EQUITY STRATEGY FOCUS

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IN BRIEF: A Review of the Equity Markets

As we enter the last months of 2014, the macroeconomic environment remains supportive for stocks - while unfortunately the headline news internationally has dampened investor enthusiasm in the short term. September seems a long way off, given the recent market turmoil. A month ago, when Alibaba's IPO started trading, there was a lot of chatter about big investment banking deals defining the top in the market. Given that the S&P 500 peaked on a closing basis at a record 2011.36 on September 18, and is down 6.2% since then, that looks like a good call. For several months we had been anticipating that the market would move sideways with some volatility over the rest of the year before resuming its climb next year. While reaching a reasonable target for 2014 in the end of September, we still have high expectations for the market to climb 10% or better in 2015.

In June, we were particularly negative about small caps outperformance, and shared in our commentary that we expected the market would refocus attention to larger companies as the year progresses. Now that the lion share of the carnage has been felt in the small cap sector since the recent market top, we would expect an even race to yearend. So now, one month after Alibaba made "the top," the chatter is about whether the correction is over with the market bottom in mid-October. Our research shows that of the 36 October sell-offs in the S&P 500, going as far back as 1928, the average declines have been -4.7% and often set the stage for great buying opportunities.

Not surprisingly, the media coverage of the stock market has turned just as maniacal as the market. Keep the following points in mind, while reading the headlines:

- Decent growth in corporate profits and moderate equity valuations put a floor under the market.
- The U.S. economic backdrop remains healthy, with Consumer Sentiment Index having its best reading of the current expansion bolstered by an improving labor market and falling gasoline prices.
- The recent drop in the 30-year mortgage rates below 4.0% since May of last year could provide another windfall for consumers – historically, low interest rates encourage stock ownership.
- Although sanctions against Russia will depress business in Europe, a plunge in oil prices weakens Putin's position in the Ukraine and takes the pressure off the bull market in the U.S.
- The Ebola fear should run its course. Keep in mind that Africa has brought this virus under control in the past, using standard measures such as isolating patients and tracking down their contacts.

In conclusion, interest rates remain very low across the board, and prospective returns on stocks remain very attractive compared to those on bonds. With these key issues in mind, we continue to favor a positive bias towards stocks. Despite the coincident political turmoil in the near term, we believe large cap multinationals stand to benefit longer term from the resumption of global growth in addition to a rebound in emerging markets and China.

BENCHMARK PERFORMANCE HIGHLIGHTS

Exhibit I
S&P 500 Index – 3rd Qtr. and YTD 2014 Performance

	Sector Wgt. As % of S&P as of 9/30/2014	3rd QTR Return 6/30/2014 - 9/30/2014	3rd QTR Sector Contribution of S&P 500	YTD Return 12/31/13 - 9/30/2014	YTD Sector Contributin of S&P 500
S&P Index		1.14		8.4	
Consumer Discretionary	11.7	0.3	0.0	0.9	0.1
Consumer Staples	9.6	2.0	0.2	7.1	0.7
Energy	9.7	-8.6	-0.9	3.3	0.4
Financials	16.3	2.4	0.4	7.7	1.2
Health Care	13.9	5.5	0.7	16.3	2.1
Industrials	10.3	-1.1	-0.1	2.8	0.3
Information Technology	19.7	4.8	0.9	14.0	2.6
Materials	3.5	0.3	0.0	8.9	0.3
Telecommunication Services	2.4	3.1	0.1	6.9	0.2
Utilities	3.0	-4.0	-0.1	13.7	0.4

Source: Bloomberg

S&P 500 Index – Sector Performance Summary

- The S&P 500 returned 8.36% for the first 3 quarters of the year, as we hit all times highs in the market. Growth stocks out-performed value stocks by 213 basis points, while small caps underperformed by 1276. Small cap stocks lost -7.4% during the third quarter alone.
- Large cap Energy stocks lost -8.6% during the third quarter versus -20.4% in the small cap arena. Excess supplies and falling demand are weighing heavily on prices. More recently, the strengthening dollar is compounding the problem making the commodity less attractive.
- The best performing sector during 3rd quarter was Healthcare (up 5.5%), led by Pharmaceuticals and Biotech (up 7.1%). Semiconductors (up 6.4%) led the Information Technology sector that finished up 4.8%.

