

MARKET INSIGHT...

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

November 8, 2011

PERFORMANCE: as of 11-4-2011

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Sector	Week	3Mo	YTD
S&P 500	-2.4%	5.0%	1.3%
Russell 2000 (small/mid Cap)	-1.9%	3.2%	-3.7%
MSCI EAFE (Eurp.Asia, Far East)	-6.3%	-13.0%	-9.0%
MSCI Emerging Mkt	-2.0%	-7.6%	-14.0%
US Bonds (Barclay's agg. Index)	0.8%	1.4%	7.2%
High Yield Bonds (US)	-0.3%	-1.0%	3.9%
GLD (Net asset value)	0.7%	4.0%	23.6%
Real Estate	-2.4%	4.9%	5.3%
Energy	-2.3%	4.0%	7.0%

Market Summary: This Week....

The combination of persistent uncertainty surrounding the direction of fiscal policy (both here in the US and Globally) and the reality of a maturing economic cycle, suggests the period ahead for the markets is likely to remain volatile and broadly directionless. We could very well be in period, not unlike the 1970's, in which stocks posted 5 rallies of +20% or more, interspersed with 6 corrections of at least 15%. Near term, the market is probably stuck in a range with the risk-reward evenly matched between bullish and bearish factors....

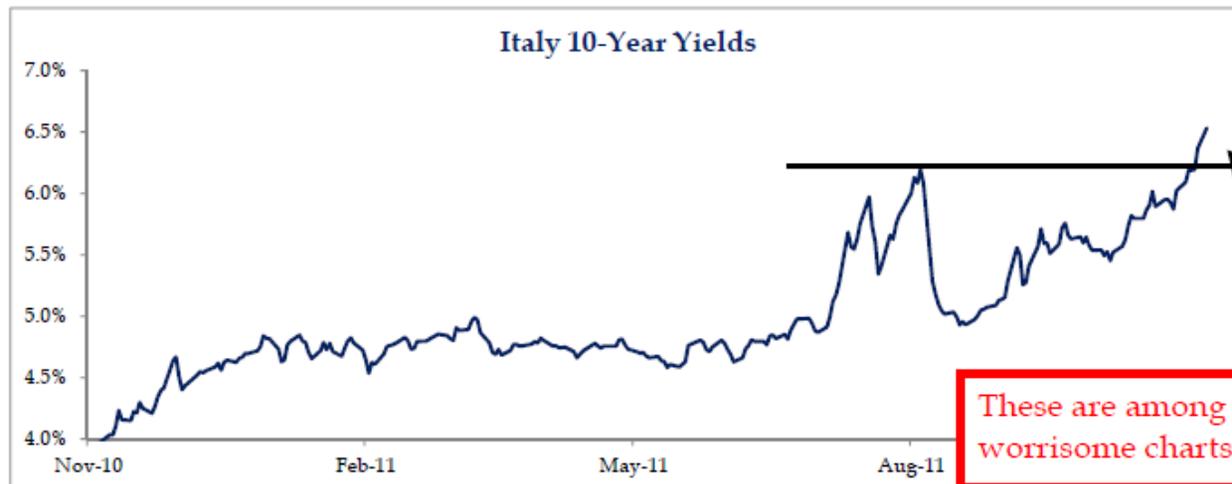
A Fair Match?	
Bullish	Bearish
Investor Sentiment	Global Trends
Market Seasonals	Market Internals
Transportation Stocks	Base Metals & EM
Price Momentum	Sovereign Credit

The Floor?

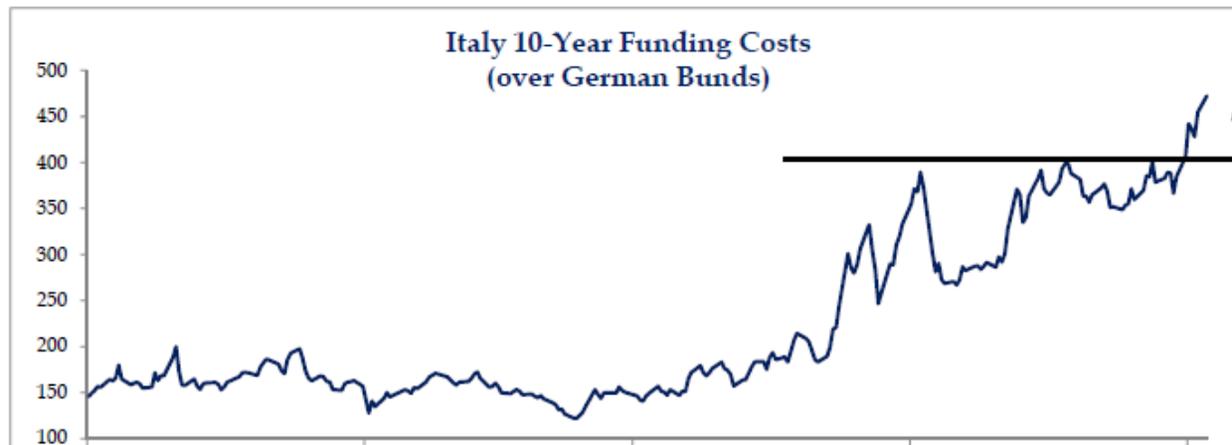
The Ceiling?

