ALTMAN INVESTMENT MANAGEMENT

MARKET PERSPECTIVES

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2011 Key Takeaway:

If there is one key takeaway in 2011, it is that policymakers' missteps exerted enormous influence on markets pushing equity risks to a 60-year high. We are encouraged by the fact that the bad news has had ample opportunity to be reflected in equity prices during the year, and that fundamentals should move to the foreground in the year ahead. Despite an expected mediocre economic recovery in 2012 of potentially 2.5% GDP growth, history suggests that equities will re-price and advance with the cyclical sectors leading the way.

The Year in Perspective:

- **This past year turned out to be a difficult one,** especially for those investors who believed that holding longer duration assets such as common stock would be the appropriate strategy as markets recover from a more typical mid-cycle correction and resume their upward bias later in the year. Despite policies of fiscal and monetary accommodation and expanding corporate profits in the U.S, a subpar global recovery in developed markets continued to gnaw at investors concerned that growing budget deficits and euro-zone contagion would ultimately push an already anemic recovery back into recession.

- **All of this was aggravated by the great political divide between those that support solutions of fiscal expansion against those that support policies of austerity.** As government inaction stifled long term investment commitments, short term trading strategies dominated the scene throughout much of 2011. After managing investment portfolios for over 30 years, I have learned that implementing a patient and thoughtful investment methodology that focuses on companies with sound business models are the principles necessary to accumulate and preserve wealth.

- **Despite improving corporate fundamentals and relatively cheap equity valuations, investors rushed into fixed income alternatives during the year as they sought safety of principal,** still sensitive to the recent market experiences of the Great Recession of 2008-2009. The political upheaval in the Middle East, the Euro-zone debt crises, equity market volatility and partisan wrangling in Washington, pushed the ten-year U.S. Treasury to close the year below 2.05 after bottoming at 1.72% in late September.

- **The Standard and Poor's 500 ended the year at 1,258, an increase of 2.13%, of which 2.19% of the return came from dividends.** European markets were especially weak in 2011, due to the financial deterioration first in Greece followed by the rest of the peripheral countries in the euro-zone. On average these markets dropped close to 20%, and although the Asian economies were more resilient their markets followed suit declining in excess of 15% as well.

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- **Defensive strategies emphasizing companies that grow despite macroeconomic headwinds, and balanced portfolios with a heavy orientation around longer duration U.S. Treasuries, temporarily won the day.** Against equally weighted indices, as compared to capital weighted indices, our portfolios did far better than the averages. We attribute this success to the fact that by staying the course during volatile markets we protected our investors from the possibility of getting whipsawed by market timing on a short term basis.

- **In 2011, Cyclicals as a group were unable to sustain their leadership role and in retrospect was a major reason for a challenging year in equities.** It is worth mentioning that the heavy lifting done last year in the markets came from a very narrow group of companies. The top 15 best performing stocks accounted for 40% of the market advance. We are optimistic that the breadth of the market should broaden out in 2012.

Our 2012 Outlook:

As the New Year unfolds, economic statistics continue to improve, albeit at a slower pace than previous rebounds. Consensus estimates for real GDP growth expectations have risen above our expectation of 2.5% for 2012, bolstered by reports of improving capital spending, consumption and exports. Our sector allocation reflects our emphasis on Energy, Industrials and Credit Sensitive, as illustrated in Exhibit II. We are expecting Asia to contribute most to the global growth above 3.0% followed by Latin America and the U.S. Unfortunately, we expect Europe and the U.K. will be in recession for most of the year and Japan will continue to struggle in showing any growth at all.

Currently, year-over-year core Consumer Price Index (CPI) is growing at 2.2%. GDP is growing at annual rate of 2.8% and the unemployment rate is 8.3%. Nevertheless, with the Federal Reserve monetary policy still expansionary, it is probable that the recent decline in inflation will end and that the U.S. dollar will resume its decline. We also believe it is unlikely that oil will decline much from $100 per barrel, given the geopolitical problems involving Iran. At present, we expect core CPI to remain at approximately 3.0%, GDP to grow 2.5%, and corporate earnings to increase 7.0 % in 2012.

Performance Highlights:

A closer look at the 4th Quarter: As markets reacted to positive economic data, we saw a shift in leadership with Energy, Industrials, Materials, and Consumer Discretionary sectors showing the strongest performance. The rally in the 4th quarter demonstrated that our positioning for a cyclical recovery will prevail once the markets gain traction in the first half of 2012.

EXHIBIT I

Sector Overview for the 4th Quarter 2011

Sector	Sector Wgt. as % of S&P as of 12/30/11	% Return QTD 9/30/11 – 12/30/11	Contribution QTD 9/30/11 – 12/30/11
Consumer Disc	10.67	12.53	1.34
Consumer Staples	11.54	10.22	1.19
Energy	12.27	18.19	2.12
Financials	13.43	10.84	1.49
Healthcare	11.85	9.99	1.18
Industrials	10.69	16.46	1.69
Information Tech	19.02	8.72	1.7
Materials	3.50	15.38	.52
Telecom	3.17	7.61	.23
Utilities	3.87	8.30	.32

Source: Bloomberg

Another noteworthy development during the final quarter of the year was that value stocks overtook growth stock performance by over 200 basis points, as evidenced by the S&P Value index total return versus the S&P growth index. According to Ned Davis Research, four prominent value factors, book yield, forward earnings yield, dividend yield, and cash flow yield, all produced relatively larger gains (when compared to losses). Conversely, their leading growth attributes all had negative returns for the same time period.

