performance	Difference
Telecom	-6.1%	-21.0%	-14.9%
Technology	0.1%	-10.4%	-10.5%
Health Care	-3.8%	-10.4%	-6.6%
Energy	-9.1%	-14.1%	-5.0%
S&P 500	***-6.0%***	***-9.7%***	***-3.7%***
Staples	2.6%	-0.8%	-3.4%
Discretionary	-4.1%	-6.1%	-2.0%
Materials	-14.7%	-15.6%	-0.9%
Utilities	4.9%	4.2%	-0.7%
Industrials	-10.1%	-10.4%	-0.3%
Financials	-17.0%	-15.8%	1.2%

As of 12/20/11

The average stock in the S&P 500 has materially underperformed the headline Index – which is cap-weighted – during the second half of this year.

Earnings : Strategas Research Look Ahead to 2012

"WITH EARNINGS GROWTH AND PROFIT MARGINS STRETCHED, IT'S NOW LARGELY ABOUT THE MULTIPLE and INVESTOR CONFIDENCE…

Profit margins are generally thought to be among the most mean-reverting time series in all of finance. Given the fact that net profit margins are approaching levels last witnessed at the height of the credit bubble in 2005, this should be of some concern for those placing too much faith in the consensus estimate of about $107 for S&P Operating Earnings in 2012. (Earnings for 2011 are near $97) Either margins must expand or growth must accelerate. This seems unlikely if we are correct about our forecast of 1% Real GDP in the U.S. and something less-than-zero in Europe. (We are assuming, incidentally, that China will grow at whatever rate it wishes to grow. Let's use 8%.) This doesn't, of course, preclude a rally in equities, it merely suggests that **it will be multiples rather than earnings that will turn the tide**. Earnings multiples are heavily influenced by investor confidence. Thus, elections in the U.S. and abroad could, in and of themselves, warrant a re-rating of equities, as could a creative solution to the European debt crisis, lower energy prices, or a myriad of other unforeseen developments that inspire greater confidence that the earnings already achieved are unlikely to vanish."

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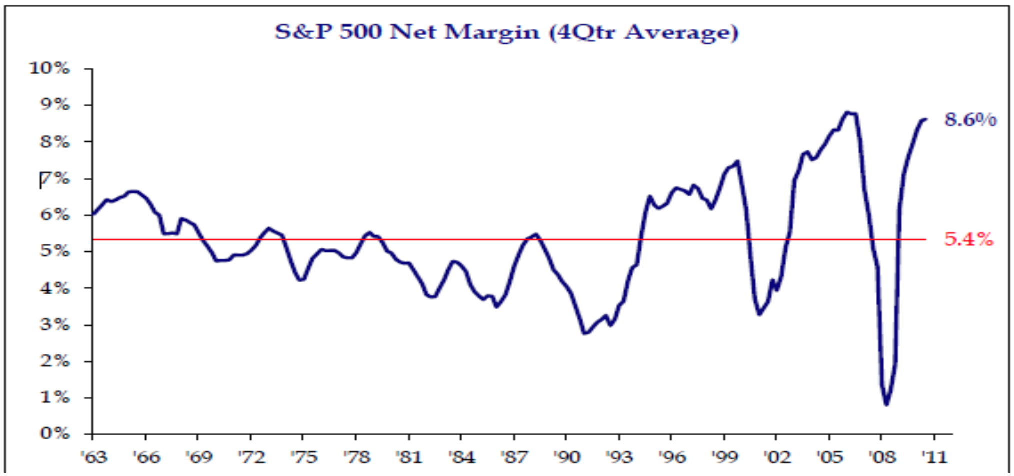
Earnings & Multiples: Profit Margins near all time high but can they remain given flat economic growth forecast?



2012 S&P 500 Expected Value Table

Probability	Economy	S&P Earnings	Expected Multiple	Implied S&P 500
35%	Recession	$86.00	11x	946
30%	Macro Uncertainty	$100.50	12x	1,206
30%	Positive Policy Response	$100.50	16x	1,608
5%	Upside Surprise	$105.00	14x	1,470
			Expected Value	1,249

Changes in P/E multiple, driven by investor confidence (or lack there of) likely biggest factor in driving stock prices in 2012.