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

CREDIT REMAINS THE MAJOR OVERHANG



These are among the most worrisome charts we can find...



Economic Growth & Market Volatility Correlation: Low growth = Higher Volatility

Distribution of Market Volatility Under Various Nominal Growth Scenarios

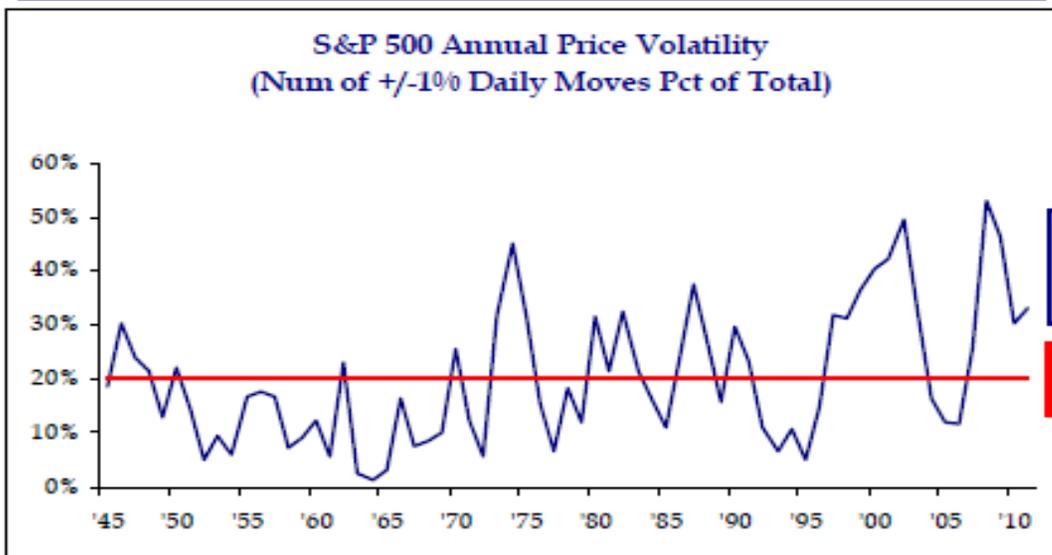
Nominal GDP Growth	S&P 500 Annual Volatility
<4%	45.5%
4% > 8%	23.8%
>8%	24.4%

Data 1950-2010

Annual Volatility = S&P 500 Annual High minus Low as % of Low

New Normal
suggest secularly
higher volatility.

S&P 500 Annual Price Volatility (Num of +/-1% Daily Moves Pct of Total)

