FIXED INCOME STRATEGY HIGHLIGHTS … JANUARY, 2011

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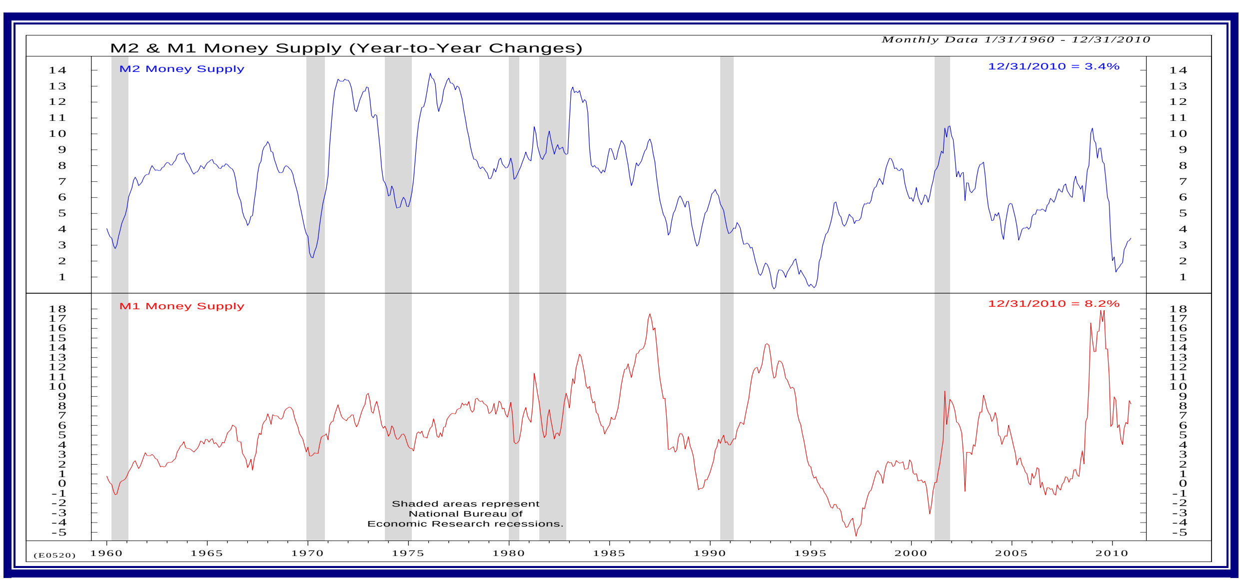
GENERAL OBSERVATIONS

The final revision of real gross domestic product (GDP) for the third quarter resulted in 2.6% growth, with inventory accumulation contributing 1.6% of the total. Personal consumption expenditures accounted for 1.7%, the government 0.8% and net exports of goods and services subtracted 1.7% from growth. Private domestic investment (ex-inventories) added 0.2%. While business capital spending on equipment and software added 1.0% to growth, residential spending subtracted 0.75%. In contrast, nonresidential spending added 0.9%. The third quarter results were an improvement from growth of only 1.7% in the second quarter when many economic forecasters worried about the possibility of a double-dip recession.

The fourth quarter real GDP should grow in excess of 3% as consumption has remained strong and the trade figures have shown some improvement in October. The recent compromise tax and spending bill worked out by Republicans and Democrats amounts to $858 billion of additional stimulus to the economy, albeit adding to the national debt. The Bush tax cuts were preserved for everyone for two years with a tax of 35% applied to estates over $5 million. Businesses are allowed to expense 100% of their capital spending for one year. The tax on capital gains and dividends remains at 15%. Lower-income Americans received a 13 month extension of unemployment benefits and a temporary 2% cut in the Social Security payroll tax which puts cash in their hands on January 1st, as well as continuations of the earned income and child tax credits. There is a general consensus among economists that the compromise bill will add 0.5% to 1% to economic growth in 2011. Since nothing was done to cut government spending, the likelihood is that after fiscal deficits of $1.4 trillion and $1.3 trillion in 2009 and 2010, the fiscal deficit in 2011 could be as large as $1.5 trillion.

EXHIBIT I
MONEY SUPPLY



Source: Ned Davis Research

The hope is that with higher economic growth in 2011 the high unemployment level of 9.8% will start to decline. The overall aim of the fiscal stimulus combined with monetary easing (0.25% federal funds rate and quantitative easing) is to put the private economy on a self-sustaining growth path as the federal government works out plans to cut structural spending to reduce the excessive financial deficits. The primary unknown in 2011 is whether or not there is the political will to cut excessive government spending at a time of divided government. Recent economic statistics have significantly improved from those that marked the summer slowdown.

