New Albany
Investment Management

Market Insight…

- Performance
- Economic Update
- Charts of Interest*

*Provided by Strategas Research Partners

June 1st 2011

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Market Performance:

as of 5-31-2011

Sector	Week	1Mo	YTD
S&P 500	2.3%	-1.1%	7.8%
Small MidCap 400	-1.7%	-1.7%	8.0%
MSCI EAFE (Eurp. Asia, Far East)	3.8%	-2.9%	6.3%
MSCI Emerging Mkt	3.9%	-3.0%	-1.4%
US Agg. Bonds (Barclay's)	0.4%	1.3%	3.0%
High Yield Bonds (US)	0.1%	0.7%	6.0%
GLD (Net asset value)	3.2%	1.5%	7.1%
Real Estate	3.8%	1.0%	14.3%
Energy	3.5%	-4.2%	14.3%

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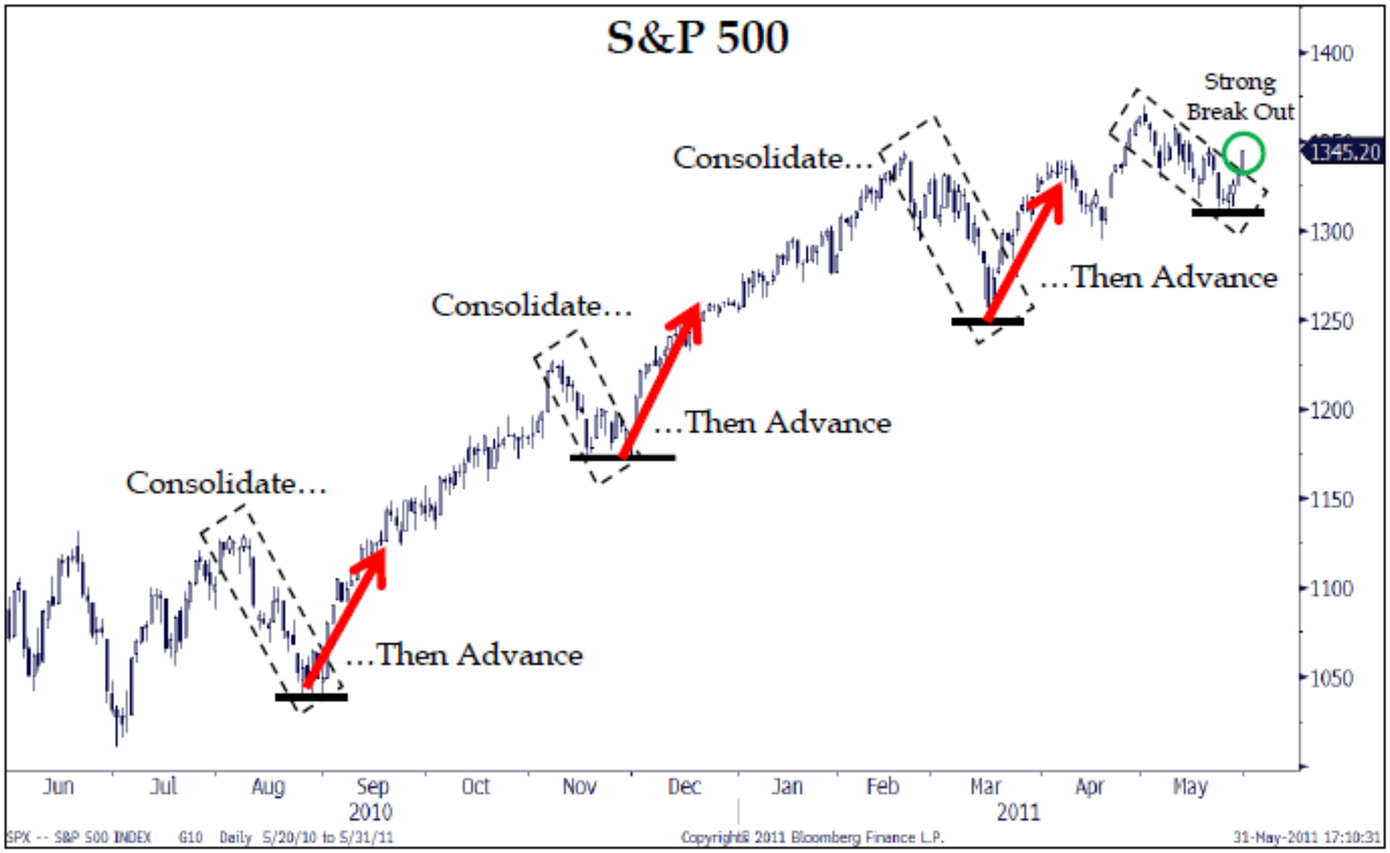
Markets:

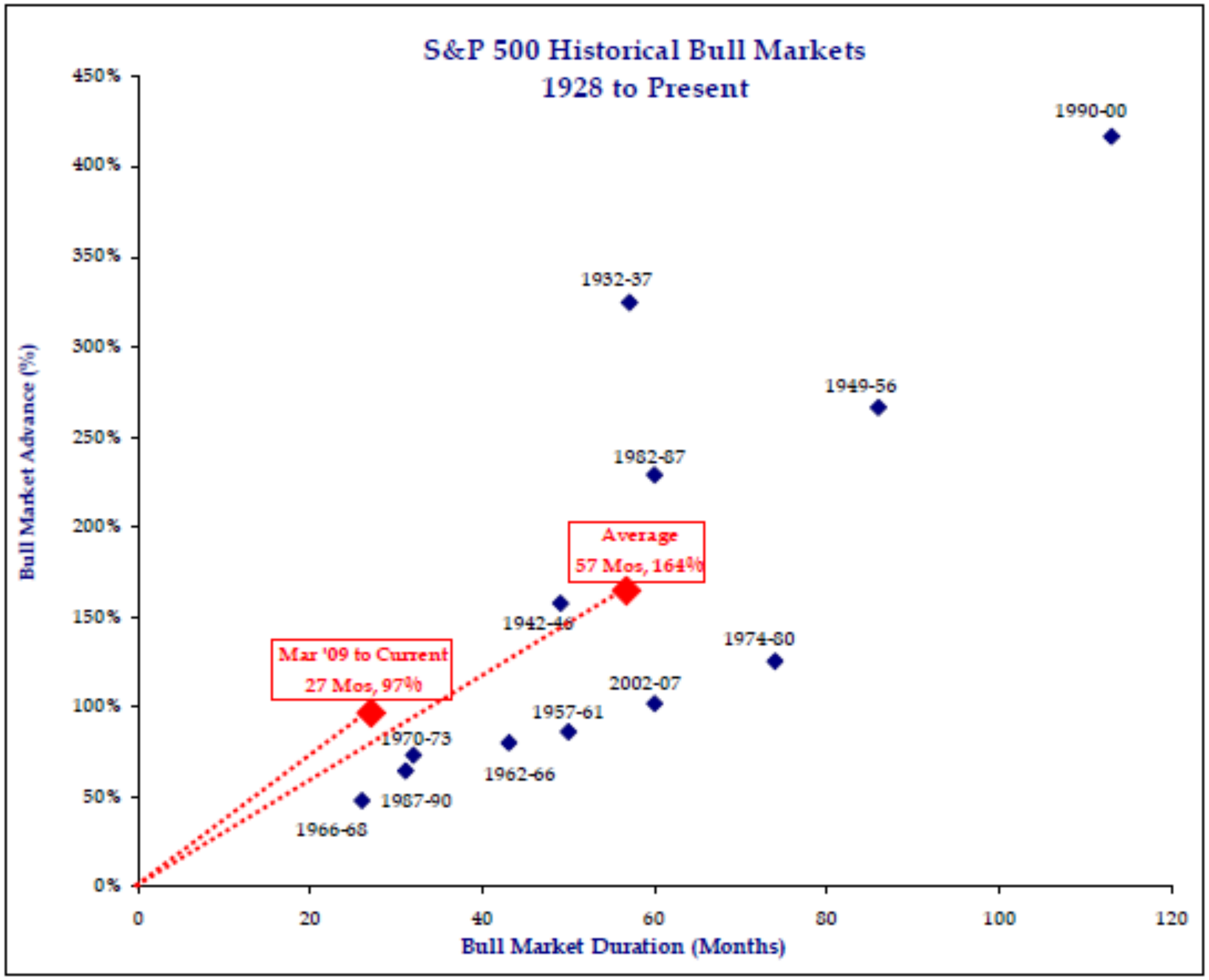
Price Action & sentiment suggest summer growth pause maybe already 'priced in'. Greatest risk is being underinvested through summer.