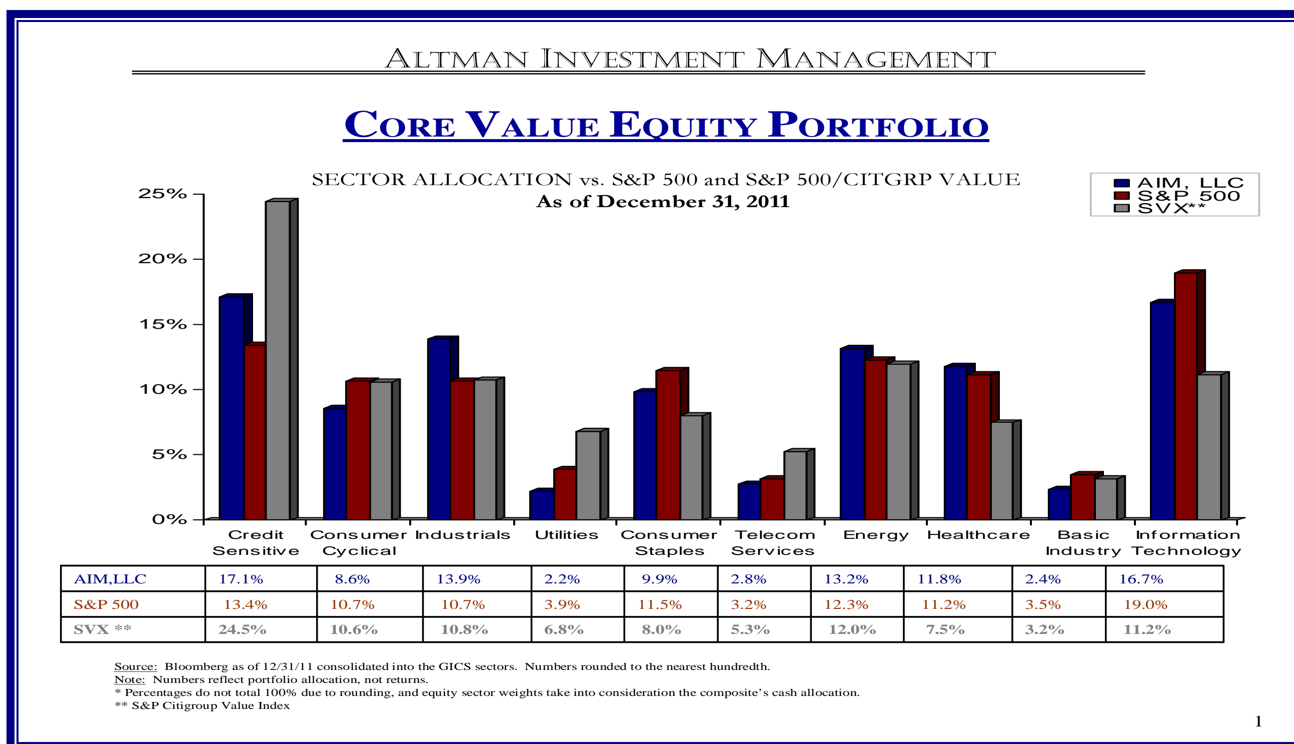
What Worked in the Equity Markets?

- **Sectors such as Utilities, Consumer Staples, and Healthcare were the strongest performers** as investors braced for a possible U.S. Debt default, weathered effects from the Japanese Tsunami, and digested European Sovereign debt woes. On a sub-sector level, it was Managed Healthcare, Tobacco, and Retail – General Merchandise leading the market. Coal & Consumable Fuels, Airlines, and Investment Banking & Brokerage were the worst performers.

- **A current Ned Davis Research study that measured 2011 performance concluded that stocks exhibiting long term EPS and sales growth outperformed consistently across a majority of style indexes.** This held true in the Large Cap Value space where these factors were outpaced only by dividend yield. Stocks returning capital to shareholders were preferred over low relative yielding stocks. High book value yield was the largest negative contributor to returns reflecting poor performance in the financial sector which was down -17% for the year.

- **On an equally weighted basis the S&P 500 returned a negative -1.92% versus + 2.13% for the market cap weighted S&P 500 index.** We can attribute the spread in a large part to market capitalization. Three of the top 5 largest contributors to performance for the benchmark S&P 500 market cap weighted index (Apple. Exxon and IBM) accounted for an average of 8.13% of the index for the year.

EXHIBIT II



	Credit Sensitive	Consumer Cyclical	Industrials	Utilities	Consumer Staples	Telecom Services	Energy	Healthcare	Basic Industry	Information Technology
AIM,LLC	17.1%	8.6%	13.9%	2.2%	9.9%	2.8%	13.2%	11.8%	2.4%	16.7%
S&P 500	13.4%	10.7%	10.7%	3.9%	11.5%	3.2%	12.3%	11.2%	3.5%	19.0%
SVX **	24.5%	10.6%	10.8%	6.8%	8.0%	5.3%	12.0%	7.5%	3.2%	11.2%

Source: Bloomberg and Altman Investment Management Research, LLC

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