The leading economic indicators advanced by 1.1% in November after a rise of 0.4% in October and a gain of 0.6% in September. Industrial production increased 0.4% in November versus a decline of 0.2% in October and is up 5.4% year-over-year. Manufacturing output rose 0.7% and is also up 5.4% year-over-year. Capacity utilization increased to 75.2% which compares to 71.1% a year ago. The long-term historical average is 82% suggesting that there is still a lot of slack in industrial output utilization.

The ISM Manufacturing Index was at 56.6 in November with orders, production and employment continuing to advance. The ISM Non-Manufacturing Index (Services) edged up to 55.0 in November, which compares to 54.3 in October. Retail sales have been particularly strong recently and are up 7.7% over year-ago levels. Christmas sales look like they will return to a more normal level after two disappointing years. Consumer confidence is strong with savings levels currently at 5.7% and consumer borrowing down by 3.1% year over year as of October. Disappointments remain in construction, housing, and high unemployment levels.

We continue to remain positive on the U.S. economy and are raising our growth rate by 0.5% based on the passage of the compromise tax and spending bill. We think that 2010 will end the year with real GDP growth of about 2.8%, with CPI inflation of 1.2% and corporate profits up 25%. In 2009 real GDP declined by 2.6% because of the effects of the Great Recession. In 2011 we expect real GDP growth of 3.5%, CPI inflation of 2.5% and a profits gain of 10%.

The Outlook for the Financial Markets

The year 2010 is ending with cheers in equity markets, with the S&P 500 Index up approximately 13% and the New York Stock Exchange Composite up 10%. All sectors of the market have risen with some of the largest gains made in small and mid-capitalization stocks. Unfortunately, the bond and mortgage markets that had gained all year are suffering some loss of valuation during the fourth quarter. The outlook for higher economic growth rates, the return of investor confidence, and concerns regarding higher inflation in 2011, against the backdrop of quantitative easing and the new stimulus package, have led to some profit-taking in the debt markets.

The municipal bond market in particular has weakened, encouraged by the end of the Build America Bond program (about 22% of issuance in 2010), credit worries with regard to a number of states and localities, and general concerns regarding inflation and the overall weakness in bond markets. So there is a marked dichotomy in financial markets as the year comes to a close. Over the past month short-term interest rates have remained the same with the 3-month Treasury bill at 0.10% versus 0.13% a month ago. In contrast, 10-year Treasury bonds currently yield 3.33% compared to 2.87% a month ago. Long-term high quality corporate bonds yield 6.12% versus 6.02% last month. One can say that corporations in general have strong balance sheets at present after a period of higher profits and have refinanced at considerably lower rates over the past year, which could explain their relative strength within the bond market. Long-term municipal bonds currently yield 5.22%, which compares to 4.97% a month ago and 4.68% a year ago. The weakness is explained by the aforementioned comments.

However, with the economy recovering, state revenues have increased for three quarters and were up 2.7% in the third quarter. The problem they have is that federal aid will decline significantly in 2011 because of the changing political climate with regard to government spending and the revenues of many localities requiring higher housing valuations, which could take many years. One might add that the value of tax exemption remained the same as the tax cuts were extended for 2011. Finally, 30-year mortgage bonds saw yields rise to 5.09% versus 4.67% a month ago. Mortgage bonds have been the beneficiaries of many government subsidies (including the Federal Reserve's buying program) and looking ahead some of these housing-related subsidies could be removed as part of a general program of fiscal reform in 2011 and beyond.

