New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

February 13, 2012

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PERFORMANCE: as of 2/10/12

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Sector	YTD	3Mo	1yr
S&P 500	7.0%	8.9%	3.7%
Russell 2000 (small/mid Cap)	9.9%	12.5%	1.4%
MSCI EAFE (Eurp.Asia, Far East)	8.0%	7.4%	-8.9%
MSCI Emerging Mkt	13.7%	9.3%	-4.3%
US Bonds (Barclay's agg. Index)	0.6%	1.5%	9.8%
High Yield Bonds (US)	3.7%	4.5%	5.2%
GOLD (GLD: Net asset value)	8.7%	-2.6%	26.0%
Defensive Sector	1.8%	6.5%	13.6%
Cyclical Sector	10.7%	11.9%	-2.6%

MARKET Performance & Volatility:

The chart on the next page shows performance of the Dow and S&P 500 over the last 5yrs. Depending on which time frame you select, the performance can look very good (+ 16% ~ 3yr return), very bad (-36% ~ 2008), or very unremarkable (-0.1% ~ 4 & 5yr return- before inflation). The wide spread of returns reveals the damage from volatility and the need to managed risk. One performance criteria to look at is the return relative to the amount of risk. In other words, was an investor paid to ride out the volatility over the last 5yrs? The answer is most assuredly no.

An investment strategy that '**floats**' along with the broad market indices is best described as a '**passive aggressive**' strategy. This strategy would provide positive returns over the long term as long as economic cycles are long, contractions are mild, and the investor is continually adding new money. However, the current economic environment is quite different. With chronically low level of US GDP (currently 1.6%) expected, economic cycles will likely be shorter, with deeper contractions. This translates into higher market volatility and hence a strategy of 'floating along with market' is not appropriate for most investors. In fact, a better strategy for this type of economic environment is one that is dynamic (flexible), well diversified, and generally lower over all risk.

So the next time you look at the return of your portfolio, be sure to consider the time frame, the risk level, and your own portfolio objectives

MARKET PERFORMANCE & VOLATILITY:

Date	Dow	Dow Change YOY	S&P 500 Index	S&P Change YOY
1/31/2012	12632.91	6.23%	1312.41	2.04%
1/31/2011	11891.93	18.12%	1286.12	19.76%
1/29/2010	10067.33	25.83%	1073.87	30.03%
1/30/2009	8000.86	-36.75%	825.88	-39.38%
1/31/2008	12650.36	0.23%	1362.30	-5.28%
1/31/2007	12621.69		1438.24	

	Annualized Return				
	1 Year	2 Years	3 Years	4 Years	5 Years
Dow	6.23%	12.02%	16.45%	-0.03%	0.02%
S&P 500 Index	2.04%	10.55%	16.69%	-0.93%	-1.81%

