New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

March 5, 2012

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PERFORMANCE: as of 3/3//12

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Sector	YTD	4 Week	1yr
S&P 500	9.3%	3.5%	6.9%
Russell 2000 (small/mid Cap)	8.5%	-1.2%	0.3%
MSCI EAFE (Eurp. Asia, Far East)	10.4%	1.9%	-8.1%
MSCI Emerging Mkt	17.9%	3.4%	-3.0%
US Bonds (Barclay's agg. Index)	0.9%	0.7%	8.6%
High Yield Bonds (US)	4.9%	8.3%	6.0%
Gold (GLD: Net asset value)	9.4%	-2.5%	18.4%
Defensive Sector	3.2%	1.5%	14.7%
Cyclical Sector	12.8%	3.3%	1.5%

Economic Update: Bonds, Stocks, & Gold give Conflicting Signals.

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Bonds: Before the days of quantitative easing (massive liquidity injection) by the Federal Reserve, the rate on 10yr Treasury note could be viewed as barometer of expected inflation. And, a change in rates signaled a change expectations of both economic growth and inflationary pressures. This means, a fall in rates would signal an expected slowing economy and inflation rate. This past week, 10-year Treasury notes, the benchmark for everything from mortgage rates to corporate bonds, fell as low as 1.89% down from this year's high of 2.09% on Jan. 23, and down significantly from averaged 2.76% in 2011 and 3.19% in 2010. This drop in rates should be signaling a slowing economy. Yet, the recent economic news has been improving with consumer confidence rising near pre-recession levels, and the inflation rate has been rising.

Stocks: The direction of the Stock market is typically a six month leading indicator of future earnings and economic growth. Over the last three months, the markets have risen significantly. Expectations are for growth to accelerate this year. Yet, our very own Federal Reserve Chairman Bernanke testified before Congress stating 'the economic recovery continues but remains frail'. He defended the necessity of his low interest rate policy through 2014 and even suggested rates should be actually lower, questioning the long term stability of growth.

Precious Metals: Gold (and Silver) are considered an alternative store of value compared to paper assets like stocks and bonds. Changes in price reflect inflationary expectations and confidence (or lack there of) in the US economy and the Dollar. Over the last 5 and 10years , Gold has had a cumulative appreciation of almost 160% and 500% respectively, compared to the a13% and 28% cumulative rise in the Dow.

This past week, Bernanke was reminded of how dramatically the US dollar purchasing power has eroded. Ron Paul pulled out a silver eagle, a silver coin that has nominal face value of one dollar that is legal tender. Ron Paul told Bernanke that **in 2006, when Bernanke took the top spot at the Federal Reserve, an ounce of silver bought about 4 gallons of gas. Today, said Paul, it buys about 11 gallons. In other words, gold and silver have not only been a much better store of value but are perceived as a much better store of value going forward.**

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Gold & Silver & Bonds: Though Gold continues to outperform silver, Silver is gaining traction. Any rise is yields could hammer both Gold & Silver

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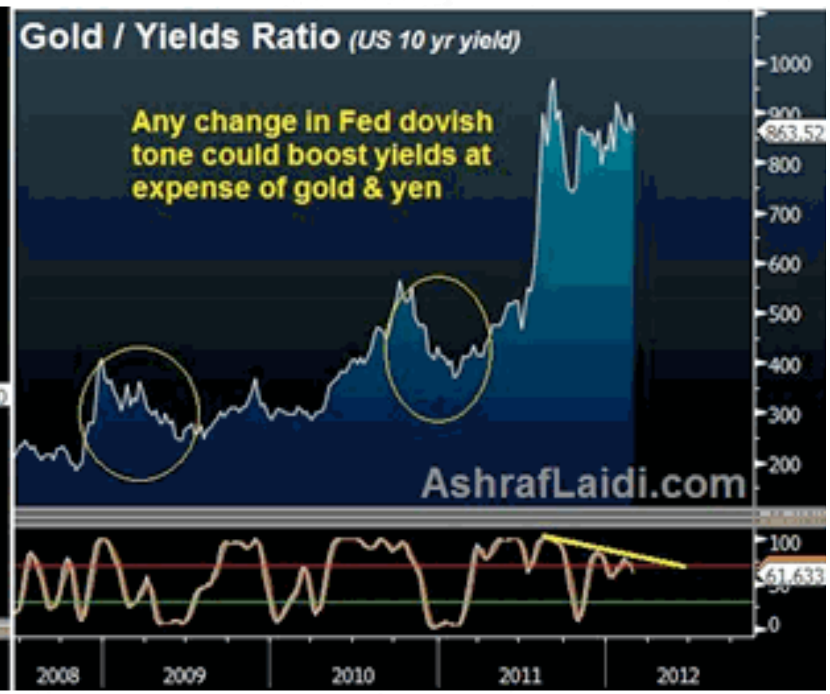