AIM's ATTRIBUTION HIGHLIGHTS

Exhibit II
AIM LLC Composite – 3rd Qtr. and YTD 2014 Performance

	Sector Wgt. as % of Portfolio as of 9/30/2014	Relative Wgt. versus S&P 500 Index	3rd QTR Total Return of AIM Composite	3rd QTR Total Attribution of AIM Composite	YTD Total Return of AIM Composite	YTD Total Attribution of AIM Composite
AIM Composite			0.7	-0.4	7.9	-0.4
Consumer Discretionary	8.9	-2.8	-0.8	0.0	-3.6	-0.2
Consumer Staples	10.1	0.5	3.4	0.2	5.8	-0.1
Energy	14.0	4.3	-8.4	-0.4	8.9	0.6
Financials	18.5	2.2	1.9	-0.1	5.4	-0.4
Health Care	14.3	0.4	3.2	-0.3	11.0	-0.7
Industrials	8.7	-1.6	2.5	0.3	4.3	0.1
Information Technology	17.7	-2.0	3.3	-0.3	16.8	0.4
Materials	2.4	-1.1	10.4	0.2	12.7	0.1
Telecommunication Services	2.2	-0.2	1.0	-0.1	4.3	-0.1
Utilities	2.0	-1.0	-3.2	0.1	23.3	0.1

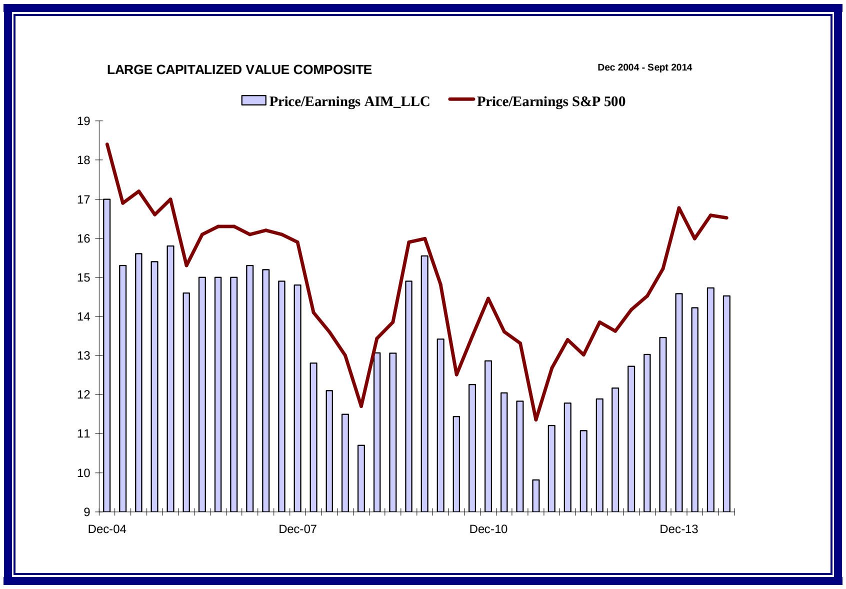
Source: Bloomberg

AIM Composite Attribution Analysis

- Energy, the worst performing sector in our portfolio during Q3, fell -8.4%, led by Devon Energy and Halliburton. As of Sept 30th, Energy lost approximately one half the return gained during the first half of the year.

S&P 500 – SECTOR VALUATION CHARACTERISTICS

Exhibit III



Source: Bloomberg and Altman Investment Research

Multiples contracted in 4 out of 10 market sectors. Energy stocks revealed the most significant contraction as the multiple dipped to 13.18x from 14.32x over the prior quarter. Telecom and Healthcare sectors experienced the greatest multiple expansion up 3% and 2% respectively.