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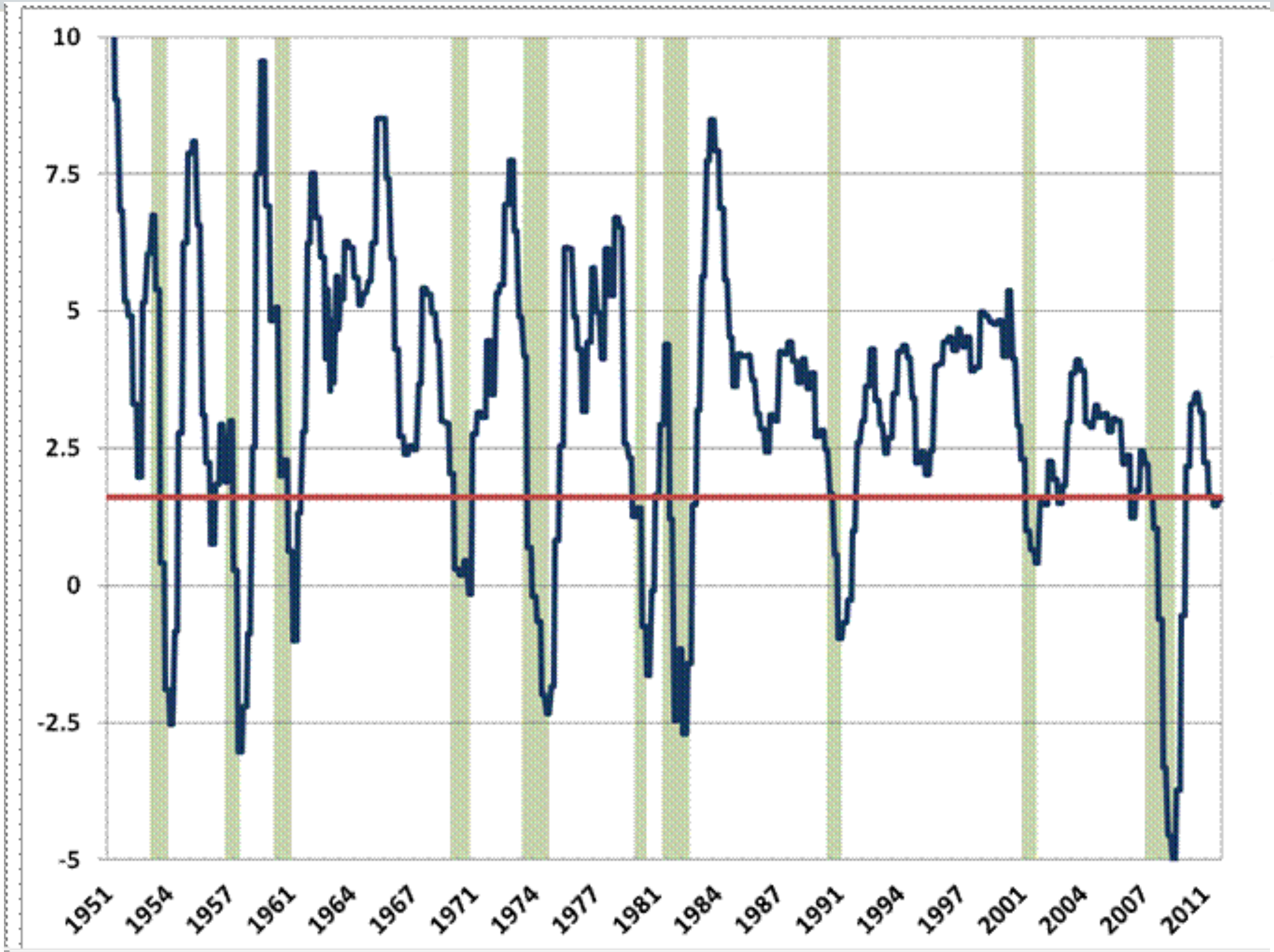
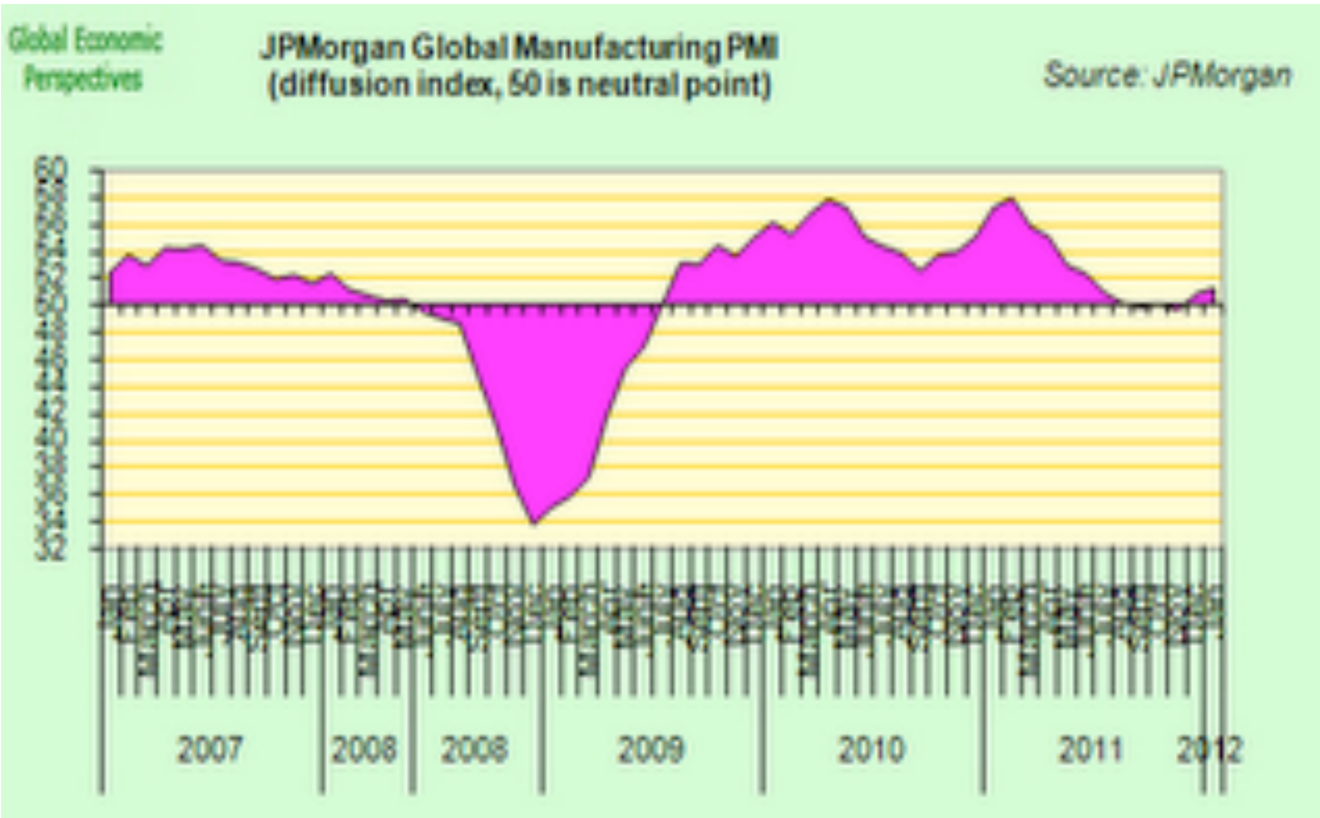
ECONOMY: With GDP Low, Recession Risk Remain High



