

MARKET INSIGHT...

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

October 16, 2011

PERFORMANCE: as of 10-17-2011

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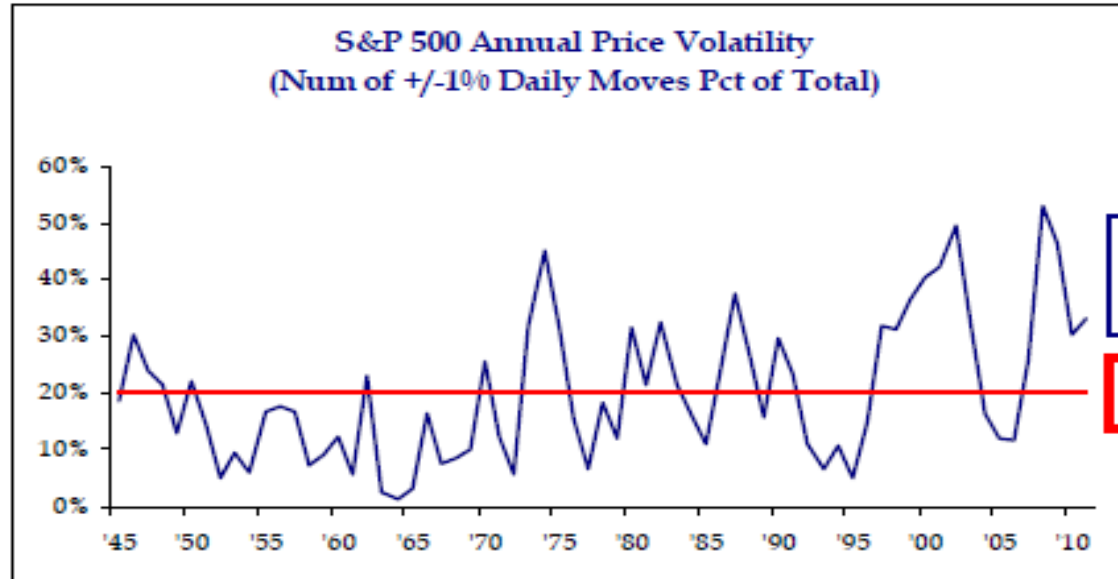
Sector	Week	3Mo	YTD
S&P 500	0.5%	-8.2%	-3.0%
Russell 2000 (small/mid Cap)	0.5%	-16.6%	-11.2%
MSCI EAFE (Eurp. Asia, Far East)	2.0%	-11.0%	-9.6%
MSCI Emerging Mkt	4.7%	-17.0%	-18.3%
US Bonds (Barclay's agg. Index)	0.1%	2.3%	6.0%
High Yield Bonds (US)	2.8%	-5.1%	0.3%
GLD (Net asset value)	1.3%	5.7%	18.9%
Real Estate	-1.0%	-15.0%	-4.5%
Energy	2.7%	-14.8%	-1.3%

Economic Growth & Market Volatility: 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.



