ALTMAN INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS JANUARY, 2013

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A RETROSPECTIVE: The Geopolitical Factor

The performance records will show that 2012 was another strong year for investors in both stocks and bonds. The Standard and Poor's 500 Index generated an impressive total return of 16% for the year, coupled with another positive year for Intermediate Bond Indexes delivering +3.74%. The performance of the S&P 500 in the first quarter was one of the best quarters over the past 10 years +12.6%, once again legitimizing the equity markets after the implosion in 2008. The rest of the year, however, gnawed on investor patience as markets traded in a broad band with intermediate corrections of as much as 8% or more in each of the subsequent quarters. Headlines ranging from the sovereign debt crisis in Europe, a potential hard landing for the Chinese economy, turmoil in the Middle East and the extraordinary deleveraging taking place in the U.S., all reinforced the decision to keep large amounts of capital on the sidelines or in fixed income alternatives until greater clarity emerges.

The Euro "Experiment" Revisited

To put the Euro zone experiment in perspective - and more fully understand how a predicted crisis became an existential crisis of the whole post-1945 project of European unification - you have to consider Europe's unique trajectory. Both the memories of World War II and the exigencies of the Cold War drove several generations of Europeans to a heightened sense of peaceful unification that was unprecedented in European history and unmatched on any other continent. Yet the project went awry soon after the fall of the Berlin Wall, as western European leaders hastily set a structurally flawed monetary union in place. As governments, companies and households on the continent piled up unsustainable debt, especially in the young peripheral nations, peace, freedom, prosperity and social security were taken for granted.

To more fully understand the post-1945 German commitment to rehabilitate Europe's sense of community, even to the point of surrendering much of its own sovereignty and national identity, the urgency of political and fiscal reform had essentially defined an economic and monetary union. Questions should have been raised: how could a common currency work without a common treasury; how could one interest rate be right for such a diverse group of economies; and how could the Euro zone cope with economic shocks from one region to another. In hindsight, Europe had neither the labor mobility nor the level of fiscal transfer between states that characterize the United States.

Despite the initial shocks that emanated from *outside* of Europe, with the U.S. subprime mortgage market, the aftershocks manifested themselves in a broader crisis of Western financial capitalism. While German reunification brought down its labor costs and welfare spending, the peripheral countries went on a spending binge enhanced by German devaluation. According to highly-esteemed economist Martin Feldstein, Germany's trade surplus roughly equaled the rest of the Euro zone's combined trade deficit. So Germany has been thrust into the leadership role, and we believe will ultimately bail out the continent at great cost to its GDP growth prospects. We are confident that a rational solution to the Euro "experiment" will prevail.

The opinions expressed in this commentary are those of Altman Investment Management, LLC as of the date appearing on this material only and are subject to change. The material is based upon information we consider reliable but we do not represent that it is accurate or complete and should be relied upon as such. This material does not take into account the particular investment objectives, financial situation or needs of the individual client and should not be viewed as an endorsement of any particular investment. Certain investments give rise to substantial risk and are not suitable for all investors.

The Domestic Agenda

As Europeans were facing their systemic issues, investors refocused their attention on the U.S. domestic agenda entering the fall elections. Our modest but steady economic growth had yet to be bolstered by private sector demand in the 5th year of a recovery period. Not only was the U.S. faced with subpar economic growth, but also lethargic job creation. It didn't take long for our two-party system to swing to the partisan extremes in an effort to capture the presidency. This put the economy on hold once again, while our Congress spent their time guaranteeing reelection and disengaging from the legislative process that neglected the vital issues facing our nation. On election night, it felt like a few undecided voters in Ohio and Florida would ultimately decide the election outcome. With all the fan fare, it looked like it was "much ado about nothing".

Following the elections, we turned our attention almost immediately to the "fiscal cliff"- the prospect of automatic tax increases and spending cuts that would kick in, risking a stalled economy and imminent recession in 2013. As expected, negotiations came down to the wire - actually *beyond* the wire - as a deal was not ratified until New Year's Day. In anticipation of the good news, the S&P 500 Index rallied +4.3% on the last and first trading sessions of the year.

Within the equity markets there was quite a bit of dispersion during the year. The financial sector posted the best results for the year, as the big banks rebounded sharply after experiencing a very difficult couple of years. At the other end of the spectrum was the utility sector, underperforming after leading the markets in 2011 and clouded by the perceived risk that taxes on qualified dividends would go from 15% to potentially as high as 40%.