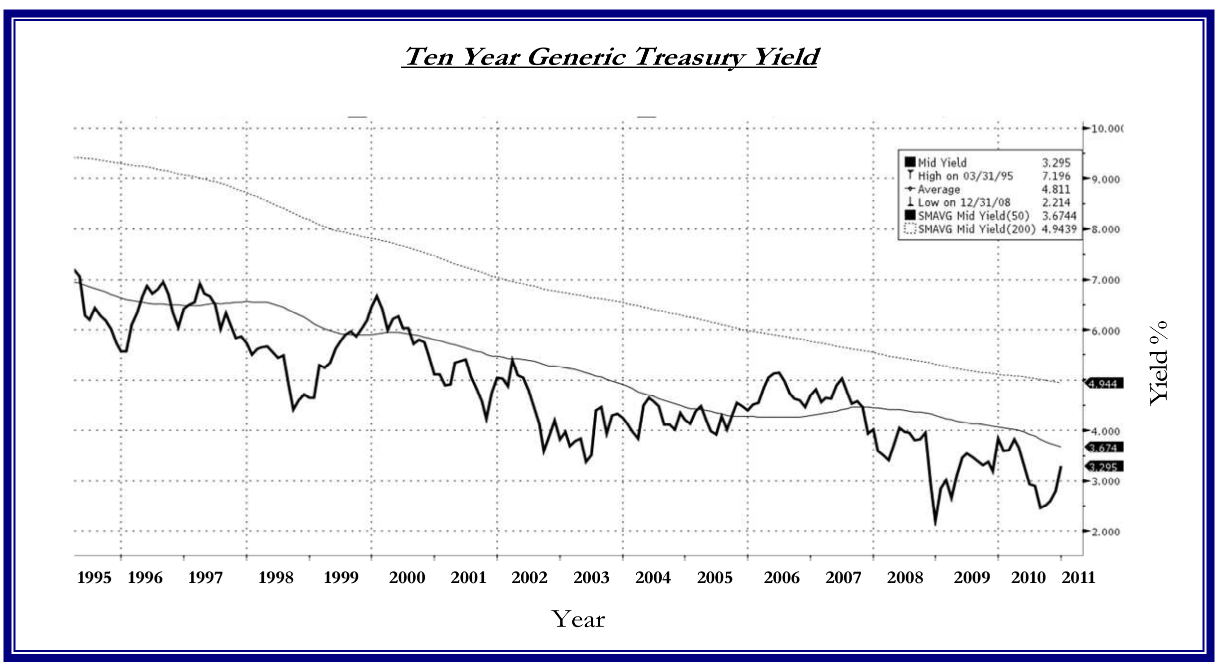
Overall, we believe that interest rates will rise in 2011 against the backdrop of stronger economic growth and higher inflation. The S&P 500 (1258) sells at 16.1 and 14.6 times our earnings estimates of $78 per share and $86 per share, for 2010 and 2011 respectively. These are still reasonable valuations, particularly in relation to some of the alternative asset classes, and given our positive view of the economy. Nevertheless, the equity market, as measured by the S&P 500, is up 89% since the low of March 9, 2009 (666) and some degree of caution is warranted since the stock market could weaken on a near-term basis after its significant move upwards over recent months. Political divisions in Congress over the need for fiscal reform, continuing worries about the euro, and possible geopolitical clashes with China over naval expansion in the South China Sea constitute some possible concerns for 2011. Despite these concerns however, we would maintain our current asset allocation model of 60% equities, 25% corporate and municipal bonds, 3% gold and 12% cash.

THE U. S. FIXED INCOME MARKETS

Brief Overview

Ten year Treasury yields rose by over 100 basis points from the lows in early October to mid-December, as signs that U.S. economic momentum was reaccelerating. With reasonably healthy holiday sales, stronger demand for autos, and a down tick in unemployment claims, expanding exports etc. suggested that the recovery was gaining traction. Confidence was enhanced by the passage of the Tax bill in December which further provided a much needed degree of clarity to the outlook. The second stage of the Federal Reserve’s Quantitative (QE2) program got under way with initial purchases of a planned program to buy $600 billion Treasury securities through June. Demand from the Fed may have moderated the increase in yields, but was insufficient to stem the upward pressure on rates. See 10 Year yield curve in Exhibit II below.

EXHIBIT II



Source: Bloomberg and Altman Investment Management Research, LLC

Bond Market Headwinds

Rates are likely to increase modestly as the economy recovers. However, there are many downside risks, and policy makers face difficult choices. This should keep the Fed on hold for longer, helping carry trades. While we recommend a long duration stance initially, we believe that there will be higher volatility and risk premiums. The road to more normal money market conditions will be long, winding and riddled with potholes. We expect another tough year in 2011, characterized by extraordinarily accommodative monetary policy, downward pressure on market rates, significant regulatory headwinds and credit risks emanating from Europe.

The markets are predicting that the Fed will start hiking rates by December 2011, but that sounds about a year too soon. Rather, Fed officials are likely to spend 2011 attempting to refine their message that policy will remain on hold well into 2012. The curve should remain steep because of higher risk premiums due to long run budget sustainability concerns and inflation risk.

