New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

September 2, 2011

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PERFORMANCE: as of 9-2-2011

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Sector	Week	3Mo	YTD
S&P 500	0.0%	-11.7%	-6.6%
Russell 2000 (small/mid Cap)	-1.1%	-14.6%	-12.5%
MSCI EAFE (Eurp. Asia, Far East)	3.5%	-13.4%	-13.2%
MSCI Emerging Mkt	4.0%	-12.5%	-12.3%
US Bonds (Barclay's agg. Index)	0.7%	3.1%	6.3%
High Yield Bonds (US)	0.8%	- 4.7%	2.3%
GLD (Net asset value)	3.3%	21.6%	31.5%
Real Estate	0.5%	-7.1%	0.4%
Energy	0.2%	-9.0%	-1.3%

Economic Summary: More Evidence of Stall-speed

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•U.S. payrolls were flat in August, with a drop in Information Svc (-48,000) that largely reflected the Verizon strike. However, prior month's payrolls were also revised down -58,000. Private payrolls increased just 17,000 m/m in August. The unemployment rate held flat at 9.1%, as the labor force increased. Average hourly earnings declined -0.1% m/m and average weekly hours also ticked lower to 34.2.

• Pending home sales also declined -1.3% m/m in July, construction spending dropped -1.3%.

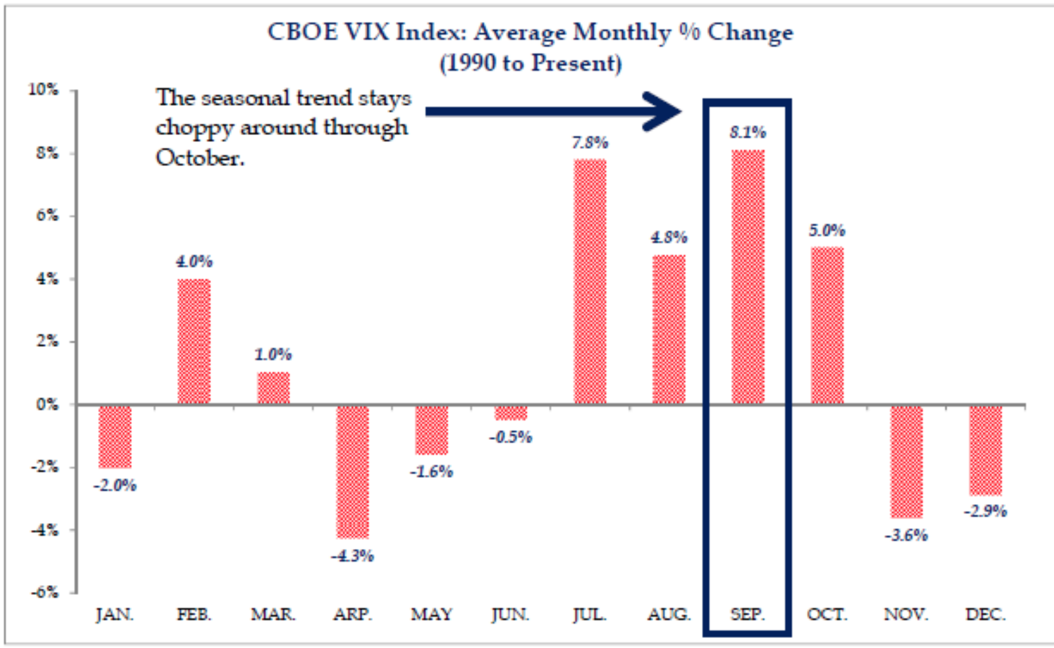
•Conf Board's measure of consumer confidence plunged to 44.5 in August.

•PMI measures for August showed that a slowdown is developing around the world (though the China PMI continued to signal growth at 51%). Additionally, the U.S. mfg PMI ticked down less than expected, remaining in expansion territory at 50.6%. However, the U.S. new-orders component remained below 50.

•There's still an inflation concern that likely keeps Fed QE3 on hold (for now). The 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.

