New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

October 7, 2011

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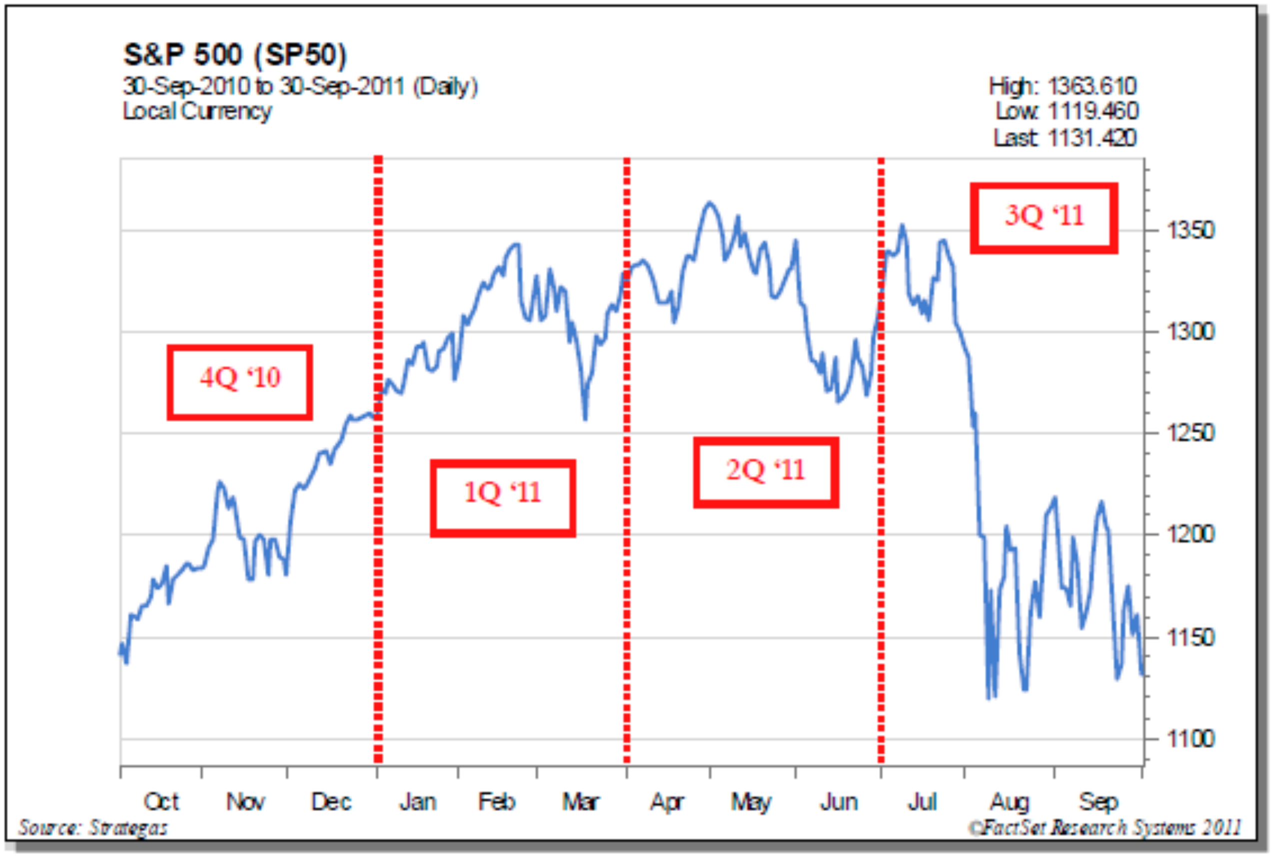
PERFORMANCE: as of 10-7-2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	2.2%	-14.1%	-6.7%
Russell 2000 (small/mid Cap)	1.9%	-23.3%	-15.4%
MSCI EAFE (Eurp. Asia, Far East)	2.0%	-17.0%	-13.3%
MSCI Emerging Mkt	0.4%	-24.2%	-23.3%
US Bonds (Barclay's agg. Index)	-0.6%	0.5%	6.0%
High Yield Bonds (US)	-0.8%	-7.7%	-2.5%
GLD (Net asset value)	0.7%	6.7%	14.7%
Real Estate	-2.0%	-20.6%	-8.2%
Energy	-0.0%	-17.7%	-8.3%

