ALTMAN INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

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IN BRIEF: A Review of the Equity Markets

The first half of 2014 is now behind us. Global markets turned in respectable returns with the U.S. results leading the pack. After reaching a level of 1960 at quarter end, the S&P 500 index is up over 180% since the bottom in March of 2009. As our economy improves and corporate profits forge ahead at a 7% clip, we continue to favor stocks over bonds. Although some skeptics may conclude that stock valuations are inflated and markets are due for a correction, here are a few reasons why we remain bullish on equities:

- The U.S. is on course for the lowest annual deficit in six years. Although the U.S. government's monthly budget returned to a deficit in May, after a big April surplus, the overall imbalance to date is far smaller than it was at this time last year.
- U.S. corporations have worked diligently over the past few years to strengthen their balance sheets. Stronger balance sheets in conjunction with revenue growth (which has been solidifying a bottom) should encourage corporations to pick up capital spending.
- Banking institutions have recapitalized and continue to work off bad loans.
- Housing data is mixed but overall improving.
- Interest rates remain very low across the board, and prospective returns on stocks remain attractive compared to those on bonds.

With these key issues in mind, we continue to position client portfolios with a bias towards Large Cap Value. Within this space, we target stocks with prudent balance sheets and long term measurable earnings. In keeping with our expectations of rising rates, we are underweight the more interest rate sensitive sectors, such as Telecommunications and Utilities. Despite the political turmoil in the short run, large cap multinationals stand to benefit longer term from the resumption of continued global growth in addition to a rebound in emerging markets and China.

BENCHMARK PERFORMANCE HIGHLIGHTS

S&P 500 Index – 1st Half 2014 Performance

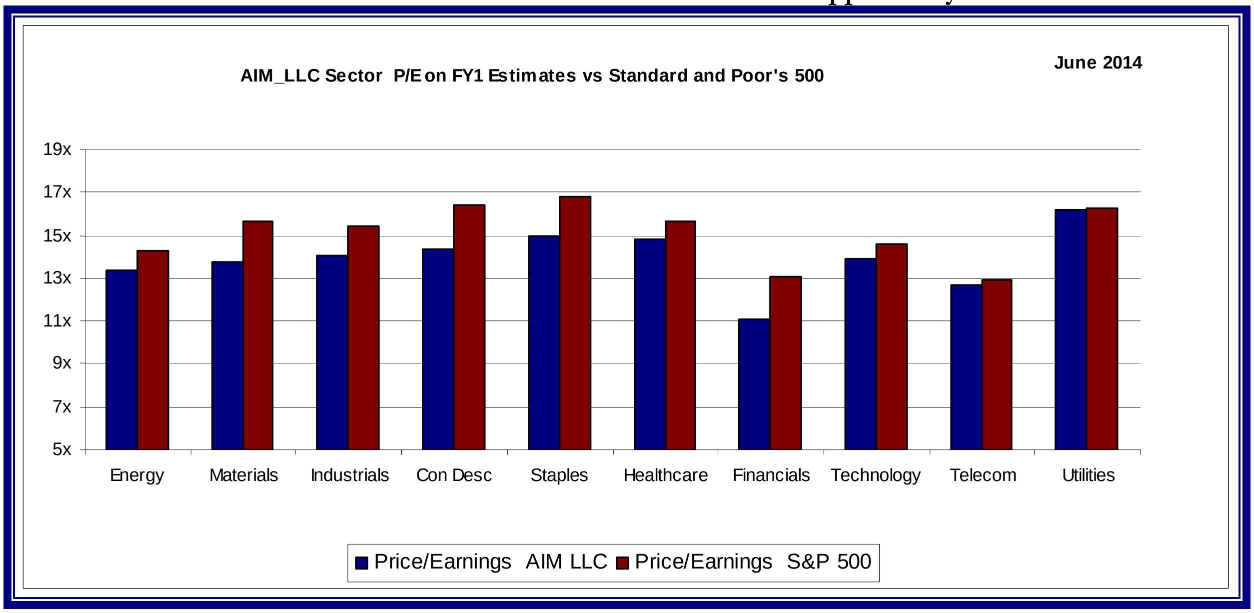
	Sector Wgt. As % of S&P as of 06/30/2014	1st Half Return 12/31/2013 - 06/30/2014	1st Half Sector Contribution of S&P 500
S&P Index		7.14	
Consumer Discretionary	11.9	0.56	0.06
Consumer Staples	9.5	5.04	0.49
Energy	10.9	13.07	1.33
Financials	16.1	5.15	0.82
Health Care	13.3	10.61	1.39
Industrials	10.5	3.97	0.43
Information Technology	18.8	8.80	1.65
Materials	3.5	8.63	0.3
Telecommunication Services	2.4	3.71	0.11
Utilities	3.2	18.42	0.53