Valuation: If Recession call is real, market has a ways to go

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

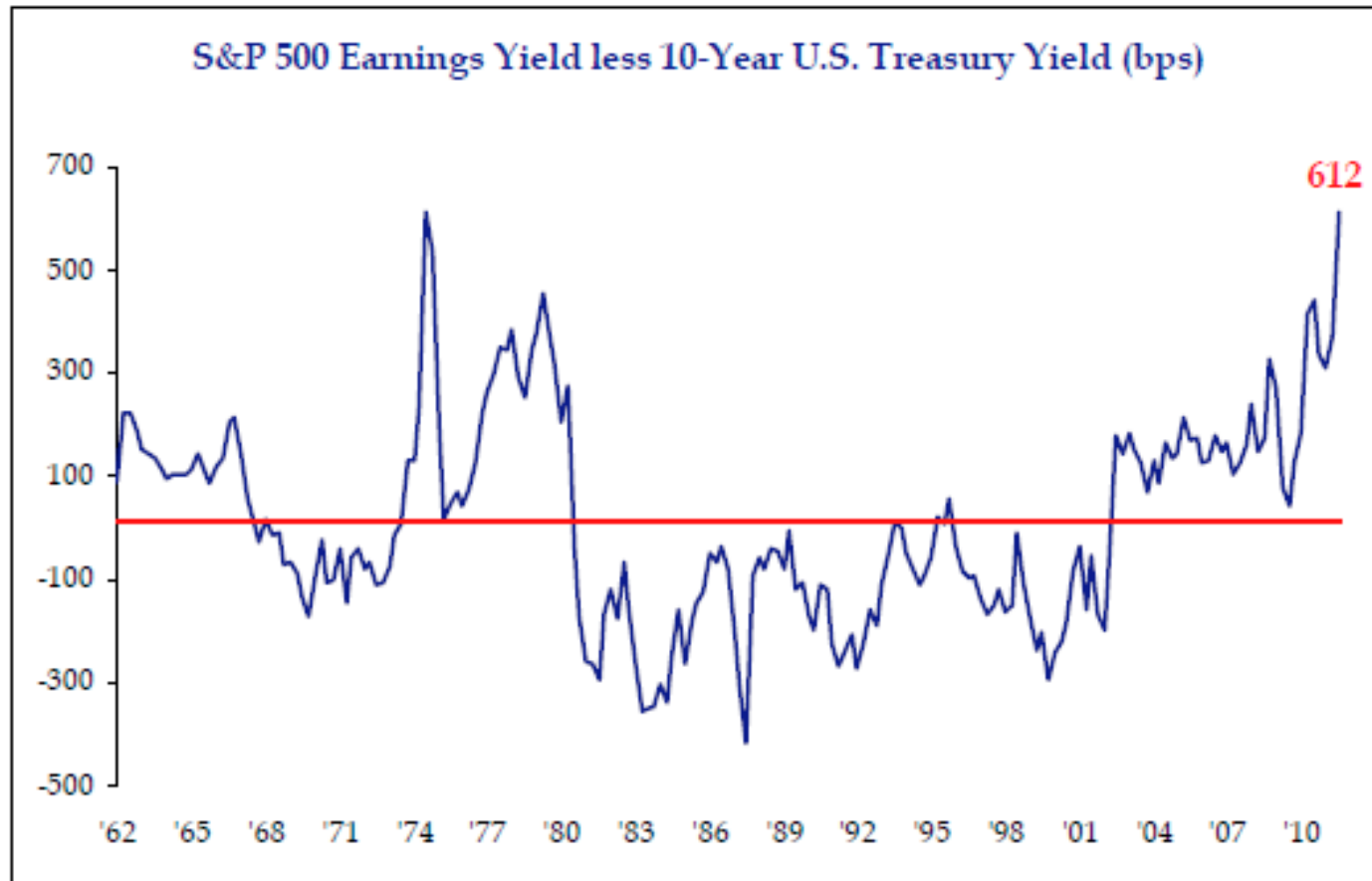
Things That Would Make Us Bullish

- Pro-growth tax policies that encourage capital formation. *Odds 10-1*
- Fiscal policies aimed at dealing with unproductive real estate (residential & commercial). *Current Odds 3-1.*
- Successful completion of the Super Committee with major long-term entitlement reform. *Current Odds 3-1.*

... (or at least not short)

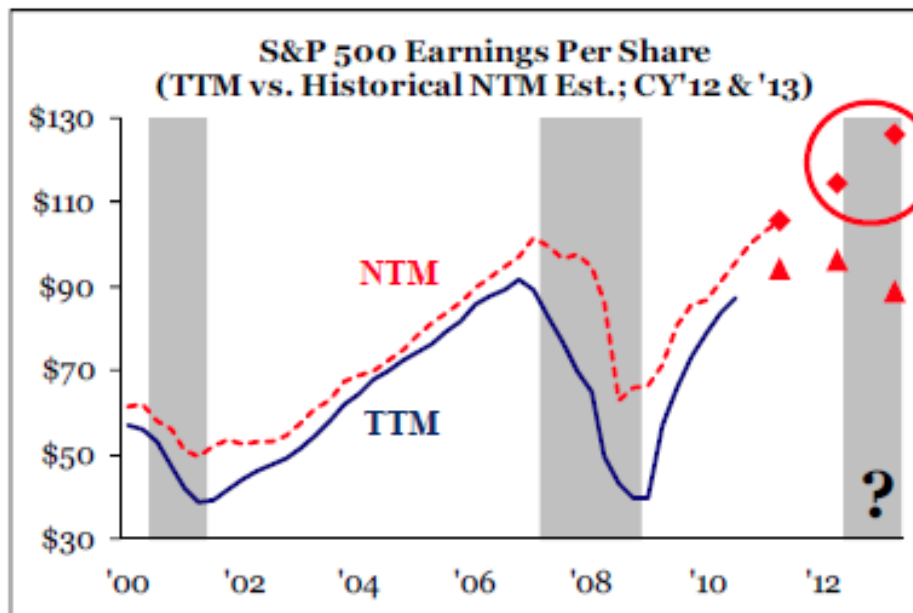
- QE3. *Current Odds 5-1; 2-1 with an S&P at 950.*
- Monetization of European debt or a Eurobond issue. *Current Odds 10-1.*
- Market-Based: Evidence of improvement to our Bellwether Index of cyclical stocks.
- Market-Based: The S&P 500 reclaiming its 200-day MA and the 200-day turning up.