Technicals: Quarterly Look at the S&P



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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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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.**

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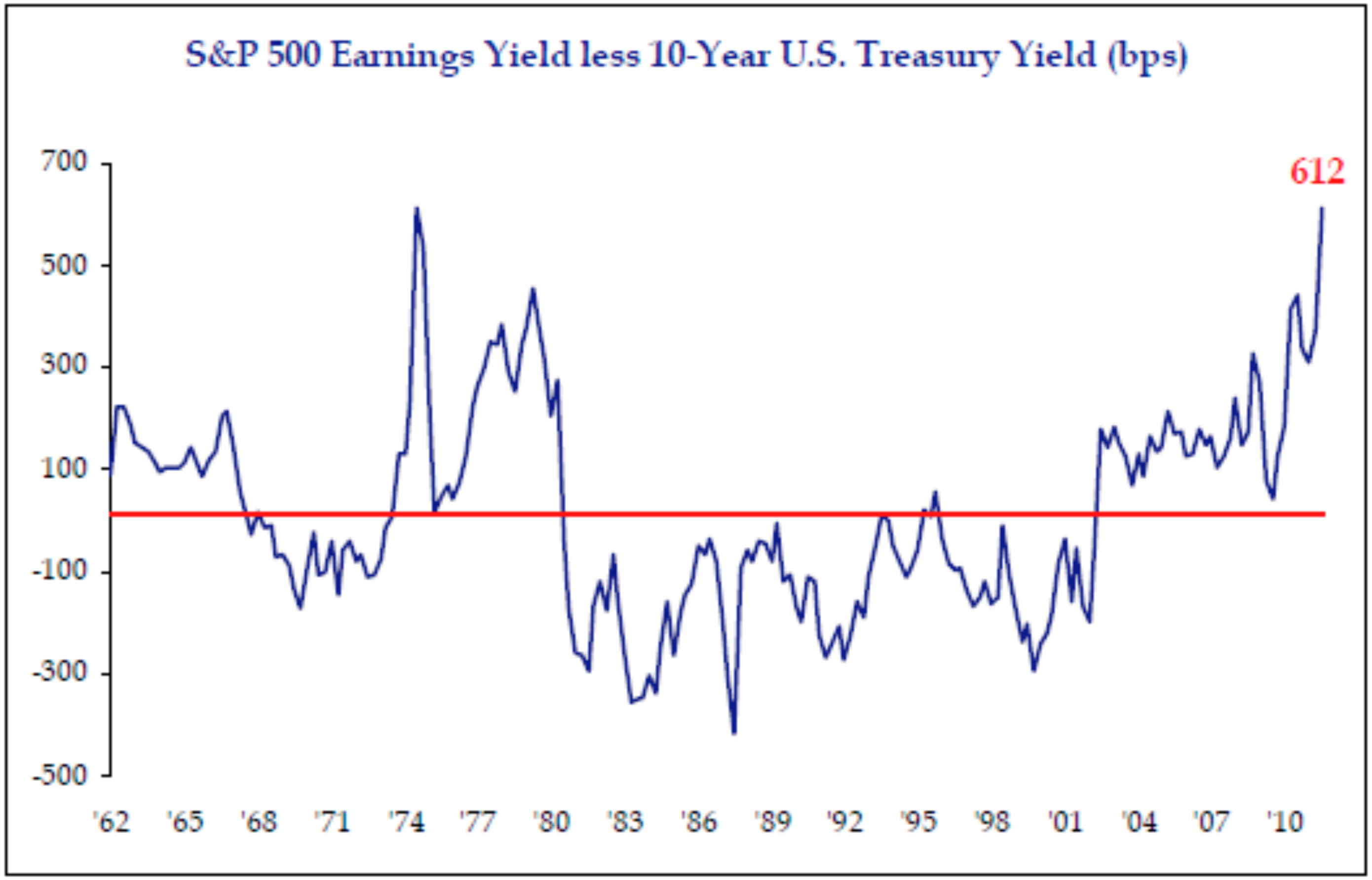
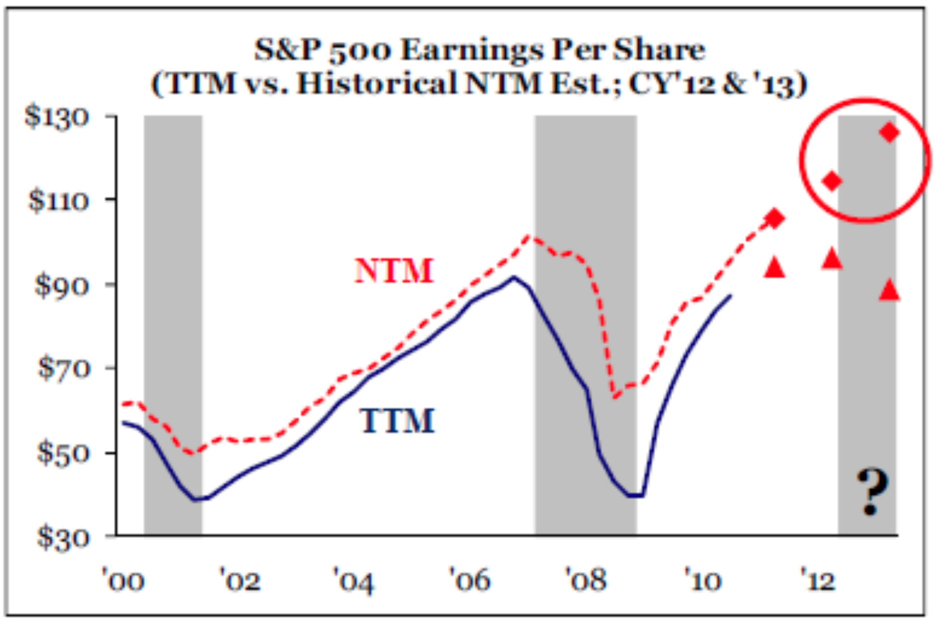
Valuation: Equities Screaming Cheap relative to Bonds



