New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

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PERFORMANCE: as of 9-16-2011

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Sector	Week	3Mo	YTD
S&P 500	5.4%	-3.6%	-1.9%
Russell 2000 (small/mid Cap)	-6.0%	-8.3%	-8.0%
MSCI EAFE (Eurp. Asia, Far East)	2.2%	-11.4%	-11.3%
MSCI Emerging Mkt	-1.6%	-11.8%	-15.2%
US Bonds (Barclay's agg. Index)	-0.5%	2.8%	6.3%
High Yield Bonds (US)	-0.3%	- 2.8%	1.6%
GLD (Net asset value)	-2.6%	18.2%	26.9%
Real Estate	3.8%	-1.1%	4.5%
Energy	4.8%	-5.8%	1.0%

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Economic Summary: US Data has been ‘OK’; Europe continues to be the front page story.

•There’s still an inflation concern that likely keeps Fed on hold (for now). Consumer inflation has moved up to 2.0% y/y. FOMC will probably consider an “operation twist” (changing the composition of the Fed balance sheet, without expanding it) and cutting the interest rate paid on excess reserves (IOER) in September. The Fed meets later this week.

•U of Mich consumer confidence rose slightly to 57.8 in September (after plunging in July and August), the Phil Fed index ticked up slightly (though it remained depressed at -17.5). Industrial production rose +0.2% m/m in August. Mtg apps for purchase rose +7.0% w/w last week. Not all the data has been robust, however. Initial claims for unemployment insurance rose to 428,000 last week, and the NY Fed mfg index dipped to -8.8 in September. NFIB’s survey of small business confidence dipped slightly to 88.1 in August. U.S. retail sales were flat m/m, and sales were up just 0.1% ex autos and gasoline.

•The story in the euro-area is well known at this point. The only 2 “solutions” to the euro-area issues that we can see are 1) a euro-bond and 2) the ECB monetizing the debt. The problem is that both of these are unconstitutional (which seems especially true regarding the euro-bond, after the German court decision two weeks ago).

Technical View: Riskier Markets not following recent Rally

SOMETHING JUST DOESN'T FEEL RIGHT...
RISK CHARTS SUGGEST MARKET NOT OUT OF THE WOODS YET

Key Levels to Start the Week – Initial S&P 500 resistance is between 1219 (the August 31st closing high) and 1231 (the August 31st intra-day high). First SPX support comes into play near 1180, then 1150, 1120, 1102. We're also interested to see what the Dow Transports do at resistance near 4700.

While U.S. stocks have rallied off their early-August lows, a number of important risk barometers have continued to trade poorly. Although the immediate liquidity threat may have subsided, **by our lights the equity markets do not appear out of the woods just yet. Here is what we see on the macro front:**

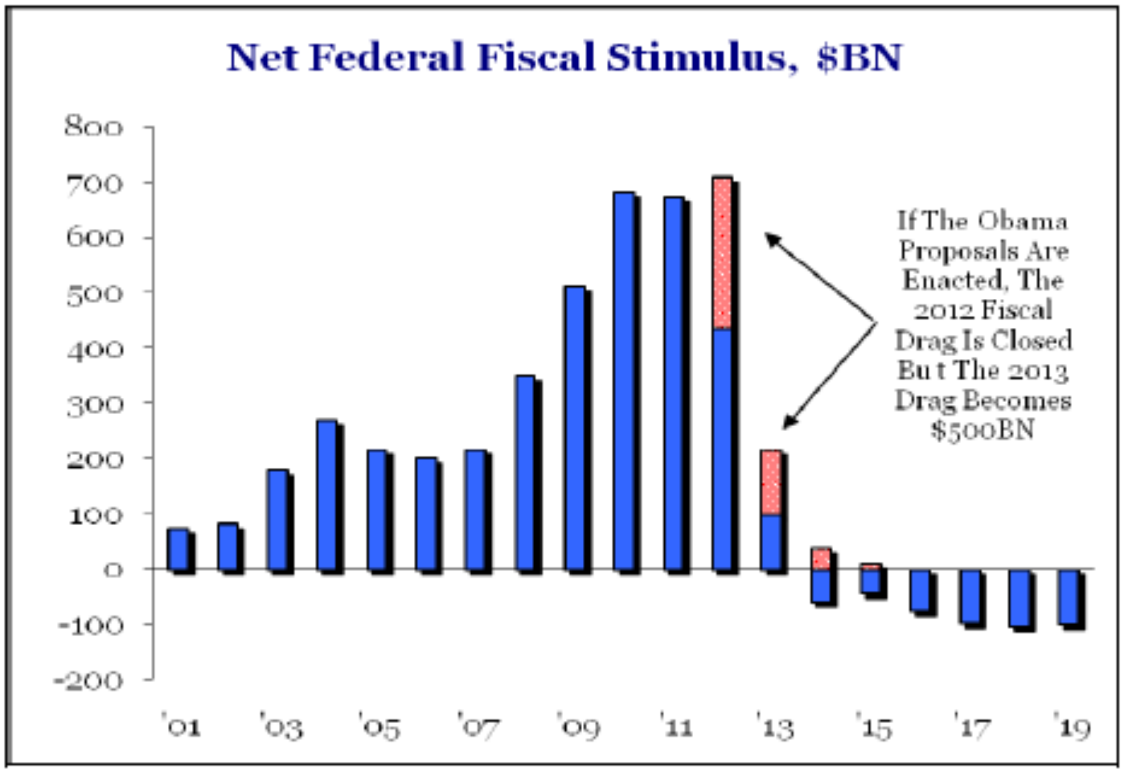
1) Emerging Markets continue to lag – the EEM broke sharply on a relative basis last week (see chart at left), and locally, the China Index remains weak as well.