Looking back on our sector weights, our overweight on the energy sector was our biggest disappointment. Despite heightened tension in the Middle East, crude oil prices were down more than 7% while natural gas prices declined 15%. An unusually warm winter in 2012, a slow down in emerging market economies, and new technologies employed in finding and developing new supplies put a cap on prices in the interim. Our overweight in energy stocks did not meaningfully contribute to our overall portfolio performance during the year.

IN VIEW: The Economic Landscape

It is our hope that the new Congress during the first quarter will embrace a program of tax reform, combined with government entitlements, as part of a grand bargain to solve the nation's financial deficits. With government debt at $16 Trillion - and close to 100% of GDP - another extension of the debt limit is certainly in need of consideration. At present, the U.S. is growing at an annual rate of 2.3%, down from its post-war rate of 3.0%, while experiencing massive monetary and fiscal expansion. If the country's unemployment and fiscal problems are to be solved, economic and financial reforms are needed. In our opinion, the government should do all it can to enable the private sector, which is currently financially strong, to help solve the above problems.

The recent American Taxpayer Relief Act (ATRA) only partially addressed the "fiscal cliff" problem, by raising taxes but not dealing with spending restraint. The latter will be dealt with at the beginning of March when spending cuts of $1.2 trillion over nine years are set to begin. This would result in spending cuts of $85 billion over the final six months of 2013. Of course, when Congress debates the spending issues at that time, the Democrats and Republicans will have very different ideas on how much and where to cut spending. When the ATRA was signed on January 2nd, investors were relieved that the provisions were less onerous than feared.

In January, the Bureau of Economic Analysis announced revised third quarter real GDP growth to 3.1% from the earlier reported 2.7%. If we adjust for inventories and national defense - two non-recurring factors - the normal growth of the economy was closer to 1.8%. The 4th quarter advance estimate of real GDP announced on January 30th was .1%. This brings the annual growth to about 2% versus 1.8% in 2011. In the most recent quarter, consumption grew at 2.2%, exports declined by 5.7% and government purchases were down by 6.6%. Imports fell by 3.2% while capital spending on equipment and software increased by 12.4%. At present, we believe the first quarter growth will approximate 1.8-2.0% because of the fiscal headwind of ~$212 billion described above and the rise in payroll taxes that could negatively impact consumption.

As we enter the New Year, we believe the full force of the "fiscal cliff" will be averted and that the economy will not enter a recession during the first half of 2013. Even if some fiscal expansion is reduced, we believe that a combination of the service sector and housing, along with an improvement in trade and manufacturing, will continue to grow the economy at 2.5%.

Economic growth in the U.S. may be better than most investors anticipate. Fed Chairman Bernanke and the Federal Reserve have kept interest rates at low levels in an attempt to stimulate the U.S. economy, and they have pledged to keep these levels low until unemployment recedes. If capital spending picks up from its lackluster rate, based on greater clarity with respect to taxation and regulation, growth could accelerate beyond the 2.5% level. We also believe that inflation remains muted at the 2.0% rate in 2013 and corporate profits for the S&P 500 accelerate at a 7.0% rate. Our view is that the market will begin to anticipate 2014 earnings closer to $117 and trade on that trajectory by mid-year.

Economic growth worldwide may also be better than many investors anticipate in the second half of 2013. In early January, the European Central Bank President Mario Draghi pledged to "do whatever it takes" to keep the European Economic Community intact giving new vigor to the euro currency. However, a strengthening euro could ignite some concerns and potentially thwart an economic recovery on the continent. New leadership and moderate stimulus has all but eliminated discussions of a hard landing in China, as it begins to move from an export-driven economy to a consumption orientation. After decades of stagflation, even Japanese authorities appear ready to announce another round of monetary and fiscal policy stimulus, in an attempt to restart what at one time was an important engine to global growth.

Looking Forward …

In summary, we anticipate that the U.S. economy continues to expand despite the fiscal challenges and the austerity measures implied by the fiscal cliff. Our upside target for the S&P 500 is based on a P/E multiple expansion and corporate profits estimated to reach $110 per share in 2013. The fifth year of bull markets have tended to be flattish in the first half and then stronger in the second half. The period of 1982-1987 is our best analogy. The housing recovery and an improving demand for durable goods, coupled with anticipated easing in bank lending standards, should give the bull market some resilience.

