New Albany
Investment Management

MARKET INSIGHT…

- Performance
- Economic Update
- Charts* of Interest

*Provided by Strategas Research Partners LLC

September 9, 2011

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PERFORMANCE: as of 9-9-2011

N A I M

Sector	Week	3Mo	YTD
S&P 500	-1.7%	-10.0%	-6.9%
Russell 2000 (small/mid Cap)	-1.2%	-14.6%	-13.3%
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)	0.2%	3.5%	6.9%
High Yield Bonds (US)	-0.3%	- 3.1%	2.0%
GLD (Net asset value)	-1.4%	20.0%	30.3%
Basic Materials	-1.5%	-12.8%	-12.4%
Energy	-2.0%	-12.7%	-3.2%

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Economic Summary: Stall-speed

•The Fed's Beige Book noted that while the economy may not be falling off a cliff, there has clearly been a hit to confidence. Additional Fed balance sheet expansion (QE3) is still likely a ways off. QE3 has to be bigger than QE2, making the bar high for a vote in this direction (if you believe QE can help the economy, then the only reason QE2 "failed" is that it wasn't big enough).

STRATEGAS ECONOMIC FORECASTS

	2011				2012				2013			
	1Q	2Q	3QF	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q % AR	0.4%	1.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	-1.0%	-1.0%
Core CPI Q/Q % AR	1.7%	2.5%	1.2%	1.5%	1.5%	1.5%	1.5%	1.5%	1.0%	1.0%	1.0%	0.0%
Fed Funds EOP	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Mortgage Rate EOP	4.9%	4.7%	4.7%	4.9%	5.0%	5.0%	5.0%	5.0%	5.0%	4.5%	4.0%	4.0%

F = Forecast; EOP = End of Period, a = actual

A recession is not a foregone conclusion, but in our view the chance of recession will remain elevated until policies actively boost growth (not just remove drags). But policies that boost growth may be tough to pass until we see an even larger "growth scare". A Chicken-and-the-Egg problem.

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Economic: Possible Bullish Events

•Pro-growth tax policies that encourage capital formation.

• Fiscal policies aimed at dealing with unproductive real estate (residential & commercial).

• Successful completion of the Super Committee with major long-term entitlement reform.