HIGHER-LOWS REMAIN THE PREVAILING PATTERN ON THE S&P CHART



Markets:

By historical standards, still early in Bull market phase



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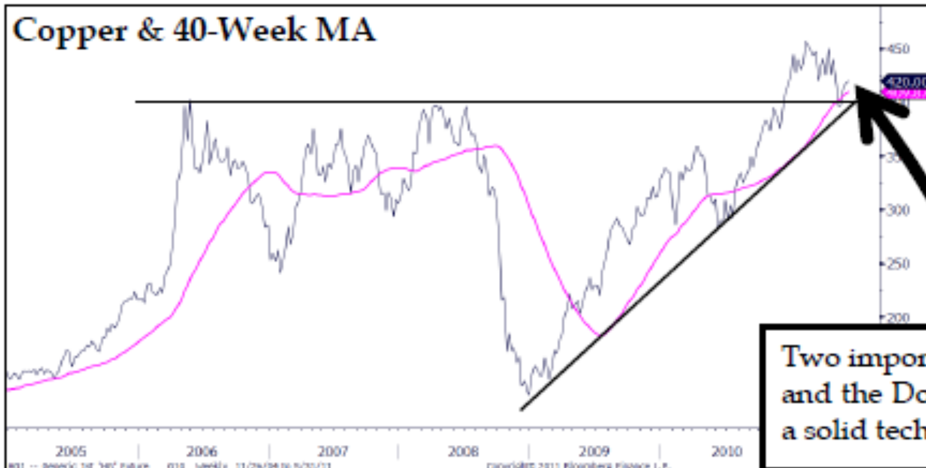
Markets:

COPPER CONTINUES TO ACT RESILIENT, DOW TRANSPORTS REMAIN IN LEADERSHIP POSITION

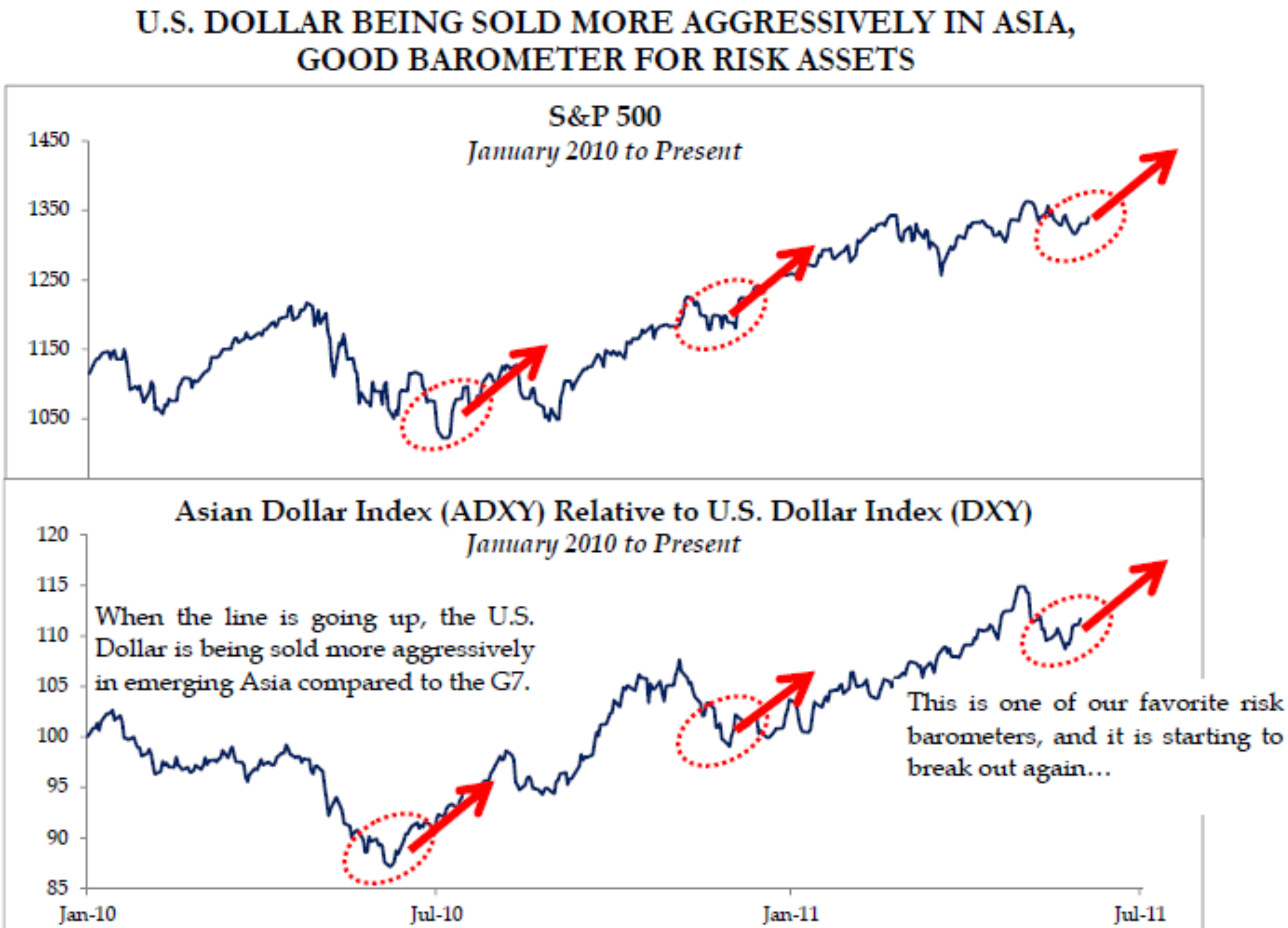


The Copper chart continues to act resilient – it has held upward sloping 200-day moving average support **and has outperformed the S&P 500 by nearly 1000 basis points over the last three weeks.**

Two important bellwethers – Copper and the Dow Transports – remain in a solid technical position.

It's almost difficult to believe, given all the negative headlines to hit of late, but the Dow Transportation Index has outperformed the S&P 500 by over 700 basis points since March. **This is a bullish signal for Dow Theorists.**

Markets:


U.S. DOLLAR BEING SOLD MORE AGGRESSIVELY IN ASIA, GOOD BAROMETER FOR RISK ASSETS
S&P 500
January 2010 to Present
1450
1350
1250
1150
1050
Asian Dollar Index (ADXY) Relative to U.S. Dollar Index (DXY)
January 2010 to Present
120
115
110
105
100
95
90
85
When the line is going up, the U.S. Dollar is being sold more aggressively in emerging Asia compared to the G7.
This is one of our favorite risk barometers, and it is starting to break out again…
Jan-10
Jul-10
Jan-11
Jul-11

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Market Survey:

•Sector: A shift from energy to Health care is the the new sector favorite for 2011 according to investor survey. This shift is due to a more bearish economic outlook.

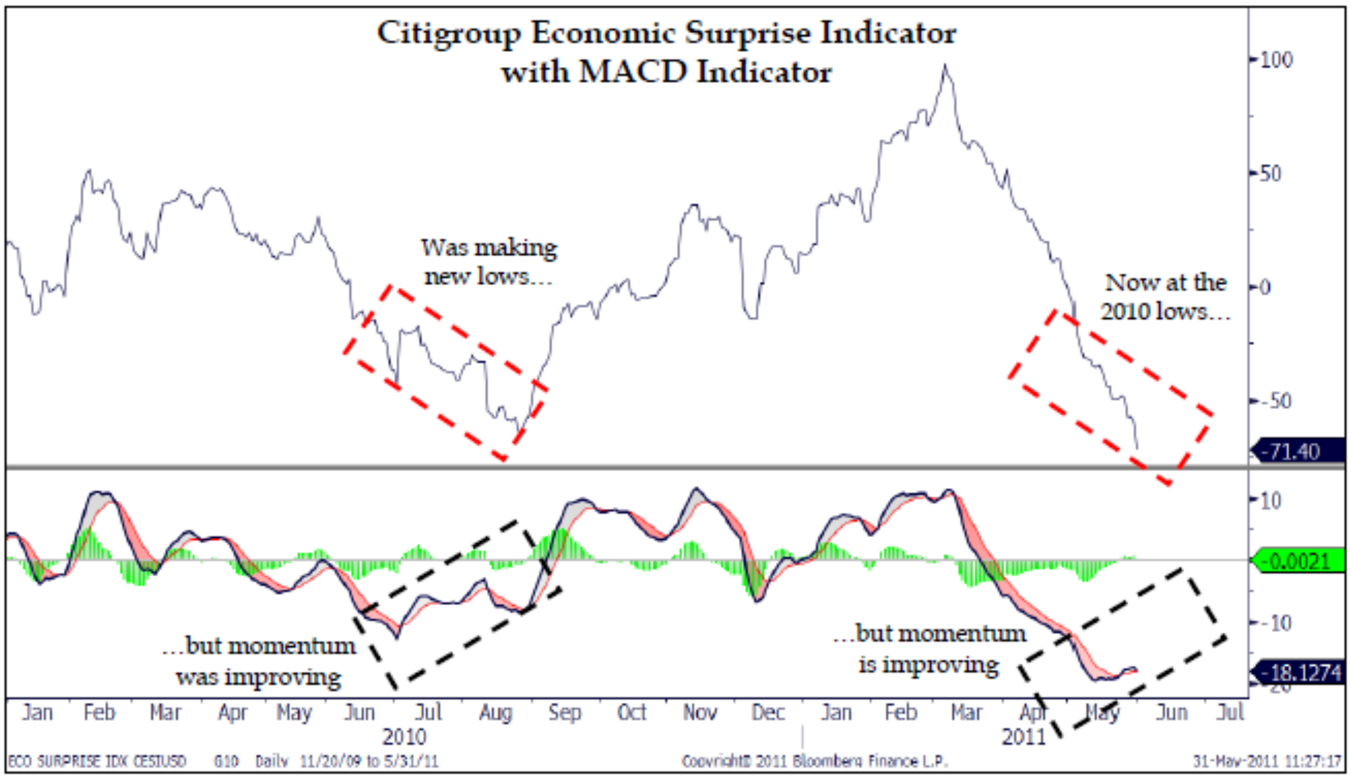
• S& P: Although the S&P 500 is expected to remain relatively flat in a year's time (with a price target of 1344), near term sentiment is decidedly bearish with 71% expecting more likely the next move would be -10% while just 29% believed the next move would be upward.

