New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

February 28, 2012

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PERFORMANCE: as of 2/27/12

N A I M

Sector	YTD	3Mo	1yr
S&P 500	9.1%	18.7%	5.8%
Russell 2000 (small/mid Cap)	11.7%	24.5%	01.9%
MSCI EAFE (Eurp. Asia, Far East)	11.2%	19.0%	-6.7%
MSCI Emerging Mkt	15.1%	20.4%	-3.9%
US Bonds (Barclay's agg. Index)	0.9%	1.9%	8.6%
High Yield Bonds (US)	4.9%	8.3%	6.0%
Gold (GLD: Net asset value)	12.7%	5.1%	24.8%
Defensive Sector	3.1%	12.3%	14.7%
Cyclical Sector	12.4%	23.2%	-0.5%

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Economic Update: Political Factors

Europe: Confidence is returning for now. Among the programs that have been implemented under Mr. Draghi is the LTRO (Long Term Refinancing Operation), which has stabilized the funding of European banks. Under this program, the ECB loaned almost €500 billion of 1% 3-year money to the banks in December and reportedly will be making a second, larger loan this month. The market reaction is encouraging; the question is whether it is short-sighted. The LTRO addressed the problem of short-term liquidity and gave the banks an opportunity to borrow cheap money and lend it out at higher rates and earn a profit on the difference. But the amount of money involved is insufficient alone to turn insolvent and unprofitable institutions around. In fact, the question that deserves to be asked is how the banks that are borrowing under the LTRO will be able to repay these loans when they are due in 3 years? .

Oil/Iran Factor: A<u>n attack is not imminent. But unless Iran offers some compromise, the risk of conflict rises significantly over time, with many experts focusing on Q3 as decision time</u>.
Potential Impact on Global Markets: Iran net exports 2.4mbd (million barrels per day), relative to world production of some 90mbd. Some 16mbd flows through the Strait of Hormuz. It is estimated that a conflict that shuts Iranian exports down totally pushes Brent up to $178/ bbl. If sustained for a year, and thus without offsets from other supply sources, this depresses world growth by 1.2%, and Developed Markets growth down to zero. Gauging the impact on asset prices is similar to forecasting what happens in a recession, with the exception that energy prices and likely gold rise in this risk scenario. Equities would be hit badly, with US stocks losing some 20%, though outperforming the rest of the world. The dollar would rally in a flight to quality. Gold may initially be hurt by a rising dollar but medium term would likely benefit from worsening geopolitical uncertainty.

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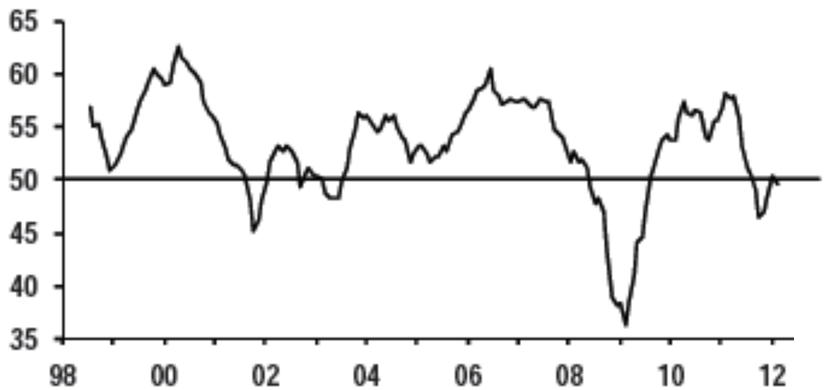
Europe Perspective: Zero Manufacturing growth & Low Confidence