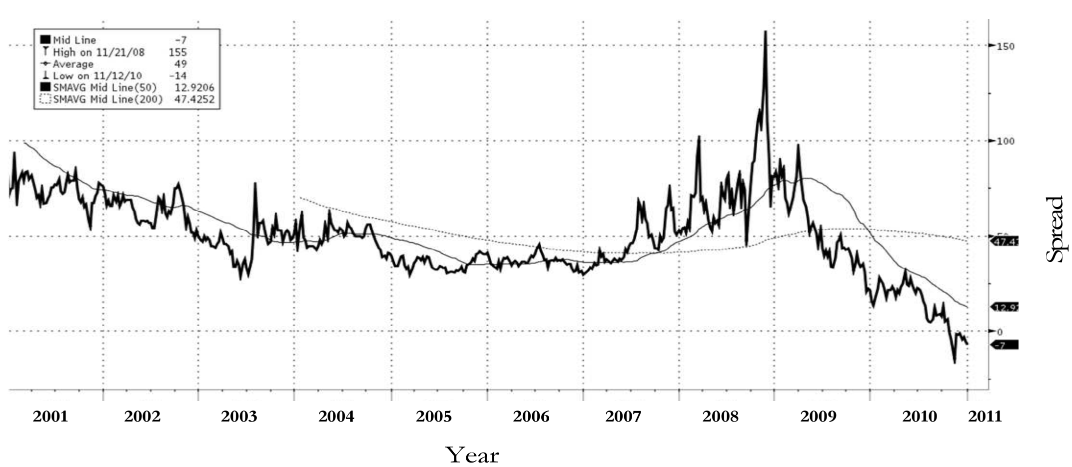
One area of caution however is Europe where large refundings of debt in 2011 will impact the fiscally weaker EU members. We expect the policy response to eventually be able to contain the near term crisis and continue the "delay and pray" strategy. That of course is no solution and only aims to reduce the systemic risk consequences of the ultimately required debt restructurings to a time when European banks' capital can better absorb such an outcome. That means Euro sovereign risk remains, although it should not rise to the level of systemic, allowing U.S. credit markets to decouple.

GOVERNMENT RELATED DEBT/MBS

The Treasury should maintain nominal coupon auction sizes through most of 2011 and increase bill issuance to accommodate the increased deficit. We expect broad sources of demand to slow, but stay at high levels. Supply- demand balance should be tilted towards higher demand in the first half of the year due to Fed purchases. The balance could shift in the second half of the year as growth improves and risk appetite increases.

EXHIBIT III

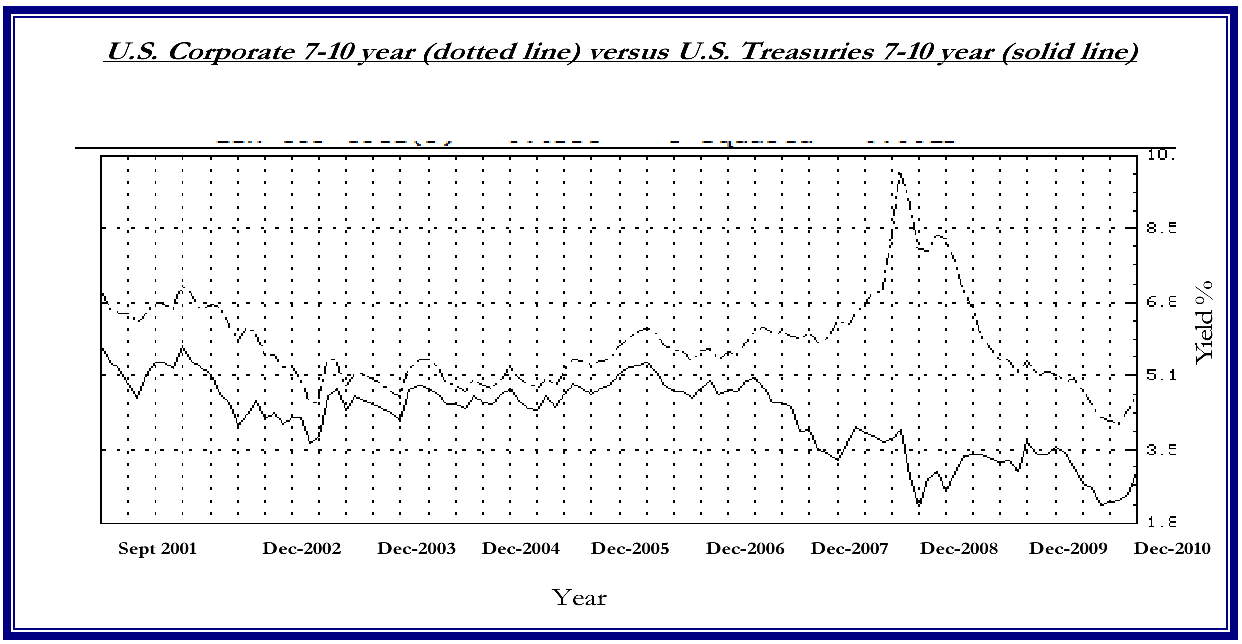
10-year U.S. Government Agency Yield minus 10-year Treasury Yield