GDP remains below 1.6% (red line). A decline to this level has always been associated with recession.

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.`

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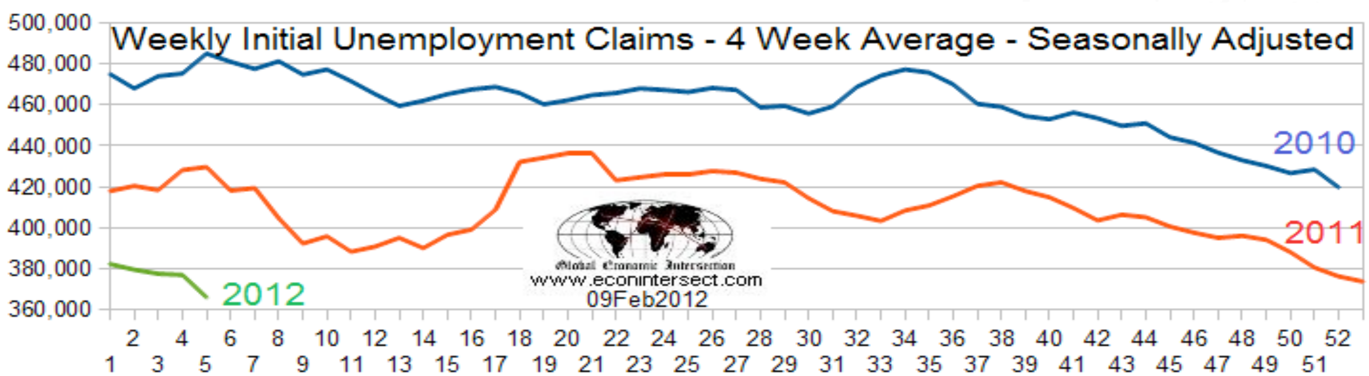
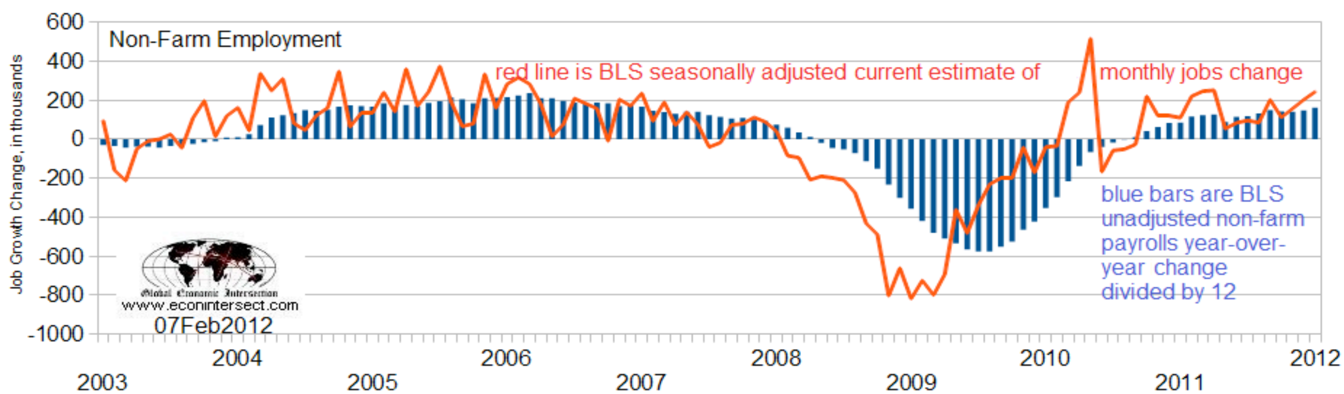
US EMPLOYMENT PERSPECTIVE:

