New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

July 15, 2011

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PERFORMANCE: as of 7-15-2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	-2.0%	0.2%	5.1%
Russell 2000 (small/mid Cap)	-2.8%	-0.4%	6.4%
MSCI EAFE (Eurp. Asia, Far East)	-2.7%	-2.4%	2.1%
MSCI Emerging Mkt	-2.4%	-3.9%	-1.4%
US Agg. Bonds (Barclay's)	0.3%	2.8%	3.7%
High Yield Bonds (US)	-0.6%	0.9%	5.7%
GLD (Net asset value)	3.3%	7.0%	11.9%
Real Estate	-2.4%	3.6%	12.3%
Energy	0.5%	0.9%	15.4%

Economy: Watching for signs of resumption of 2H 2011 Growth

Fiscal action in Washington is what the markets and economy need to gain any traction. With rates at zero, the Fed is out of bullets. **This is precisely where fiscal policy is supposed to come into play. A core problem now appears to be that faith in fiscal policymakers, both in the U.S. and abroad in Europe, is becoming more strained at precisely the wrong moment. Without any action, economic forecast is in jeopardy.**

STRATEGAS ECONOMIC FORECASTS

	2010				2011				2012			
	1Q	2Q	3Q	4Q	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q % AR	3.7%	1.7%	2.6%	3.1%	1.8%	2.0%	3.7%	4.0%	2.3%	2.0%	1.0%	1.0%
Core CPI Q/Q % AR	0.0%	0.8%	1.1%	0.6%	1.7%	2.3%	1.2%	1.5%	2.0%	2.3%	2.5%	2.7%
Fed Funds EOP	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.5%	1.0%	1.5%
Mortgage Rate EOP	5.0%	4.6%	4.3%	4.8%	4.9%	4.6%	5.0%	5.1%	5.3%	5.3%	5.3%	5.3%

F = Forecast; EOP = End of Period, a = actual

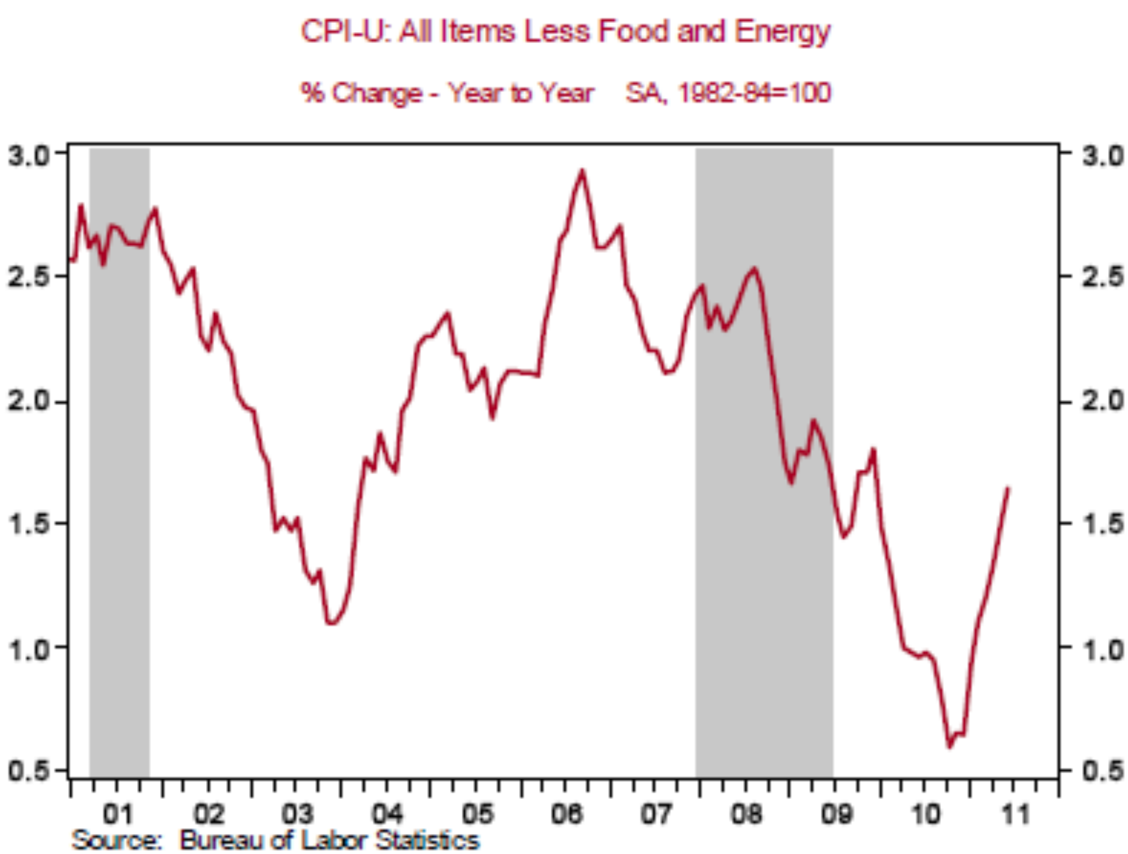
Economy: Watching for signs of resumption of 2H 2011 Growth

