New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

November 30, 2011

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PERFORMANCE: as of 11- 25 -2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	-4.7%	0.5%	-6.1%
Russell 2000 (small/mid Cap)	-7.4%	-0.8%	-14.0%
MSCI EAFE (Eurp. Asia, Far East)	-5.6%	-8.6%	-17.9%
MSCI Emerging Mkt	-6.0%	-9.8%	-23.8%
US Bonds (Barclay's agg. Index)	-0.1%	1.1%	6.8%
High Yield Bonds (US)	-1.3%	0.2%	1.1%
GLD (Net asset value)	-1.8%	-2.4%	19.3%
Defensive Sector	-3.1%	0.9%	4.2%
Cyclical Sector	-5.3%	-2.7%	-15.6%

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Economy: Attention turns to Expiring Stimulus. Huge drag coming To GDP starting in 2012.

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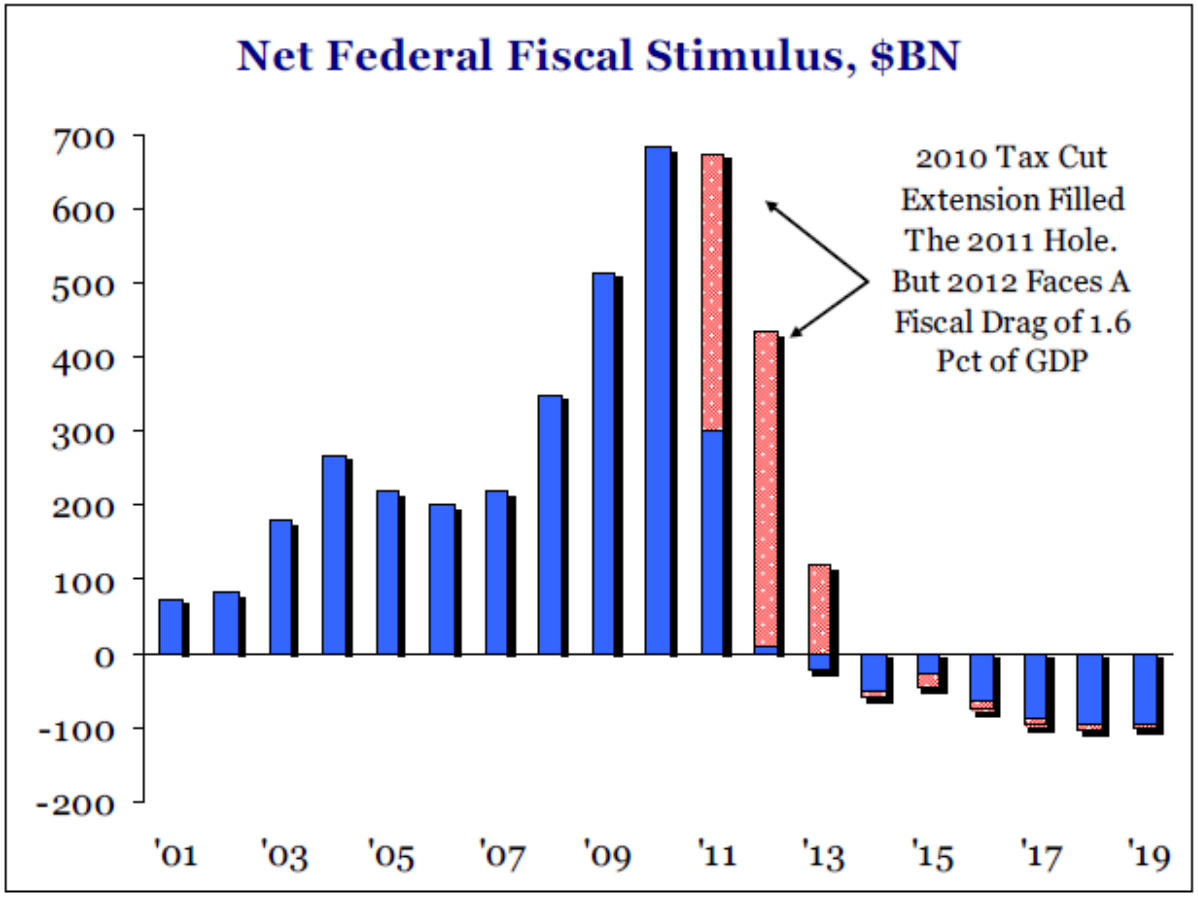
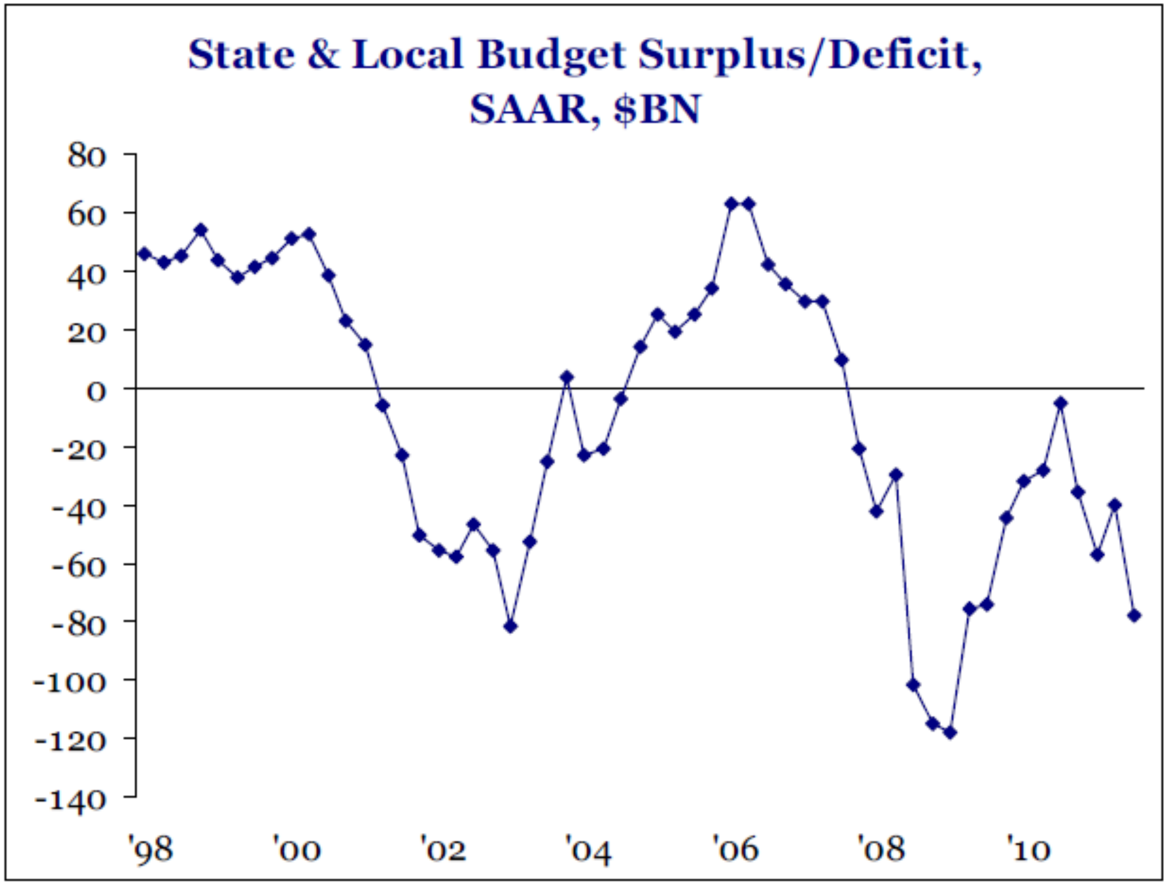