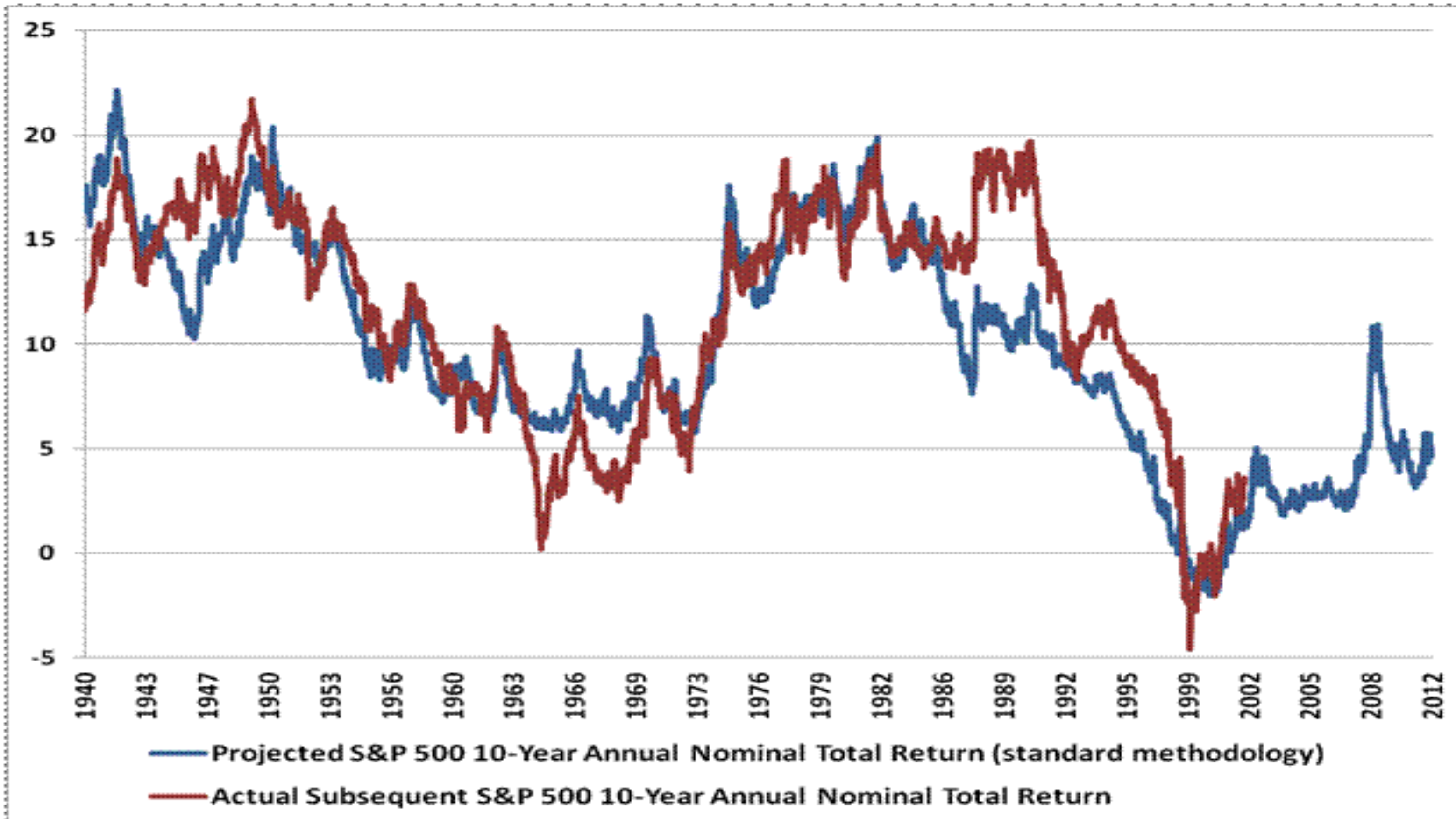
Still Fragile at best….