THE "STRONG PATCH" SIX

6 Items to Watch in July to Determine Whether 2011 "Soft Patch" Will be Followed by a 2H "Strong Patch"

1) Initial Claims should fall seasonally in July, picking up additional vehicle production.
2) Money Growth (which has been trending around a 5% pace) should continue.
3) Mortgage Apps for Purchase should remain at least sideways.
4) Consumer Confidence should stabilize (reflecting lower gasoline prices after the SPR move).
5) Commodity prices in general should stabilize.
6) The velocity of money should pick up some (watching bank loans + commercial paper).

Economy: Rising core CPI makes Fed move less likely. All attention is now turned to Fiscal Policy.



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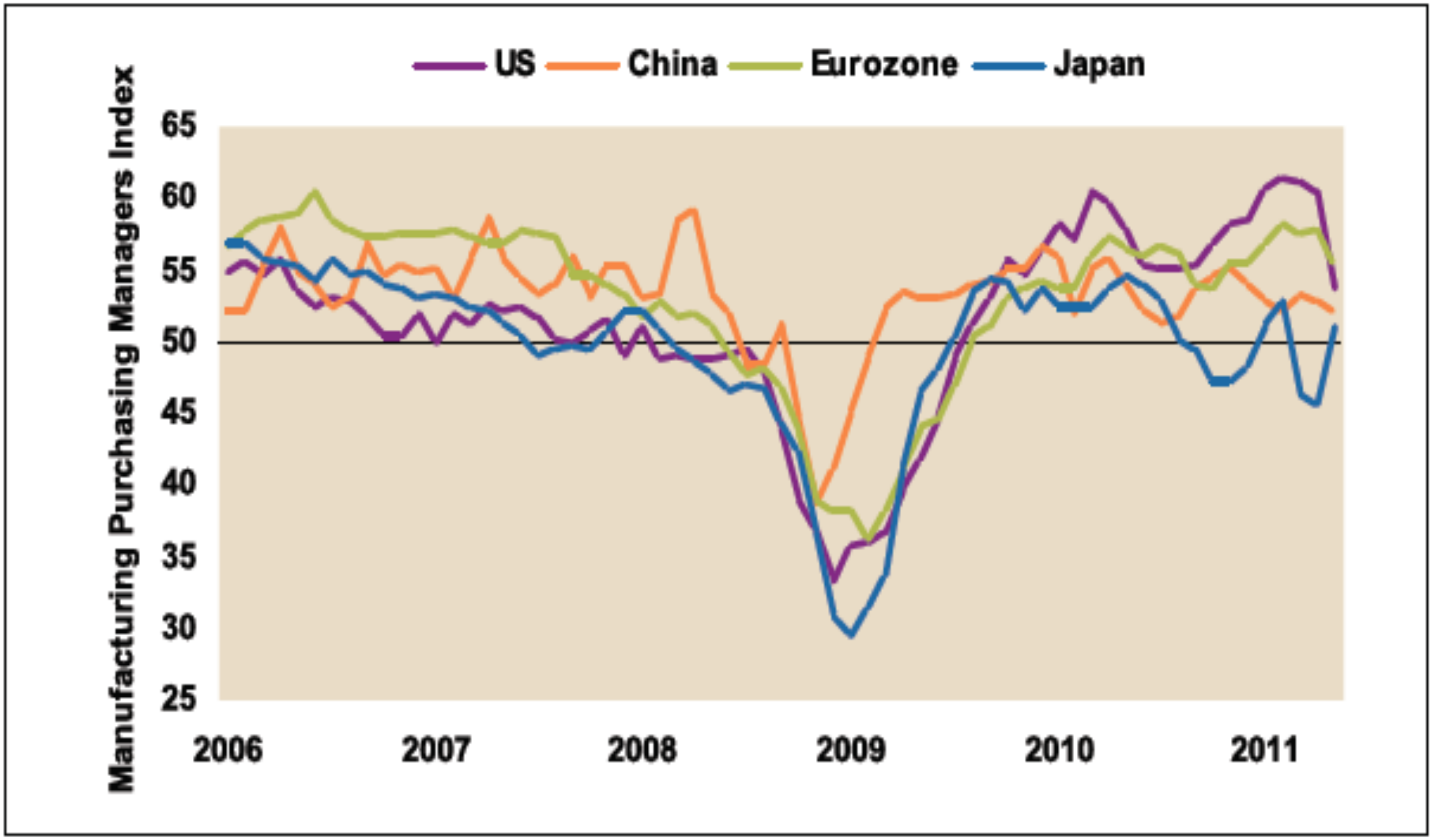
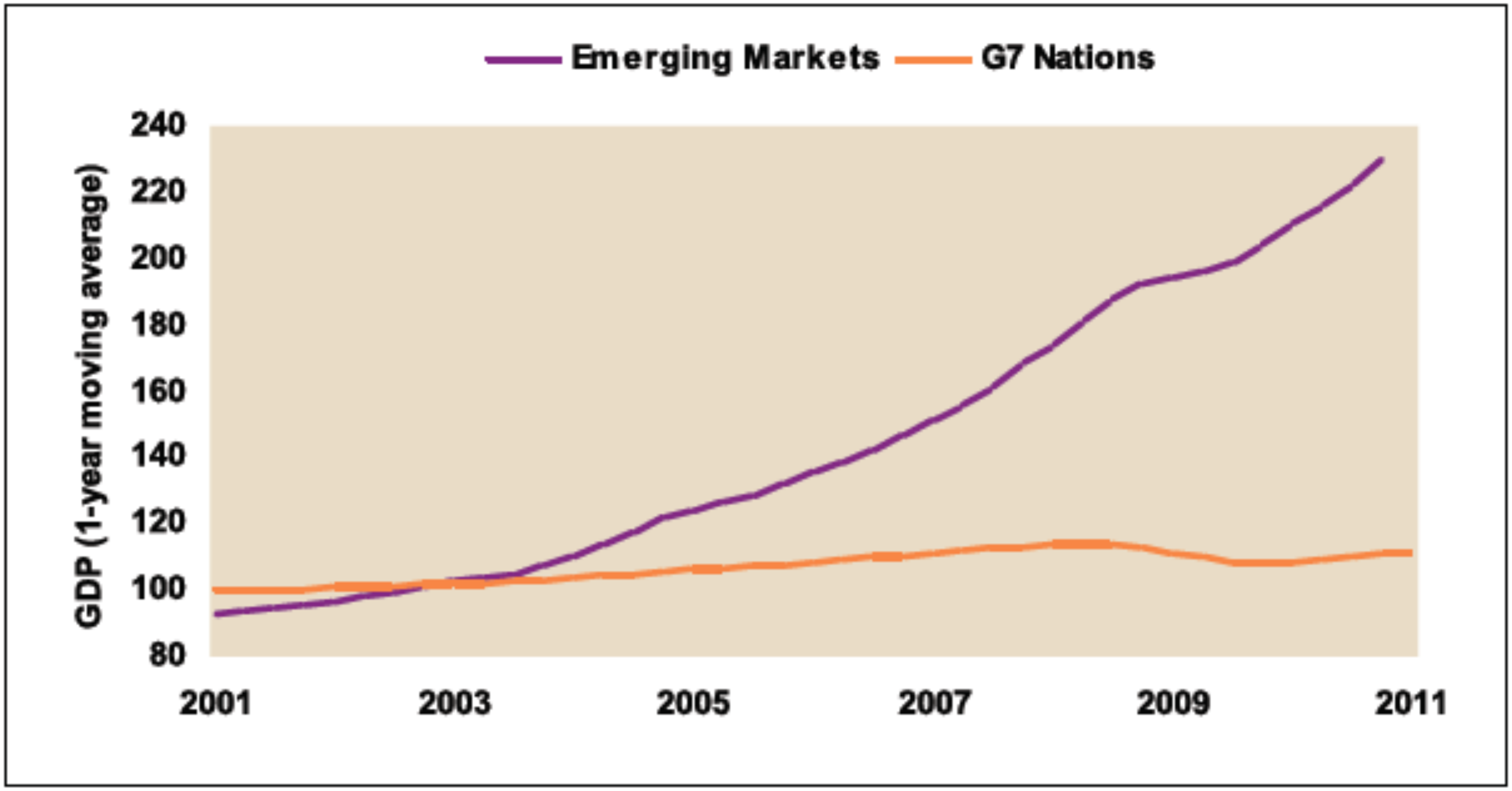
Economy: 90% Debt/GDP = Threshold above which GDP suffers
US Federal Debt presently 94% of GDP

