New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

October 24, 2011

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PERFORMANCE: as of 10-24-2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	1.1%	-7.3%	0.7%
Russell 2000 (small/mid Cap)	0.0%	-15.5%	-8.7%
MSCI EAFE (Eurp. Asia, Far East)	0.4%	-13.0%	-9.0%
MSCI Emerging Mkt	-1.7%	-19.5%	-20.0%
US Bonds (Barclay's agg. Index)	0.3%	2.6%	6.1%
High Yield Bonds (US)	1.9%	-3.9%	1.9%
GLD (Net asset value)	-2.1%	2.5%	16.1%
Real Estate	3.2%	-3.4%	1.6%
Energy	2.9%	-13.0%	3.3%

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Market Summary: This Week….

The markets are rallying strongly as many of the recent headwinds have been overcome by several positive factors: US economic indicators for the 3rd quarter have improved; corporate earnings are solid; China's manufacturing data turning positive; and the President's proposal to help underwater homeowners to refinance their mortgages could have a meaningful short term impact. All of this good news is coming at a seasonally positive time of the year, perhaps allowing for smooth sailing through mid- December. Longer term, real structural problems remain and will come back into focus come 2012.

Another perspective: On Sept. 30th, the Economic Cycle Research Institute (ECRI) which is a leading authority on forecasting economic activity, has stated a recession is unavoidable. This call prompted a huge sell off in stocks, pushing the market to new lows in early October. Since that time, the market has rallied over 15%. Is the recession call a false alarm? Consider this:

- the ECRI has only made two recession calls over the last ten years, March 2001 and March 2008, and both times the call was correct. After the first call, the S&P rose 14% before falling 32% over the next 16months. After the second call, the S&P rose 9.8% before collapsing 42% over next nine months.

So far, the market is following the same pattern. perhaps we are in the calm before the next storm. With an election year approaching, and the enormous dependency on fiscal policy to drive the economy, it is anyone's guess the course we are on.

The new normal: Volatility. The chart on the next page shows the inverse relationship of market volatility to GDP. When nominal (before inflation) GDP falls below 4% , annual swings in the stock market is on average 45%, almost double that of when GDP is greater than 4%. Currently, the nominal GDP forecast is for less than 2.5% growth through 2013. The reason for this inverse relationship is two reasons: 1) Lower nominal GDP means the economy can more easily fall into a recession (negative growth) because there is no room for slowdown. 2) Most companies need at least 2 1/2% growth to grow earnings given a inflation of 2%.

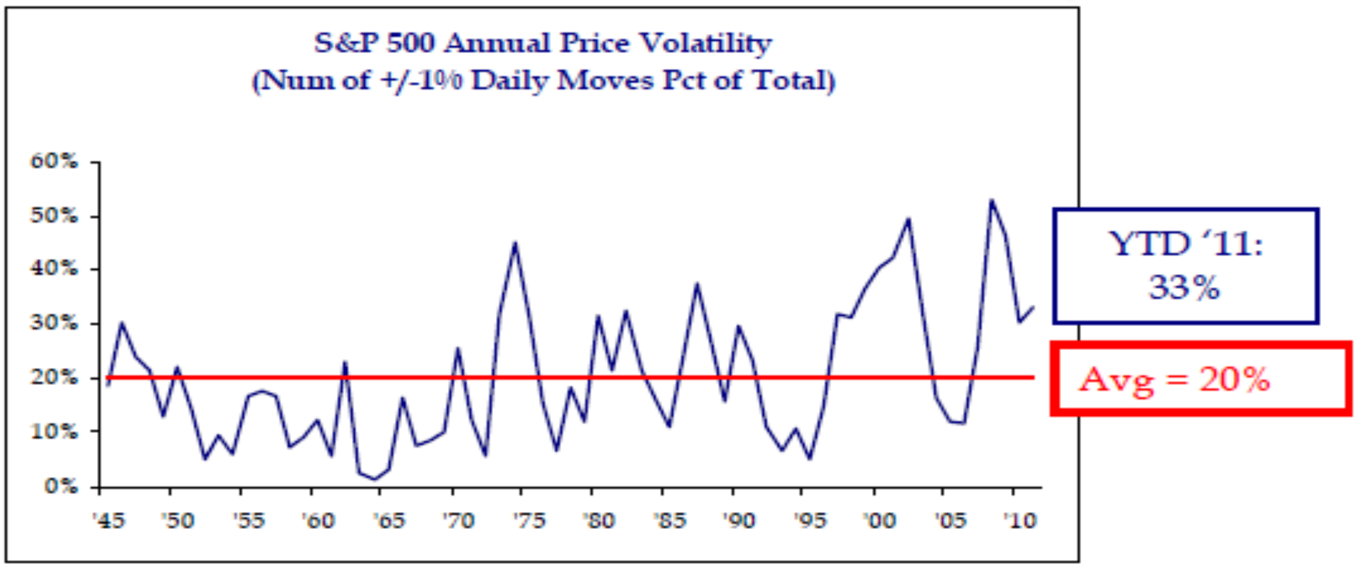
Economic Growth & Market Volatility Correlation: Low growth = Higher Volatility

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.