IN BRIEF: Equity Investment Strategy

BENCHMARK PERFORMANCE HIGHLIGHTS

Exhibit I
S&P 500 Index - 4th Qtr and YTD Sector Performance

	Sector Wgt. As % of S&P as of 12/31/12	4th Qtr Return 9/28/12 - 12/31/12	4th QTR Total Attribution of S&P 500	YTD Return 12/31/11 -12/31/12	YTD Total Attribution of S&P 500
S&P Index		-0.39		15.95	
Consumer Discretionary	11.5	2.11	0.24	23.89	2.50
Consumer Staples	10.6	-1.78	-0.18	10.64	1.23
Energy	11.0	-2.74	-0.32	4.21	0.56
Financials	15.6	5.91	0.86	28.80	3.91
Health Care	12.0	0.05	0.01	17.41	2.02
Industrials	10.1	3.69	0.36	15.40	1.62
Information Technology	19.0	-5.77	-1.15	14.77	2.87
Materials	3.6	2.73	0.09	15.02	0.54
Telecommunication Services	3.1	-6.02	-0.20	18.31	0.55
Utilities	3.4	-2.85	-0.10	1.36	0.05

Source: Bloomberg

S&P 500 Index - 4th Qtr Sector Performance Summary

- The S&P index stalled in the 4th quarter, down -0.38%, in response to uncertainty surrounding the potential outcome of the fiscal cliff. Value stocks outpaced growth stocks in the quarter by 360 basis points. With a total return of 1.9%, small cap stocks represented by the Russell 2000 Index out-performed large caps by 230 basis points.
- The Financial sector led the market followed by Industrials and Consumer Discretionary, up 5.91%, 3.69%, and 2.11% respectively. The Information Technology sector did not follow its cyclical counterparts in their modest 4th quarter rally, falling -5.77% as uncertainty concerning the potential of the future PC market weighed down the Hardware and Equipment Industry.
- Pressured by a low natural gas price environment, in addition to declining oil prices, earnings growth in the Energy sector has been on a decline since the 4th quarter 2011.

S&P 500 Index - 2012 Sector Performance Summary

- In 2011, it was the defensive sectors such as Healthcare, Consumer Staples, and Utilities that led the markets, offsetting poor Financial and Industrial performance. In 2012 however, the healthy results in the Healthcare sector were met and in most cases exceeded by strong returns in Financials, Consumer Discretionary, Industrials, and Information Technology.
- Value stocks ended the year with a 300 basis points lead over Growth stocks.
- We have broached the subject before concerning the performance of the S&P 500 index as a "market capitalized-weighted" index, with the larger companies having the greatest impact on the index's return. For example, the biggest company by market cap has been Apple. Apple's less than favorable performance during the 4th quarter (-19.8%) was a significant contributor to benchmark performance within the Information Technology sector alone, unwinding approximately 25% of the prior nine months' gain. Information Technology's year-to-date performance was reduced from 21.8% in September down to 14.8% at year end 2012.

- On the fixed income side, U.S. Treasuries added up 4.2% and U.S. corporate bonds returned 10.4% for the year. Investors sought higher yields in lower quality bonds, emerging market corporate and sovereign debt, and preferred shares.

AIM's ATTRIBUTION HIGHLIGHTS

Exhibit II
AIM LLC Composite - 4th Qtr and YTD Sector Performance

	Sector Wgt. As % of Portfolio as of 12/31/12	Relative Wgt. versus S&P 500 Index	4th Qtr. Total Return of AIM Composite	4th Qtr. Total Attribution of AIM Composite	2012 Total Return of AIM Composite	2012 Total Attribution of AIM Composite
AIM Composite			1.88	2.27	14.5	-1.44
Consumer Discretionary	8.9	-2.6	10.54	0.53	20.63	-0.21
Consumer Staples	9.5	-1.1	2.49	0.40	9.04	-0.11
Energy	14.3	3.3	-1.54	0.11	6.68	0.20
Financials	19.4	3.8	7.60	0.51	30.41	0.65
Health Care	11.0	-1.0	-0.96	-0.11	16.37	-0.15
Industrials	12.4	2.3	4.97	0.35	19.54	0.65
Information Technology	16.1	-2.9	-2.06	0.82	3.48	-1.91
Materials	2.1	-1.5	-9.70	-0.32	2.63	-0.31
Telecommunication Services	2.8	-0.3	-9.05	-0.08	19.34	0.01
Utilities	2.2	-1.2	1.92	0.09	14.92	0.46

