

## MARKET INSIGHT...

- Performance
- Economic Update
- Charts\* of Interest

\*Provided by Strategas Research Partners LLC

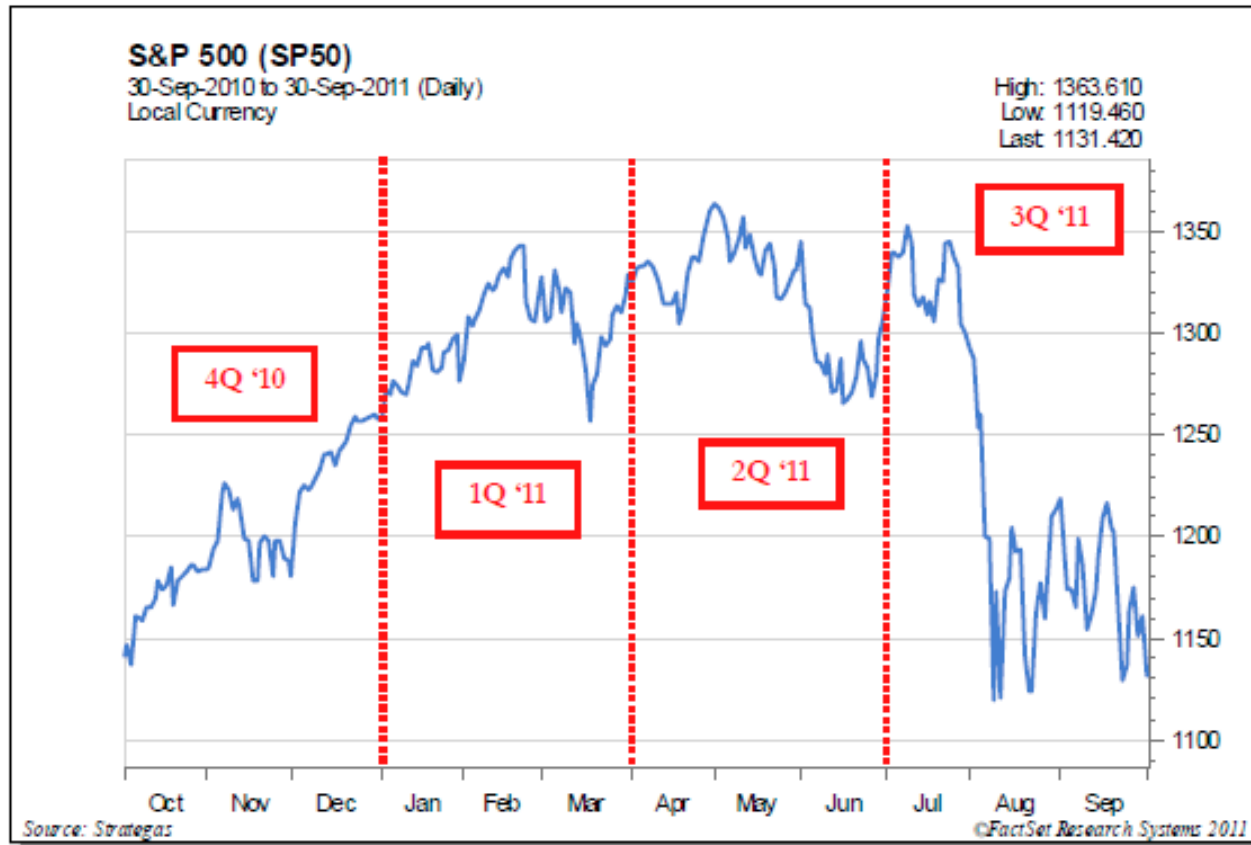
September 30, 2011

# PERFORMANCE: as of 9-30-2011

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Sector	Week	3Mo	YTD
S&P 500	-0.4%	-13.9%	-8.7%
Russell 2000 (small/mid Cap)	-1.2%	-21.9%	-17.0%
MSCI EAFE (Eurp. Asia, Far East)	2.8%	-19.0%	-15.0%
MSCI Emerging Mkt	2.2%	-23.0%	-23.2%
US Bonds (Barclay's agg. Index)	-0.4%	3.8%	6.6%
High Yield Bonds (US)	-1.7%	-6.3%	-1.7%
GLD (Net asset value)	-1.1%	7.1%	14.0%
Real Estate	-1.5%	-15.1%	-6.1%
Energy	-0.0%	-17.7%	-11.3%

## Technical: Quarterly Look at the S&P



## 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
<b>65%</b>	<b>Base Case: Macro Uncertainty</b>	<b>\$94.25</b>	<b>12x</b>	<b>1,131</b>
20%	Positive Policy Response	\$94.25	16x	1,508
10%	Upside Surprise	\$98.00	14x	1,372