Still the cheapest sector in the marketplace on several metrics, S&P 500 Financial stock multiples edged up slightly to 13.25x. Its beta of 1.17x however demonstrates the volatility within the group and its reliance upon continued upward economic trends.

Exhibit IV
S&P 500 Sector Characteristics

	SPX	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	503	43	31	64	84	40	55	86	66	5	30
Beta	1.00	1.06	1.07	1.10	1.11	0.79	0.90	1.17	0.97	0.78	0.63
P/B	2.72	1.96	3.06	3.16	4.32	4.52	3.90	1.37	4.10	3.33	1.68
TTM P/E	17.72	14.62	18.89	18.46	20.50	18.62	21.53	14.49	19.05	13.92	16.60
P/E cur	16.52	14.22	18.43	16.78	19.57	18.47	17.61	14.43	16.60	14.18	16.01
P/E FY1	14.89	13.18	15.53	15.09	16.53	16.88	16.02	13.25	14.74	13.32	15.57
P/S TTM	1.72	1.19	1.49	1.59	1.35	1.17	1.91	2.20	3.27	1.35	1.55
Div yield	2.05%	2.50%	2.08%	2.15%	1.54%	2.73%	1.57%	1.89%	1.57%	4.90%	3.73%
P/CF	10.58	7.22	12.14	11.82	12.72	14.22	15.62	8.15	12.52	4.78	6.79

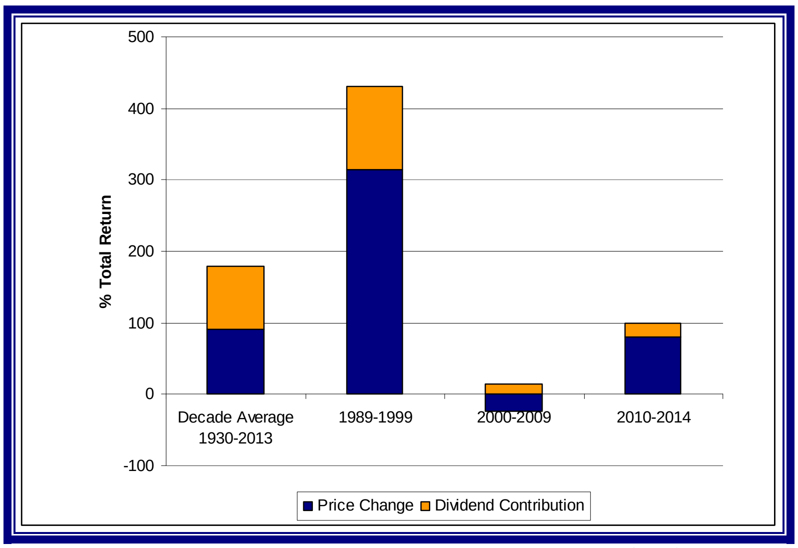
Source: Bloomberg and Altman Investment Research

Dividend Contribution to Total Return

Since the inception of our AIM composite in 2001, dividends have represented nearly one third of our total investment return from equities. Over time, it is interesting to study the critical role dividends have played as a component of total return and how it has shifted throughout various market conditions. Let's take a brief look back at the impact dividends have made on total return over the most recent decades.

Since the great depression, dividends have contributed nearly 50% towards total market return. But the percentage shifted to only 27% in the 90's during the technology boom. Dividends, along other valuation characteristics such as price earnings multiples, became relatively insignificant to rising prices.
Then in the new millennium, as we navigated through two recessions spurred by a technology bubble and the financial crisis, dividends helped recoup over half of the -24% loss in stock prices. During the past 5 years dividends have contributed approximately 19% to total return.

