New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

February 6, 2012

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PERFORMANCE: as of 2/03/12

NAIM

Sector	YTD	3Mo	1yr
S&P 500	7.1%	7.3%	5.0%
Russell 2000 (small/mid Cap)	12.3%	11.0%	5.5%
MSCI EAFE (Eurp. Asia, Far East)	8.4%	4.9%	-8.5%
MSCI Emerging Mkt	14.4%	7.6%	-7.5%
US Bonds (Barclay's agg. Index)	0.5%	1.1%	8.9%
High Yield Bonds (US)	3.4%	3.9%	5.4%
GLD (Net asset value)	10.0%	-1.5%	30.0%
Defensive Sector	2.2%	6.3%	14.8%
Cyclical Sector	9.3%	9.6%	0.0%

MARKET SUMMARY: Bulls & Bears have Fodder

Economic Update: **You See What You Want to See...**
Recent economic numbers have shown both strong and weak data, giving enough 'confirmation data' for both the Bulls and Bears. (Confirmation bias is a tendency of people to favor information that confirms their beliefs. cite: Wikipedia). You choose which is more important:

- US Manufacturing data continues to show positive momentum. And recently, China and other emerging economic data is turning positive.

-However, Europe's credit crisis is still very real and the US housing market, though stabilizing is still quite depressed.

-Last Friday, the US employment data was yet another example of both good and bad data. The numbers printed surprisingly good, with 243,000 new hires and a drop in the unemployment rate to 8.3% giving fodder for the bulls. -However, the Bears cited the alarming drop in the labor force participation to 64%, a 30year low. This means more people are on disability and government subsidy, and a vast number of discouraged workers ... indicating a very sad state of the U.S. economy. This deterioration in the labor force participation rate was not reported by most media.