**Expected Value: 1,220**

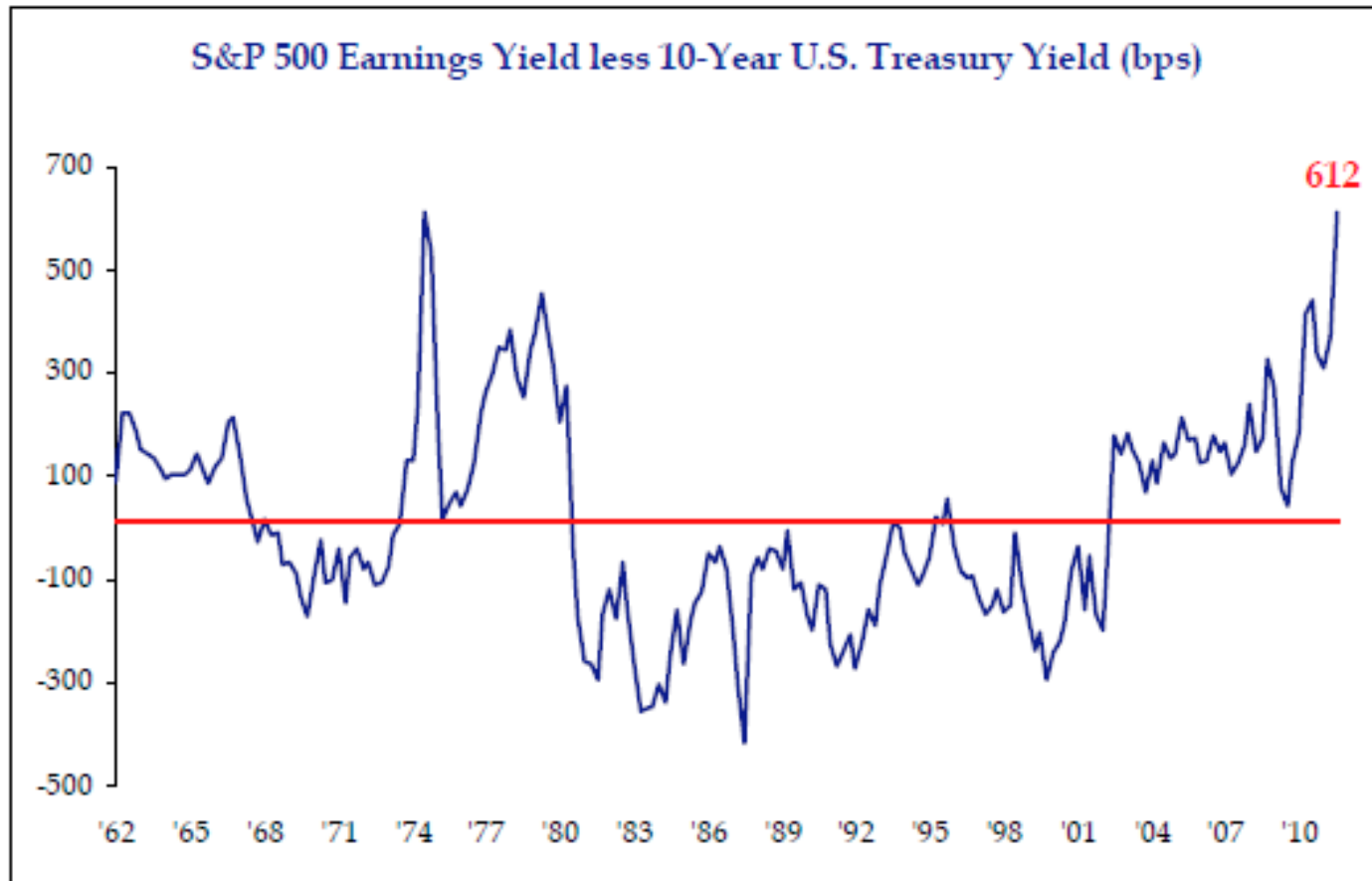
### *Things That Would Make Us Bullish*

- 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)*

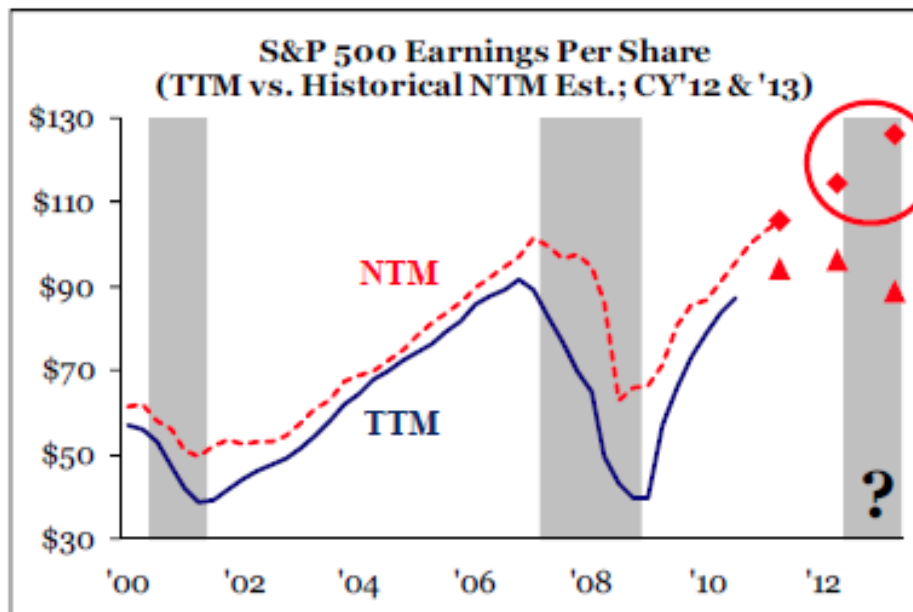
- QE3. *Current Odds 5-1; 2-1 with an S&P at 950.*
- Monetization of European debt or a Eurobond issue. *Current Odds 10-1.*
- Market-Based: Evidence of improvement to our Bellwether Index of cyclical stocks.
- Market-Based: The S&P 500 reclaiming its 200-day MA and the 200-day turning up.

## Valuation: Equities 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.

### 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	Shanghai 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.



## Technical: 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