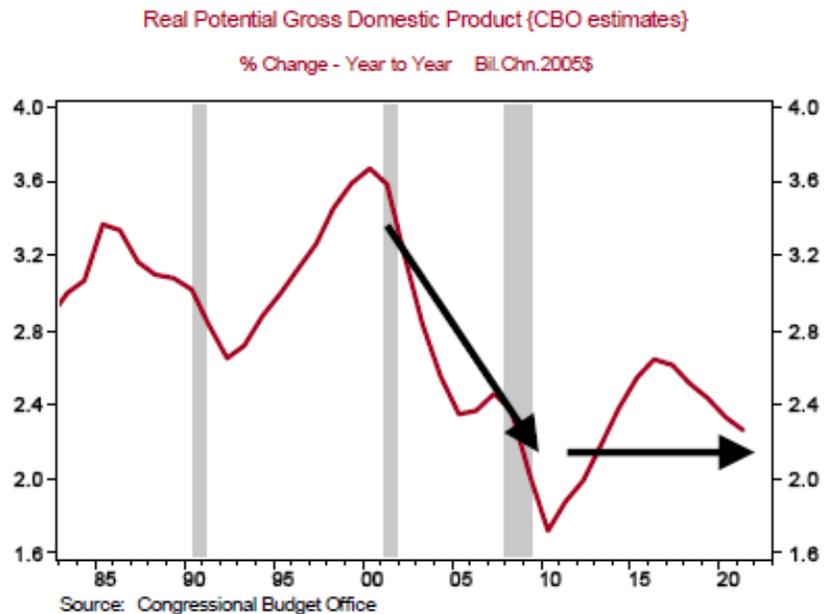


YTD '11:
33%

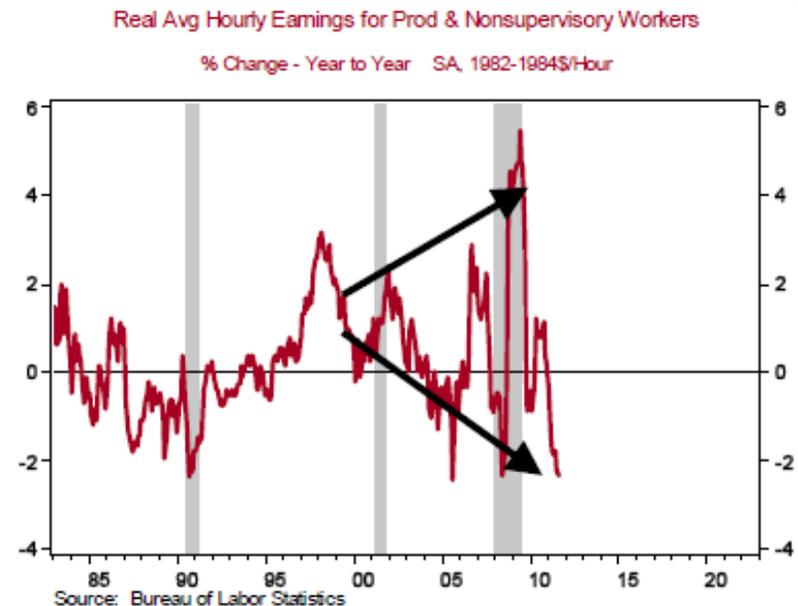
Avg = 20%

Economic Growth: Recipe for Shorter Business Cycle....