Real GDP Growth as Level of Government Debt Varies				
Select Advanced Economies (1790-2009)				
	Central (Federal) Government Debt/GDP			
	Below 30%	30% - 60%	60% - 90%	90% and Above
Average	3.7	3.0	3.4	1.7
Median	3.9	3.1	2.8	1.9
# of Observations	866	654	445	352
Select Emerging Market Economies (1900-2009)				
	Central (Federal) Government Debt/GDP			
	Below 30%	30% - 60%	60% - 90%	90% and Above
Average	4.3	4.1	4.2	1.0
Median	4.5	4.4	4.5	2.9
# of Observations	686	450	148	113

Economy: Growth Slowdown is Global, but Japan (3rd Largest Economy) is resurging.

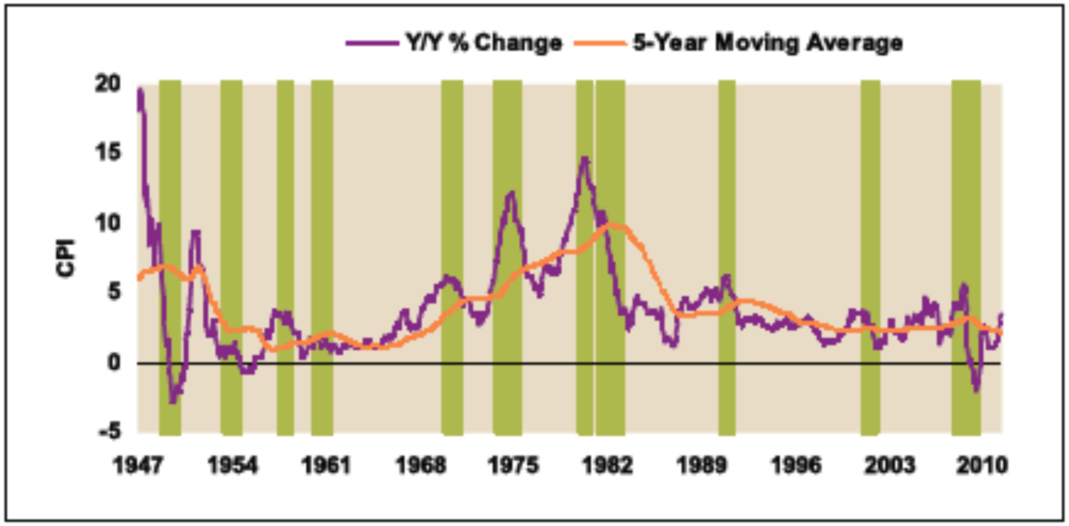


Economy: GDP of Emerging Economies Soar relative to Developed Economies



Valuation: Core Inflation in Decent Zone for GDP and Stocks

Hyper-inflation unlikely



We are here

Inflation vs. Productivity, Real GDP & Stocks (3/31/1947-3/31/2011)			
CPI (y/y % change)	Gain/Annum in Non-Farm Productivity	Gain/Annum in Real GDP	Gain/Annum in S&P 500
< 1%	3.97	4.67	20.05
1 – 4%	2.63	3.62	8.89
4 – 9%	1.24	2.52	1.24
> 9%	0.98	1.03	0.69

VALUATION:

Stocks are stuck in trading range between 1250 and 1350. S&P currently at 1329 level

2011 S&P 500 Expected Value Table

Odds	Outlook	Economy	S&P Earnings	Expected Multiple	Implied S&P 500