Gold: Impact of FIAT Money

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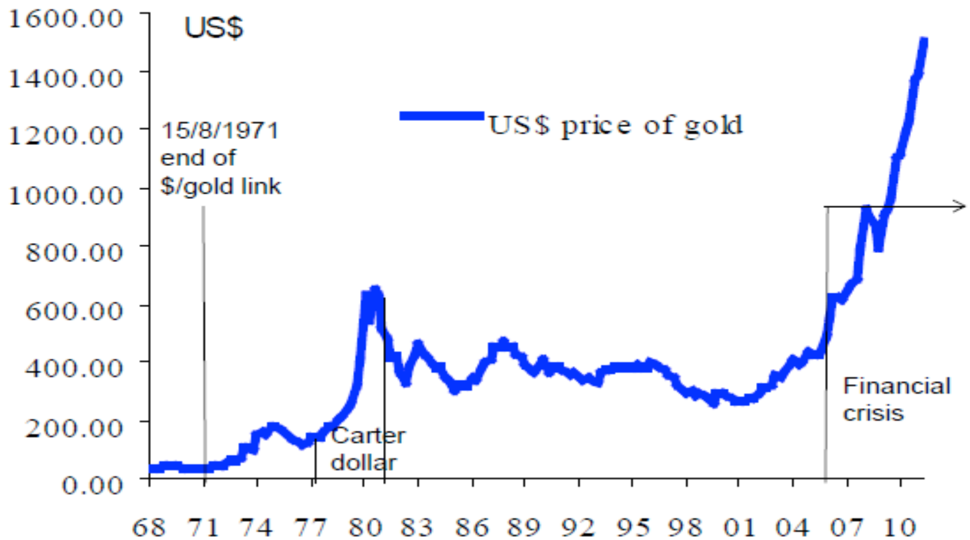
Forty years of flat money



More Dollars chasing Gold.