• Commodities: As price movements of commodities become more diversified, with crude oil choppily trending sideways while gold has rebounded, investors called for oil to increase by just $2 in 12 months while they believe gold will increase by $74 this time next year.

Markets:

GROWTH PAUSE ALREADY PRICED IN?
MOMENTUM TURNING UP FOR ECONOMIC SURPRISE INDEX

The Citigroup Economic Surprise Index (ticker CESIUSD <INDEX> on Bloomberg) is back to the summer 2010 lows… we wonder, can the economic data really get much worse from here? **At the very least, the bar has certainly been lowered as we push into the summer months.** Interestingly, price momentum is actually starting to improve here – the daily MACD indicator has stopped making new lows (this is reminiscent to the set-up that played out about this time last year).



Valuation:

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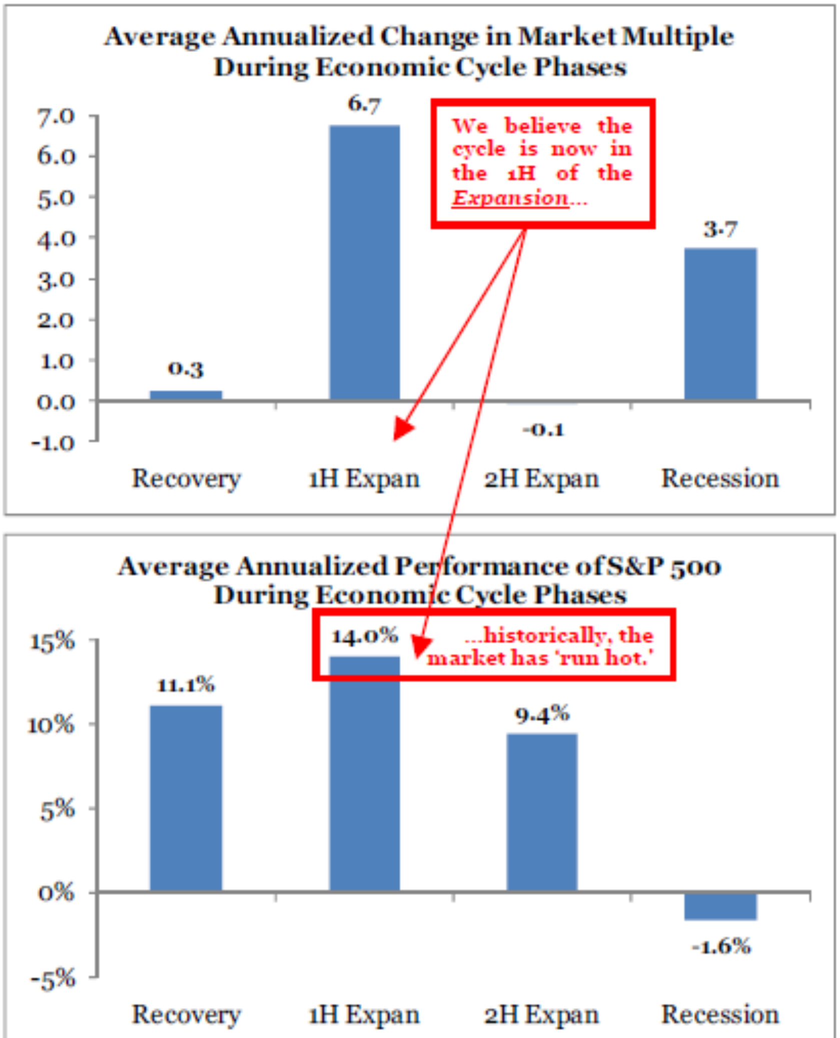
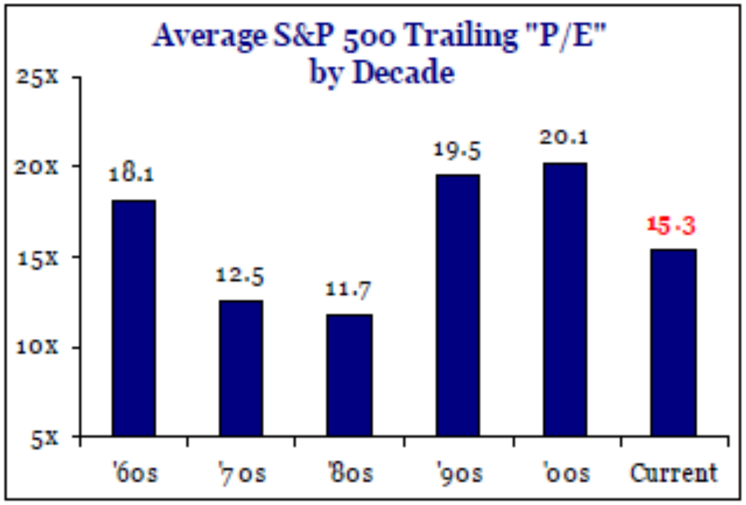


