

## MARKET INSIGHT...

- Performance
- Economic Update
- Charts\* of Interest

March 30, 2012



# PERFORMANCE: as of 3/30/12

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Sector	YTD	4 Week	1yr
S&P 500	12.5%	2.2%	10.2%
Russell 2000 (small/mid Cap)	12.4%	2.5%	11.2%
MSCI EAFE (Eurp.Asia, Far East)	10.9%	-0.5%	-5.8%
MSCI Emerging Mkt	13.7%	-3.5%	-11.0%
US Bonds (Barclay's agg. Index)	0.3%	-0.6%	7.7%
High Yield Bonds (US)	5.5%	0.0%	5.2%
Gold (GLD: Net asset value)	4.6%	-5.6%	14.7%
Defensive Sector	6.7%	3.4%	16.0%
Cyclical Sector	17.7%	5.0%	4.2%

## The Bears' Case

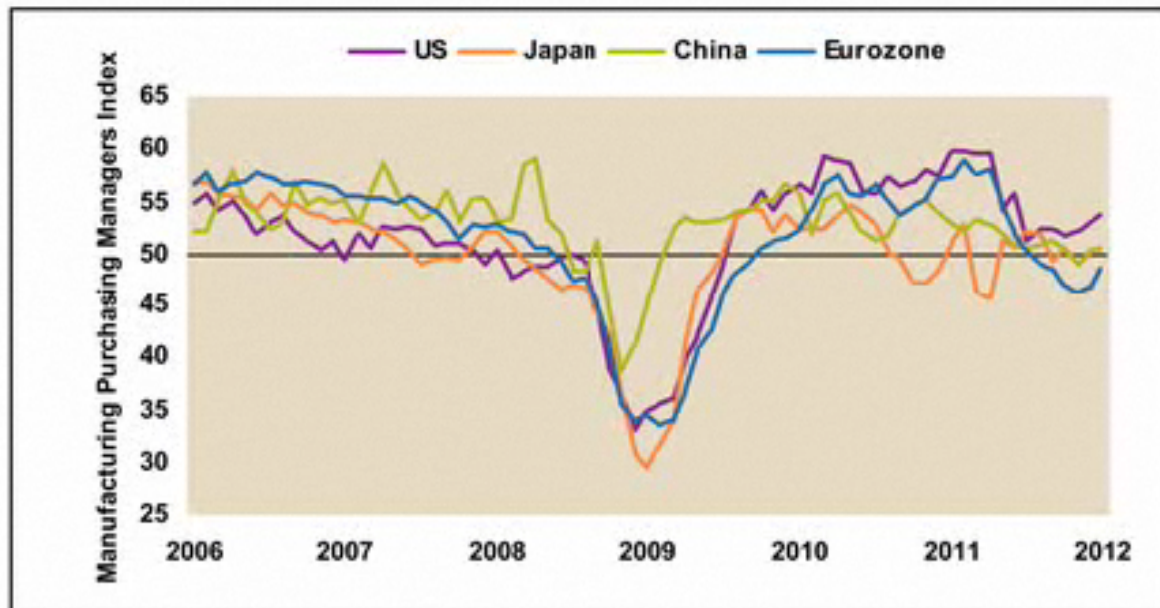
- Rising oil prices due to Middle East unrest
- Eurozone debt crisis ... potential Greek default
- US debt crisis ... record low approval rating for Congress
- Debt deleveraging cycle depresses growth and lasts a long time
- Market volatility and still-high correlations keeping individuals on sidelines
- Fed out of traditional bullets, hence "Operation Twist"
- European recession and concerns about a Chinese hard landing
- Decelerating earnings growth and margins
- Heated election season could elevate volatility
- Fiscal restraint draining economic growth
- Complacency seen via short-term sentiment indices

## The Bulls' Case

- US real GDP rebounding nicely from first half of 2011 and 2<sup>nd</sup> phase of recovery beginning
- "Operation Twist" helped lower borrowing/mortgage rates (help for refinancings & demand)
- Still-strong corporate profits / \$2.1 trillion cash on corporate balance sheets
- Recent unemployment claims and jobs reports unambiguously strong
- Housing has likely bottomed
- Resurging auto sector (larger as share of GDP than housing)
- Credit markets on the mend; lending starting to grow again
- "Wall of worry" remains intact (contrarian indicator)
- Inflation receding; global monetary tightening ending
- Inexpensive valuation on forward earnings
- >\$400B out of stocks & >\$800B into bonds since 2007 = record spread

## World Economic: Manufacturing Purchasing Index signaling Continued Growth

### Economic Turn is Global...US Now on Top Signs of a US Manufacturing Renaissance?



As of 1/12. A reading above 50 indicates that the manufacturing economy is generally expanding; below 50 indicates that it is generally contracting. Source: Bloomberg, FactSet.