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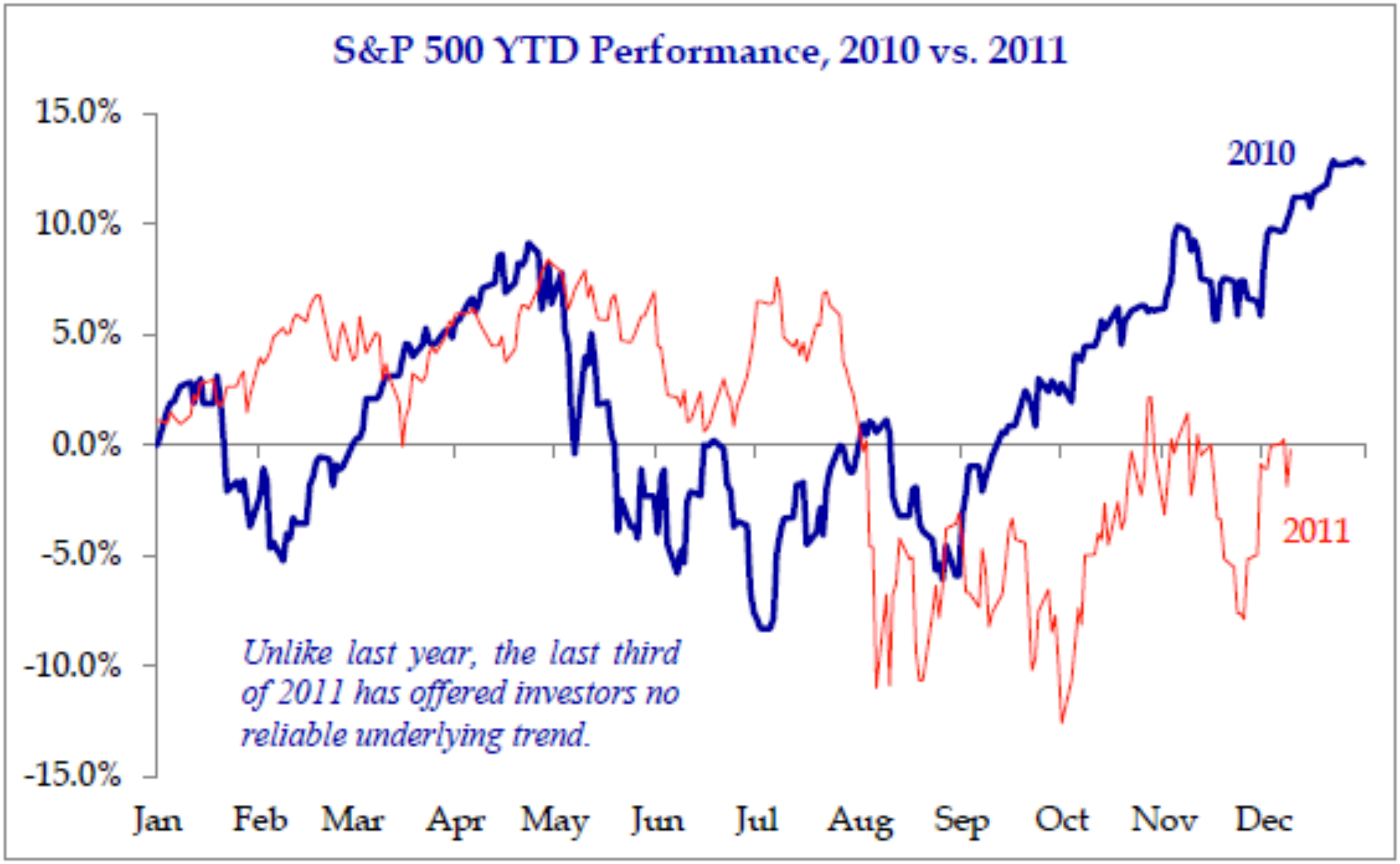
Markets: Directionless Volatility best describes 2011



