New Albany Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

January 23 , 2012

New Albany
Investment Management

PERFORMANCE: as of 1/20/12

N
A
I
M

Sector	YTD	3Mo	1yr
S&P 500	4.7%	8.8%	4.9%
Russell 2000 (small/mid Cap)	5.9%	13.0%	2.2%
MSCI EAFE (Eurp. Asia, Far East)	4.3%	3.6%	-9.2%
MSCI Emerging Mkt	8.6%	9.6%	-13.0%
US Bonds (Barclay's agg. Index)	-0.1%	1.3%	8.1%
High Yield Bonds (US)	1.7%	4.8%	4.6%
GLD (Net asset value)	5.0%	1.9%	22.4%
Defensive Sector	1.0%	7.5%	13.3%
Cyclical Sector	7.5%	11.0%	-1.8%

New Albany Investment Management

Market Summary:

- Markets and Economy:

The markets have gotten off to a very strong start this year, with money flowing back into riskier sectors like Emerging Markets, Precious Metals, and Small/Mid-Cap stocks. Three reasons can be attributed to this: China has indicated they may ease lending standards in response to the weakness manufacturing not seen in over 3yrs.; the ECB has provided enough liquidity to ease immediate liquidity pressures from the banking system; US economic data has been stable to slightly stronger than expected. In short, the market has hit a patch of blue sky and calm waters allowing for smooth sailing, at least for now. However, leading indicators and very identifiable economic headwinds remain. Risks remain asymmetric, in the sense that the potential downside in the event of a downturn, overwhelms the potential gains in the event of further stabilization.

So despite the stabilization of immediate liquidity strains, we can readily observe that the main sources of economic headwinds (excessive sovereign and household debt loads, global fiscal austerity, weakly capitalized banking systems) have not been addressed in any durable, meaningful way. Perhaps the can has been kicked down the road, yet again.

New Albany Investment Management

Economy: Downside Risk recedes, but lift is still months away… JPMorgan's View:

.

- **Markets respond to news that downside risk to global growth is abating**
- **Overall global growth likely to remain subpar this quarter before lifting into midyear**
- **Disinflation gathers steam with Euro area and UK inflation now breaking**
- **Next week: FOMC signals it is not ready for QE and RBI stays on hold**

Downside risk recedes, but lift is still a few months away

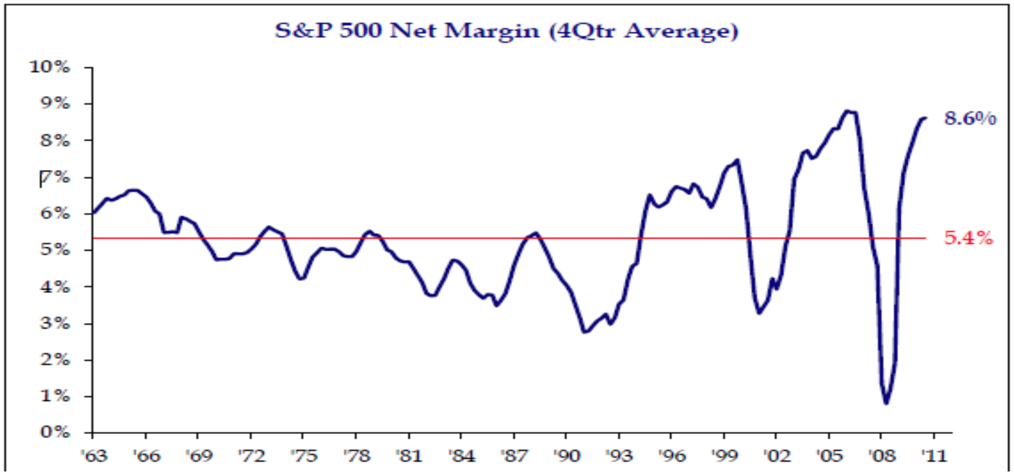
"Our central outlook is that the global economy is now forming the base for a lift into midyear. Supported by falling inflation and a resilient US private sector, global final demand growth remains solid, despite the Euro area recession. Production weakness is thus promoting inventory adjustments, which are likely to be completed around the end of this quarter. If we are right that Euro area financial stress is contained, this dynamic will produce a turn in the industrial cycle, reinforced as financial markets breathe a sigh of relief. Regionally, the major beneficiaries of this swing should be emerging market economies that are experiencing the brunt of global inventory adjustment and are shifting toward more accommodative policy stances."

European Economy: Downside Risk Recedes, Sovereign Borrowing Cost Decline.

.