2) Industrial metals continue to trade heavy – the Copper chart broke to the downside this morning and is now below the technically important $3.88 level.

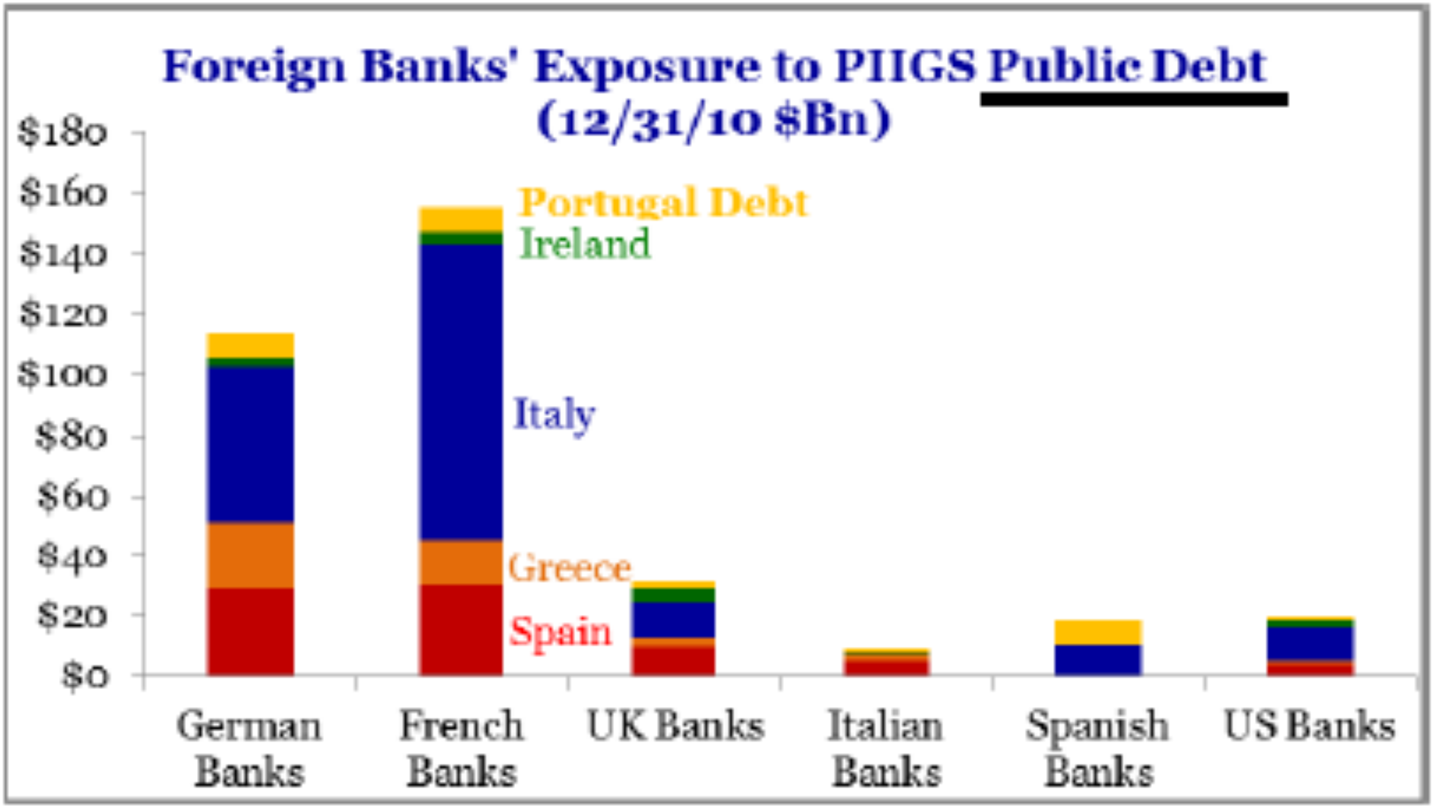
3) It appears that the FX charts are more consistent with a de-risk type environment. The Euro has broken down decisively from a 5-month trading range, and the Aussie $ is now under some pressure near its 200-day moving average.