European Markets: Volatility much higher than US

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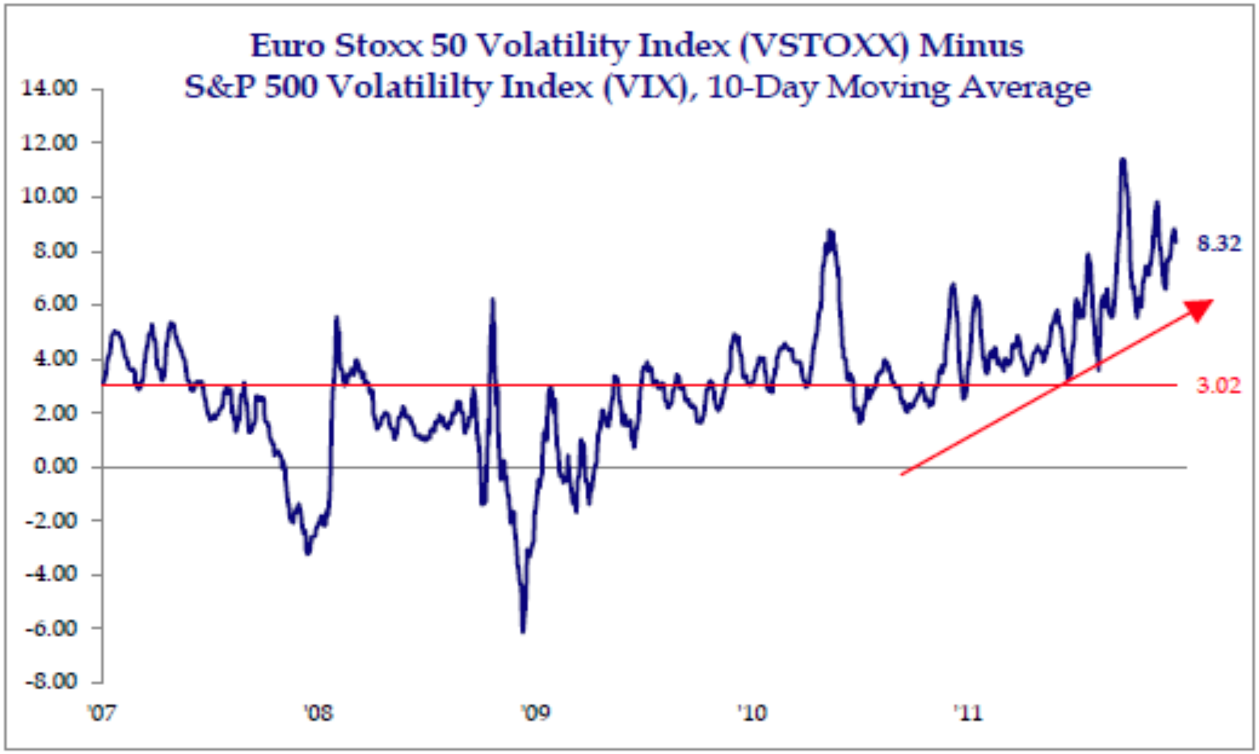
VOLATILITY CHARTS SUGGEST U.S. IS SAFE HAVEN RELATIVE TO EUROPE



Europe 2011 YTD price volatility is 42% verses avg. 20%, and 8.3% greater than US Markets.

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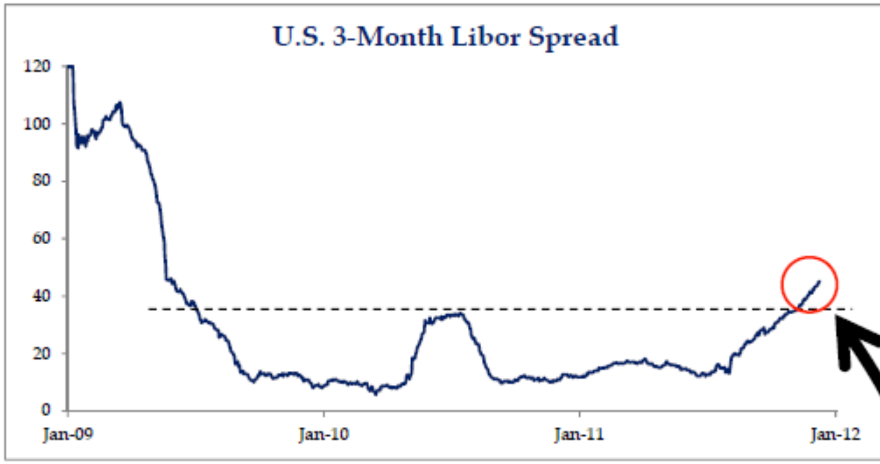
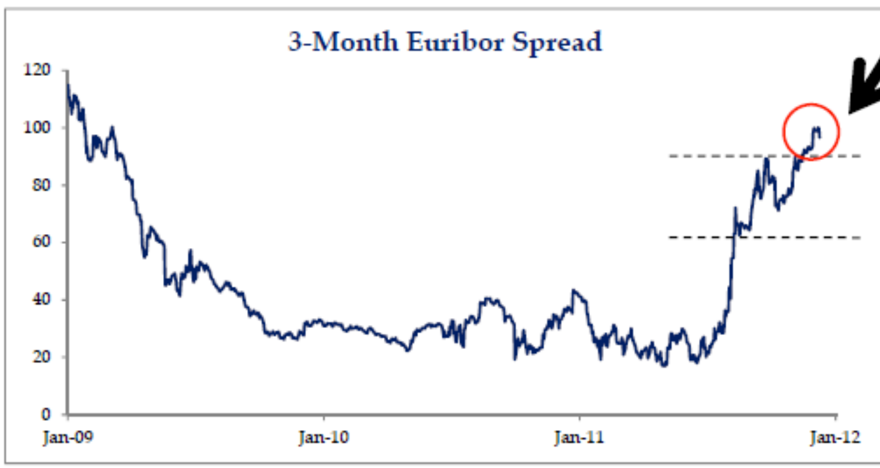
Credit Markets: Typically Lead the Market and are Barometer of Economic Health





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."*

MARKET STRATEGY: Ride Through the Volatility

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Volatility will likely continue in 2012 as uncertainty over Fiscal policy will remain. Five themes using a variety of asset classes are employed to generate return and diversify risk:

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 growers.
2) **Low Volatility:** US Large Cap Growth; Dividend Paying; Healthcare; Infrastructure
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.