Economic Summary: Autumn 2011 likely to be volatile

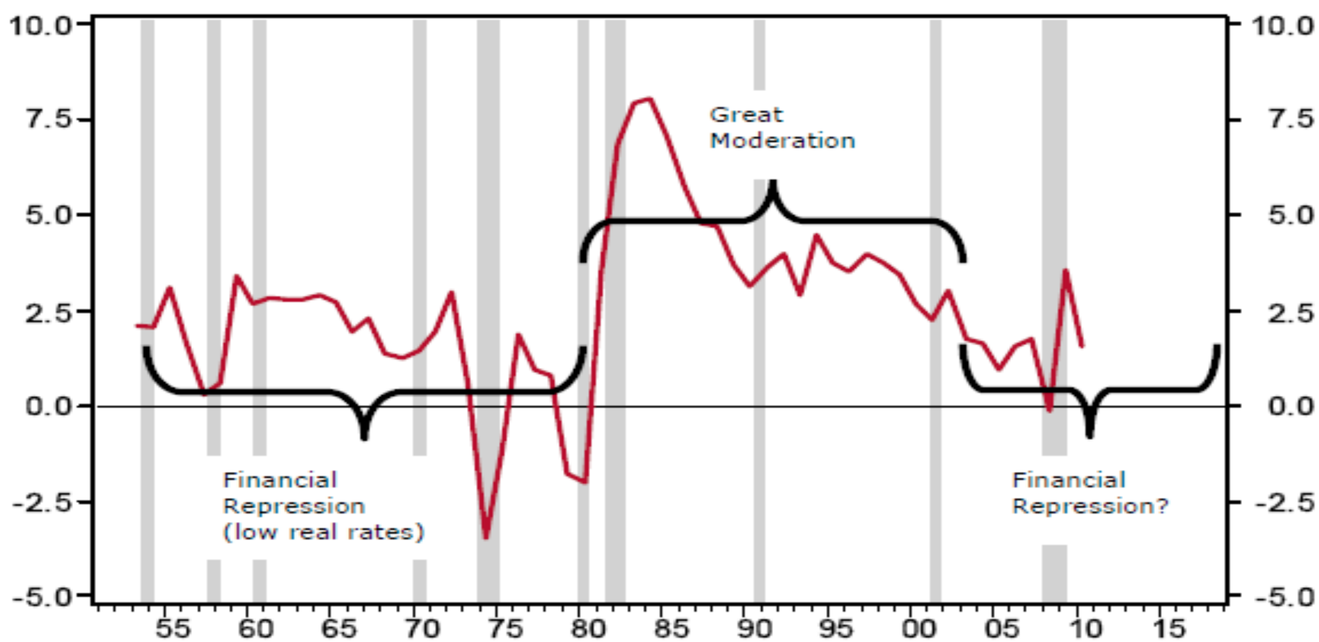
To a degree rarely witnessed in the postwar period, the fate of the global financial system rests, to a large extent, on the decisions of a small number of policymakers, some democratically elected and some not. The strength of corporate profits in the U.S. has been, at least thus far, unassailable. And few would argue that stocks don't represent compelling values relative to other financial assets. Still it seems that the fate of the global economy will be heavily reliant on any number of **political** decisions this fall that are difficult, if not impossible, to handicap accurately.



$VIX is a measure of market volatility. September is often a choppy month.

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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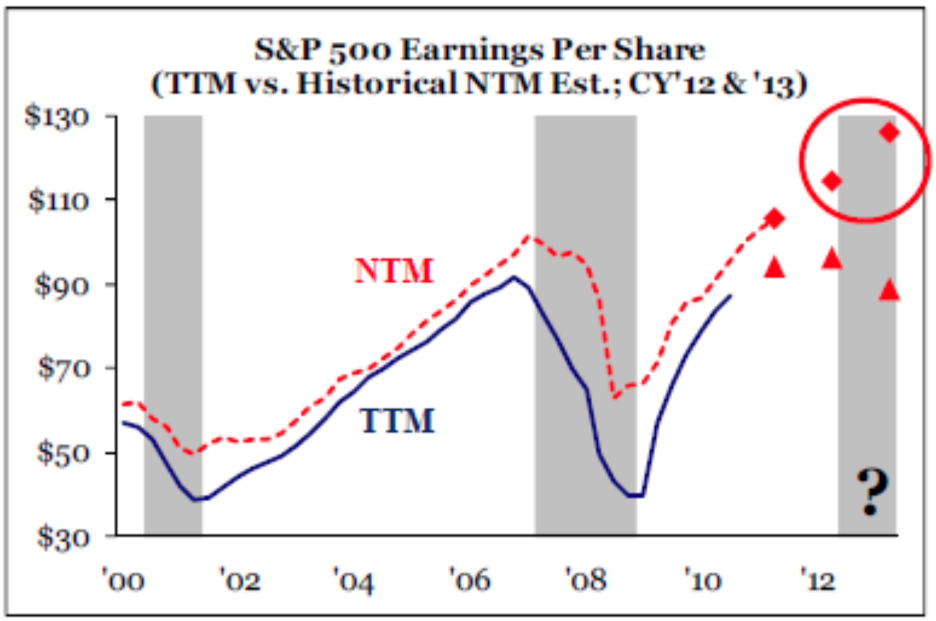
Valuation: Street Estimates still Way Too High!