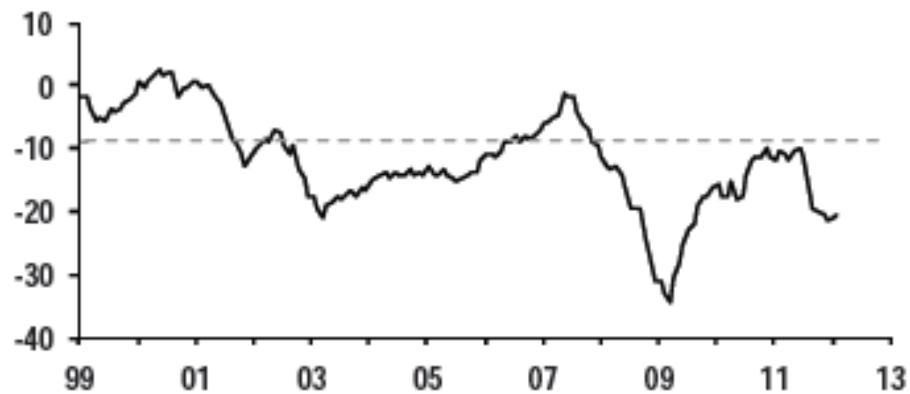
Euro area composite PMI output index

DI, sa



Euro area consumer confidence

Balance, sa, dotted line shows average from 1999 to 2007



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US Housing Market: Sales creeping up from basement. Inventories falling… a good sign

Gold: Impact of FIAT Money

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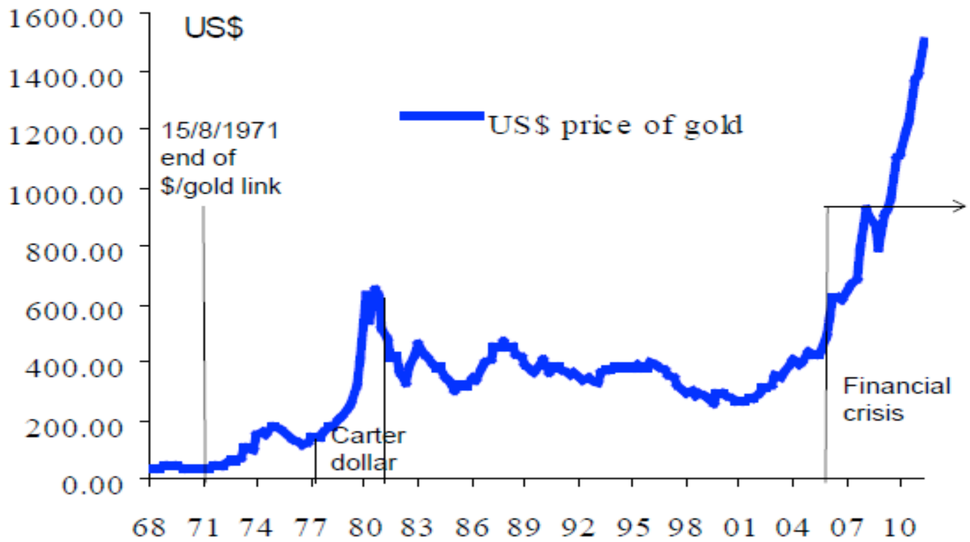
Forty years of flat money



More Dollars chasing Gold.