. •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





VALUATION: Stocks projected 10yr nominal return at 4.7% (John Hussman's Valuation Model)



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

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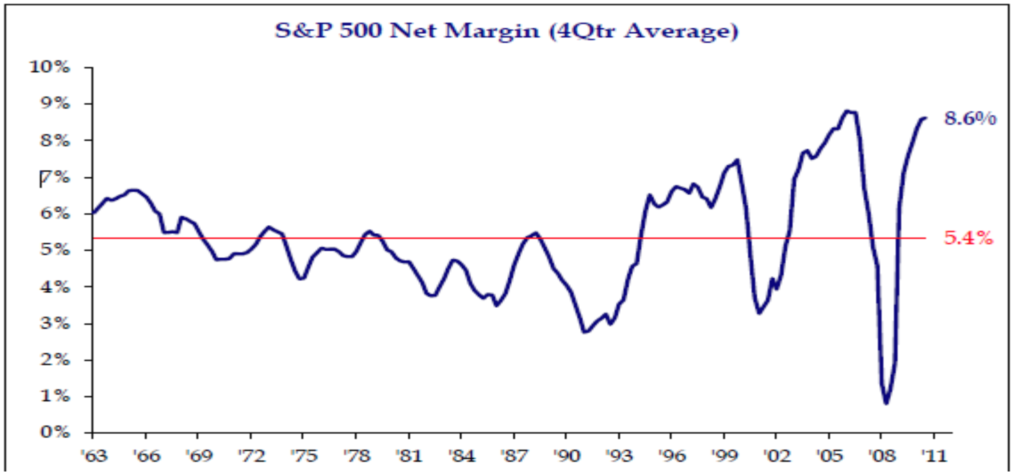

2012 S&P 500 Expected Value Table

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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ECONOMY: Consensus 2012 Global Growth continues to fall…perhaps all the bad news is already digested?

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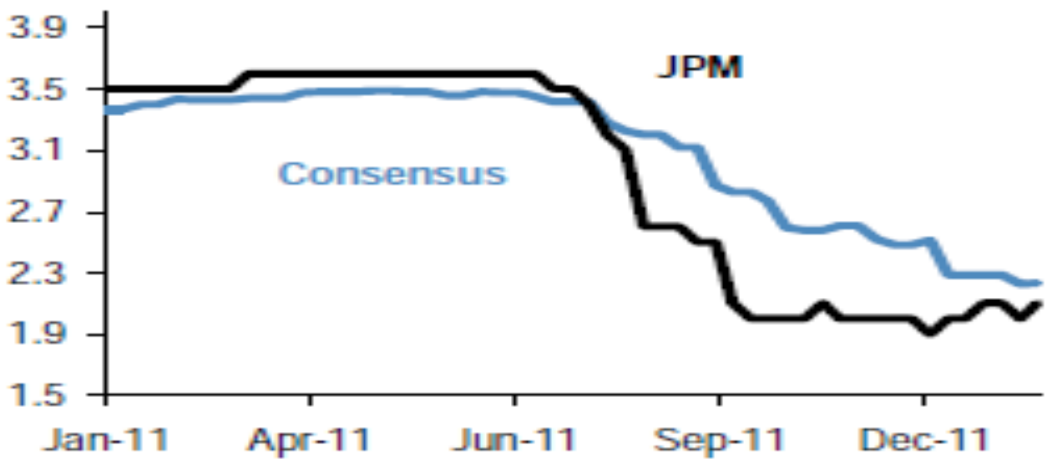
2012 global GDP growth forecasts: JPMorgan and Consensus



Source: J.P. Morgan, Consensus Economics. Consensus Economics forecasts are for regions and countries that we averaged using the same 5-year rolling USD GDP weights that we use for our own global growth forecast.

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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.