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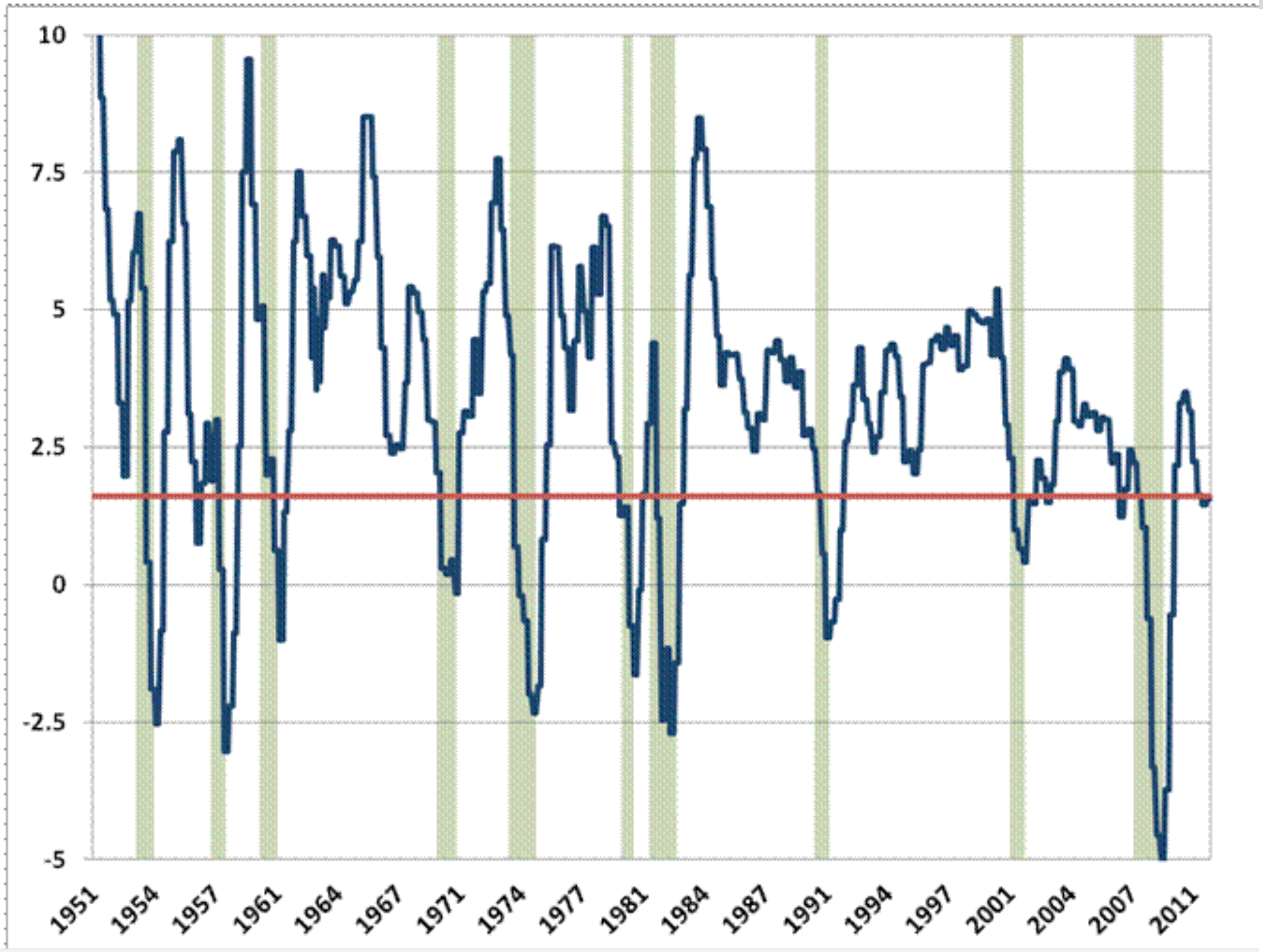
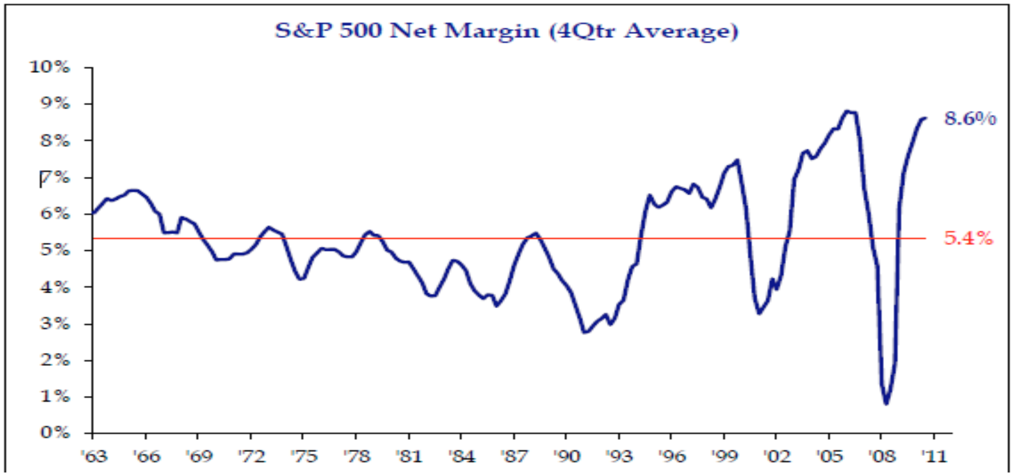
ECONOMY: With GDP Low, Recession Risk Remain High