Source: Bloomberg

S&P 500 Index – 1st Half Sector Performance Summary

- The S&P 500 returned 7.14% for the 1st half of the year as we hit all times highs in the market. Growth stocks out-performed value stocks by 34 basis points, while small caps lost their lead, after a strong 2013 trailing large caps by 395 bps.
- The Energy sector bounced ahead of the overall market, joining Utilities and Healthcare as the top sector performers year to date. The escalating conflict in Iraq, who is responsible for 4% of global oil production, is supporting higher oil prices. Most of Iraq's supply however, is produced in the southern region unaffected by the conflict in the north. So although the prospect of tighter supplies may keep prices elevated for some time, we do not anticipate a vast disruption in Iraqi supply which would presumably send oil prices sky rocketing from current levels.
- The Consumer Discretionary sector is still struggling to regain its footing due to weak consumer spending.

Financial Stocks Provide the Most Value Opportunity



Source: Bloomberg

Forward multiples expanded most significantly among the energy stocks during last quarter as concerns over the conflict in Iraq lifted oil prices. Energy stocks advanced 12.1% in the second quarter.

S&P 500 Market and Sector Characteristics

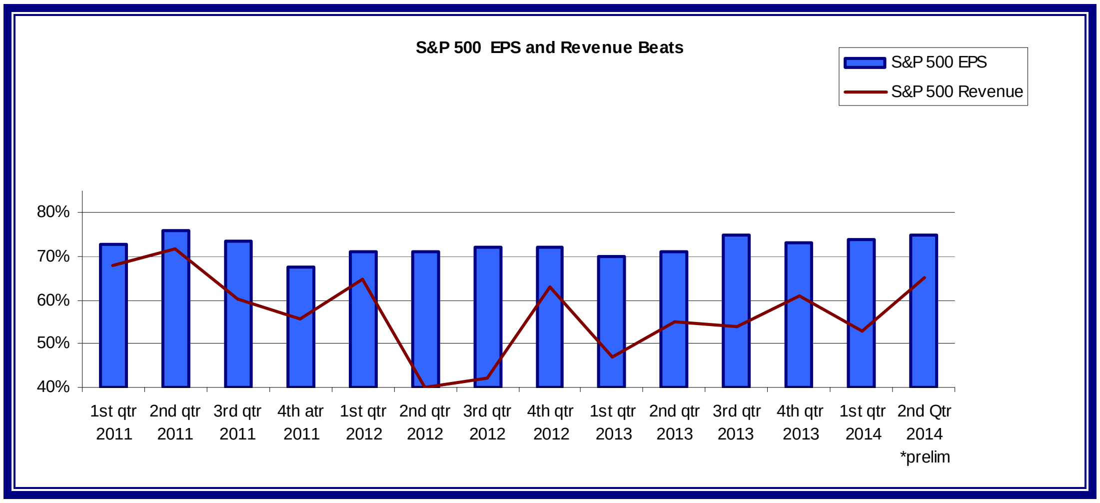
	SPX	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	501	45	30	64	84	40	53	86	66	5	30
Beta	1.00	1.07	1.11	1.10	1.14	0.76	0.82	1.21	0.99	0.79	0.57
P/B	2.75	2.20	3.25	3.28	4.38	4.51	3.77	1.37	4.03	3.35	1.76
TTM P/E	17.80	16.85	19.58	17.99	21.12	18.72	20.45	14.36	18.39	15.63	16.45
P/E cur	16.58	15.15	18.74	17.22	19.33	18.33	17.31	14.72	16.16	13.84	16.83
P/E FY1	14.93	14.32	15.66	15.41	16.41	16.80	15.69	13.07	14.56	12.93	16.29
P/S TTM	1.72	1.32	1.58	1.61	1.37	1.17	1.87	2.17	3.19	1.29	1.63
Div yield	2.02%	2.24%	2.01%	2.09%	1.52%	2.71%	1.66%	1.83%	1.59%	4.91%	3.53%
P/CF	9.64	8.14	12.36	11.61	12.77	14.00	15.65	5.49	12.51	4.32	7.02