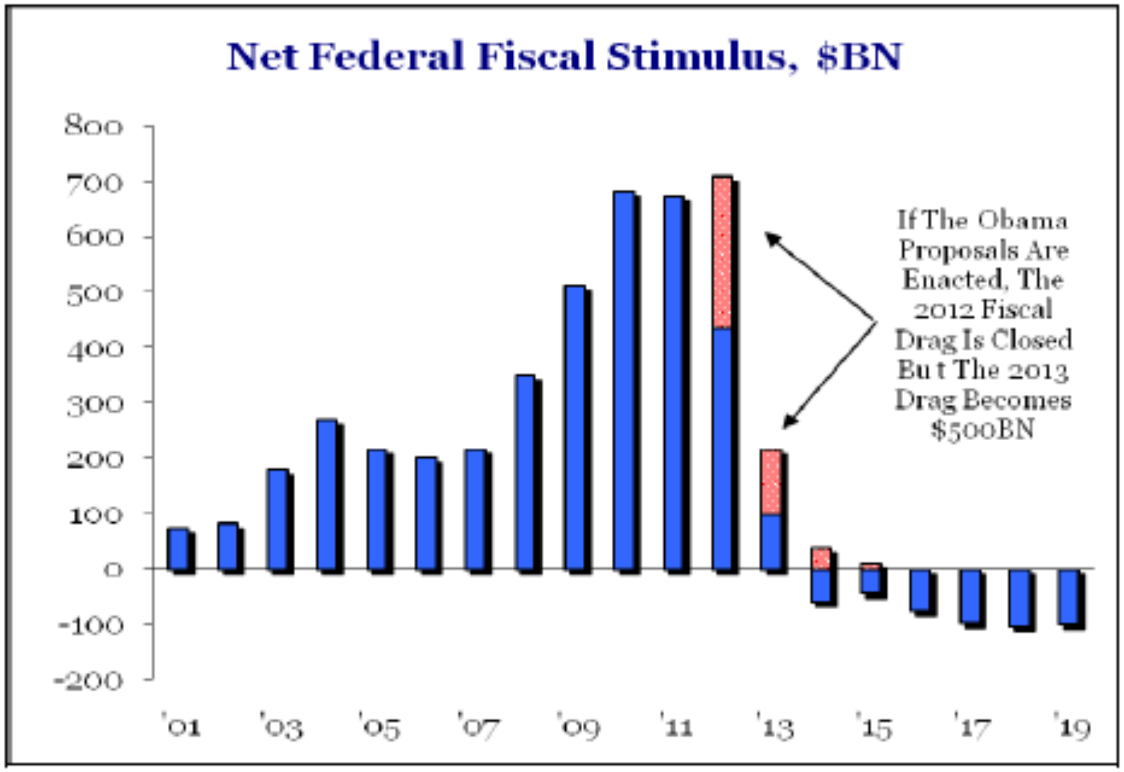
•QE#

•Monetization of European debt or a Eurobond Issue

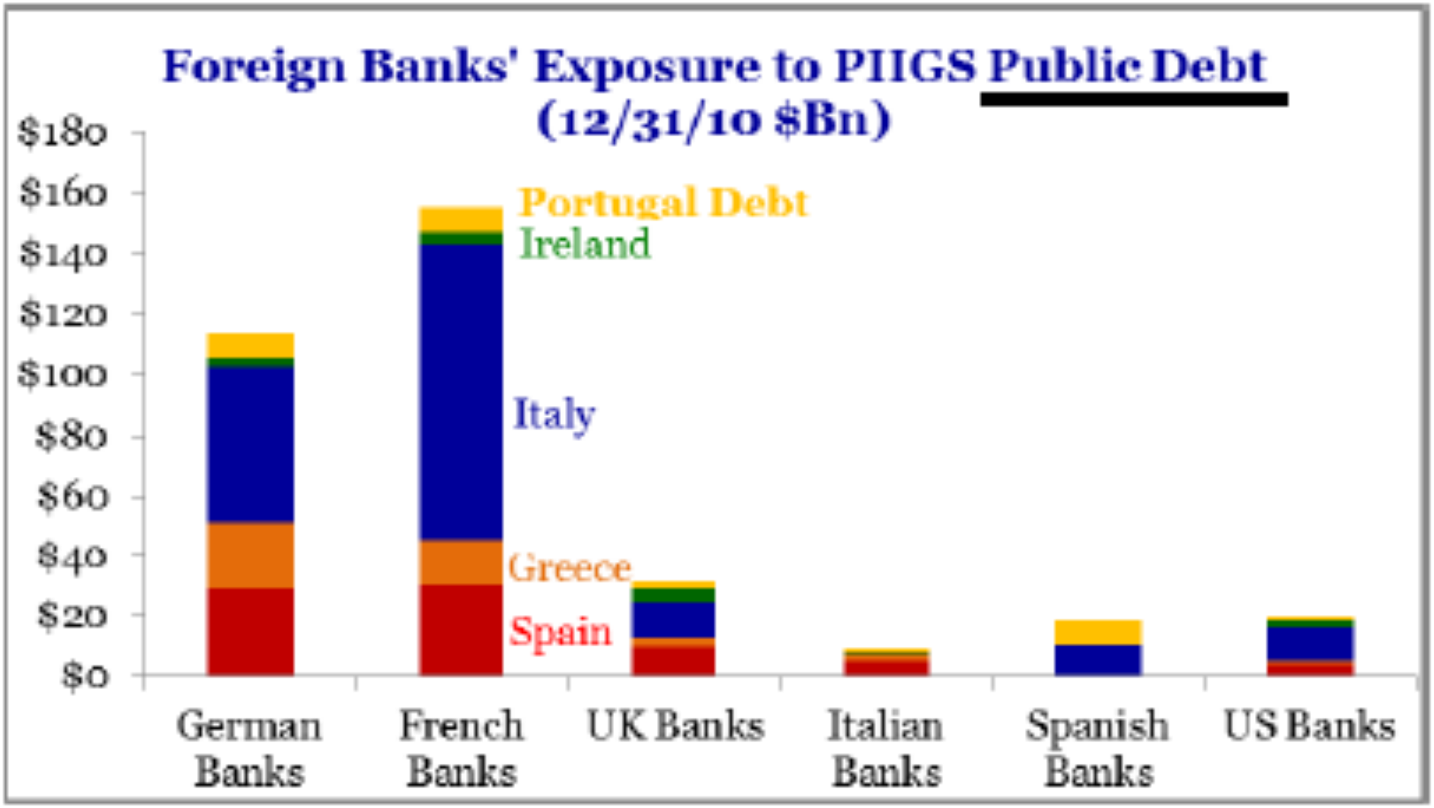
The S&P 500 rising above its 200-day MA and 200-day MA turning up