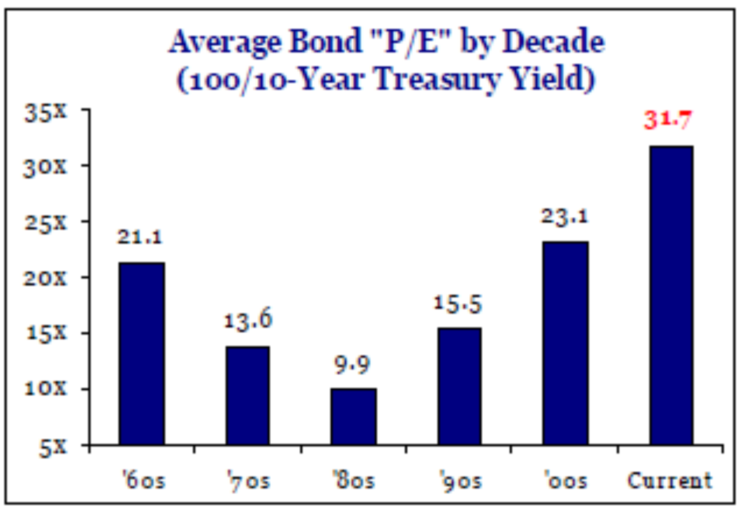
With 70% the economy driven by consumption, the huge structural overhang of private and public debt will soon become a significant drag as the 'bill comes due' resulting in a shorter economic cycle. Shorter business cycles means more volatility in the markets.

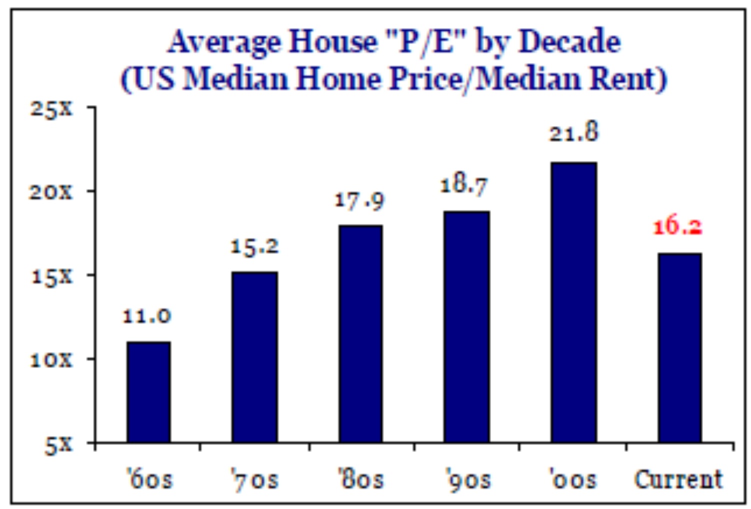
As the economy moves through the expansionary phase, market multiples shrink and sector leadership changes will occur quickly. Recently, Health Care and Consumer Staples sectors are now outperforming the broad market indicating market anticipating slow down.