Source: Bloomberg

4th Qtr Sector Performance Summary

- The AIM composite out-performed the benchmark S&P 500 Index in the 4th quarter by 227 basis points, narrowing the S&P 500's lead for the year to just 144 basis points.
- Technology contributed most to our relative out-performance aided by strength in Oracle, Cisco, and Applied Materials, up 6.7%, 4.4% and 3.4% respectively. It is important to also reiterate that shares of Apple, the largest market cap in the benchmark index, declined nearly 20% during the quarter. Microsoft and Intel declined -9.4% and -8% respectively.
- Positive relative returns in the Consumer Discretionary came from Lowe's which added 47 basis points of relative performance. The SPDR Index for U.S. Homebuilders was up over 50% during the last 12 months indicating an improving housing market. The positive performance from Philips Electronics and Goodyear Tire and Rubber (adding 16 and 10 basis points of relative performance respectively) was partially offset by McDonalds which traded off 3% during the final quarter.
- Financials and Industrials had another strong quarter at year end adding 51 and 35 basis points respectively. Bank of America was up 32% in the quarter followed by Bank of New York up 14%. In Industrials, Emerson and Honeywell were each up 10.6% and 6.9% respectively.

YTD Sector Performance Summary

- As mentioned in the 4th quarter attribution commentary above, the spread of performance of the S&P 500 over the AIM composite narrowed substantially during the year.
- Our overweight in the Financial and Industrial sectors each added 65 basis points to our relative performance. Banks are being rewarded for their diligence in shoring up balance sheets.
- In Energy, relative gains in shares of Transocean, Conoco Phillips, Marathon Oil, Chevron, and Exxon were partially offset by poor performance in shares of Devon Energy which traded down 8.1% for the year.
- In Technology, shares of Accenture advanced 27.7% during the year. However, poor performance in Hewlett Packard (sold in the second half) and Intel overshadowed these gains bringing about negative attribution in the sector. Apple's large representation in the benchmark index also stripped away 62 basis points of relative performance during the year.

- The top five performers in the AIM composite this year were Bank of America, Lowe's, JP Morgan Chase, Philips Electronics, and Bank of New York. The bottom five performers in the AIM composite this past year were Hewlett Packard, Intel, McDonald's, Devon Energy and Bristol Myers Squibb.
- The momentum in Value stocks in the second half carried the S&P 500 Value Index to a lead over the S&P 500 Growth Index (SGX). See exhibit III below.
- Our cyclical positioning is adding positively to performance as well as our Value bias.

Exhibit III

S&P 500 Value Index (SVX) spread to S&P 500 Growth Index (SGX)

Source: Bloomberg

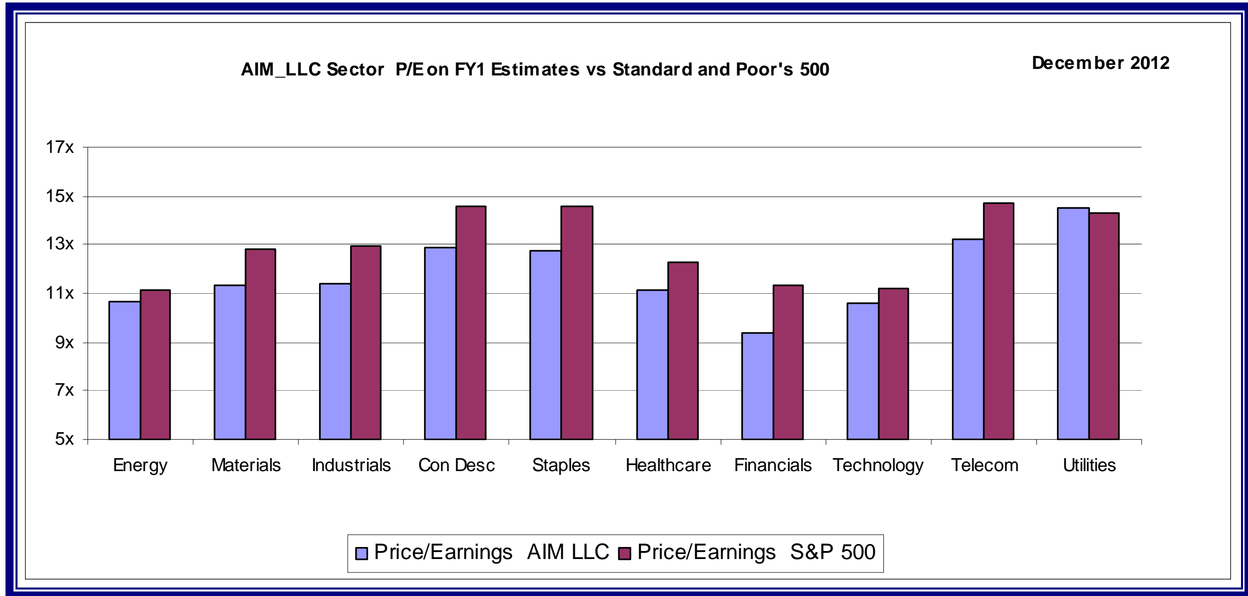
S&P 500 –SECTOR VALUATION CHARACTERISTICS