Source: Bloomberg and Altman Investment Management, LLC

GSE spreads should be well contained in 2011 because of a combination of negative net supply and the Treasury's preferred stock purchase plan, which provides an effective guarantee on the debt well beyond 2012. The risk to GSE debt spreads is the extent to which the stock purchase plan is politically challenged in 2011. GSE spreads are very tight by long-term historical standards, so we would either be neutral versus an index or overweight the front end of the curve where roll down is achievable while the Fed remains on hold. We expect GSE net issuance (including FHLB) to be around -150bn to -200bn in 2011.

EXHIBIT IV



Source: Bloomberg and Altman Investment Management Research, LLC *Data: ML Global Bond Indices*

We think callable agency bonds make sense in 2011 because of the likelihood of moderately rising interest rates. In this kind of interest rate environment callables tend to outperform, both because of the ability to monetize the embedded option and also the prospect for lower issuance volumes in a higher rate world where callable turnover is lower. We prefer shorter duration callables with final maturity in the 3yr area to mitigate the extension risk.

HIGH GRADE CORPORATES AND PREFERREDS

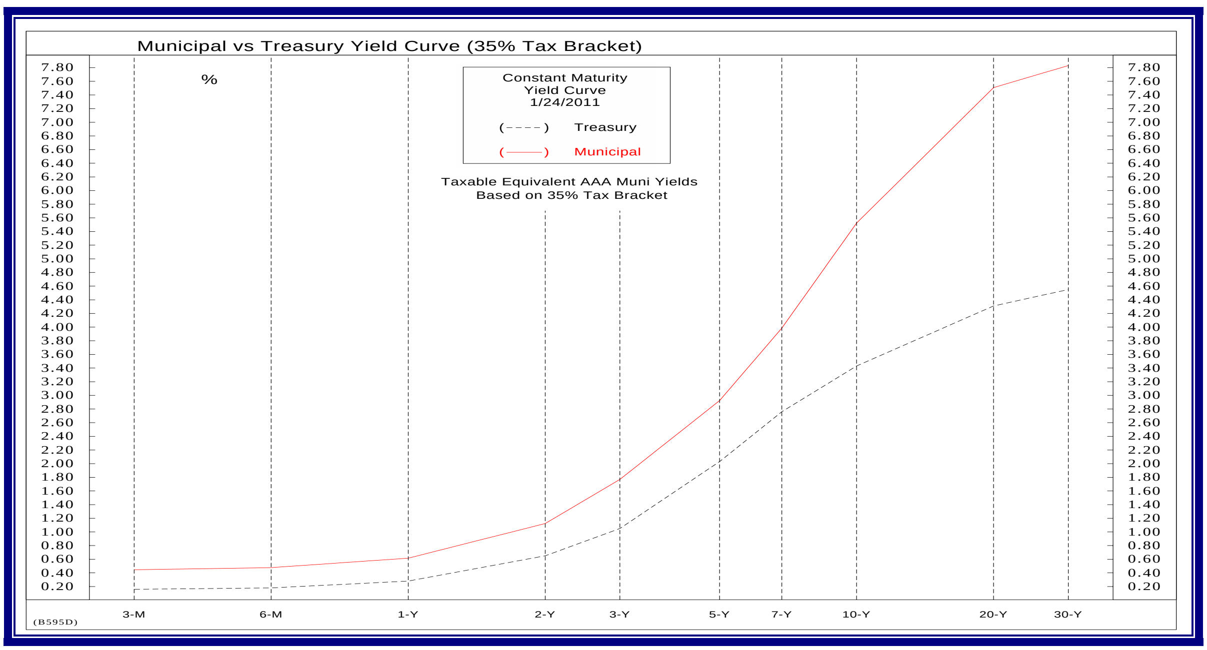
High grade bonds have been the beneficiary of that investor preference shift. But from nearly 20% returns in 2009 to 10% in 2010, we forecast only 2.5% for 2011. With better alternatives in equities, the flows will follow the returns fueling asset inflation in stocks. For spreads, higher rates initially will lead to compression and assets, and flows into equities have been positive over this period. We forecast 60 basis points of tightening ending the year around 120bps. As money market yields collapsed during the credit crisis due to monetary policy induced declines in the front end of the yield curve, investors have been forced to search for more-than-zero yields elsewhere. Debt returns having exceeded equity returns in 2009 and the first half of 2010 have attracted most of the flows out of money market funds so far. However, more recently (since September) equity returns have been higher than investment grade fixed income.