New Albany Investment Management

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



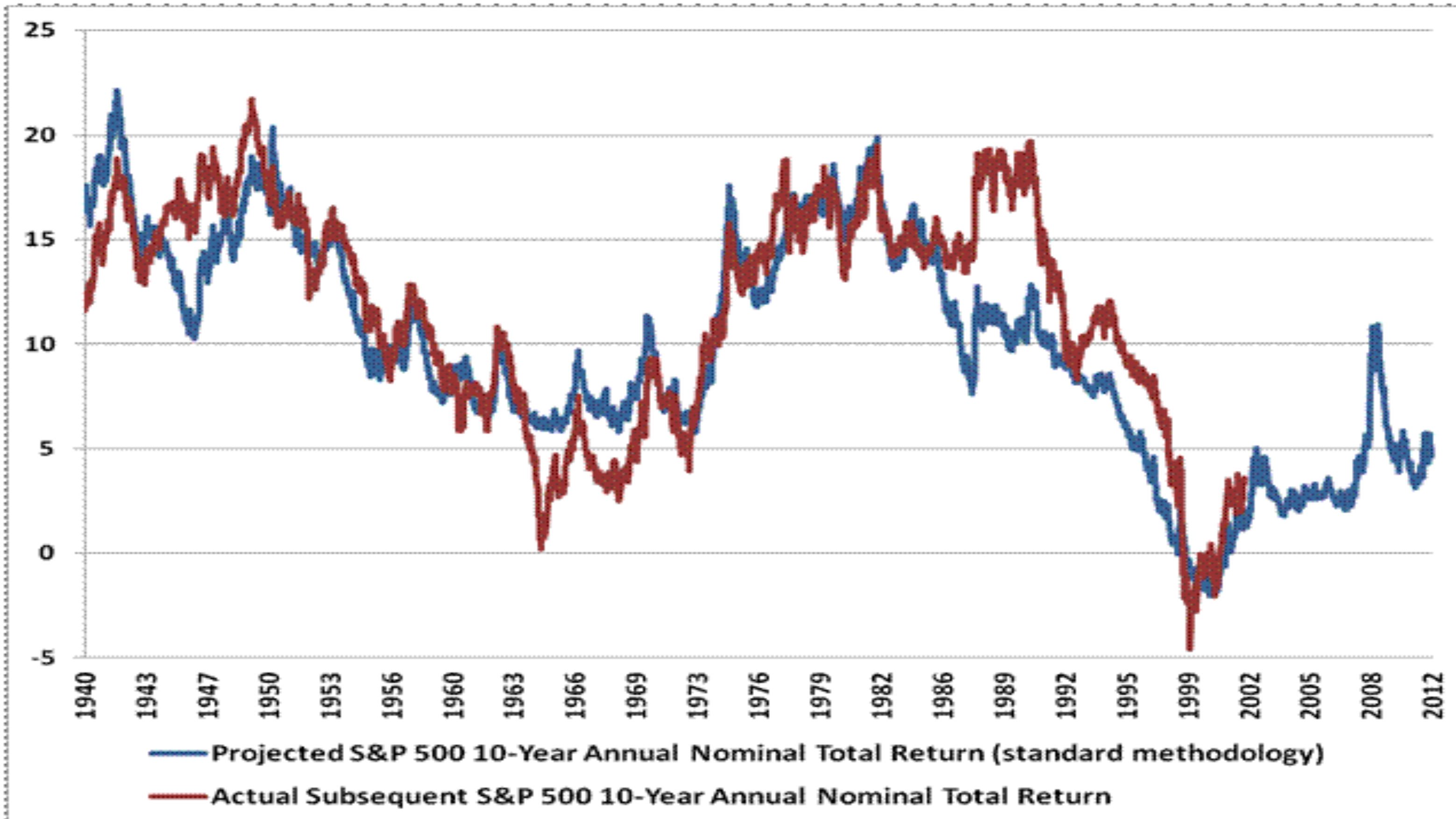
2012 S&P 500 Expected Value Table

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.

New Albany Investment Management

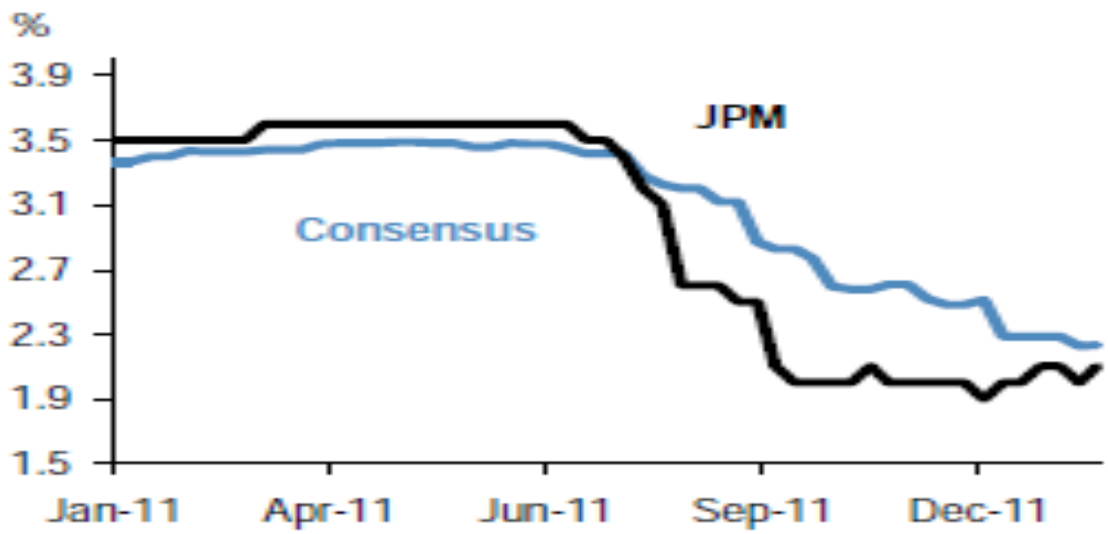
Valuation: Stocks projected 10yr nominal return at 4.7% According to John Hussman's Valuation Model.