Exhibit IV

	SPX	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	499	43	30	60	83	42	53	86	70	8	31
Beta	1.00	1.21	1.28	1.15	1.04	0.50	0.71	1.30	1.07	0.64	0.45
P/B	2.15	1.79	2.56	2.69	3.60	3.75	2.70	1.04	3.23	2.18	1.46
TTM P/E	14.22	12.11	15.53	13.91	17.75	16.59	13.93	12.69	14.03	16.90	14.66
P/E cur	13.58	11.67	15.32	14.15	16.64	15.95	12.89	12.98	12.40	16.00	14.45
P/E FY1	12.35	11.16	12.82	12.96	14.59	14.55	12.25	11.32	11.17	14.72	14.28
P/S TTM	1.32	1.02	1.15	1.20	1.17	0.98	1.35	1.57	2.31	1.26	1.34
Div yield	2.30%	2.33%	2.45%	2.50%	1.59%	2.97%	2.30%	1.89%	1.75%	4.84%	4.39%
P/CF	8.23	6.93	10.19	10.01	10.75	12.32	11.61	5.16	9.78	4.75	5.76

Data as of December 2012. Source: Bloomberg and Altman Investment Management, LLC

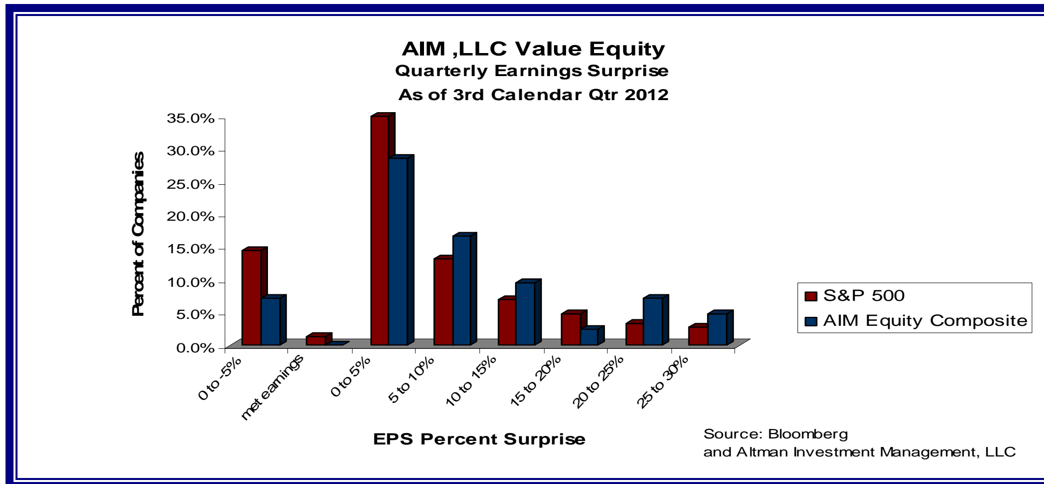
Exhibit V



Source: Bloomberg and Altman Investment Management, LLC

THE MOST RECENT QUARTERLY COMPANY PERFORMANCE RECORD

Exhibit VI



The chart above illustrates the percentage of investment holdings within our Value portfolio that exceeded street earnings estimates during the 3rd calendar quarter of 2012. Most notably, 79% of our investments exceeded street estimates and 72% of the companies in the S&P 500 exceeded street estimates. After dipping briefly below a 70% level in the 4th quarter of 2011, the rate of EPS surprise for the composite and the benchmark index has been maintained at a consistent level above 77% and 70% respectively.

EPS growth rates were strongest in the Financial sector up 25.7% year-over-year. Improving fundamentals along with internal improvements are beginning to pay off and we are seeing the Financials once again come back into favor. Declining growth rates in the Materials and Energy sectors remain week with recordings of -27% and -21% respectively.