Deutsche Bank
DB Research

Thomas Mayer
Chief Economist

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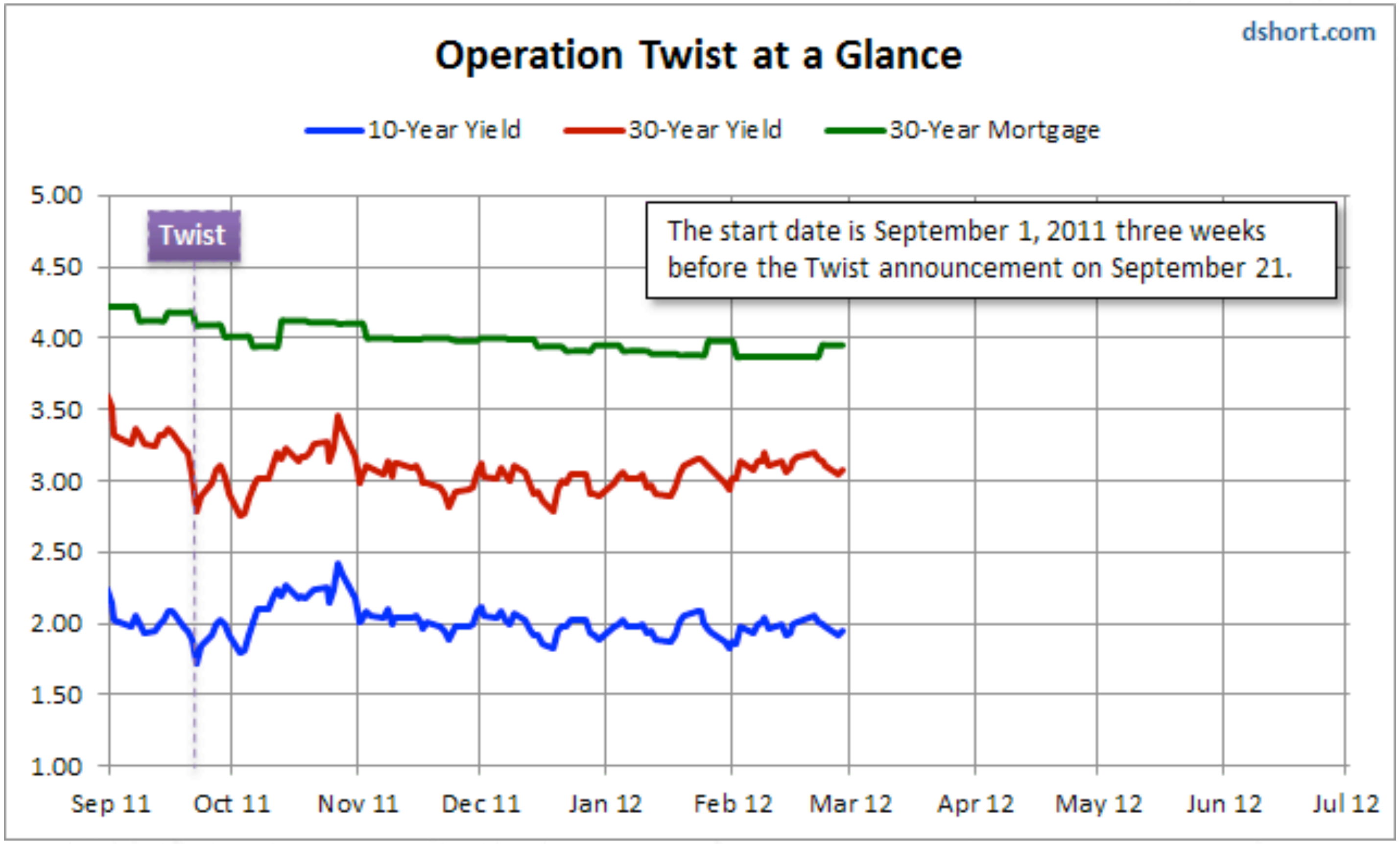