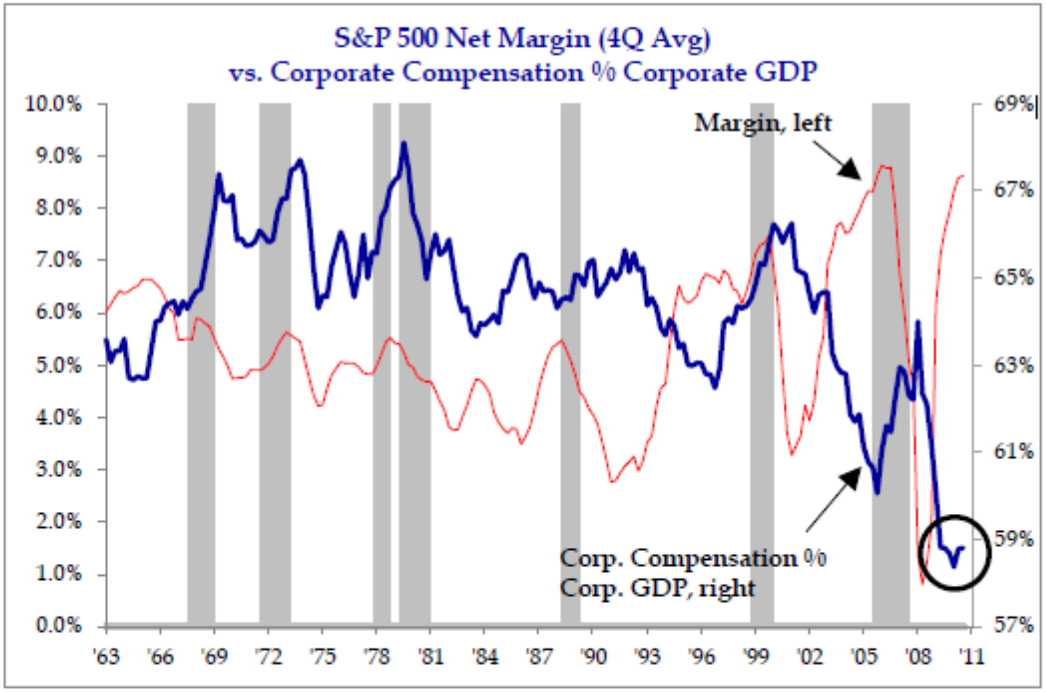
Economy: State and Local Government budgets retreating again.