Exhibit VII

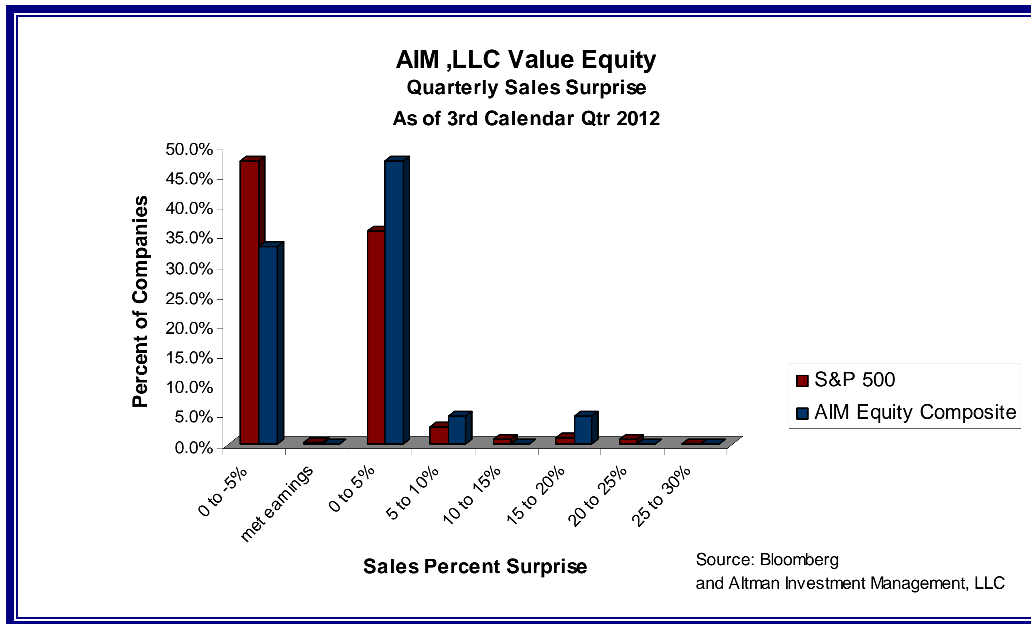


Exhibit VII illustrates the percentage of investment holdings within our Value portfolio that exceeded street revenue estimates during the 3rd calendar quarter of 2012. 60% of our investments exceeded street estimates as compared to 42% for the S&P. Revenue surprises among the stocks held in the AIM composite improved over the prior reported number of 44%, but still down from 83% level achieved in the 2nd quarter of 2011. Revenue beats for the market remained flat around 42%; the level reached in the second quarter of 2011 was 72%.

CLOSE UP: The Bank Sector

"Revenue growth restoration presents upside in banking sector."

The U.S. Bank Index rallied 244% since bottoming in early 2009. The total return of the S&P 500 Index for that same time period was 127%. Carrying the banks thus far has been the rebuilding of balance sheets by way of cost cutting initiatives, improving capital reserves, and asset divestitures. However, revenue growth among the banks has not supported this rally as it has in the past due to net interest margin pressures evident across the industry. Please refer to Exhibit VIII.

Exhibit VIII

Source: BofA Merrill Lynch Global Research, SNL Financial

As the interest rate environment becomes more bank-friendly (the current Federal Reserve policy expects to sustain low interests rates through mid-2015), the housing market continues to improve, and we see a revival in merger and acquisition activity, Bank stocks should be beneficiaries. In the near term however, the approaching debt ceiling debate could impose further volatility in the sector.

4th Quarter Bank Earnings Recap

The Bank of New York, Bank of America, JP Morgan, and Wells Fargo reported earnings in mid-January. BK reported in line with consensus at $0.53 aided by reserve releases. Total revenues were up year-over-year, but declined 2% sequentially on lower net interest income and investment service fees. Net interest margin pressures are expected to continue as a result of higher interest earning assets, lower reinvestment rates, and the elimination of interest rates earned on European Central Bank deposits. Assets under management increased 10% year-over-year while assets under custody increased only 1% as a result of higher market values and new business generation. Revenue at BK is generated primarily (79%) from fee and other related sources. BK stands to benefit from any improvement in the global capital markets landscape and/or a rise in short term interest rates.

