ALTMAN INVESTMENT MANAGEMENT

MARKET PERSPECTIVES

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Written By: *Peter J. Altman, President*

Altman Investment Management
34 Chambers Street
Princeton, NJ 08542

Still a Jittery Time …

- **It's been a difficult time to be an equity investor over the last several quarters.** Price movements continue to be driven by news overseas surrounding the euro zone debt crisis rather than business fundamentals. In short, the markets continue to be held hostage by political processes which are very difficult to predict. The problem is clear that policymakers are still behind the curve and underlining tensions remain in the euro zone financial system. However, it is still quite possible that in early November the G20 meeting in France could result in a coordinated action which would serve to bolster the direction of markets in the near term. Although predicting an outcome to Greece/sovereign Europe is basically impossible, we believe that the risk of this systemic crisis has diminished. During the third quarter, stocks got deeply oversold, sentiment had been severely depressed and share prices appeared to have already discounted a lot of bad news.

- **Despite investor fears of continued European paralysis, we are more optimistic** believing that European leaders are under enormous pressure to act and are fully aware that they can not afford to disappoint the markets. If there ever was a time for the ECB to expand its balance sheet by buying troubled assets, now is the time.

Some Glimmers of Hope

- **Despite the political overhang, the outlook for the U.S. economy improved during the third quarter with a real GDP annual rate increase of 2.5%**, versus 1.3% in the second quarter and 0.4% in the first quarter. The current quarter should also expand in the 2.5- 3.0% range, bringing the year to about 2.5% growth versus our earlier estimate of 3.0%. In retrospect, the U.S. economy expanded at a 3% rate in 2010 helped by federal government stimulus and expansionary monetary policy. The area of disappointment has been employment growth, with the unemployment rate at 9.1%.

- **The September employment report, however, was better than expected with 103,000 jobs created and a positive revision of 99,000 to July and August payrolls.** The change in employment over the past year through September has been an increase of 1.5 million. In addition, applications for unemployment benefits in September have fallen to a six-month low. Some other positive economic news included industrial production expanding at a 5.1% annual rate, as well as auto production running ahead of August sales on a seasonally adjusted basis.

- **In addition, just reported in October, the ISM Manufacturing and Non-Manufacturing Indices have remained firm above 50 suggesting that while the economy is not booming, it isn't moving towards recession either.** Federal Reserve monetary policy has remained supportive of the economy, with low interest rates and rapid increases in the money supply growing in excess of 15% over the past six months.

- **We are less concerned about the U.S. economy dropping into recession than we are of the possibility that current levels of inflation might abort a fragile recovery.** At present, the Producer Price Index (PPI) for the twelve-month period through September was 6.9% with intermediate goods up 10.5% and crude goods up 20.9%. The consumer price index (CPI) rate for the last twelve months was 3.9%. Much of the increase was accounted for by energy (+19.3%) and food (+4.7%). The core rate is running at an annual rate of 2% (minus food and energy). The combination of bad weather and turbulence in the Arab world over the past year has negatively affected these two items which are essential components to the basic standard of living.

- **On a positive note, crop prices have recently been falling as harvests have expanded, and an end to the Libyan war should result in oil production increases over the next year.** Another factor affecting U.S. inflation is import prices, which have increased 13.4% over the past year. This aggravates the U.S. annual trade deficit which is now over $700 billion including $350 billion with China. Unfortunately, annual wage increases in China are currently exceeding 20% and the era of cheap Chinese goods is ending, particularly if the U.S. dollar falls in relation to the Chinese Yuan in the ensuing months.

- **Another challenge the U.S. faces is the size of its fiscal deficits.** The fiscal deficit for 2011 was $1.3 trillion with federal revenues of $2.3 trillion and expenditures of $3.6 trillion. The deficit as a share of GDP was 8.6%. Over the prior four years the deficit has ranged from 1.2% -10% of GDP and has spooked investors who have all too easily drawn comparisons to the Greek-like proportions over the last three years.