After nearly going back into surplus in late 2010, the drop in federal aid, coupled with pressure at the municipal level, has led state and local deficits to widen out again.

Profit Margins and Earnings at Tipping Point.

The current economic cycle may be one of the most unusual in modern history. It is, indeed, rare to find companies post near-record levels of profit margins and robust profit growth and NOT see labor participate in some way. Eventually, companies decide that they need to hire workers if they want to continue to grow. Unfortunately, political and macroeconomic uncertainties on both sides of the Atlantic have led capital to largely go on strike when it comes to their interest in hiring and expansion.



We appear to be at a turning point here ...

Credit Markets: Typically Lead the Market and are Barometer of Economic Health

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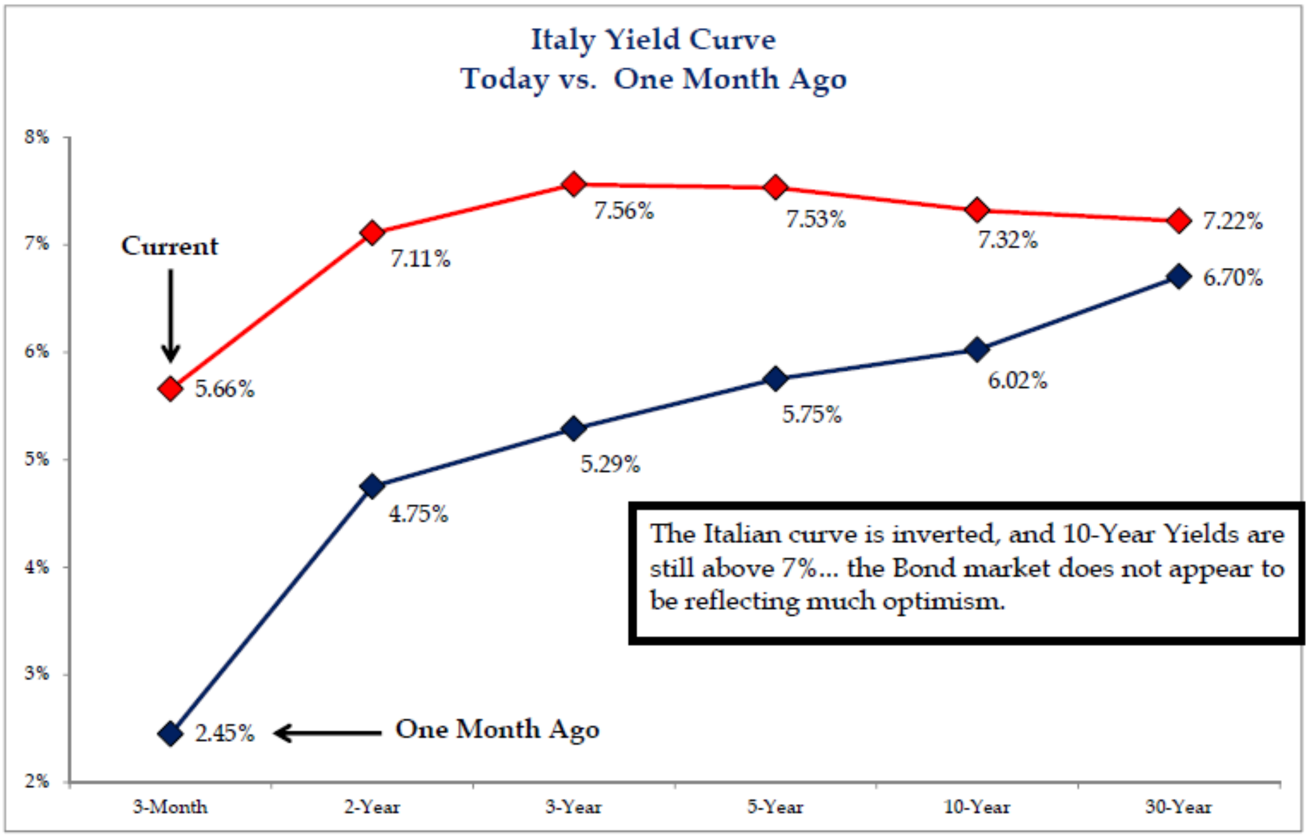
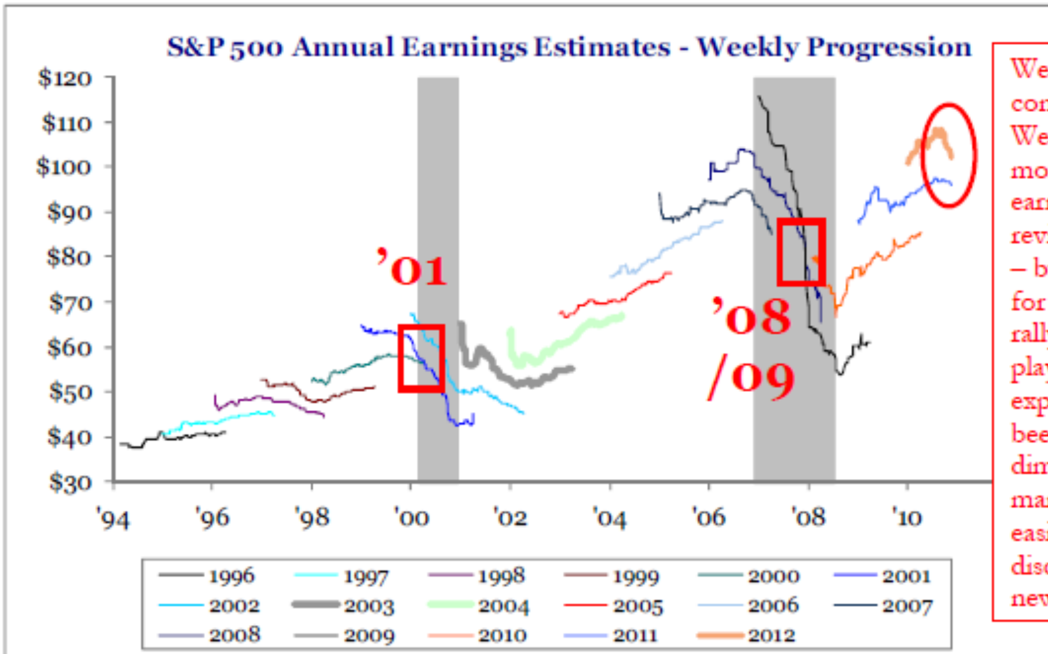
ITALIAN 10-YEAR YIELDS STILL ABOVE KEY 7% LEVEL