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



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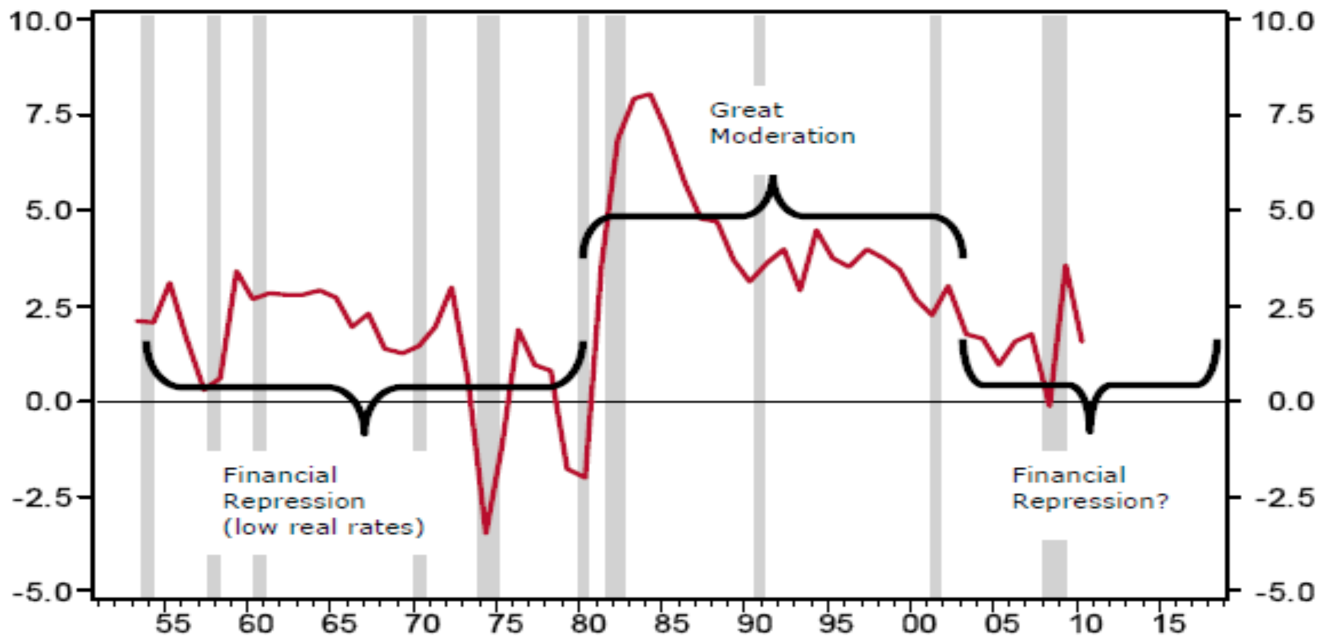
Economy: Financial Repression = Government led Recession

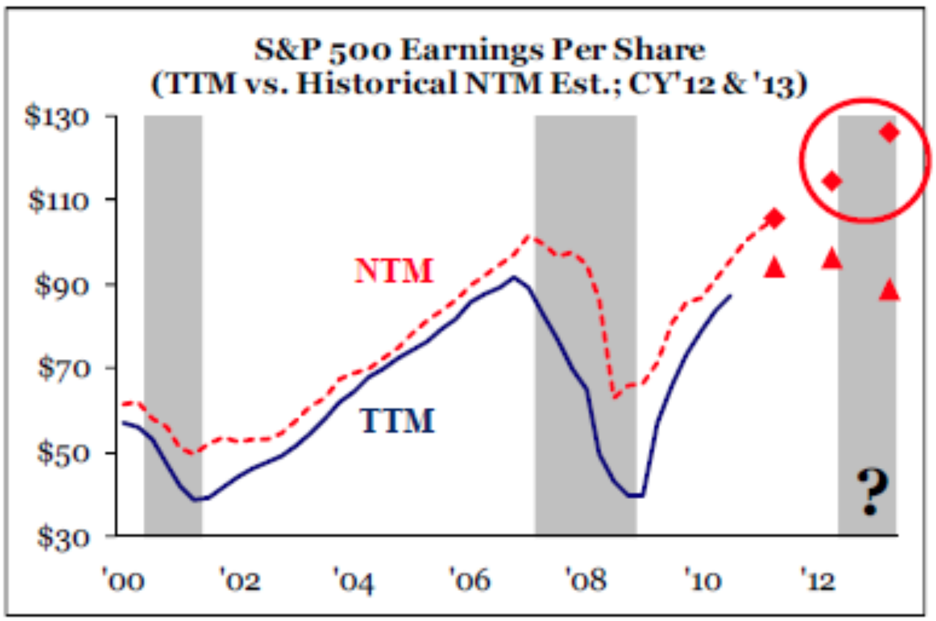
Four Sectors of Economy: 1) households, 2) business, 3) foreign, and 4) government. The past 30 years of the U.S. economy as household-led – that is, real interest rates came down every time the economy weakened (eg, 1985 and 1995) and the household sector leveraged up (mainly using their homes as collateral), 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.