- **As the Great Recession dissipates, it is time for the government to bring its fiscal position back to a more normal level.** This task has been assigned to the Congressional super-committee of twelve officials balanced between Democrats and Republicans to report to Congress by November 23. While investors have been focused on the European Sovereign debt crisis and its effect on banks and government finances, we believe that the spotlight will now turn to the U.S. and the decisions made by the super-committee with regard to expenses and tax reform. The question for both Europe and the U.S. is whether there is the political will to tackle these onerous financial and economic problems. The outlook for the financial markets will rest with the outcome.

- **In summary, we are optimistic with regard to the political outcome of the above problems and believe that U.S. real GDP will grow above the 2.5% rate for the balance of 2011.** We expect CPI inflation of 2.5 and corporate profits of 10%. For 2012 we expect real GDP growth of 2.7%, CPI inflation of 3% and corporate profits growth of 7.0%.

Positives Continue to Outweigh Negatives

- **In recent weeks the equity markets have rallied, since the dramatic waterfall from the May 2nd intra-day high of 1370 to the sobering intra-day low of 1075 reached by the S&P 500 on October 3rd.** Fears regarding a financial meltdown from the European sovereign debt crisis intensified for those who believed that the U.S. was headed for a double-dip recession, and caused tremendous anxiety felt by the equity markets. In reaction, significant cash levels were raised by investors with new interest rate lows of approximately 1.7% reached by Treasury bonds.

- **The equity correction was global in scope.** Over time many significant stock market lows were reached in October, and we believe that the current period is no exception as the market approaches its seasonally strong period from November to April.

- **The recent stronger economic statistics for the U.S. have removed some of the double-dip fears** and there is a growing belief that the Europeans are finally awakening to the gravity of their banking capital problems and the need to take a more realistic approach to the sovereign debt problems of Greece and other peripheral countries.

- **With respect to the bond markets, this year's outsized gains are subject to greater risk going forward.** At present, 10-year Treasury interest rates have modestly risen to 2.03% from 1.92% a month ago, with long-term high quality corporate bonds have reached 5.5% from 5.10%. This translates to declining prices for fixed income instruments. Although long-term municipal bonds have been stable over the past month jumping only recently to 4.7 from 4.4% a month ago, 30-year mortgage bond interest rates have been steadily rising despite purchases from the Federal Reserve.

- **While commodities are currently rallying again, on a positive note, they fell quite significantly over the past months because of recessionary fears.** The CRB index (510) dropped 5.6% from the end of August, with copper falling 19% and gold declining 6.4% to $1,715 per ounce. The dollar index at 76.0 has been quite stable and this level compares to 77.4 a year ago. If the Federal Reserve maintains its "easy money" policy, a likely outlook, we would expect commodities to rise, the dollar to weaken, and inflation to potentially rise above current levels. Equities should do well as companies adjust to modestly higher inflation levels to support their earnings. Based on a gain of 10% for 2011, S&P 500 earnings could be $94 per share and another 7.0% gain for 2012 would bring them to $101 per share. At 1234, the S&P sells at 13.1 and 12.2 times our 2011 and 2012 earnings estimates. These valuation multiples appear reasonable with core rate of inflation running at an annual rate of 2%, whereas Treasury bonds appear overpriced with negative yields.

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AIM PORTFOLIO CHARACTERISTICS

As of September 30, 2011

	Value Equity	S&P 500
# of Holdings	43 stocks	500 stocks
Portfolio Beta	.94	1.00
Wtd. Avg. Price to Book	1.46x	1.85x
Wtd. Avg. Price-Earnings (Current)	9.82x	11.36x
Wtd. Avg. Price-Earnings (FY1)	8.91x	10.21x
Wtd. Avg. Price/Sales Latest 4 Qtrs	.88x	1.06x
Wtd. Avg. Dividend Yield	3.2%	2.4%
Price to Cash Flow	6.2x	6.8x
Market Cap.	$73.6 Billion	$86.9 Billion
Ten Largest Holdings (% total)	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 September 30, 2011 for weighted average book value, price/earnings, price/cash flow, and price/sales figures.