In 2011, we look for preferreds to be primarily an income generating vehicle. We believe prices are likely to experience intra-year volatility but end the year without significant downward change. These bond prices should remain above historical averages and rates have the potential to narrow by roughly 50bps, providing a cushion should Treasury rates edge higher. Our individual security recommendations are therefore focused on segments of preferreds that we believe have higher probabilities of being called such as U.S. bank TruPS and high coupon perpetuals. For those preferreds with less of a chance of being called, we'd favor floaters with coupon floors since they exhibit lower interest rate risk relative to higher duration fixed coupon preferreds.

MUNICIPAL BONDS

Municipal yields followed the treasury market and also moved up during the quarter. As shown in the yield curve chart below, ten year prime municipal yields closed the year about 75 basis points above the end of September level and moved still higher in the New Year. Longer rates have been significantly impacted with thirty year yields moving up by 130 basis points. Heightened pressure on long municipal rates was initially prompted by the surge in Build America Bond financing prior to year-end program sunset. Taxable municipals represented 48% of the new bonds sold in December and for the year BABs sales totaled over $117 billion, approximately 27% of total new issuance.

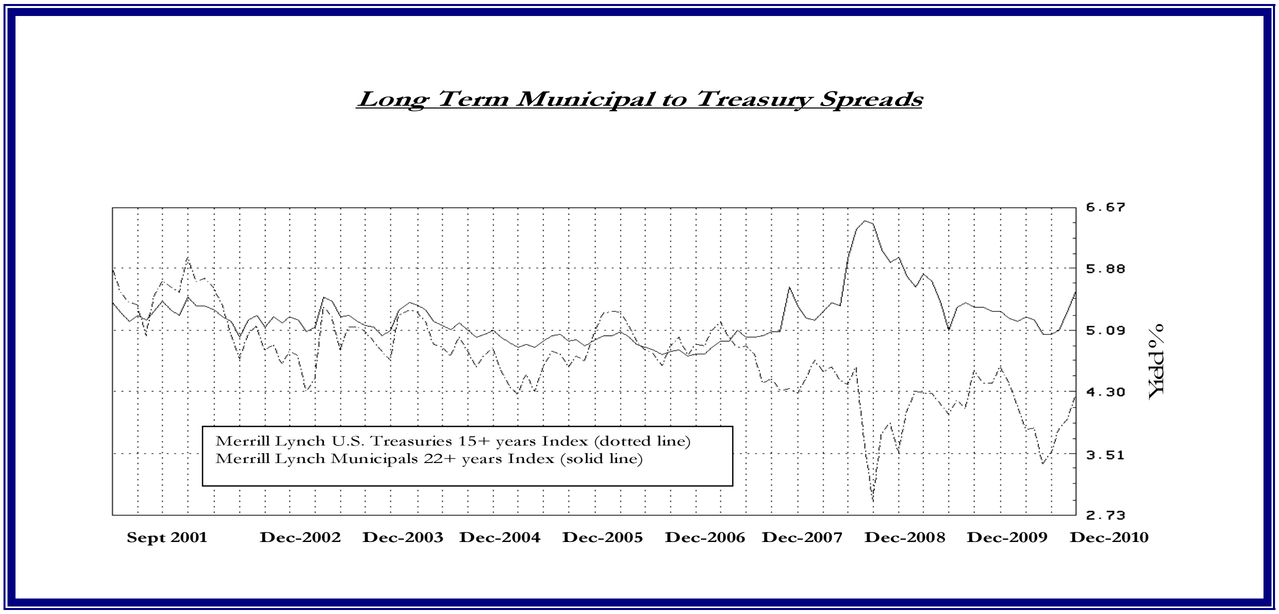
EXHIBIT V



Source: Ned Davis Research