Fiscal Policy: The Obama Plan

Enacting the President's plan closes the 2012 fiscal drag **but opens a wide chasm for 2013 to the tune of $500bn.** The ability to keep doing one time stimulus has run its course and this should lead policymakers to seek more permanent and comprehensive solutions.



European Debt: Potential of Contagion…a Greece default could spread to other European defaults.



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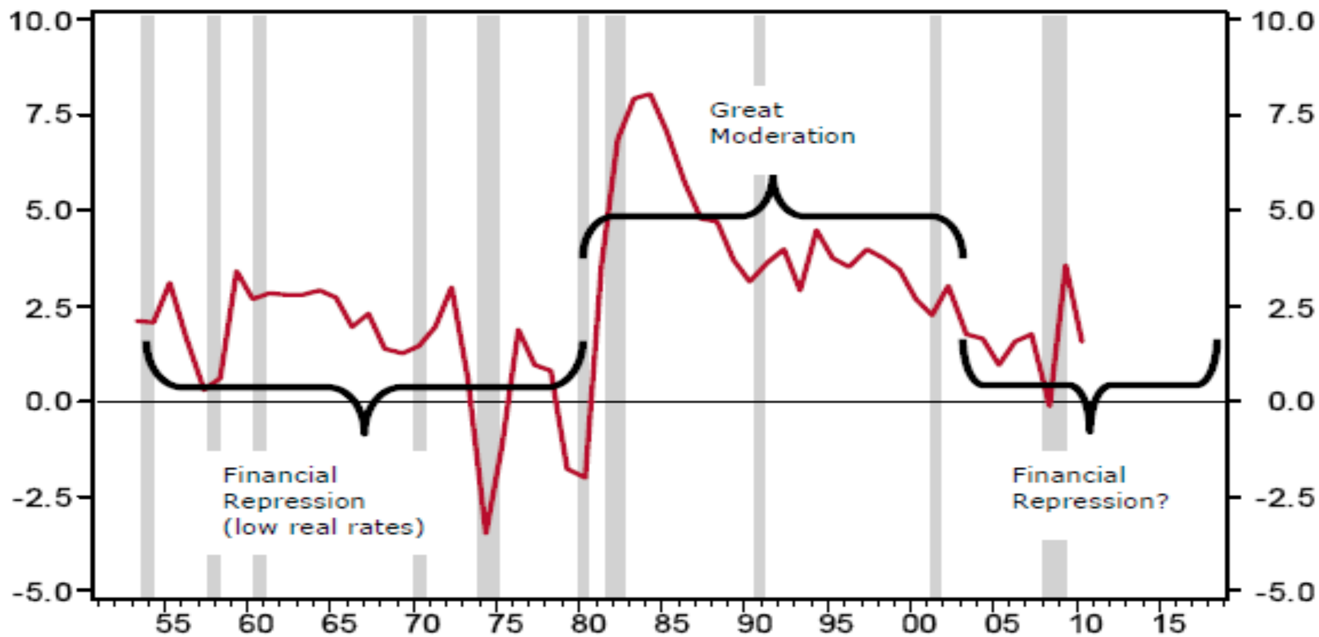
Economy: Financial Repression = Government led Recession