5%	Policy Error	Recession	$84.00	11x	924
25%	Stimulus Driven Recovery	Macro Uncertainty	$94.25	13x	1,225
60%		Base Case	$94.25	16x	1,508
10%	Upside Surprise	Too Hot	$98.00	14x	1,372
				Expected Value	1,394

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VALUATION: Dividends have contributed 50% of total return of stocks.

Dividend Contribution to Total Return

	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg. Payout Ratio
1930s	-41.9%	56.0%	14.1%	NA	90.1%
1940s	34.8%	100.3%	135.0%	74.3%	59.4%
1950s	256.7%	180.0%	436.7%	41.2%	54.6%
1960s	53.7%	54.2%	107.9%	50.2%	56.0%
1970s	17.2%	59.1%	76.4%	77.4%	45.5%
1980s	227.4%	143.1%	370.5%	38.6%	48.6%
1990s	315.7%	117.1%	432.8%	27.0%	47.6%
2000s	-24.1%	15.0%	-9.1%	NA	35.3%
Avg.	*104.9%*	*90.6%*	*195.6%*	$\boxed{\textit{51.5\%}}$	*54.6%*

Companies that pay dividends have had higher growth rates than companies that don't throughout time.

S&P 500 Sector Dividend Contribution to Yield Ratio

S&P 500 Sector	Dividend Contribution	Dividend Yield	Ratio (Sorted)
Technology	9.5%	1.1%	8.9
Financials	11.9%	1.6%	7.6
Energy	11.3%	1.8%	6.3
Health Care	12.4%	2.1%	5.9
Industrials	12.0%	2.1%	5.6
Discretionary	7.9%	1.5%	5.3
Staples	15.9%	3.0%	5.3
Materials	3.6%	2.0%	1.8
Utilities	7.5%	4.4%	1.7
Telecom	7.8%	5.0%	1.5