Economic Balance Sheet: Moves Higher for first time since February.

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(The Bellwether index is constructed from the stocks most correlated with GDP).

Assets	Neutral	Liabilities
Interest Rate Env	Price Inflation	Budget Deficit
Capex Eqp	Wage Inflation	Trade Deficit
Cons. Spend	Nonres Constr	Consumer Conf.
Credit Environ	Housing	Business Conf.
Employment	Manufacturing	

The first bounce in our summary measure of the economic data since 1Q of this year.

Economic:	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Assets	4	5	5	6	6	8	8	6	6	4	4	4	5
Liabilities	2	1	1	1	1	1	1	2	3	4	4	4	4
Net	2	4	4	5	5	7	7	4	3	0	0	0	1

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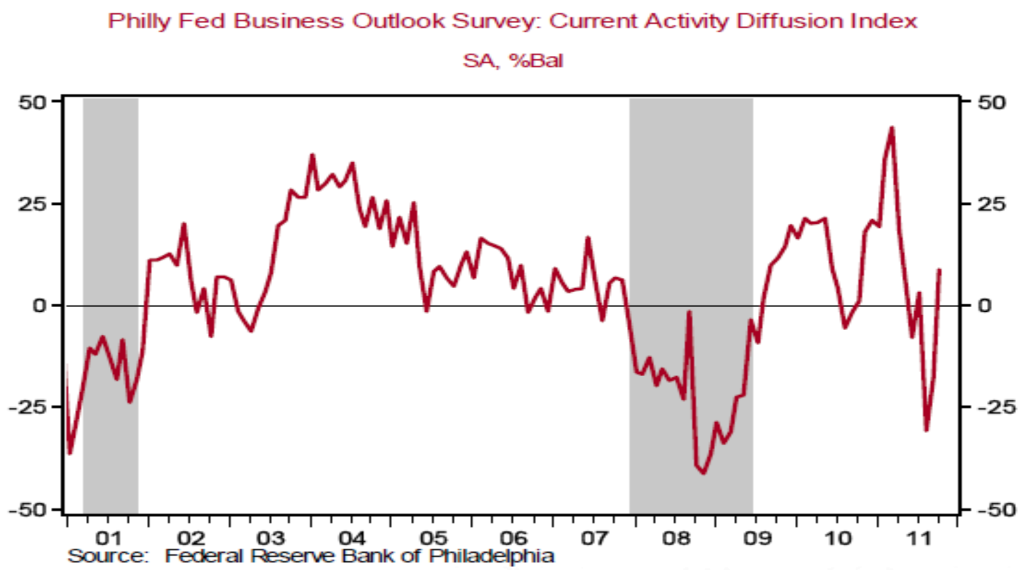
Economic: US Phil. Fed Index Improvement a Big Deal, but 2012-13 forecast is for drop off in growth.