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

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

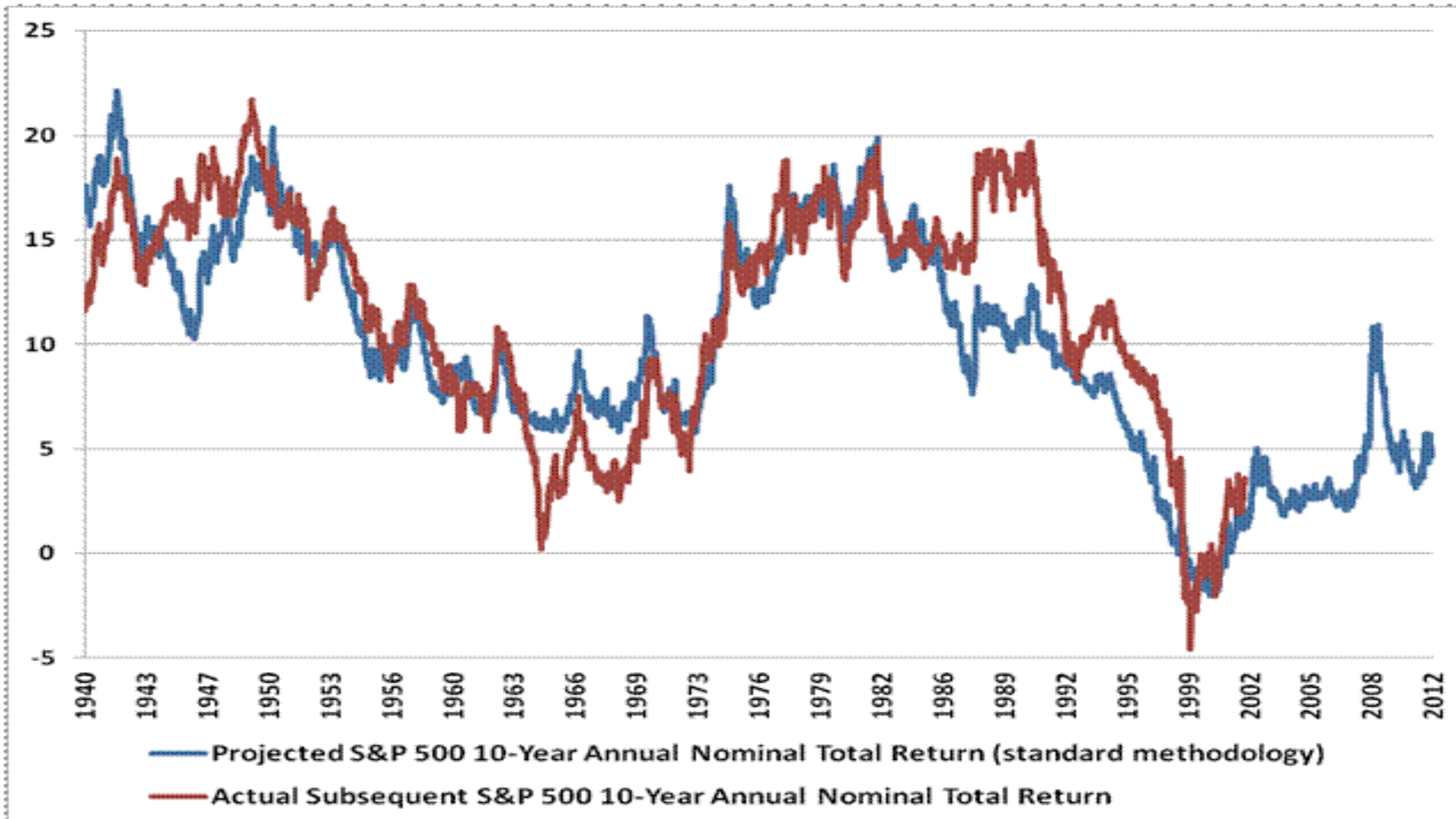


2012 S&P 500 Expected Value Table

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.