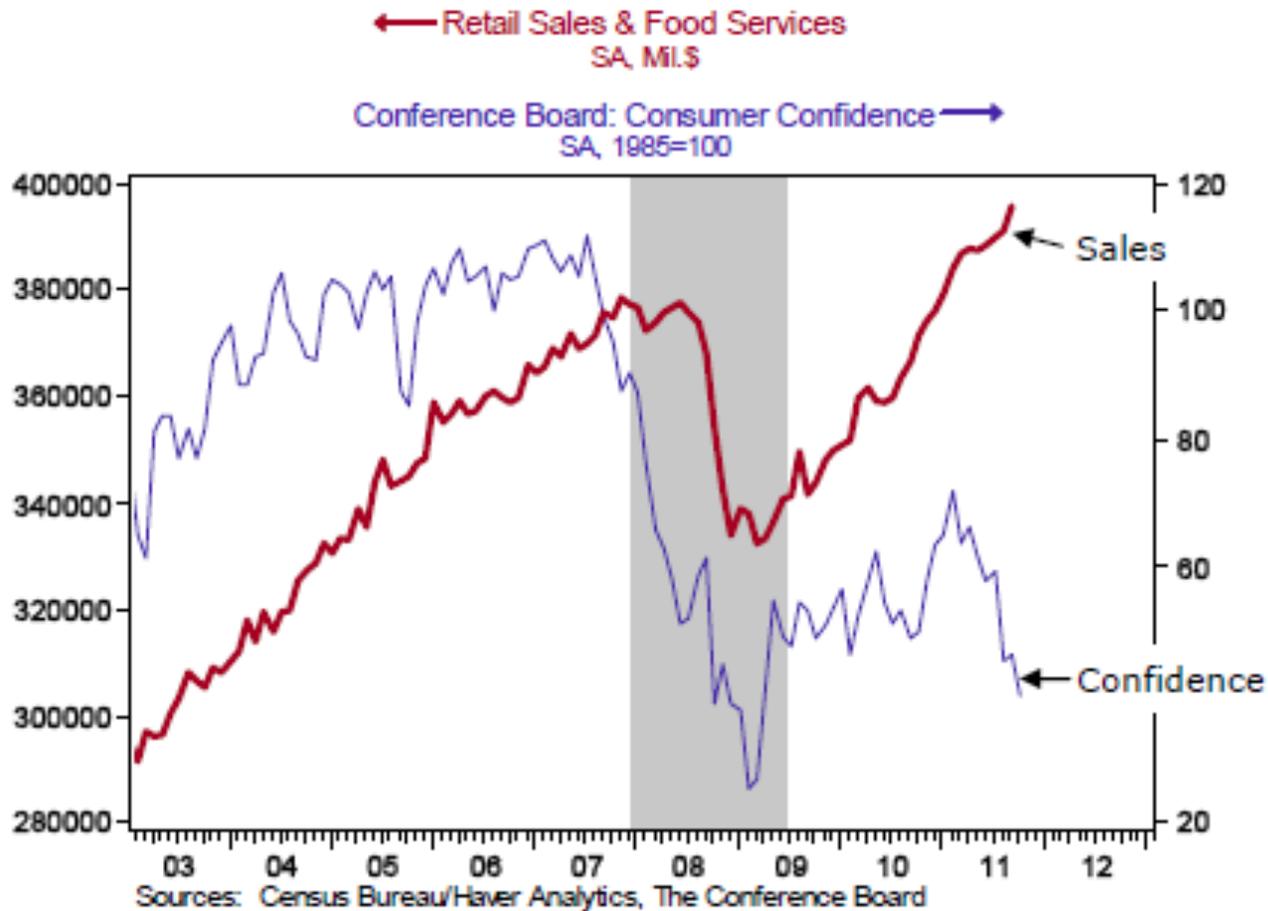
Slower GDP



...increased Volatility



Economic Growth: How sustainable is it with Consumer Confidence continuing to fall?



Economic: US Phil. Fed Index Improvement a Big Deal, but 2012-13 forecast is for drop off in growth.

Philly Fed Business Outlook Survey: Current Activity Diffusion Index
SA, %Bal



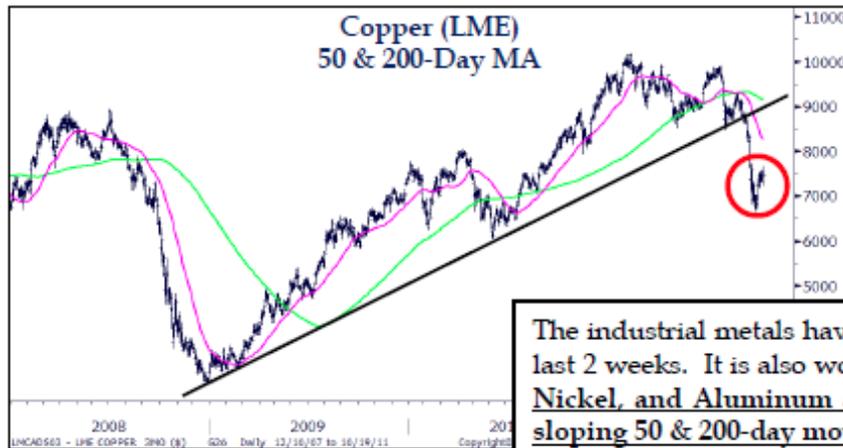
Major headwind to economic growth next year when Government Stimulus rolls off.

STRATEGAS ECONOMIC FORECASTS

	2011				2012				2013			
	1Q	2Q	3QF	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q % AR	0.4%	1.3%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	-1.0%	-1.0%
Core CPI Q/Q % AR	1.7%	2.5%	2.7%a	1.5%	1.5%	1.5%	1.5%	1.5%	1.0%	1.0%	1.0%	0.0%
Fed Funds EOP	0.1%	0.1%	0.1%a	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Mortgage Rate EOP	4.9%	4.7%	4.2%a	4.5%	4.7%	4.9%	4.9%	4.9%	4.7%	4.5%	4.0%	4.0%

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

Asian Market: Base Metals, which are very much tied to economic conditions in Asia, suggesting Slowdown



The industrial metals have not bounced much over the last 2 weeks. It is also worth noting that Copper, Zinc, Nickel, and Aluminum all remain below downward sloping 50 & 200-day moving averages.



Valuation: If Recession call is real, market has a ways to go.... S&P currently at 1271

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

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.