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

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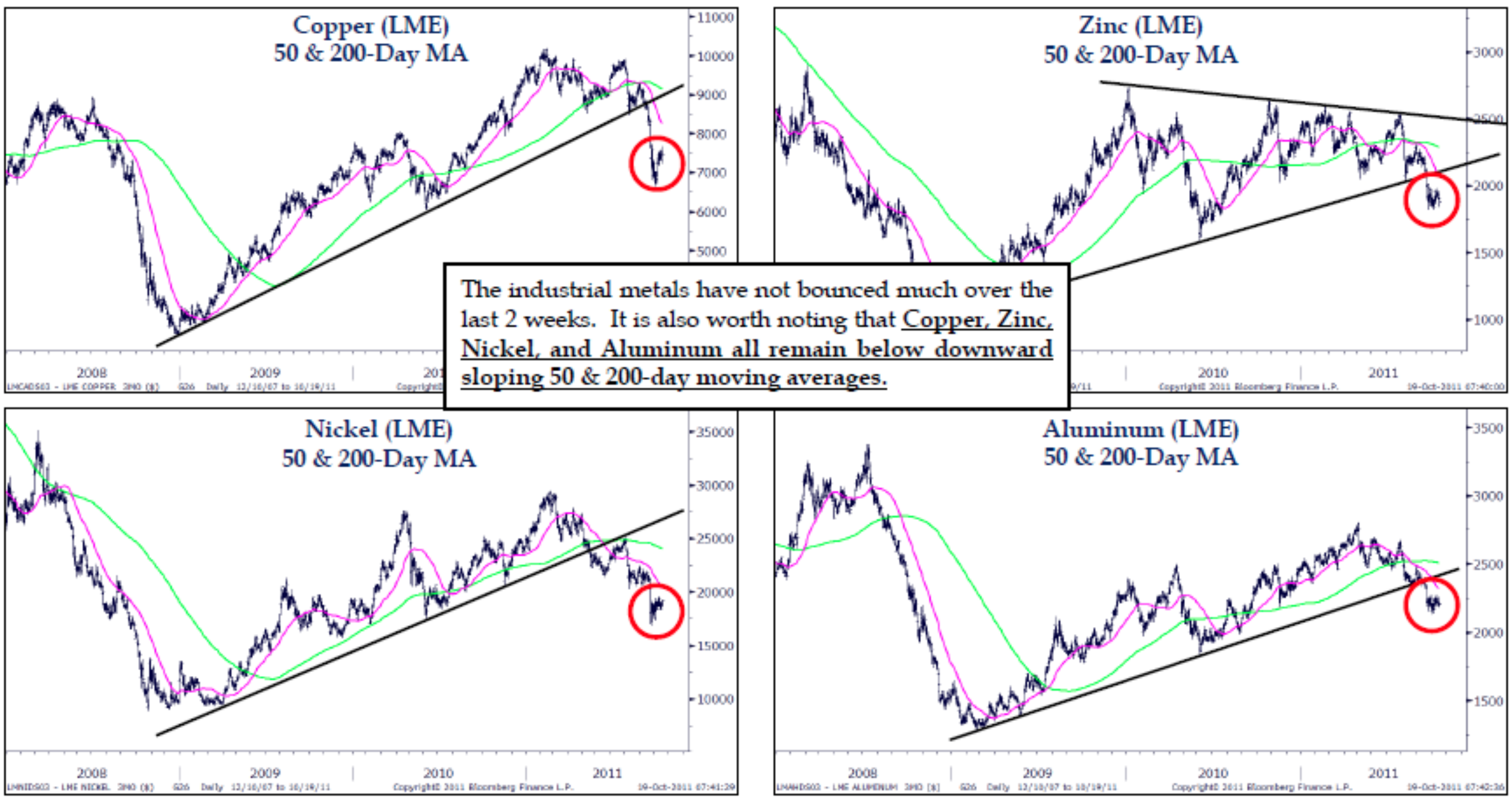

The industrial metals have not bounced much over the last 2 weeks. It is also worth noting that <u>Copper, Zinc, Nickel, and Aluminum all remain below downward sloping 50 & 200-day moving averages.</u>

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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*

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Market Leaders: Defensive Stocks, Utilities & Staples are still the Strongest Sectors

It's still the "defensive groups" that are on top of the 52-week high list.

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Policy Changes that could provide Bullish Push:

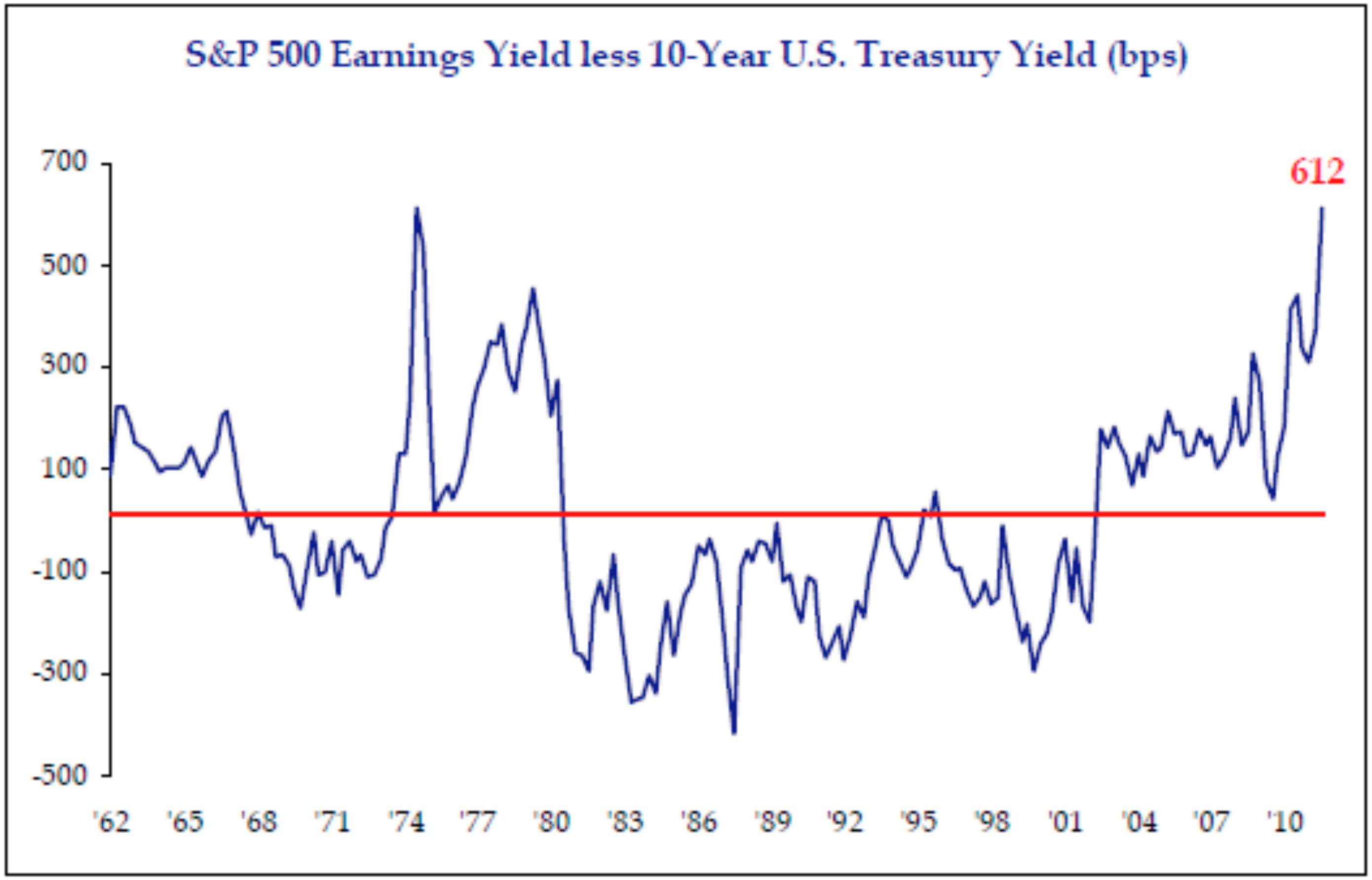
Things That Would Make Us Bullish

- **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)

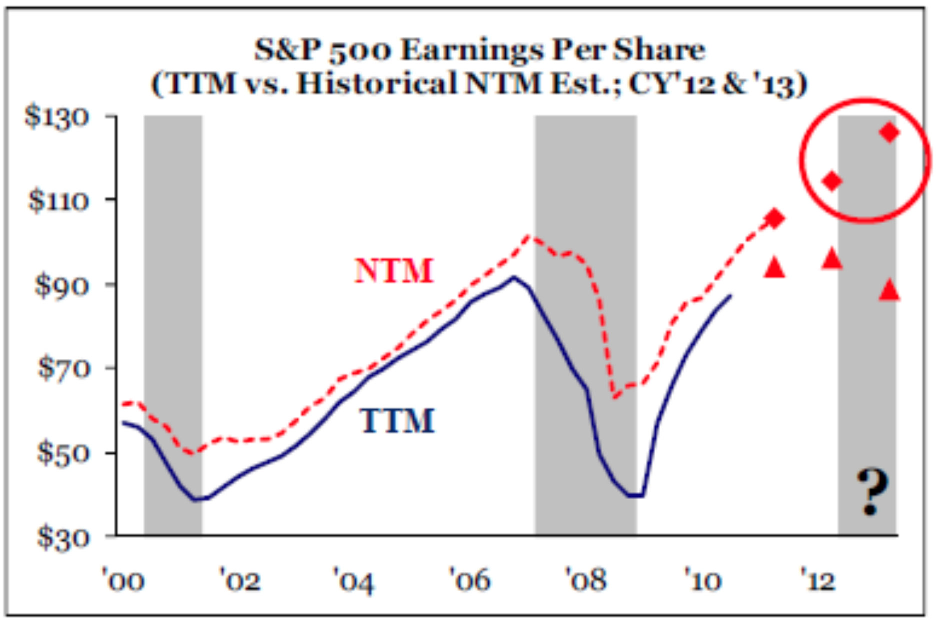
- **QE3.** *Current Odds 5-1; 2-1 with an S&P at 950.*
- **Monetization of European debt or a Eurobond issue.** *Current Odds 10-1.*
- **Market-Based: Evidence of improvement to our Bellwether Index of cyclical stocks.**
- **Market-Based: The S&P 500 reclaiming its 200-day MA and the 200-day turning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

Valuation: Equities 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.

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.