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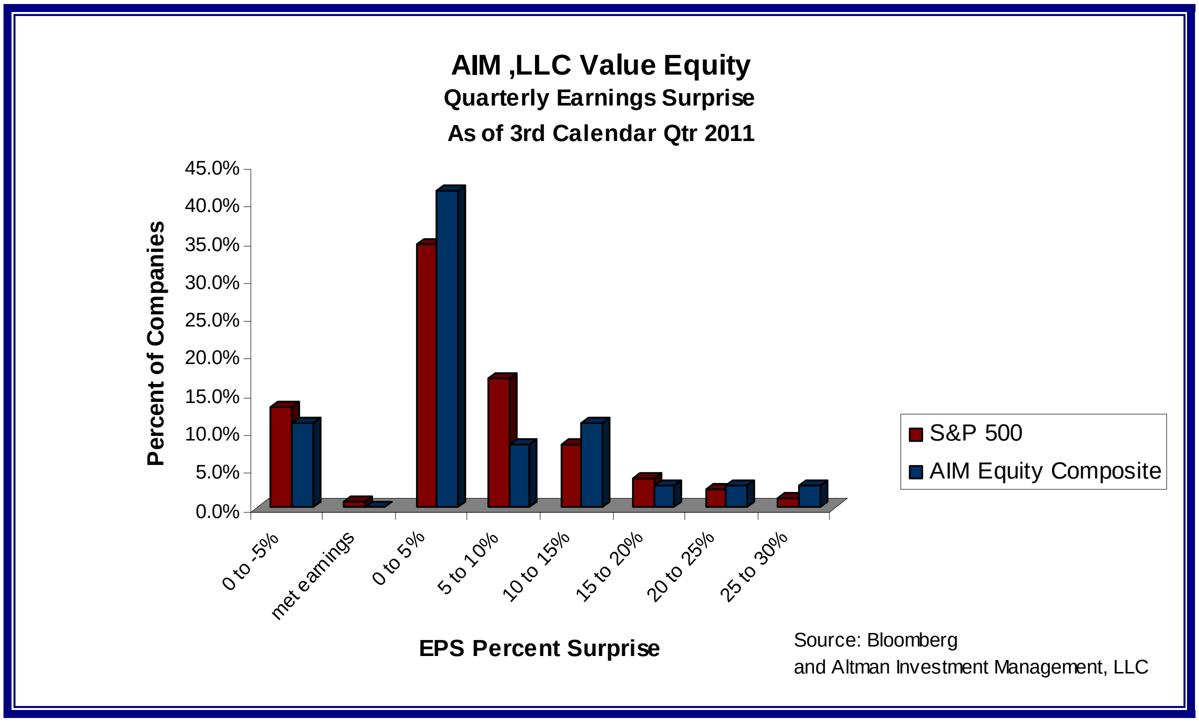
Corporate Profits Portend a Positive Market Response



As of Nov 3 2011, 86% of the AIM composite and 83% of the S&P companies have reported.

- With a focus on earnings, the chart above illustrates the percentage of investment holdings within our value portfolio that exceeded street estimates during the 3rd calendar quarter of 2011. Most notably, 75% of our investments exceeded street estimates and 73% of the companies in the S&P 500 exceeded street estimates. Year over Year growth in earnings was 22.4% for our composite vs. 17.9% for the S&P on a share weighted basis.

- Profit growth is indeed slowing as compared to 3rd quarter a year ago but growth has edged higher on a sequential basis. To recap, growth rates during 3rd quarter 2010 were 33.1% and 31.1% for our composite and the S&P 500 respectively. In the 2nd quarter 2011 those figures were 11.2% and 16.4% respectively.

- Looking at top line sales, 72.2% of our investments exceeded street estimates as compared to 59.4% for the S&P. Turning to bottom line net income, the figures were 61.1% and 67.6% respectively.

- Aggregate earnings have surprised on the upside by an average of 5.4% in the 3rd quarter to date. The Financial sector took the lead delivering 12.6% upside surprise. Growth in earnings is strongest across the Energy and Material sectors with growth rates of 57% and 33% respectively. Growth rates range between 16-17% in the Information Technology, Telecommunications, Industrial and Consumer discretionary segments.

- This earnings season higher quality stocks have been more resilient through an earnings miss dropping an average of 0-4%. Lower quality stocks fell an average 7.8% on earning misses. Overall it appears that stock performance is more macro driven rather than stock specific. We would expect this to continue until concerns over U.S. debt and contagion from the European crisis recede.