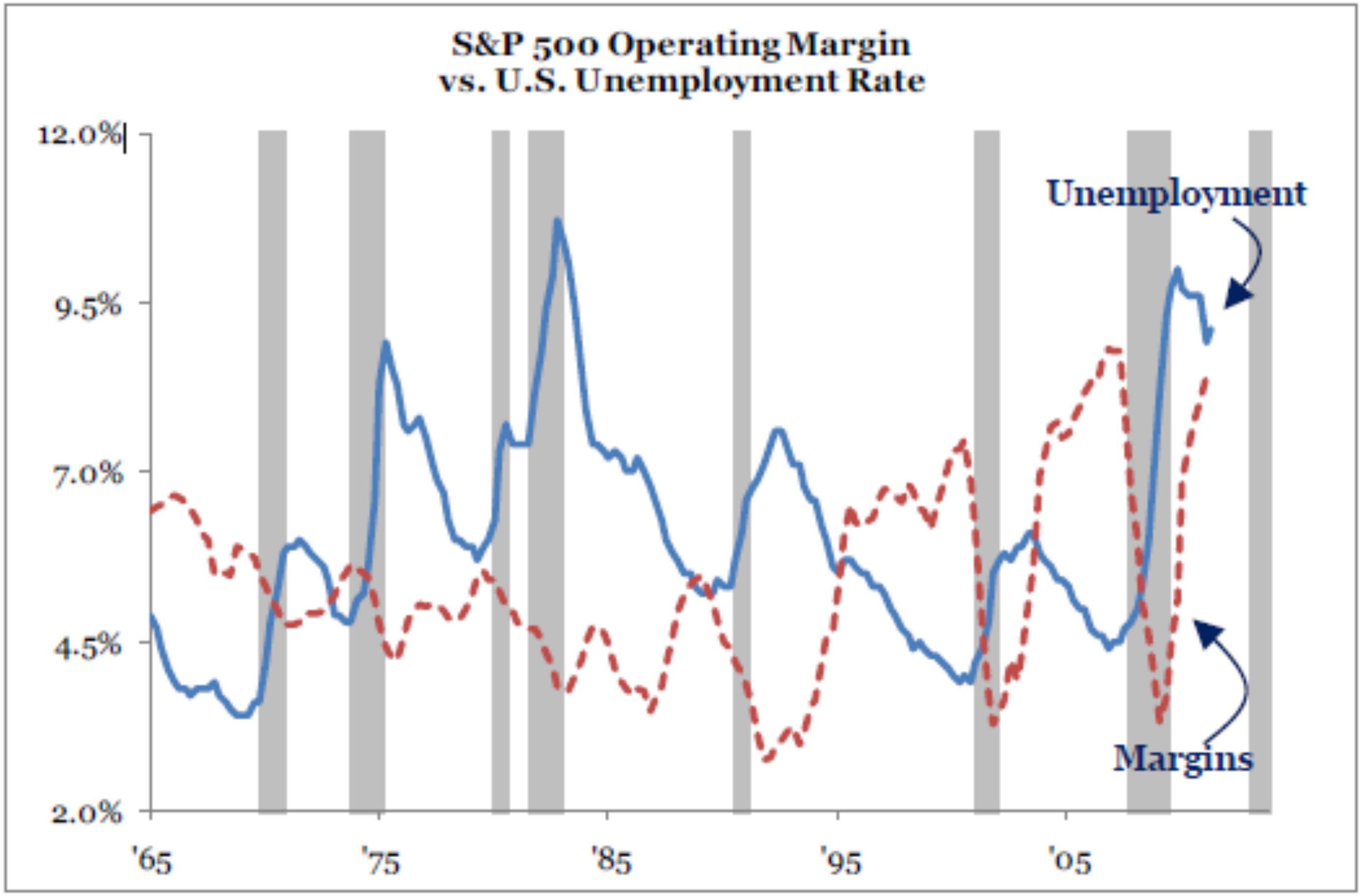
Valuation: Street Estimates still Way Too High!

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%

	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.

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Interest Rates: Flattening yield curve signals economic slow down.

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U.S. CURVE CONTINUES TO BREAK DOWN

10yr Treasury rates fell to a 60 yr low at 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