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.

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Global Markets: 19 out of 20 Major Markets are in Bear Trend

19 OF 20 GLOBAL MARKETS HAVE A TREND PROBLEM

G-20 Country	Stock Index	% off Peak	Trend
Italy	FTSE MIB	-44.1%	Negative
Russia	RTS Index	-38.0%	Negative
France	CAC 40	-32.4%	Negative
Argentina	Merval Index	-32.3%	Negative
Germany	DAX	-31.0%	Negative
China	Shangai Comp.	-29.9%	Negative
Brazil	Bovespa	-27.1%	Negative
European Union	Euro Stoxx 600	-25.7%	Negative
Japan	Nikkei	-24.5%	Negative
South Korea	Kospi	-23.8%	Negative
India	Sensex	-23.1%	Negative
Australia	All Ordinaries	-21.4%	Negative
Turkey	ISE National	-21.3%	Negative
Canada	S&P TSX Comp.	-19.7%	Negative
Indonesia	Jakarta	-18.3%	Positive
United Kingdom	FTSE 100	-16.8%	Negative
United States	S&P 500	-16.7%	Negative
Mexico	IPC Index	-15.8%	Negative
Saudi Arabia	Tadawul	-11.4%	Negative
South Africa	Africa All Share	-9.2%	Negative

** Trend = Negative if 50-day MA below 200-day MA, data as of 9/23/11*

It remains difficult for us to feel too good about the health of global equities when the Jakarta Stock Index is now the only G-20 market still in a bull trend (and just barely for that matter). **More than half of the indices listed at left are down at least -20% from their cycle peak, and 19 of 20 major markets have seen their 50-day moving average break below their 200-day moving average.**