Four Sectors of Economy: 1) households, 2) business, 3) foreign, and 4) government. The past 30 years of the U.S. economy as household-led – that is, real interest rates came down every time the economy weakened (eg, 1985 and 1995) and the household sector leveraged up (mainly using their homes as collateral), supporting growth. **This story is over**, "financial repression" (low real interest rates for a long time) is now the base case.



Financial Repression (low real interest rates) should mean that the investment environment going forward may be more similar to the (more volatile) investing environment of the 1950s or 1970s, rather than the "Great Moderation" of the 1980s and 1990s.

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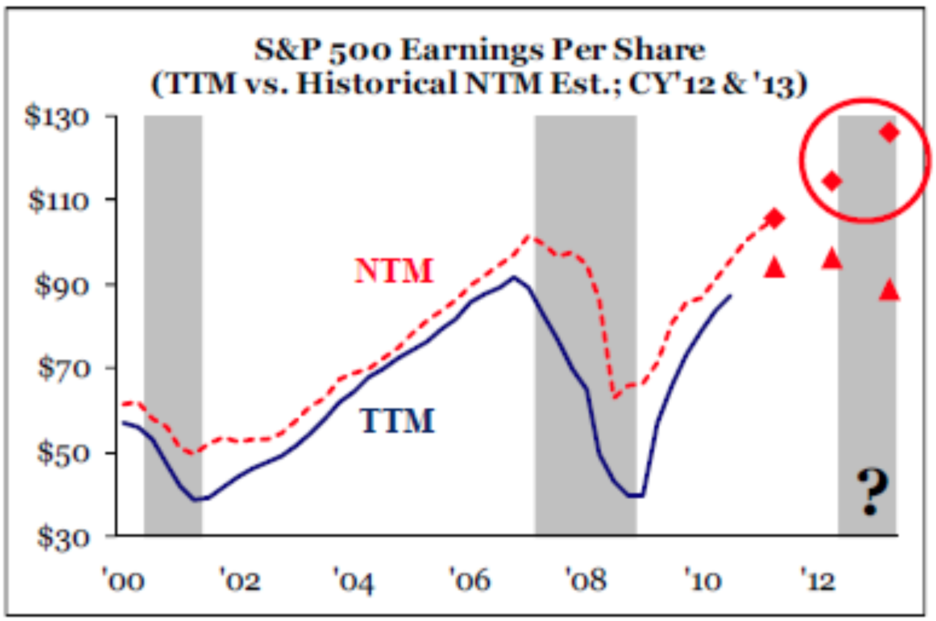
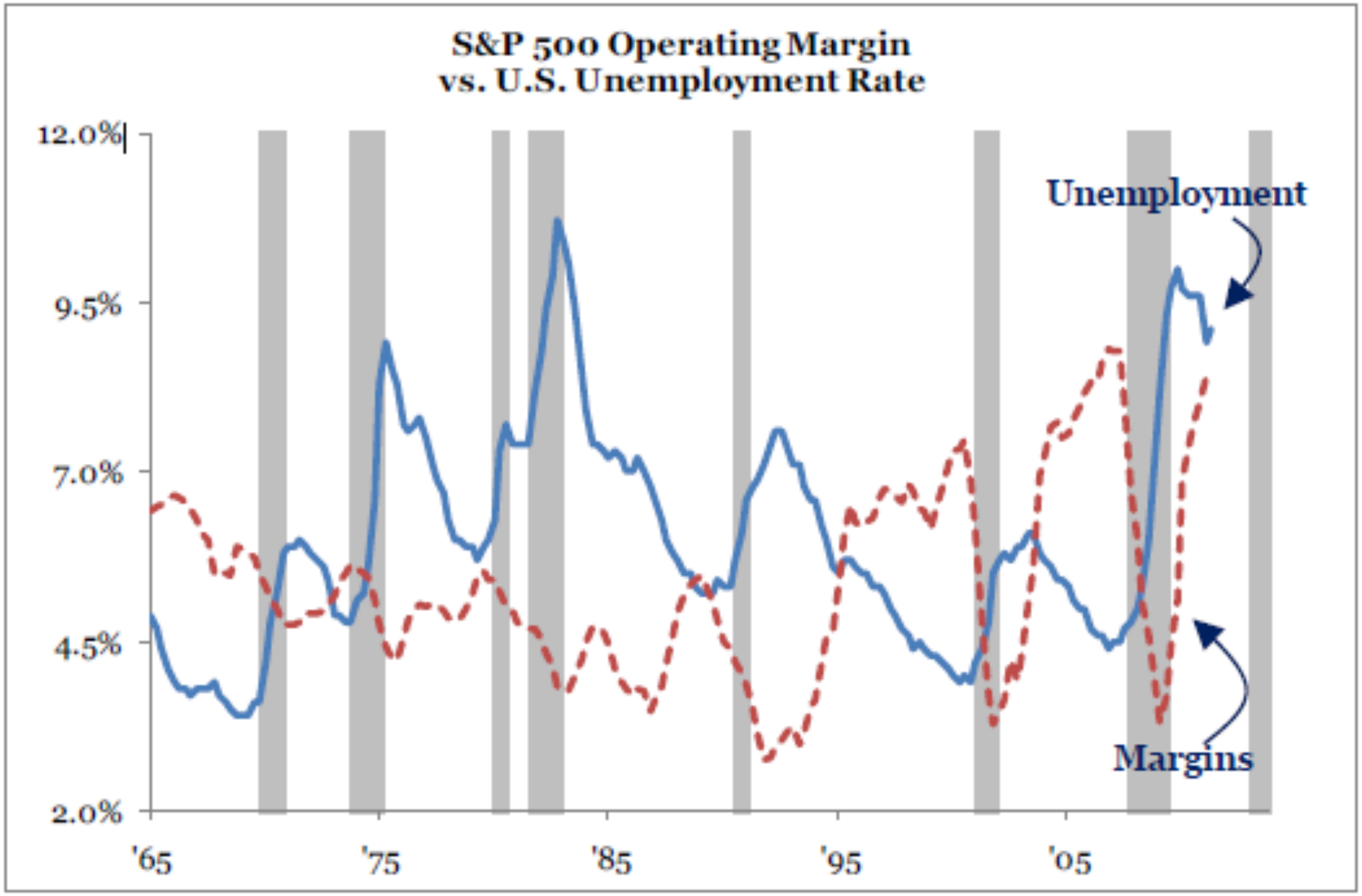
Valuation: Street Estimates still Way Too High!