Tech offers the biggest bang for the buck…

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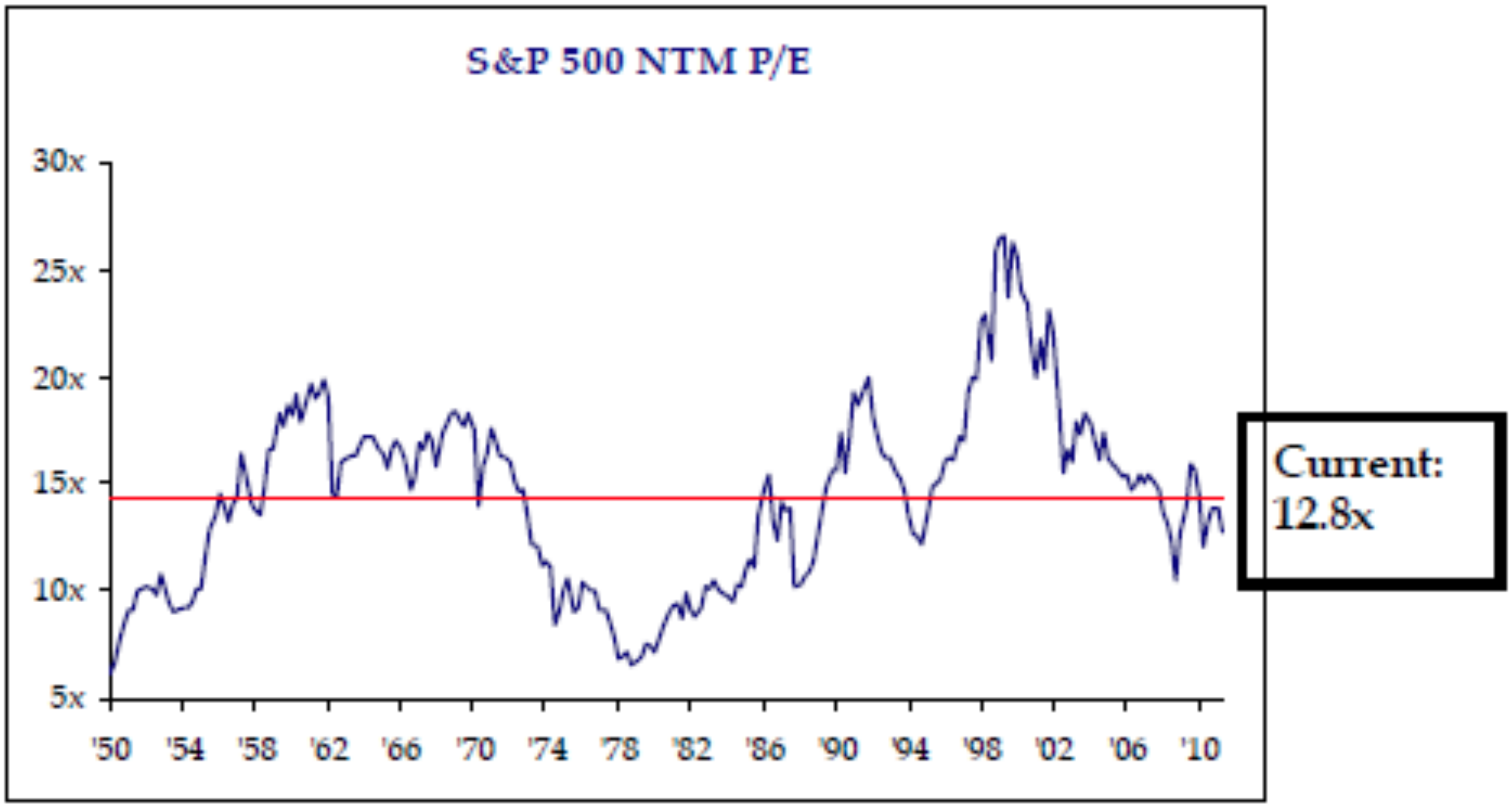
VALUATION: Historically Stocks look relatively cheap at 12.8x price-to-earnings ratio