Valuation: Equities Screaming Cheap relative to Bonds



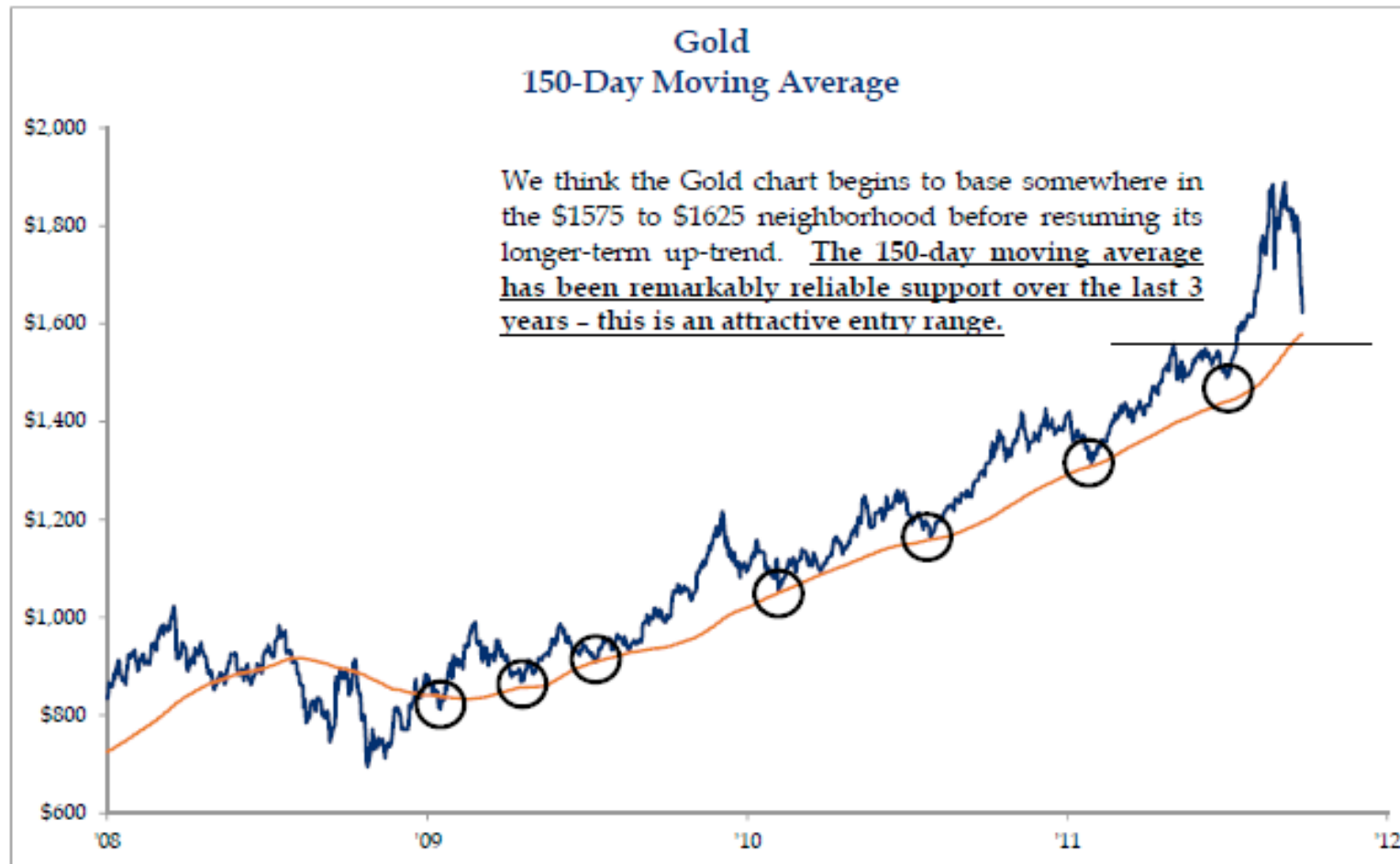
Valuation: Street Estimates still Way Too High!

2H '11 earnings will be 'OK', but level of profit expectations for S&P in '12 = \$113 and '13 = \$126 is very high. Strategas Economic team places a 35% probability on the U.S. moving into recession in 2012 and a 60% likelihood that recession occurs in 2013. One bright spot; there are few credit and inventory excesses to work off, implying a mild recession. Currently, estimating \$97 in S&P Operating Earnings for 2012 and \$88 for 2013. This -9% drop in profits would be more mild than any recession in the postwar period. Stress-testing for a "normal" recession of a -25% decline would bring the number closer to \$73.



The Street is estimating \$113 for '12 and nearly \$126 in '13 – those are big numbers.

Technical: Gold sell-off now back to support at 150 DMA



MARKET STRATEGY: Sell Equity Rallies

- 1) Equities now viewed as source of yield, not appreciation. Look for dividend growers
- 2) Technology remain relatively strong.
- 3) Avoid Discretionary and Stocks dependent on Government Spending.
- 4) Long Precious Metals; Gold & Silver
- 5) Avoid Energy, Financials, Small caps, Real Estate
- 6) Bonds: High Quality Corporates should hold up well
- 7) US Dollar strong against Euro, weak against Asian currencies
- 8) Global Operators can continue to be profitable
- 9) Long Volatility