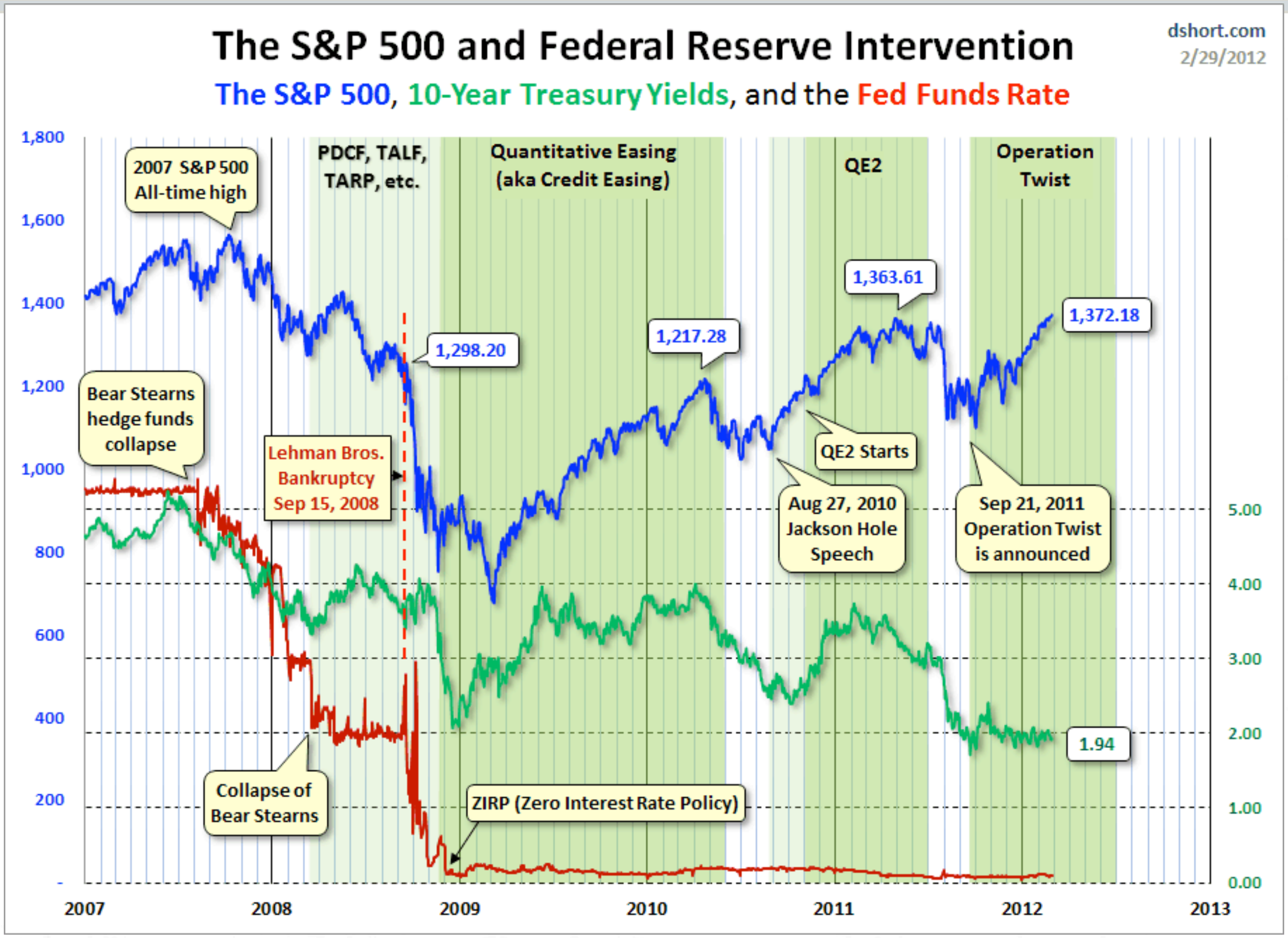
US Housing Market: Sales creeping up from basement. Inventories falling… a good sign