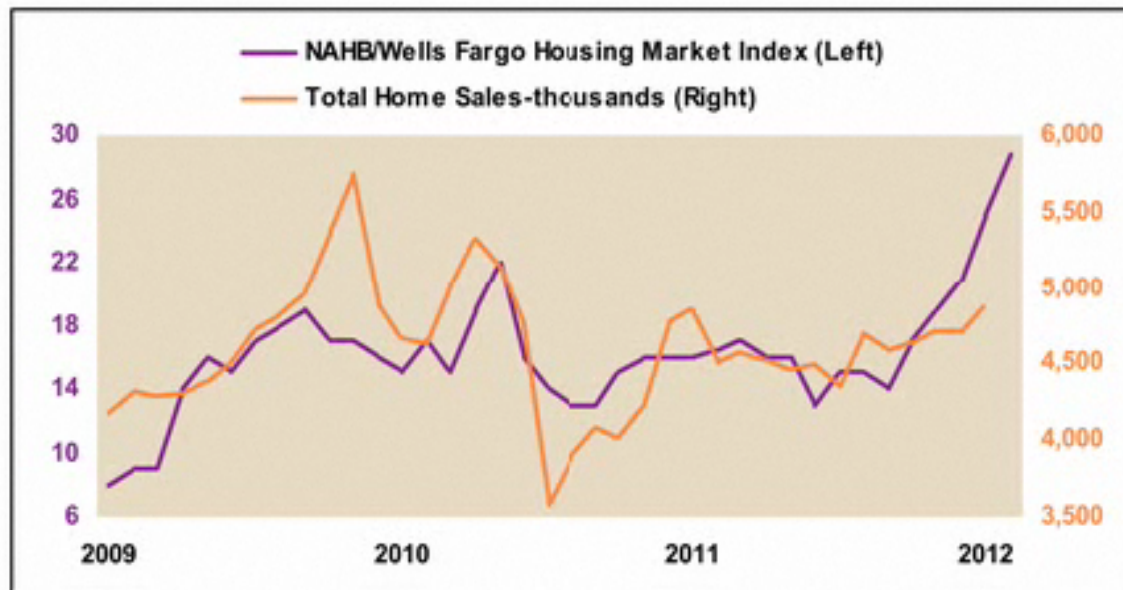
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## US Economic: Housing Market Index surging; very good news for recovery.

### Key Housing Market Index Surging

Suggests Sales Jump Back to Pre-Lehman Days



Housing Index as of 2/12. Total Home Sales (existing and new) as of 1/12.

Source: FactSet, National Association of Home Builders (NAHB), National Association of Realtors, US Census Bureau.

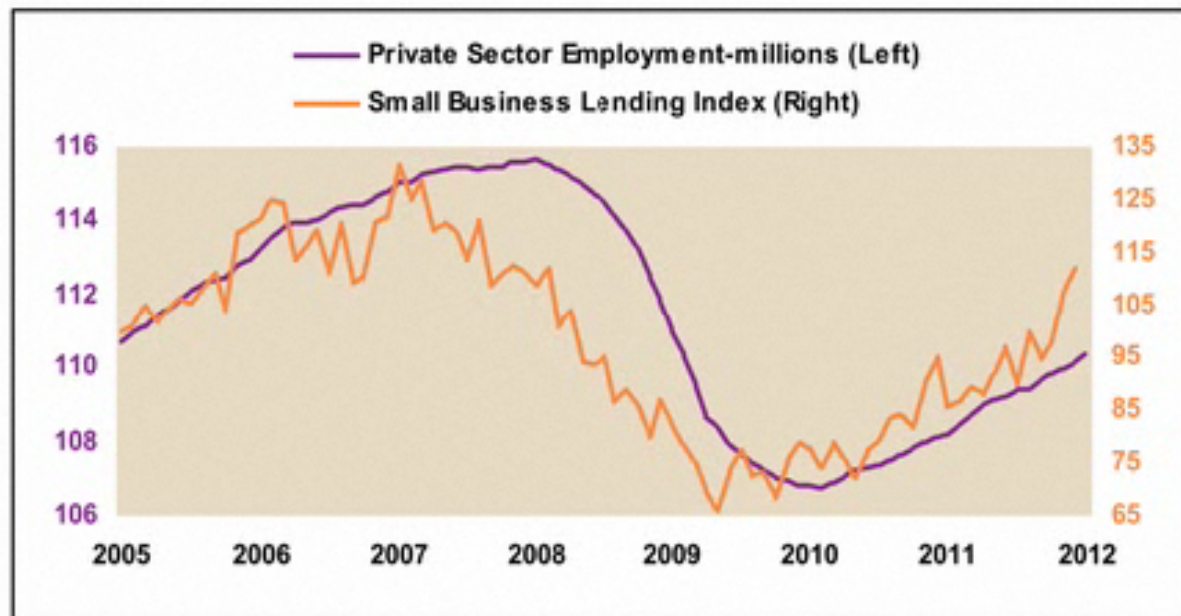
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## US Economic: Small Business (Biggest Employer) Beginning to Hire; Bullish for Economy