Source: Bloomberg

The AIM composite is overweight Energy and Financial sectors relative to the benchmark S&P 500. These sectors represent the greatest value opportunities based upon lower P/B, P/E, and P/CF multiples.

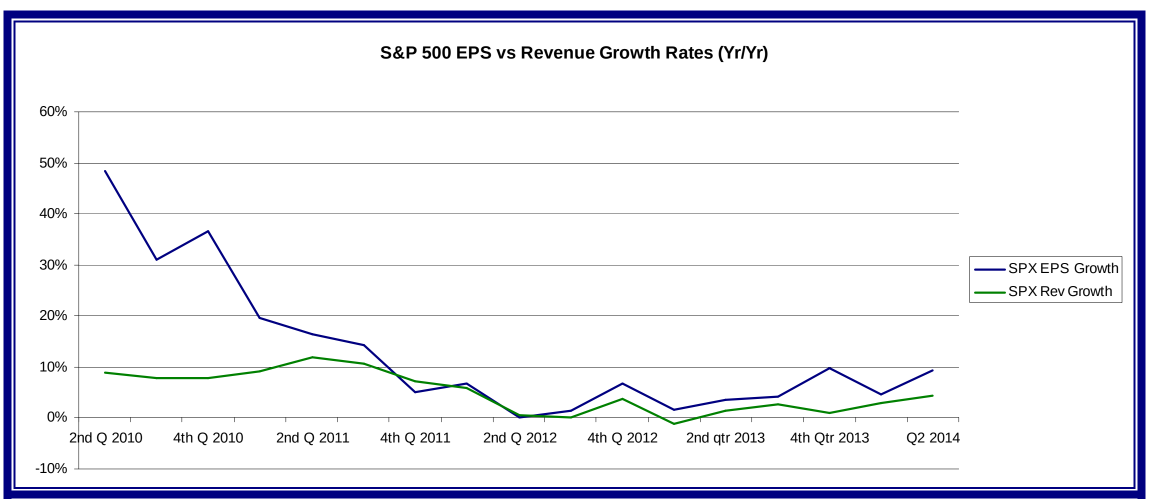
2nd QUARTER 2014 COMPANY PERFORMANCE RECORD

EPS beats for the benchmark S&P 500 (blue bars) have been holding steady over the 70% level for the past 5 quarters. Revenue beats after fighting some resistance at the 60% level have finally broken through. Please note, as of August 25th, 97% of the S&P 500 stocks have reported thus far.



Source: Bloomberg

Both EPS and revenue growth rates have championed higher, coming in at 9.37% and 4.41% respectively. We remain confident that growth rates will continue to rise, albeit it may be at a "2 steps forward, one step back" pace in the short term. Once sales growth improves, it should give a boost to capital spending among domestic corporations.



Source: Bloomberg