Valuation: Stocks still look cheap compared to Bonds



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.**





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Economy:

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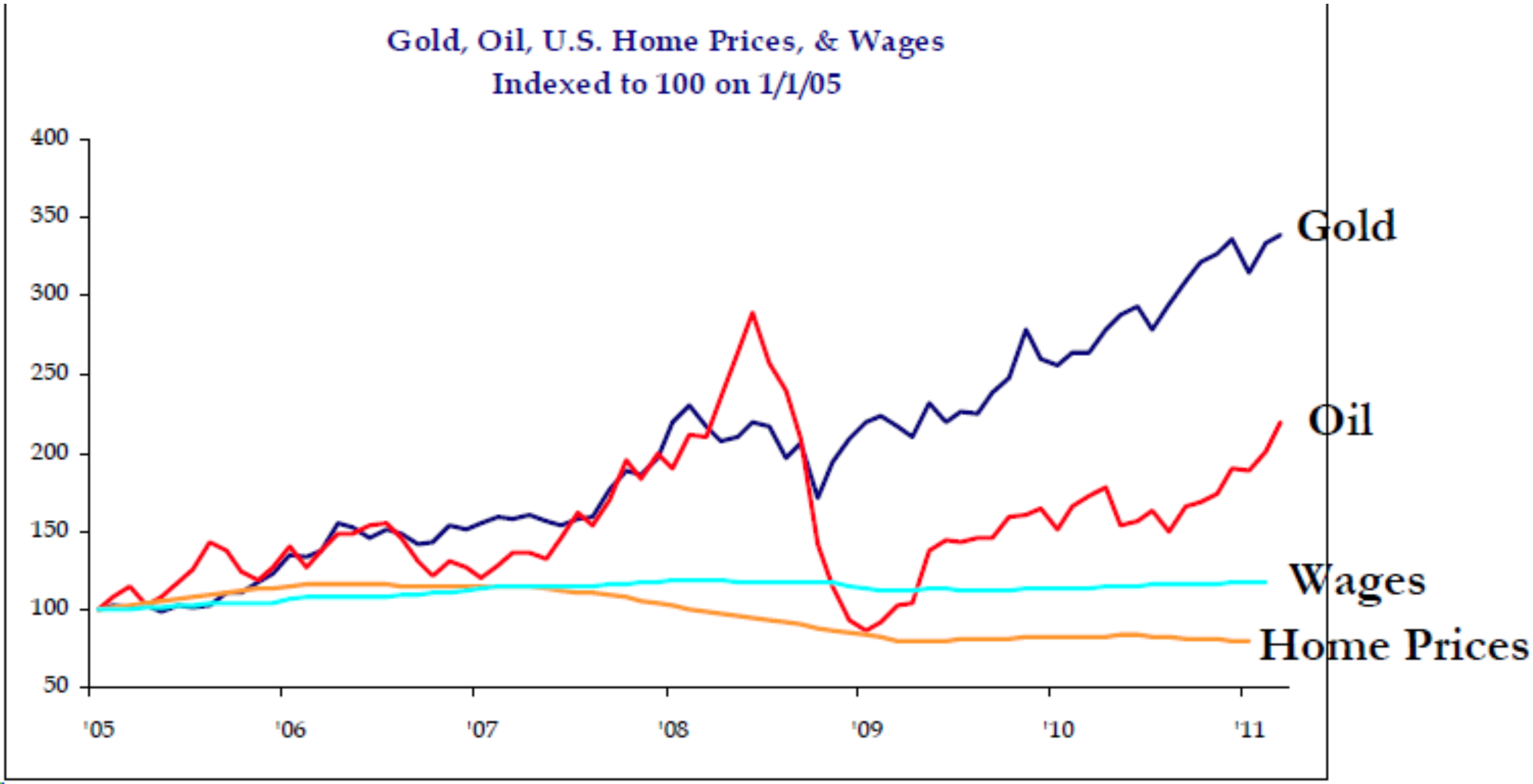
Lowering 2Q real GDP estimate to 3.0%. However, 1Q real GDP revisions appear upward, (looking for a 1Q revision from 1.8% in the initial report to 2.2%), so the impact on the full year GDP outlook appears muted.

