New Albany Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

September 26, 2011

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PERFORMANCE: as of 9-23-2011

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Sector	Week	3Mo	YTD
S&P 500	-6.5%	-11.0%	-8.3%
Russell 2000 (small/mid Cap)	-8.6%	-18.4%	-16.0%
MSCI EAFE (Eurp. Asia, Far East)	-6.8%	-17.3%	-17.3%
MSCI Emerging Mkt	-11.8%	-22.0%	-25.2%
US Bonds (Barclay's agg. Index)	0.7%	2.5%	7.0%
High Yield Bonds (US)	-1.6%	-4.1%	0.0%
GLD (Net asset value)	-9.2%	7.7%	15.2%
Real Estate	-8.5%	-11.5%	-4.6%
Energy	-12.1%	-17.7%	-11.3%

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Market Balance Sheet: The Positives

ASSETS

Element	Comments
Commodity Prices	Commodity prices are still a concern but the recent declines in the price of oil and the CRB Index are a market positive.
Monetary Policy	The Fed seems committed to keeping the system liquid.
Liquidity	Money growth continues to accelerate. M2 grew +10.3% y/y in August, and our measure of bank loans + commercial paper and M2 is currently increasing at a +14.2% rate.
Dollar	Despite the weakness of the Dollar, its status as the world's reserve currency remains a blessing insofar as it continues to allow the U.S. to fund its burgeoning debt without, at least thus far, a significant increase in long-term interest rates.
Profit Growth/Margins	Despite the potential for a wave of downward earnings revisions, profits remain at record highs.
Valuation	11.4x forward earnings in the context of 1.9% 10-year Treasuries could be described as "cheap."

Market Balance Sheet: The Negatives

LIABILITIES	
War vs. Peace	American troop commitments overseas put pressure on the deficit. Tensions in the Middle East creating long-term uncertainty on the availability of fossil fuels.
Price Stability	Core CPI rose +2.0% y/y in August - right in line with the Fed's implicit target. QE has been accompanied by accelerating inflation, if not a lower unemployment rate.
Free-Trade/Protectionism	It wouldn't surprise us if our terms of trade with China became a major political issue in the 2012 campaign. Competitive devaluations still a risk.
Fiscal Health	The government continues to run $1TN+ deficits. No room for any stimulus.
Demographics	An aging population will continue to hasten the retail investor's preference for income over capital gains.
Economic Growth	After hopes for a "strong patch" of data in 2H 2011, recent data has been decidedly weaker, although it is not falling off a cliff; particularly worrisome is the weakening confidence level exhibited by businesses and consumers alike. Strategas places the odds of recession in 2012 at 35% and in 2013 at 60%.
Fiscal Policy	The debt ceiling legislation reduced spending by $2TN but further action will be needed to deal with structural budget issues.
Administration	The President's approval rating is at the lowest level of his presidency. Jobs proposal is likely going nowhere.
Technical Picture	The market's cyclical names continue to lead to the downside, trend continues to weaken, and the credit charts are moving in the wrong direction. We remain sellers on strength.
Sentiment	Watch what they do, not what they say - the survey data may be approaching 2009 levels, but data that measures what investors are actually doing (put/call, short interest) are not yet capitulative.