Higher rates indicate poor health

Earnings: Negative Earnings Cross insight

2012 Earnings forecast for S&P continue to drop. The process of reducing profit expectations for next year below those for the current year is known as a *negative earnings cross.* This has only occurred twice in the last 15years, 2001 and 2008/09. Both times the market sold off, -14% in 2001 and -20% in 2008/09.



We're watching this convergence closely. We may be a few months away – 4Q earnings season revisions will be key – but, it will be tough for the market to rally as the process plays itself out. After expectations have been sufficiently diminished, the market may have an easier time discounting positive news.

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Valuation: Perhaps range bound…. S&P currently at 1215

2011 S&P 500 Expected Value Table

Odds	Economy	S&P Earnings	Expected Multiple	Implied S&P 500
5%	Recession	$84.00	11x	924
65%	Base Case: Macro Uncertainty	$94.25	12x	1,131
20%	Positive Policy Response	$94.25	16x	1,508
10%	Upside Surprise	$98.00	14x	1,372
			Expected Value:	*1,220*

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MARKET STRATEGY: Ride Through the Volatility

Given the extreme choppiness in the market and reliance on government policy to direct economic policy, core positions are positioned to ride through the volatility with a small portion available to participate in shorter term swings. Five themes employed to generate return and lower risk using a variety of asset classes:

1) **Income:** High Yield Bonds currently paying out over 7.5%, are pricing in an economic slowdown with high default and low recovery rates. Also Corporate Bonds yielding 3.5% and dividend paying stocks.
2) **Low Volatility:** Low Beta stocks = US Large cap growth stocks
3) **Non-Correlating Assets:** Use of specialty funds that adjust risk up/down and across asset sectors as market conditions change
4) **Inflation Hedge**: Gold and Treasury Inflation protected Bonds
5) **Flexibility:** Use Exchange Traded Funds (ETF's) for a small portion of portfolio to enable better intra-day access when markets become exceptionally volatile.