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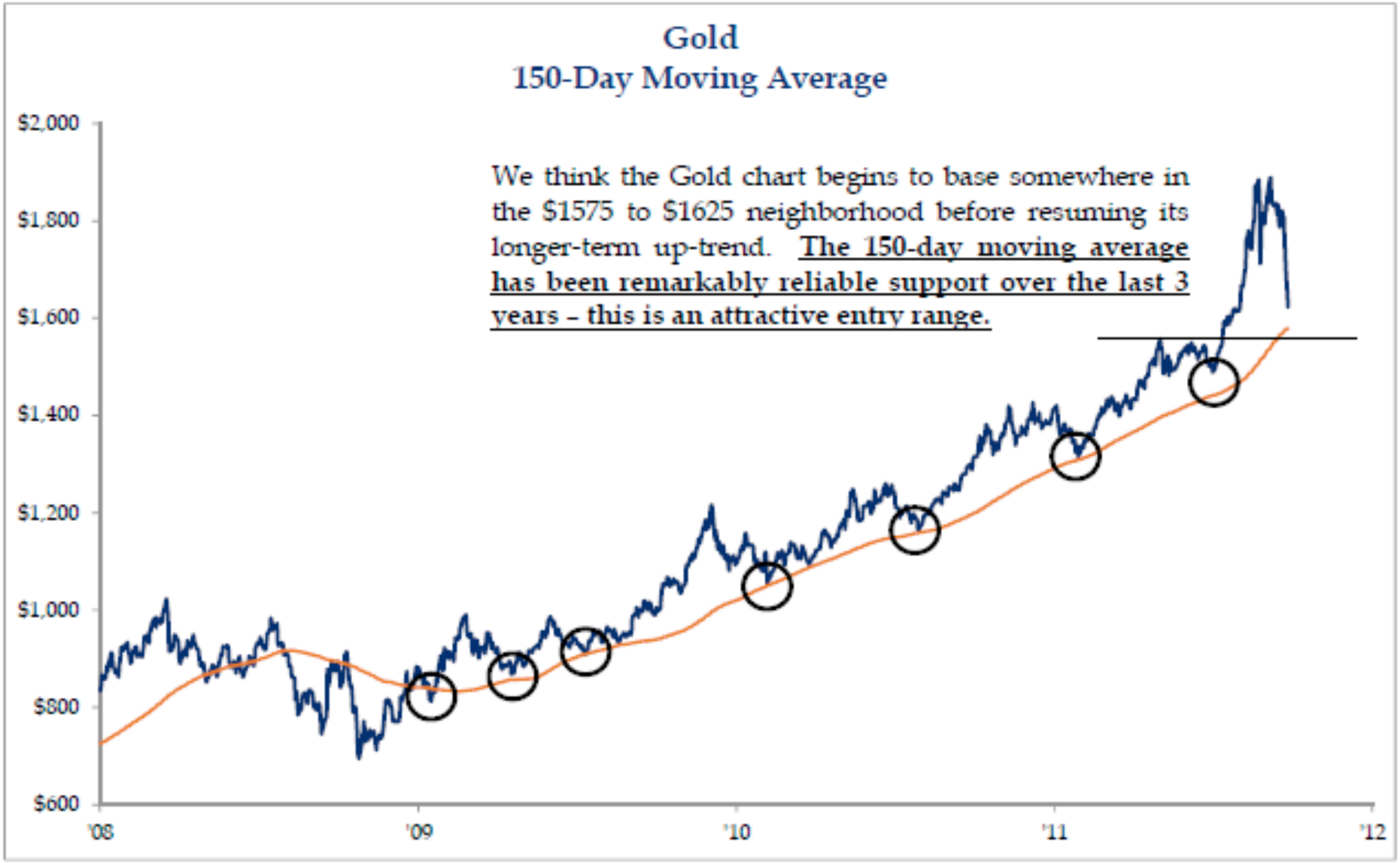
Technicals: Gold sell-off now back to support at 150 DMA



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