But the bottom line, while economic growth appears set to continue in 2011, **the recovery or "acceleration" phase of the business cycle is likely over. Next should come "expansion", and the question is likely to become how long this economic expansion can last.**

Economic slow down likely to begin mid- 2012, with contraction likely in 2013. (Strategas Research)

Inflation in the Modern World:

The concept of “bi-flation” – China will likely continue to inflate the prices everything that it needs (oil, copper) and leave the prices of everything it doesn’t need (U.S. homes, American labor) to its own devices.



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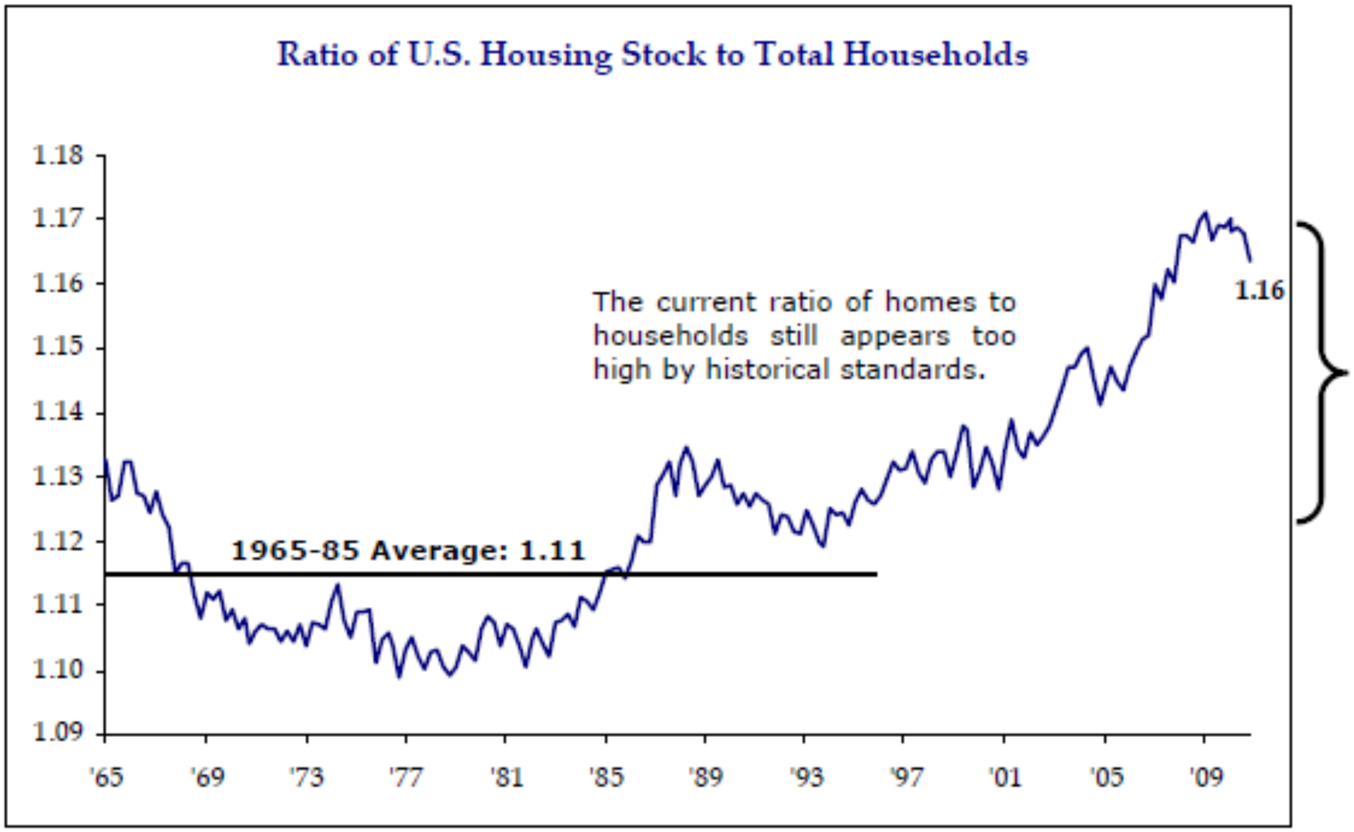
Economy:

The large supply of unsold homes may be the main reason the structural unemployment rate in the U.S. will remain high and, by extension, lead to shorter, more traditional business cycles.



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Economy:

Watch the revenue line rate of change for indications of Economic cycle slow down. A slower revenue profile in combination with the accelerated pace of input cost increases could bring pressure on profit margins sooner, contributing to a shorter cycle.