Economy: Consensus for 2012 Global Growth has continued to Fall…perhaps all the bad news is already digested?

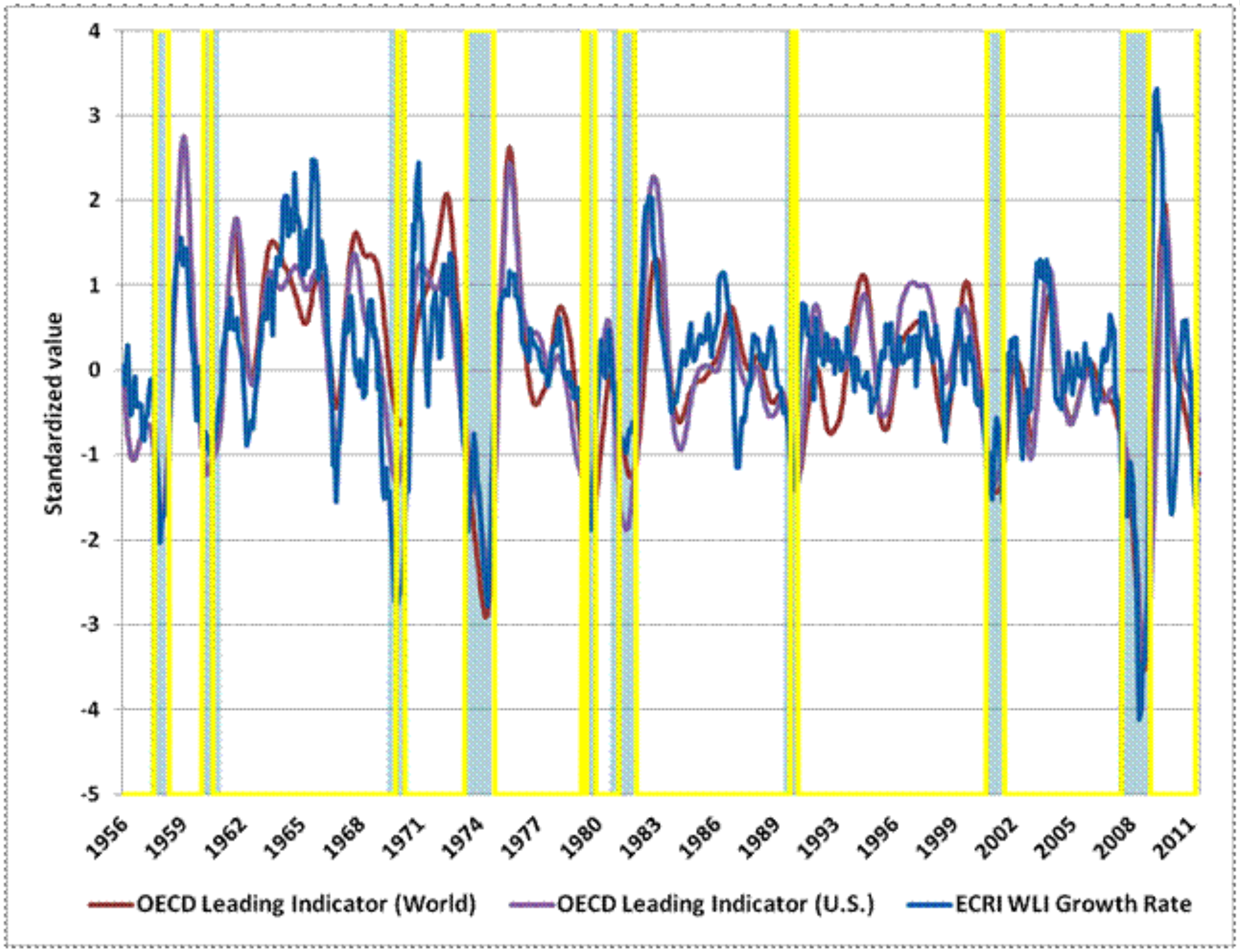
.

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.

MARKET STRATEGY: Well diversified, Slow but Sure….

A neutral economic outlook will reduce investor fear and should be a positive for the markets.

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.