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



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

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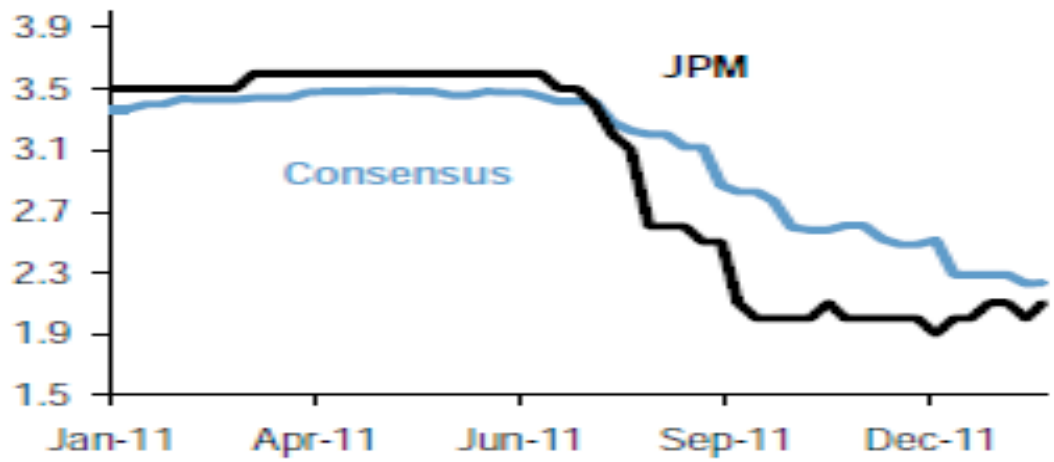
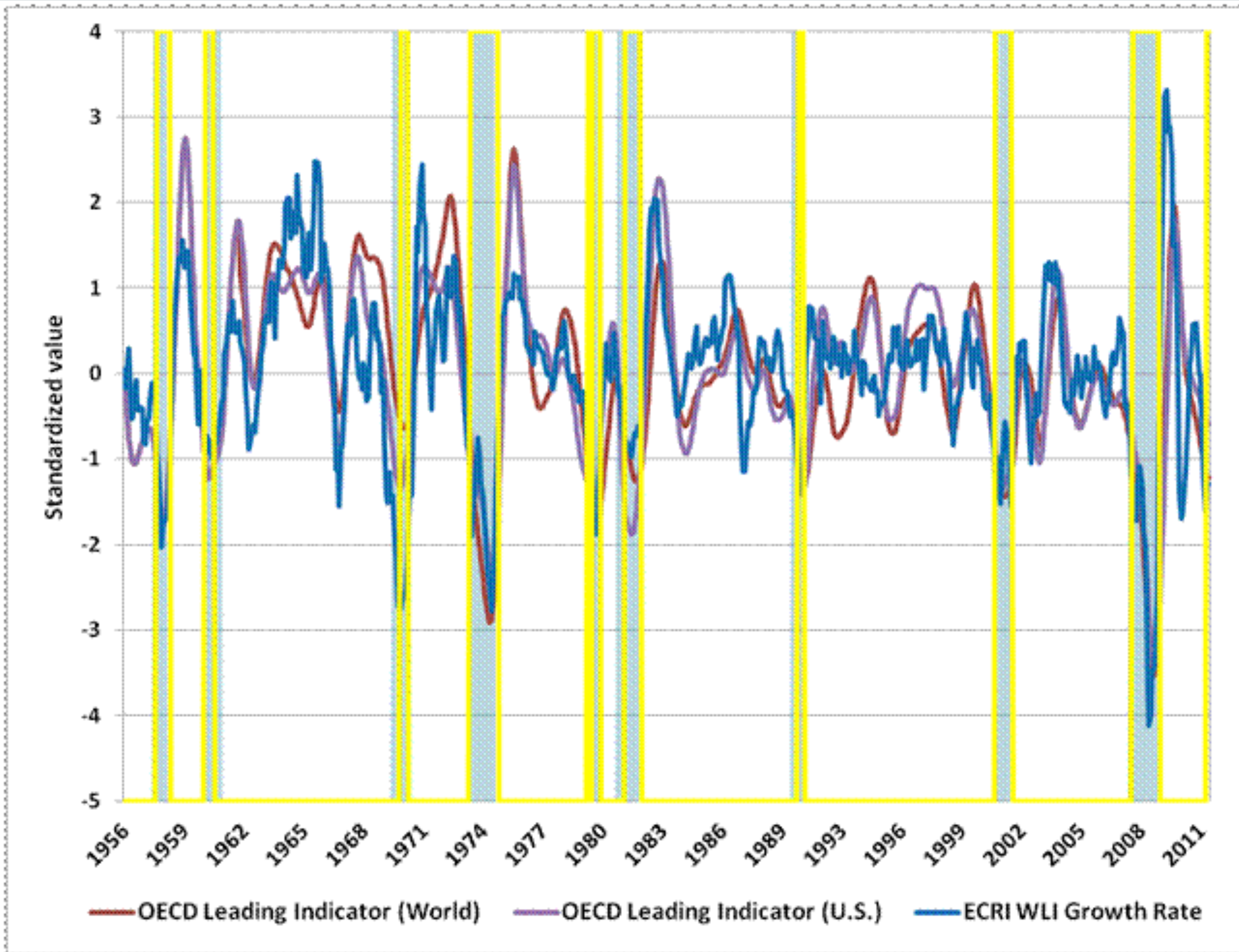
2012 global GDP growth forecasts: JPMorgan and Consensus

%



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.

ECONOMY : World and US leading indicators converging in the "Danger Zone".



When all three indicators have converged in the negative zone, a recession has be forth coming.

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

Portfolio Strategy is positioned across 5 asset sectors:

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 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.

All strategies are managed in the context of client goals and risk tolerance.