After rebounding 109% in 2012, Bank of America (BAC) reported earnings per share of $0.03, beating consensus by $0.01. However profits fell from a year ago, due to mortgage related charges. Net interest margin pressures are not just specific to BK, as stated above, but are affecting the industry as a whole, including BAC who saw its Net Interest Income (NII) fall to $10.6 billion from $11 billion in the quarter. Capital market results were mixed with fixed income trading revenues down 29% and core equity trading was flat quarter-over-quarter. Activities such as divestitures and cost cutting have helped ease concerns regarding BAC's capital position. Investors are now looking ahead to viability of earnings power. Management recognizes it will take continued expense initiatives, strong capital markets, housing growth, higher interest rates, and a reduction in legacy asset servicing costs to improve earnings power over time.

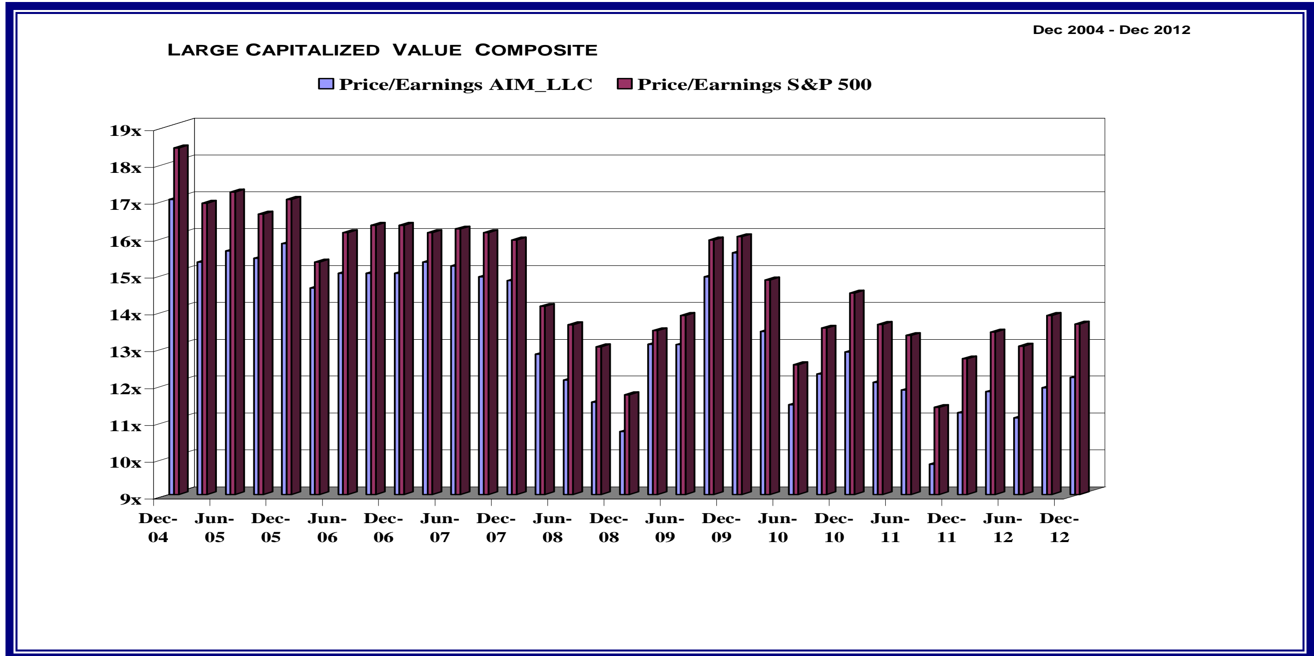
JP Morgan (JPM) reported 4th quarter eps of $ 1.39 beating estimates. Revenues were $24.4 billion up 10% year-over-year, with net interest income of $5.7 billion as compared to $3.7 billion the prior year. For 2012, revenues were relatively flat with net income rising to $21.3 billion from $19 billion the year before. Net interest margins are also under pressure at JPM falling 30 basis points from the year ago quarter. For the year, shares of JPM rebounded 36.2%.

Wells Fargo (WFC) reported earnings per share of $0.91 on revenues of $21.9 billion and net income of $5.1, up from $20.6 billion and $4.1 billion respectively the year ago quarter. For all of 2012, revenues increased to $86.1 from $80.9 billion in 2011, and net income grew to $18.9 billion from $15.9 billion in 2011. Pre tax provision profits improved on higher fee revenues, lower expenses, and some improvement in net interest income. Although there was modest improvement during the quarter, we expect net interest margin pressures as the low interest rate environment continues to impact asset reinvestment rates. Shares of WFC ended the year up 27.4%.