Deutsche Bank
DB Research

Thomas Mayer
Chief Economist

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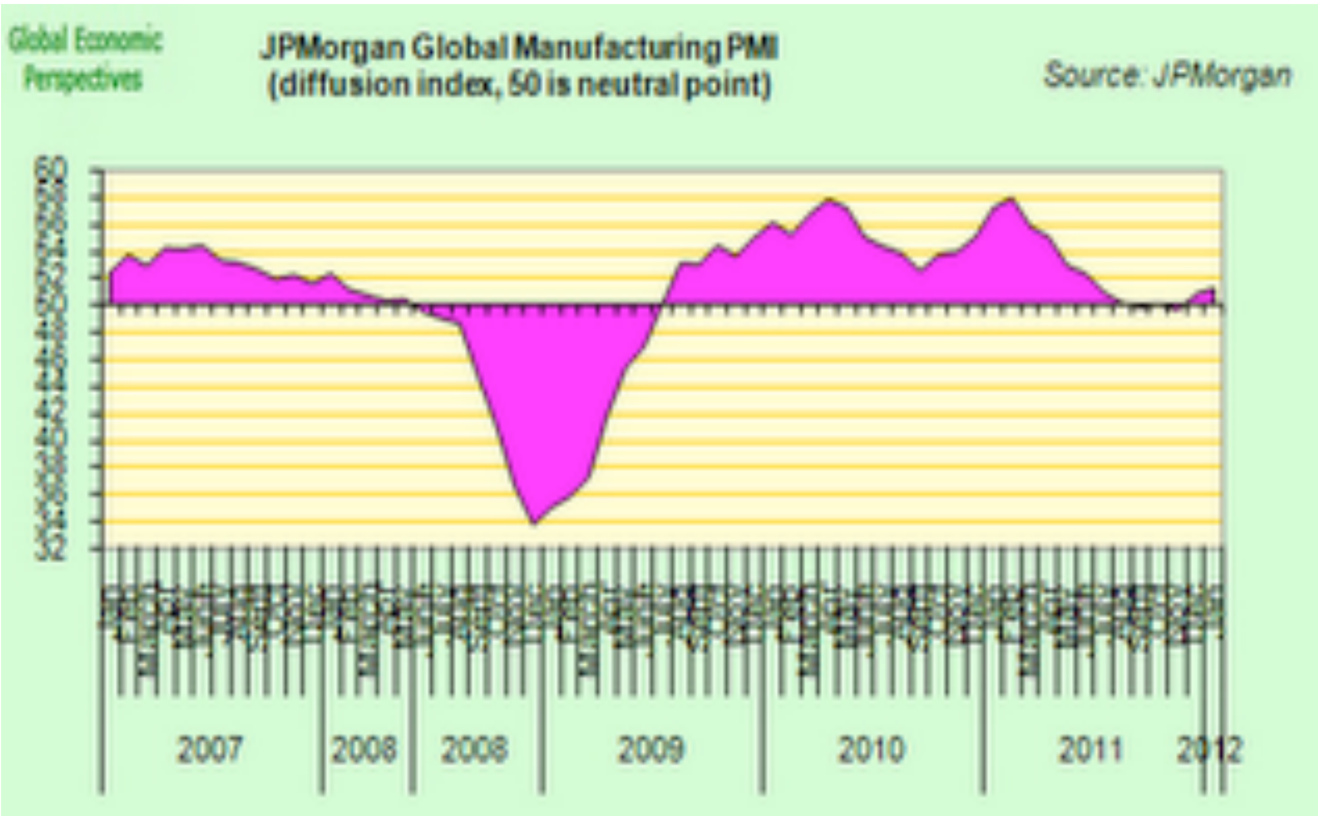
ECONOMY: Global Manufacturing Steadies