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.

Earnings Outlook: Tough for Margins to Expand further given High Unemployment



Earnings Estimates At Risk:

U.S. economy has needed 2% Real GDP growth for S&P profits to maintain at flat level. **With an estimate 1.3% Real and 3.25% Nominal GDP for 2012, Street estimates are very likely to be revised downward**

	Strategas Est.	Growth Rate	Bottom-Up Est.	Growth Rate
2011	94.25	12.5%	98.79	15.8%
2012	96.75	2.7%	112.82	14.2%
2013	87.75	-9.3%	125.11	10.9%

Consensus is calling for 14% EPS growth in 2012; we are estimating 3.25% nominal GDP growth.

	EPS Growth	Nom. GDP Growth
2010	47.3%	4.2%
1955	30.7%	9.0%
1993	28.9%	5.1%
1976	27.7%	11.4%
1973	27.1%	11.7%
1987	25.8%	6.2%
2004	23.8%	6.4%
1988	23.4%	7.7%
1984	20.6%	11.2%
1979	20.5%	11.7%
2003	18.8%	4.7%
1995	18.7%	4.7%
2002	18.5%	3.5%
1994	18.0%	6.3%
1959	17.3%	8.4%
1999	16.7%	6.4%
1962	15.0%	7.5%
2009	14.8%	-2.5%
2006	14.7%	6.0%
Avg.	22.6%	6.8%
2012 Est.	14.2%	3.3%

Interest Rates: Flattening yield curve signals economic slow down.

U.S. CURVE CONTINUES TO BREAK DOWN

10yr Treasury rates fell to a 60 yr low at 1.9% and closing the gap on short rates.

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

Strategy: Diversification is Key in Volatile Markets