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.

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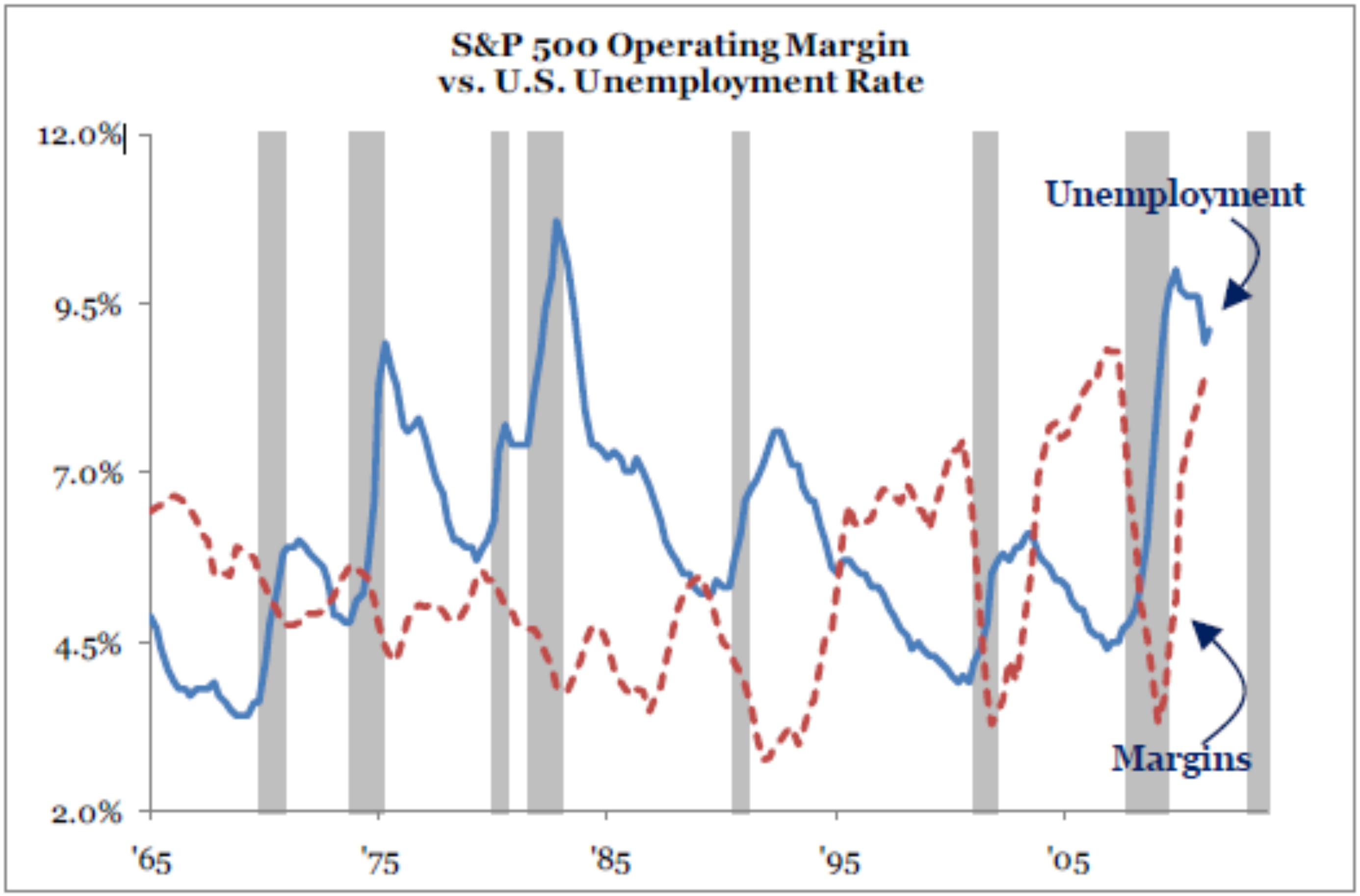
Earnings Outlook: Tough for Margins to Expand further given High Unemployment