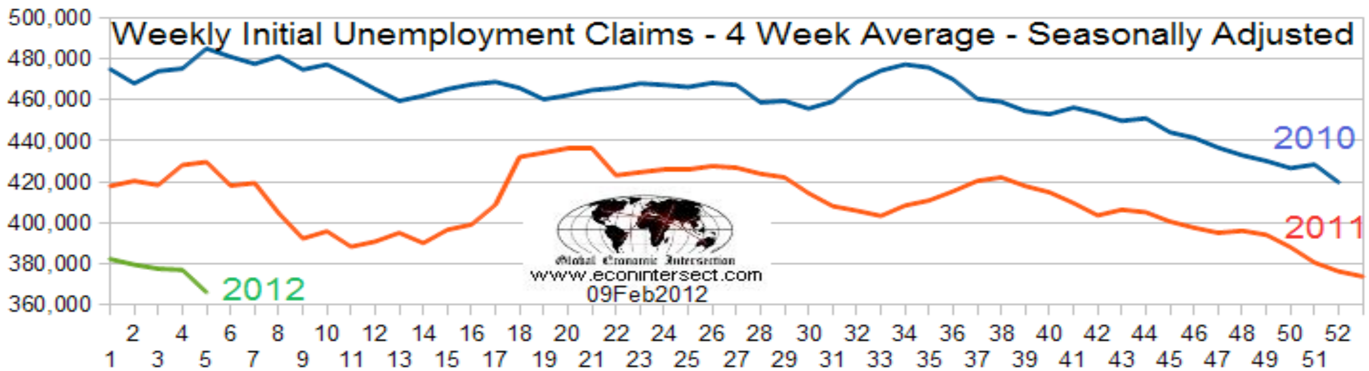


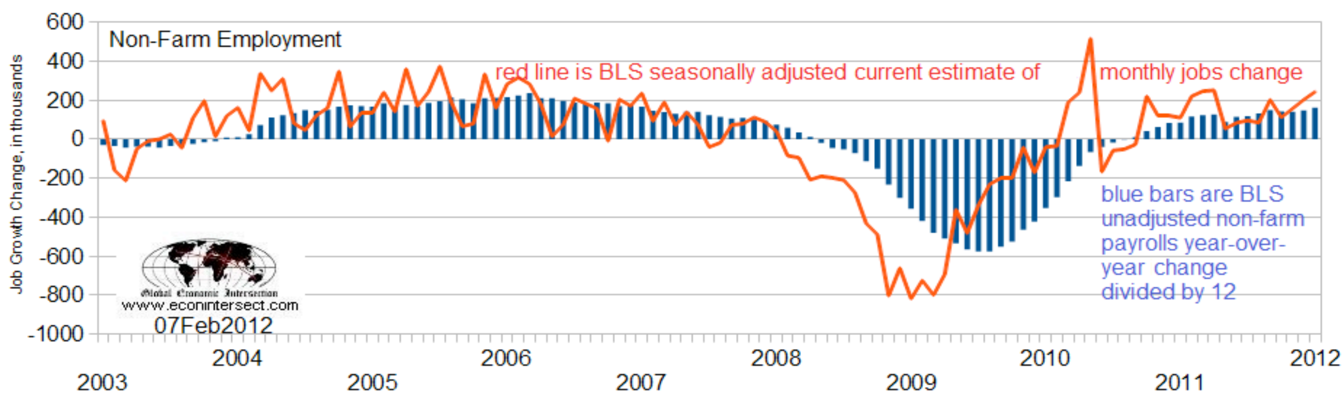
Global Manufacturing at a seven month high but still below its long run average. Growth of new export orders was led by India, the US and Turkey. China, Japan and the UK all reported modest increases, in contrast to the declines seen in the Eurozone, Russia, Canada, South Korea, Taiwan and Brazil.`

US EMPLOYMENT PERSPECTIVE:

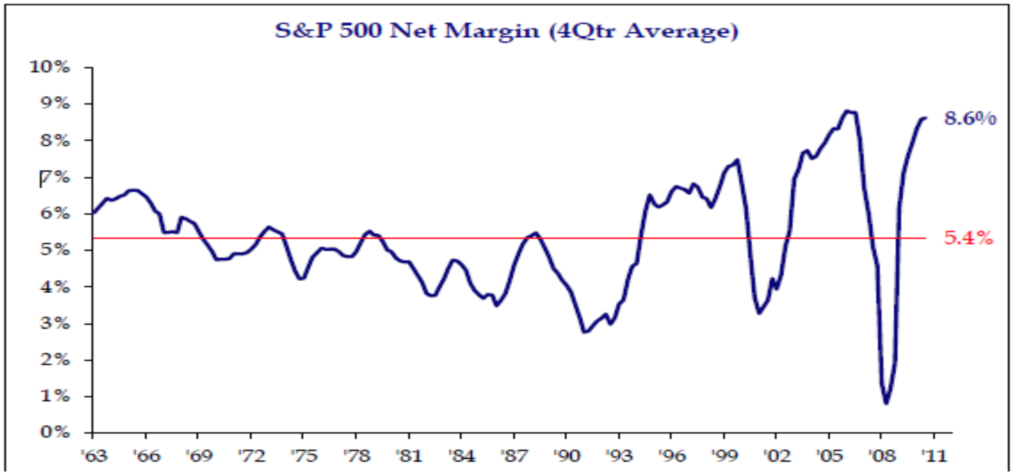
Still Fragile at best….

. •Employment at January 2005 levels yet population has grown by 18mm.
 •Job growth rate at January 2008 levels
 •Historically, recessions do not start when payroll is expanding





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.

MARKET STRATEGY:
Flexible, Diversified, Durable, Efficient….

Portfolio Strategy is positioned across 5 asset sectors and managed according to each Client's investment objectives and risk tolerance.

1) **High Quality Bonds**: Interest rates are expected to remain subdued. Exposure to Intermediate Corporate bonds (3-4% yield), provide income to portfolio.

2) **High Yield Bonds**: Sector was hit hard in 2011 pricing in a potential recession and high default rates. A disconnect between expectations and reality pushed prices down hard. But with yields over 7%, and improved confidence of a slow albeit growing US economy, HY bonds offer both income and price appreciation opportunities.

3) **Stocks:** Sticking with High Quality, Growth and Dividend Paying sectors as core position. Increased exposure to risk assets such as Mid Cap and Cyclical stocks in more aggressive portfolios. Moved out of Defensive sectors.

4) **Dynamic Fund Stock Strategies**: Exposure to funds which can rapidly adjust positions across the global markets as market conditions change. Also exposure to funds which employ long/short strategies- where they hold long positions in assets expected to rise in price against selling short positions of assets expected to fall in price.

5) **Commodities**: Exposure in two ways: Long Gold; Long/Short position in commodities through funds.