Last year was the year of heavy new issuance. This year has commenced with the focus on the secondary market. There has been considerable trading activity in the first days of the year. Many times in the past, this level of activity has taken place at year end. But there are a number of factors that are in the mix. Municipals have often been highlighted in the media of late and usually with a negative view. Some investors have developed new economic and rate views that will affect their approach to the business this year. Steepening of the yield curve and concerns over liquidity appear to be the current focus, even though credit concerns have often been cited as the primary preoccupation.

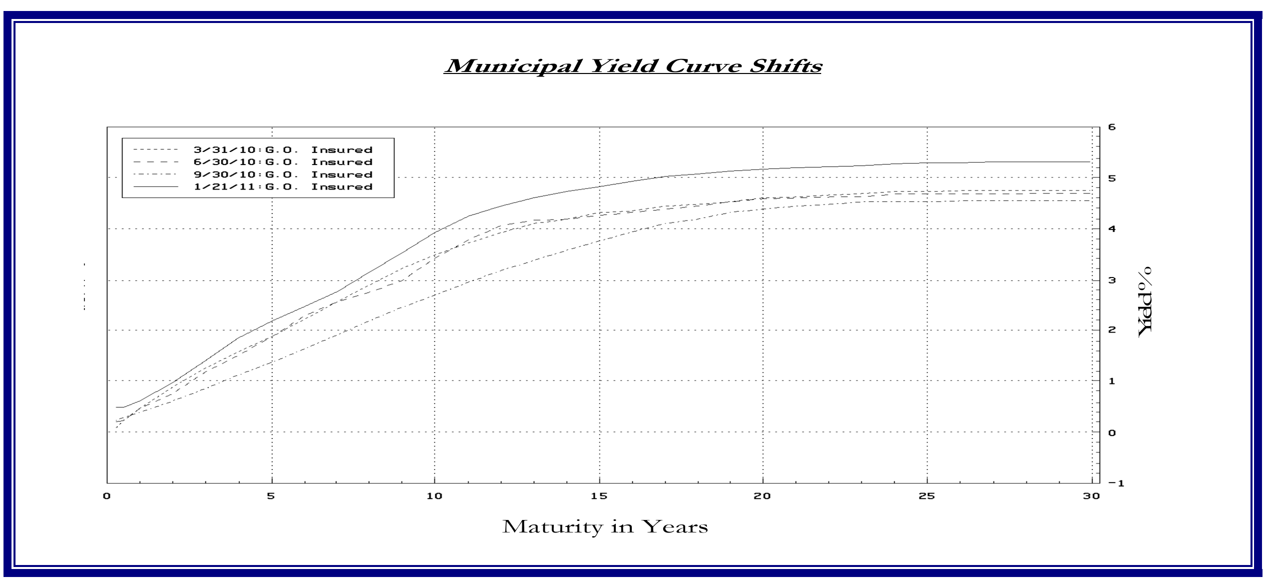
EXHIBIT VI



Source: Bloomberg and Altman Investment Management Research, LLC

Among the groups of investors who are taking a particular interest in our bond market are the hedge funds. The primary concerns have been the probabilities of default and bankruptcy. These topics have concerned all market participants to varying degrees. It is our opinion that the probability of a state defaulting is remote. On the other hand, we readily acknowledge that the budgetary challenges are very great this year. The new governor in New York has given us a glimpse of some of the actions that may be expected when the budget is formally released. Reducing Medicaid expenditures has become a clear priority but what to cut has not been spelled out or fully decided. One person's cut is someone else's entitlement. Wage freezes and hiring freezes are an often employed technique to contribute to closing budget gaps. Imposing expenditure limits on the local governments will force more discipline on the localities to comb their budgets for savings and for more efficiencies. The cap on spending growth would also serve to take some of the pressure off the continuous demand for additional state aid over time.