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%

	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%*

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

Fed's Promise: Hold short rates at ZERO, implies 5 & 10yr rates will float with economic data

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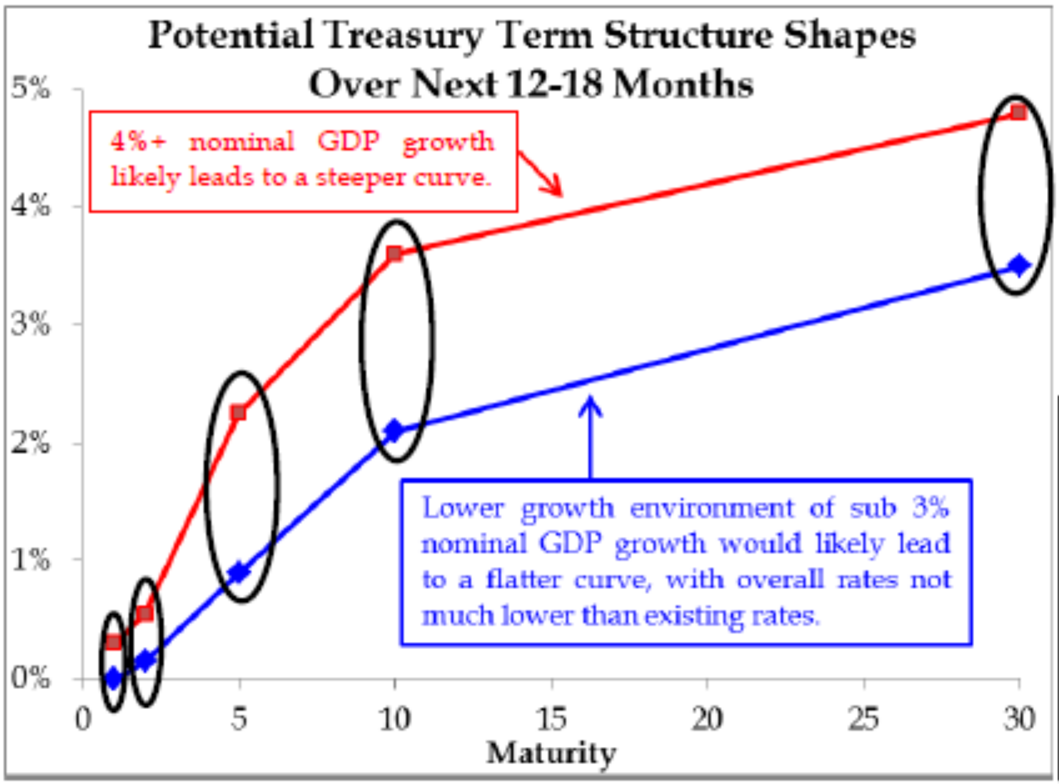
HIGHER GROWTH WOULD ALLOW 30 YEAR YIELD TO RISE, WITH MORE VOLATILITY FOR 5 AND 10 YEAR YIELDS



Any uptick in growth would likely have a limited impact on short rates over the next 12-18 months, though 5 year and 10 year yields could swing around violently while 30 year rates edge higher.

Potential Yield Ranges		
Maturity	Low Rate	High Rate
1	0.00%	0.30%
2	0.15%	0.55%
5	0.90%	2.25%
10	2.10%	3.60%
30	3.50%	4.80%

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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