Exhibit V



Source: Bloomberg

3rd QUARTER 2014 COMPANY PERFORMANCE RECORD

Exhibit VI

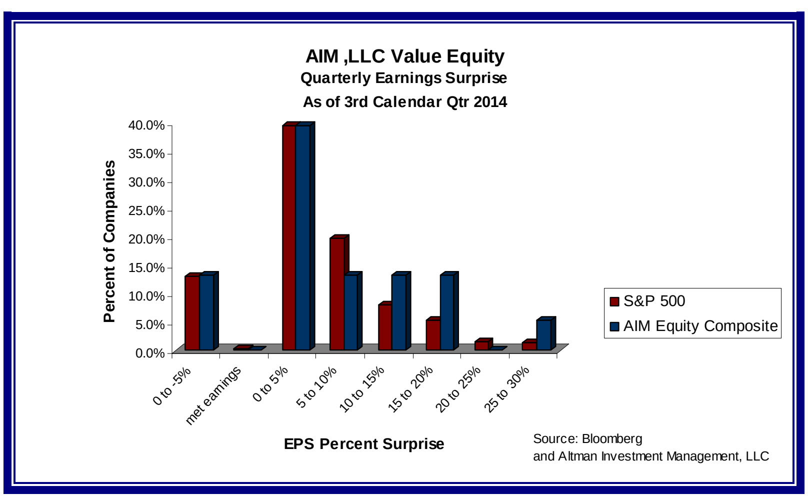
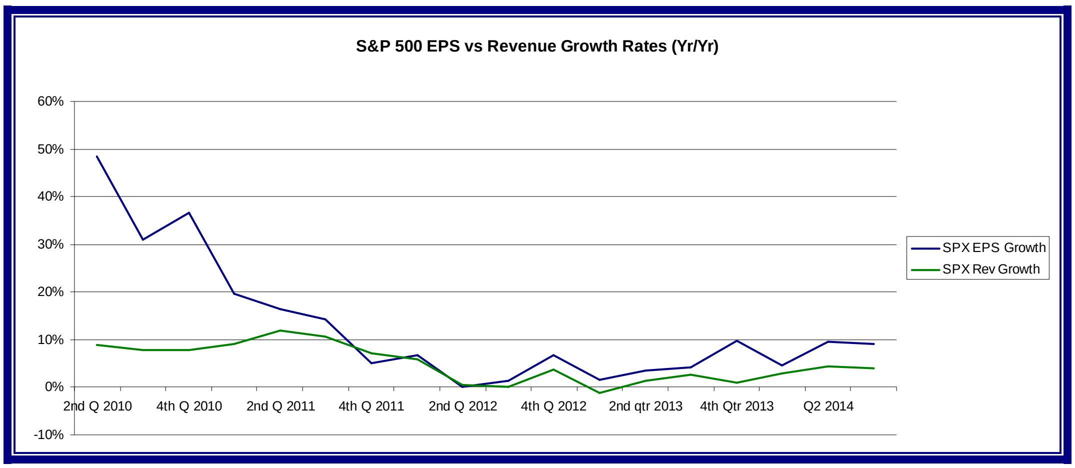


Exhibit VI illustrates the percentage of investment holdings within our value portfolio that exceeded street estimates during the 3rd calendar quarter of 2014. Most notably, 87% of our investments exceeded street estimates, while 80% of the companies in the S&P 500 exceeded street estimates. Looking at top line sales, 50% of our investments exceeded street estimates as compared to 59% for the S&P. As of November 13, 2014, 95% of the AIM composite and 92% of S&P 500 companies have reported.

EPS beats for the benchmark S&P 500 (blue bars) have continued to trend upwards to nearly 80%. Revenue beats are still trending around the 60% level.

Both EPS and revenue growth rates trended sideways this quarter at 9.03% and 3.90% respectively. We remain confident that growth rates will continue to rise with a strengthening economy. Stronger revenue gains are needed to boost capital spending among domestic corporations.

<u>Exhibit VII</u>



Source: Bloomberg and Altman Investment Research