### Lending to Small Businesses (Finally) Surging

Good Leading Indicator of Job Growth



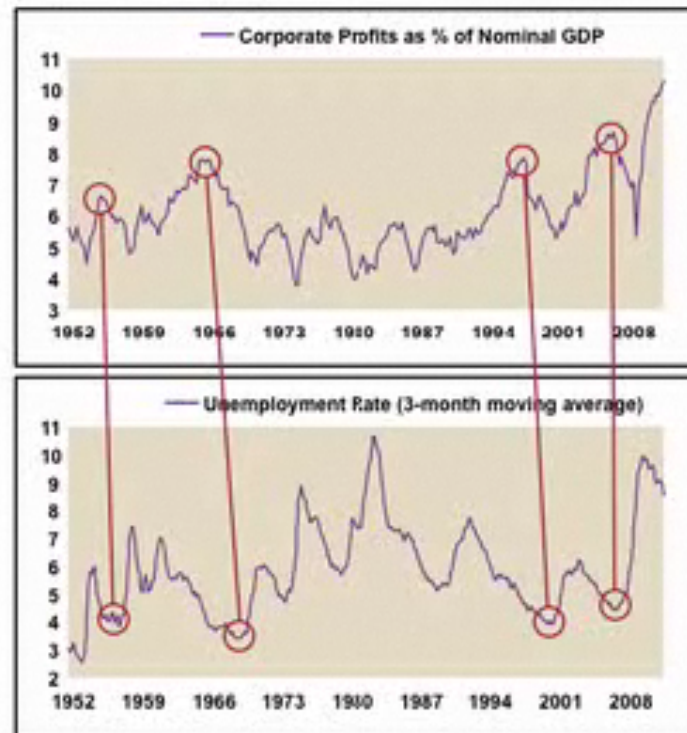
Private Sector Employment as of 1/12. Small Business Lending Index as of 12/11.  
Source: Department of Labor, FactSet, Thomson Reuters/PayNet.

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## Corporate Profits at Record High; Precursor to Employment Gains

### Corporate Profits as % of GDP at Record High

Should Help Drive Continued Drop in Unemployment Rate



Corporate profits as of 3Q11 and are after tax with inventory valuation and capital consumption adjustments. Unemployment as 1/12. Source: Bureau of Economic Analysis, Department of Labor, FactSet, ISI Group.