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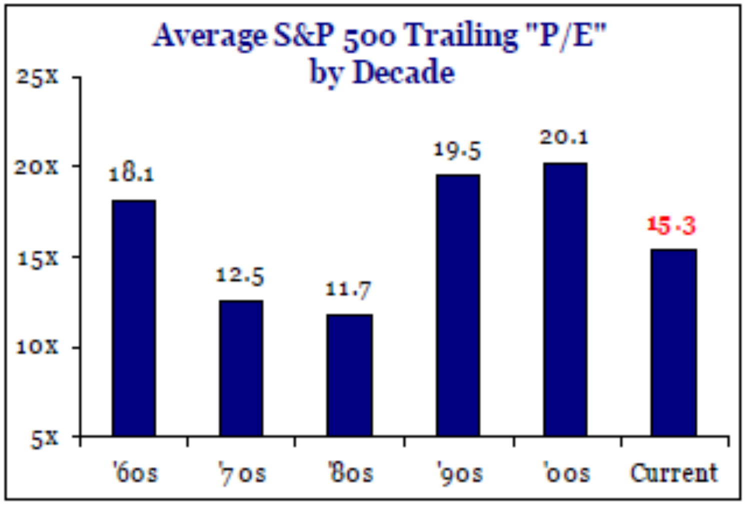
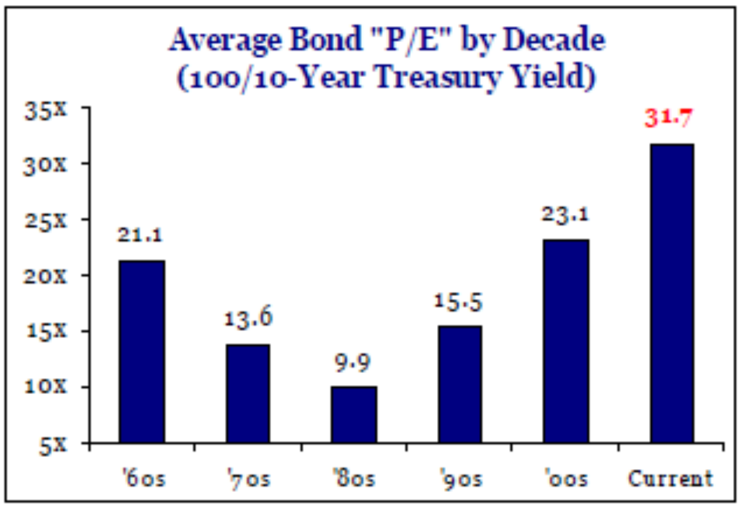
VALUATION: Stocks look cheap compared to Bonds

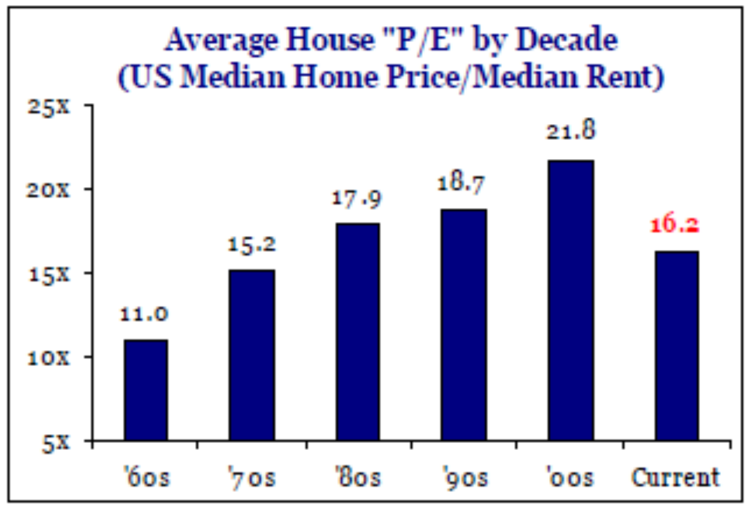


Average S&P 500 Trailing "P/E" by Decade

Professor Shiller's measure of market P/E is still a cause of some anxiety for many investors. We believe it's important for investors to keep two things in mind: (1) the current level of the Shiller P/E is equal to that exhibited in 1995, and (2) bonds are more expensive than stocks in Shiller's construction now more than at nearly any time prior to the financial crisis. **For those that need to be fully invested, equities may remain the best house in a bad neighborhood of asset allocation choices.**



Average Bond "P/E" by Decade (100/10-Year Treasury Yield)



Average House "P/E" by Decade (US Median Home Price/Median Rent)

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Strategy: Diversification is Key in Volatile Markets