Fed: Operation Twist effect on rates



Fed Intervention, Mortgage Rates and the S&P

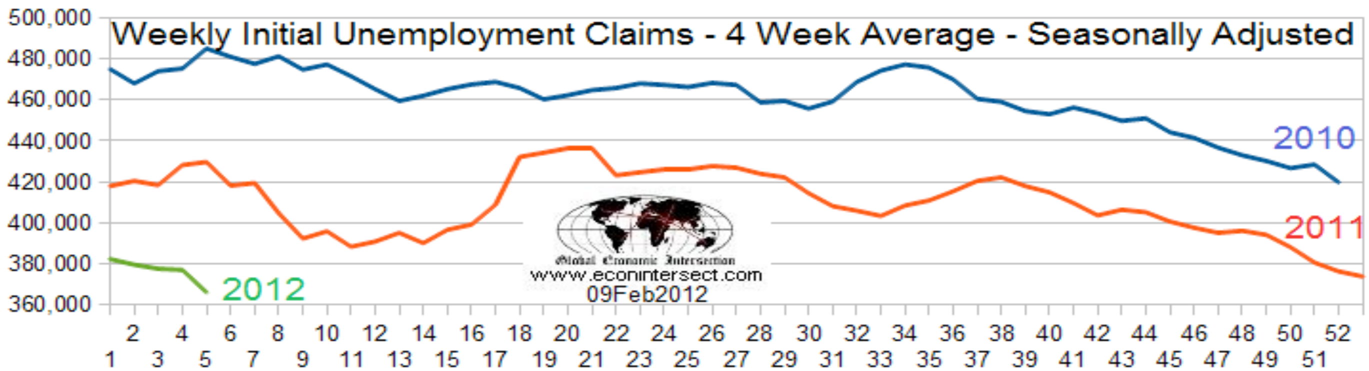


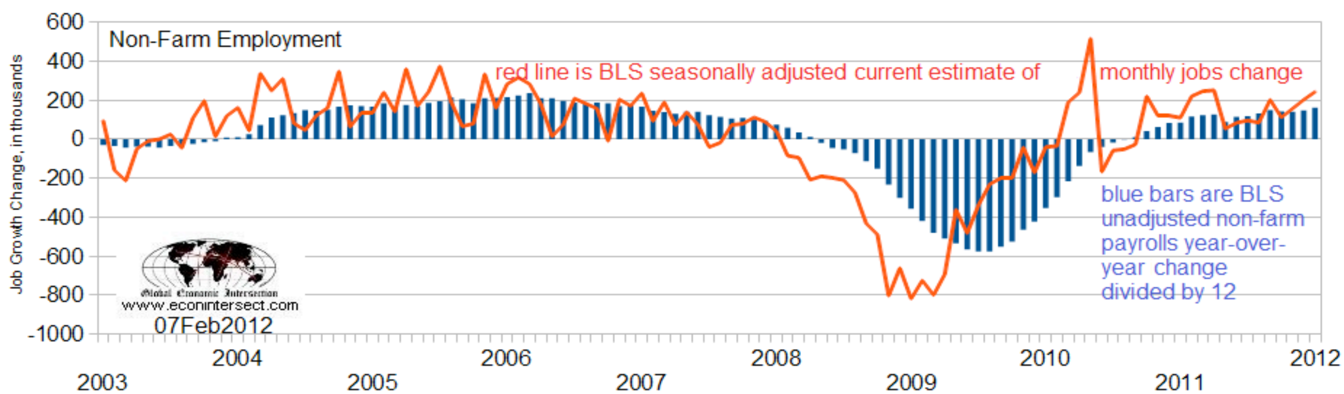
Fed has been propping up the Market through keeping rates low. Current program to lower long term rates (Operation Twist of selling short term treasuries and buying long term treasuries) expires June 2012

US EMPLOYMENT PERSPECTIVE:

Still Fragile at best….

. •Employment at January 2005 levels yet population has grown by 18mm.
•Job growth rate at January 2008 levels
•Historically, recessions do not start when payroll is expanding





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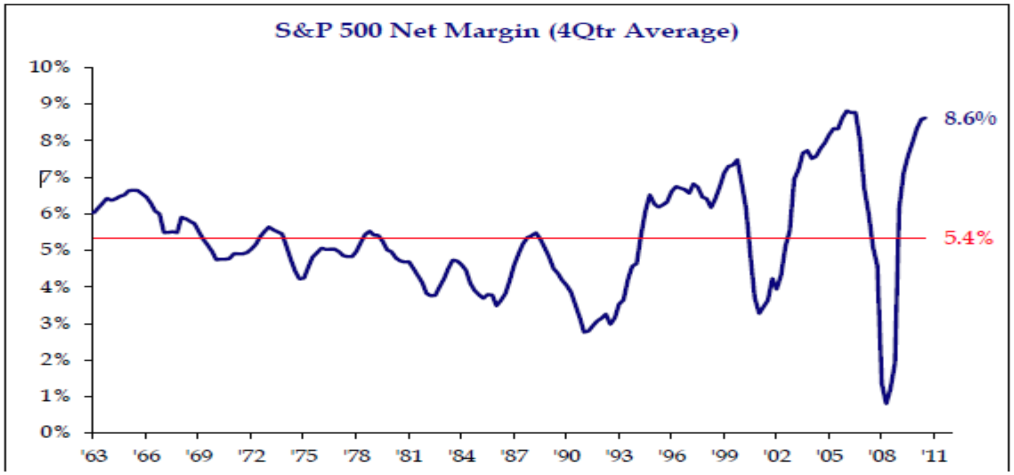
EARNINGS & MULTIPLES: Profit Margins near all time high but can they remain given flat economic growth forecast?



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.

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**)** **<u>High Quality Bonds</u>**: Interest rates are expected to remain subdued. Exposure to Intermediate Corporate bonds (3-4% yield), provide income to portfolio.

2) **<u>High Yield Bonds</u>**: 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) **<u>Stocks</u>:** 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) **<u>Dynamic Fund Stock Strategies</u>**: 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) **<u>Commodities</u>**: Exposure in two ways: Long Gold; Long/Short position in commodities through funds.