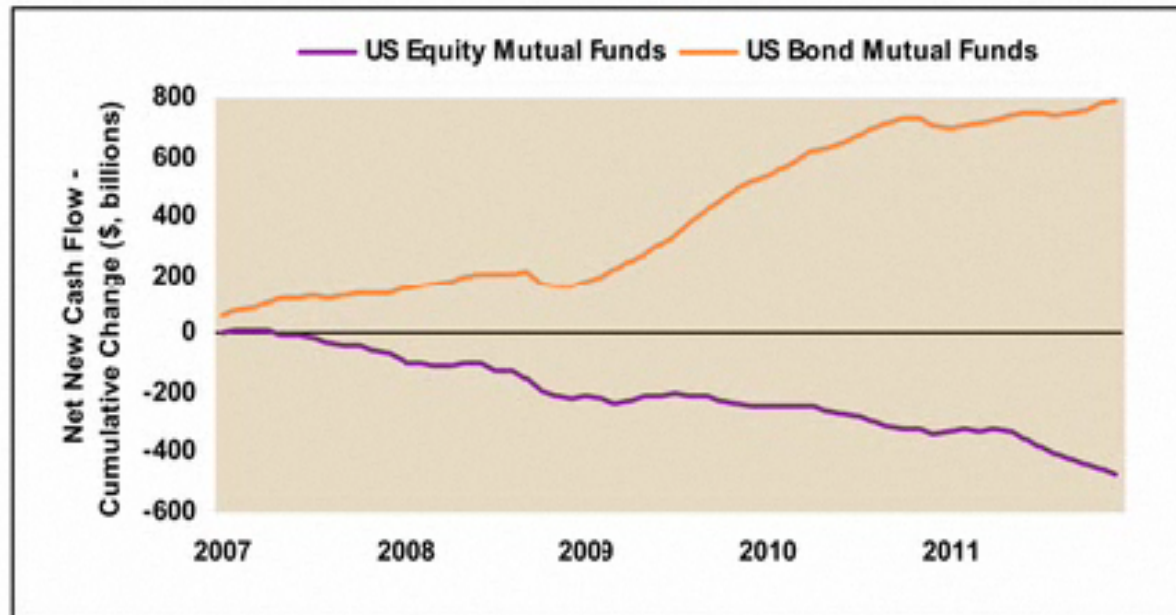
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## Biggest Bullish Factor For Stocks: Investors Severely Underweight Stocks vs. Bonds

### Investors Have Banished Stocks in Favor of Bonds

Is This Record >\$1.2T Spread a Contrarian Indicator for Stocks?



As of 12/11. Source: Investment Company Institute (ICI).

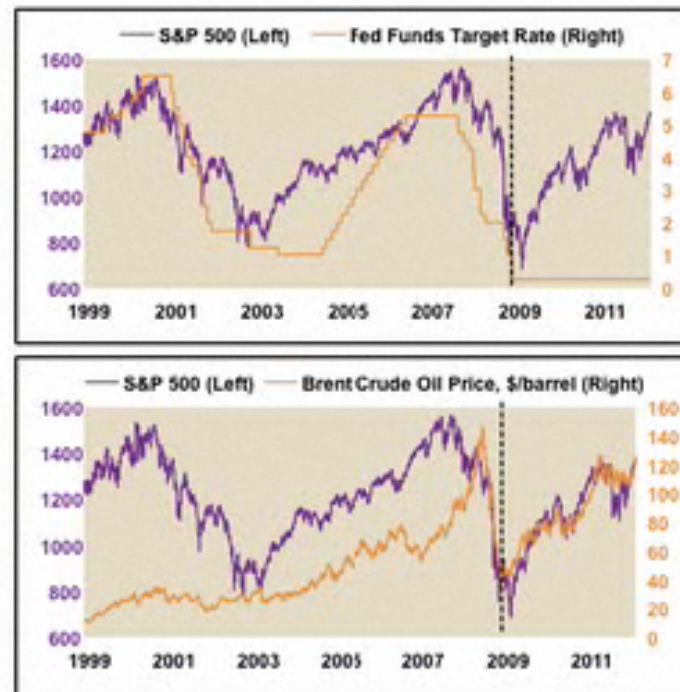
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## Inflation Takes Over From Short Rates

With Rates Pegged at 0%, Oil Prices Move Needle More for Market/Economy

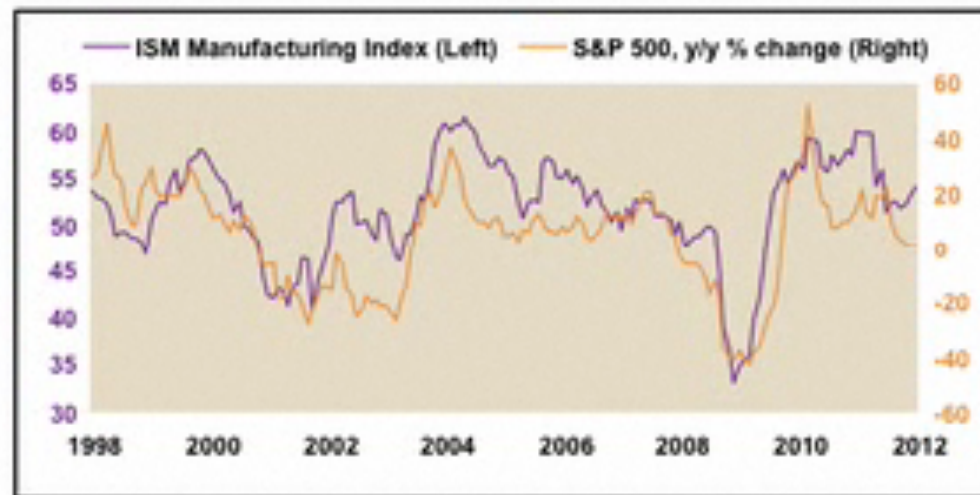


As of 2/24/12. Dotted line represents date when Federal Reserve moved target rate to 0-0.25%. Source: FactSet, FactSet.