IN SUMMARY:

We remain constructive on equities overall with an expectation that markets surprise on the upside again in 2013. We are operating on the assumption that we remain in a secular bull market which started in 2009 and will continue beyond 2013. We have established a year end target for the S&P 500 of 1600 based on a price to earnings multiple of 13.7X on our estimate of $117 and see the drivers of this 12% upside multiple expansion supported by clearing the policy uncertainty of Washington and Europe. Additionally, accelerating durable goods spending gives a sustainable boost to the 7.0% earnings growth trend. Lastly, the fifth years of bull markets historically have been unusually strong.

Exhibit IX



Source: Bloomberg and Altman Investment Management, LL

Exhibit X

ALTMAN INVESTMENT MANAGEMENT

AIM PORTFOLIO CHARACTERISTICS

As of December 31, 2012

	Value Equity	S&P 500
# of Holdings	39 stocks	500 stocks
Portfolio Beta	1.02	1.00
Wtd. Avg. Price to Book	1.68x	2.17x
Wtd. Avg. Price-Earnings (Current)	12.17x	13.62x
Wtd. Avg. Price-Earnings (FY1)	11.07x	12.39x
Wtd. Avg. Price/Sales Latest 4 Qtrs	1.11x	1.33x
Wtd. Avg. Dividend Yield	2.76%	2.30%
Price to Cash Flow	7.22x	8.28x
Market Cap.	$87.8 Billion	$121.2 Billion
Ten Largest Holdings (% total)	33%	19%
Approx. Portfolio Turnover	30%-40% per annum	--
Maximum Cash Position	10%	--

Sources: AIM, LLC and S&P 500 characteristics are utilizing a Bloomberg as of December 31, 2012 for weighted average book value, price/earnings, price/cash flow, and price/sales figures.

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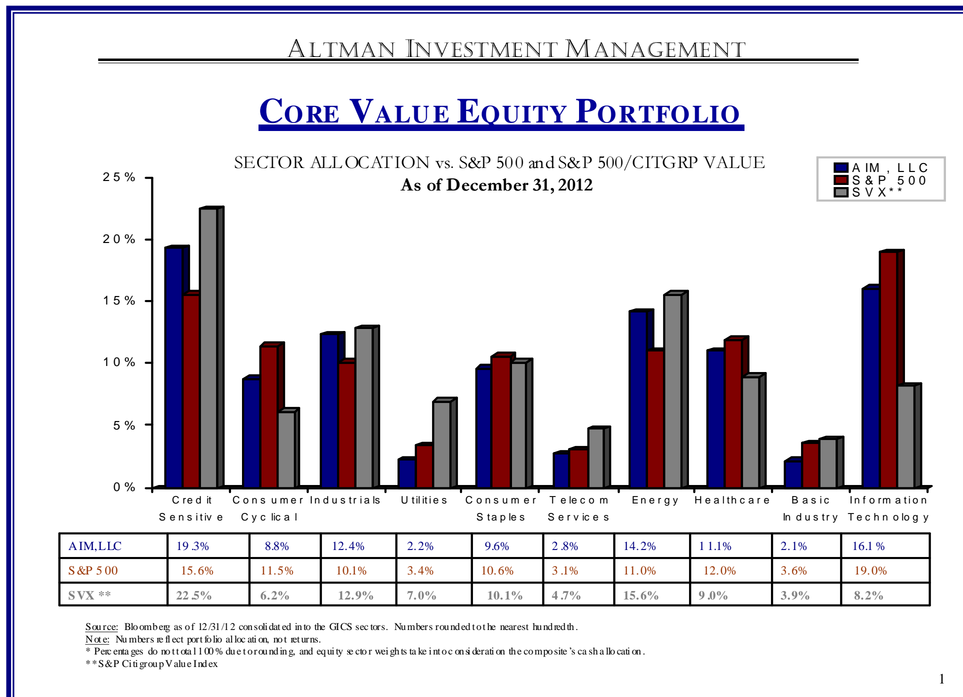
Exhibit XI



	Credit Sensitive	Consumer Cyclical	Industrials	Utilities	Consumer Staples	Telecom Services	Energy	Healthcare	Basic Industry	Information Technology
AIM,LLC	19.3%	8.8%	12.4%	2.2%	9.6%	2.8%	14.2%	11.1%	2.1%	16.1%
S&P 500	15.6%	11.5%	10.1%	3.4%	10.6%	3.1%	11.0%	12.0%	3.6%	19.0%
SVX **	22.5%	6.2%	12.9%	7.0%	10.1%	4.7%	15.6%	9.0%	3.9%	8.2%

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