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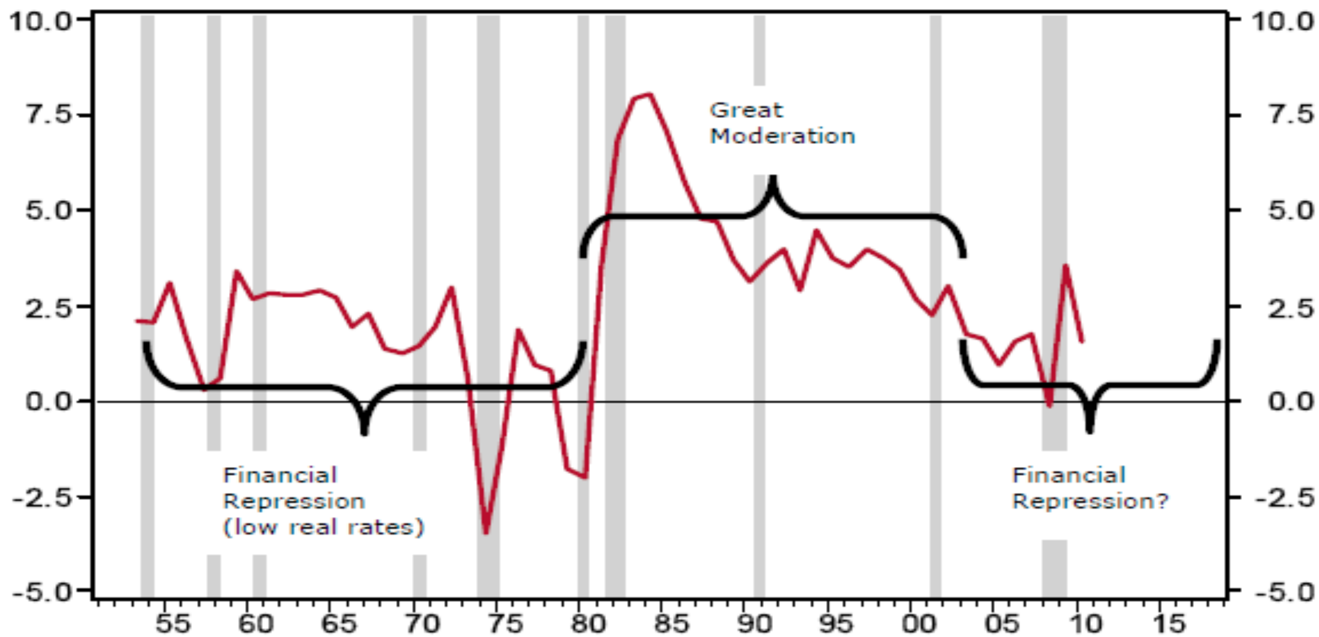
Economy: Financial Repression = Government led Recession

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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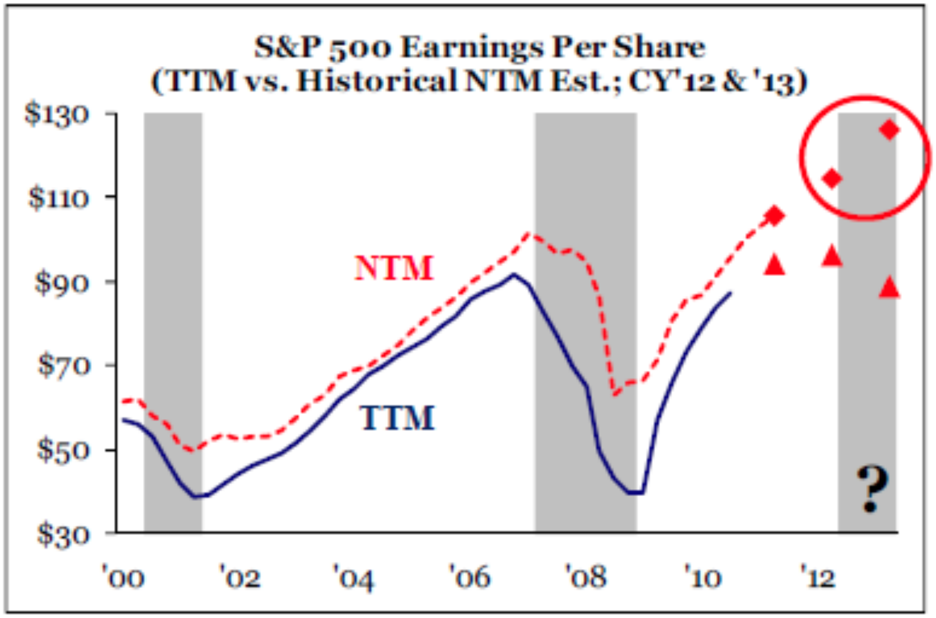
Valuation: Street Estimates still Way Too High!

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 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%*

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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