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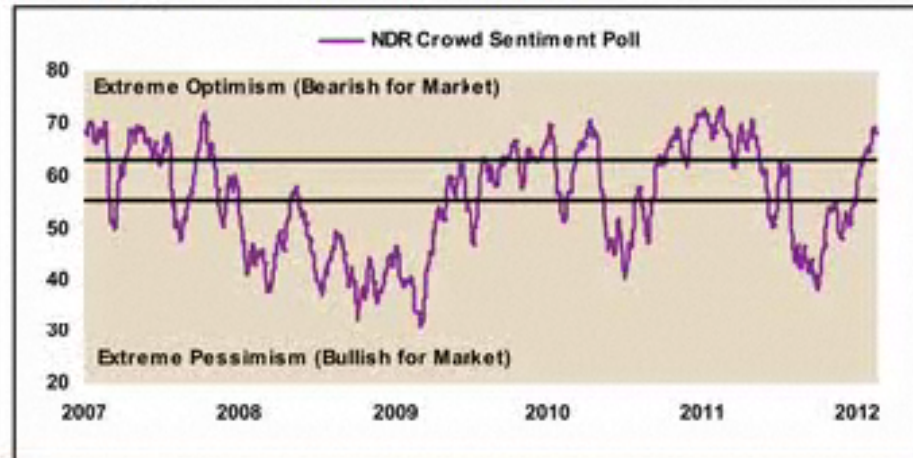
## Manufacturing Index a Good Leading Indicator of S&P



# Confidence Very Strong, Contrary Indicator

## Investor Confidence Improving With Market Rally

Near-Term Sentiment Troubling, but "Wall of Worry" Remains Intact



12/1/1995-2/22/2012	
NDR Crowd Sentiment Poll	S&P 500 Annualized Gain
> 62	0.7%
56-62	5.2%
< 56	9.2%

We are here →

As of 2/22/12. See last slide for description of Crowd Sentiment Poll. Source: Ned Davis Research (NDR), Inc. (Further distribution prohibited without prior permission. Copyright 2012 (c) Ned Davis Research, Inc. All rights reserved.).

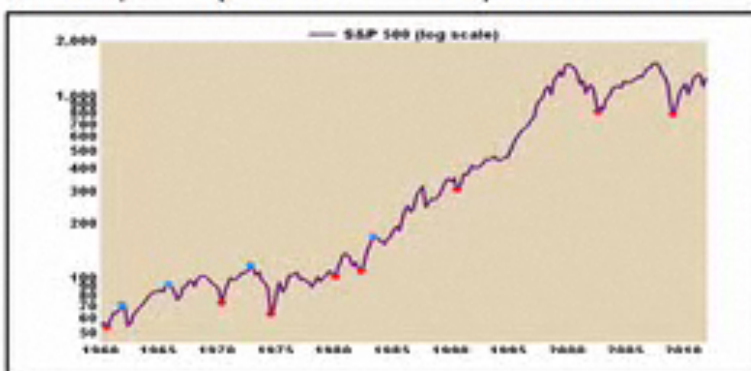
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Markets: Stock Leading the Economy. Typically the stronger  
The growth, the worst stocks perform

## Stocks Lead the Economy

Market Anticipates (Doesn't React to) Economic Inflection Points



3/31/1960-12/31/2011	
Y/Y % Change of Real GDP	S&P 500 Annualized Gain
> 6.0	-4.6%
0.5-6.0	7.0%
< 0.5	10.5%

As of 4Q11. Green-shaded areas indicate periods of recession. See last slide for definition of recession. Red dots indicate periods of weak economic growth; blue dots indicate periods of strong economic growth. Circle on table indicates current reading. Source: Bureau of Economic Analysis, FactSet, National Bureau of Economic Research (NBER), Ned Davis Research, Inc. (Further distribution prohibited without prior permission. Copyright 2012 (c) Ned Davis Research, Inc. All rights reserved.). Standard and Poor's.



## 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.