EXHIBIT VII



Source: Bloomberg and Altman Investment Management Research, LLC

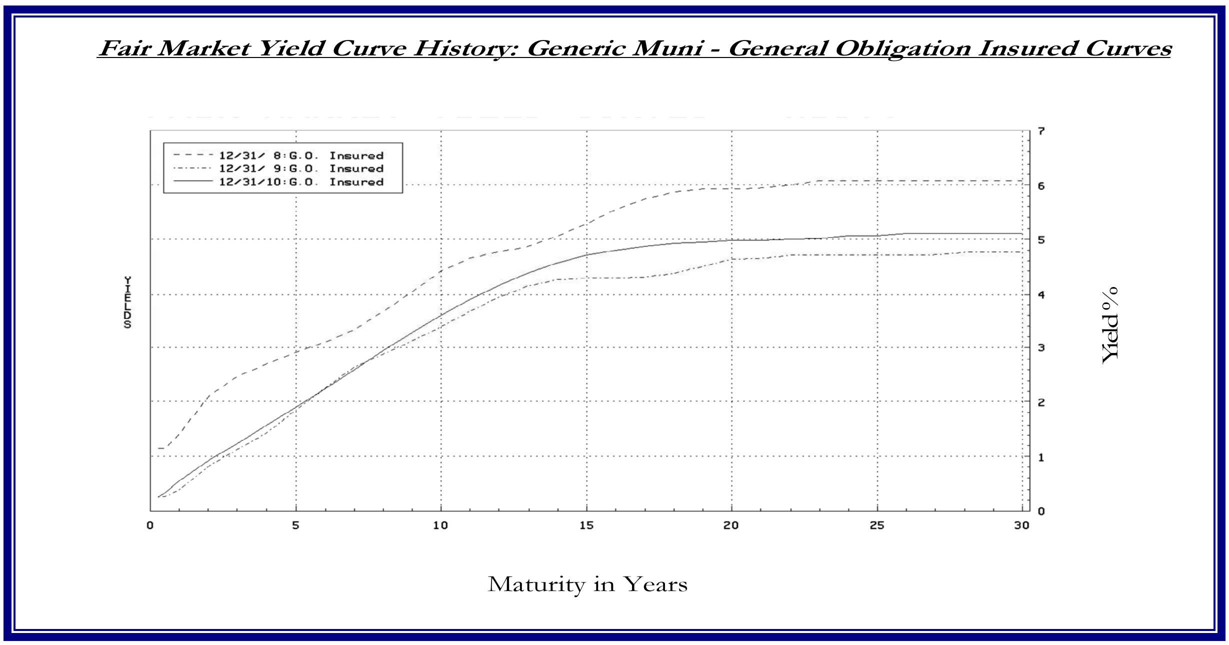
EXHIBIT VIII

		12/31/2009	09/30/2010	12/31/2010
10 Year Muni *		3.96%	3.10%	3.90%
10 Year Treasury		3.83%	2.51%	3.30%
Ratio		103%	121%	118%

Source: Bloomberg and Altman Investment Management, LLC
** Merrill Lynch Global Index- Investment Grade*

The Federal funds rate remains targeted in the 0% to 0.25% range which is continuing to anchor short rates. The jump in longer rates has caused a significant steepening in the yield curve. The spread between the one and thirty year tax-exempt yields increased 345 basis points at the end of September to 465 basis points currently.

EXHIBIT IX



Source: Bloomberg and Altman Investment Management Research, LLC

In 2011, we anticipate somewhat stronger growth than we expected only a few months ago. Despite continuing drag from housing and high unemployment, lower than expected tax rates coupled with extended unemployment benefits, rising exports as the dollar declines and additional monetary stimulus should boost growth to 3.0% or a bit higher. We anticipate that the Fed will keep short rates locked at close to zero for many months and continue the quantitative easing program until they witness a downward trend in the unemployment rate. Near term inflation pressures are expected to remain subdued, but the combination of continued massive Treasury auctions and building economic momentum could pressure longer rates somewhat higher as the year unfolds. Low prevailing short and intermediate tax-exempt rate levels add an additional element of risk. We are maintaining a moderately defensive posture with portfolio durations targeted at 3.4 years, about 15% below neutral.

FIRM UPDATE

This year Altman Investment Management will be celebrating its tenth year managing investments for our valued clients. We have been dedicated to servicing our investment partners in good and more difficult times, by achieving both consistent and superior long term performance relative to our benchmarks across both equity and fixed income classes. Our singular focus on investment performance and exceptional client service, with seasoned investment professionals, continues to solidify our long-term partnerships. We recognize that over the past decade it has not been particularly easy to stay the investment course, especially during volatile periods in the markets. We especially appreciate our clients and business partners for their continued confidence in our process and expertise.