Altman Investment Management

Market Perspectives …. July, 2009

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"There are two requirements for success … One, you have to think correctly; and secondly, you have to think independently."

Benjamin Graham (1894-1976)

General Observations

The S&P 500 has been on a tear ever since it bottomed at the intraday low of 666 on Friday, March 6. We should have recognized immediately that this devilish number was the bear market low. After we identified a low in October, the subsequent sell off in March caught us as most investors by surprise. It took us a few weeks to conclude that this indeed was the probable low. In retrospect, the closing low of 676.53 was made that Monday, March 9. On that day, Citi's CEO Vikram Pandit sent an internal memo to employees stating that the bank was profitable during the first two months of the year. The news hit the markets the next day followed by a jump of 6.4% by the Standard and Poor's 500. Then on March 18th, the Federal Reserve Chairman Bernanke announced the expansion of their Quantitative Easing to include purchases of US Treasuries. On May 7th, the Fed announced the relatively benign results of the stress tests on several banks and along the way President Obama coined the phrase that "green shoots" have been sprouting up in numerous economic indicators.

The S&P 500 rose to a new high for the year on the last trading day of July after taking out the June 12 high the previous Monday. Over the past two weeks, this index broke out above its 200-day moving average, which started to turn up on July 16 for the first time since it peaked on January 3, 2008. After seeing a devilish bottom, we mentioned in notes to our clients that we were setting up a potentially very bullish inverted head-and-shoulders technical formation on June 4. The rally over the past two weeks has been fueled by positive Q2 earnings surprises and bolstered by investors becoming increasingly optimistic that Gridlock will frustrate the Obama Administration's push for a radical and expensive change in the health care system, requiring higher taxes. In other words, Gridlock in DC could be the Goldilocks scenario for a bullish stock market!

The Economic Outlook – Is this Global Recovery Sustainable or will the Skeptics be Vindicated?

❖ **We continue to see further evidence that the US and Global recession is approaching an end** as economic indicators continue to produce less negative results over the past several months. For example the ISM manufacturing index just reported rose 4.1 points in July, the most in nearly four years, to 48.9, indicating that manufacturing activity was nearly unchanged from the month before. That was much better than the consensus, which has underestimated the actual reading in six of the past seven months. Although economists expected a rise of 1.7 points to 46.5, we expected a more robust number. All five components increased, led by new orders and production, which both rose significantly above the 50 threshold, indicating growth. New orders jumped 6.1 points to 55.3, and production added 5.4 points to 57.9 -- their highest readings in two years. Employment contracted at a much slower rate, jumping 4.9 points to 45.6. Inventories contracted at a slightly slower rate. Supplier deliveries rose further into expansion territory.

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- **The level of the Purchasing Managers Index (PMI) generated a new expansion signal for the economy**. The PMI corresponds to 2.4% real GDP growth, according to the ISM. Our analysis puts it closer to 2.0%. Nevertheless, ISM says "the data suggests that we will see growth in Q3 if the trends continue." This report supports our view that the recovery already began last month. The historical correlation with industrial production suggests an imminent recovery should now be in place.

- **There's even better news on U.S. GDP growth as the number fell only -1.0% in the 2nd quarter, as compared to a decline of -6.4% in the 1st quarter**. The benchmark GDP revision showed that the recession was worse than previously reported. 1Q real GDP declined -6.4%, and in 2008 real GDP declined -1.9% 4Q/4Q versus -0.8% previously reported. These negative numbers reflect the effects of one of the steepest recessions we have experienced since the Great Depression and resulting in an unemployment rate of up to 9.5%, the highest level in 25 years. In comparison during the 1982 recession, one of the worst since World War II, unemployment reached 10.8% and the economy fell 1.8%. In this context, it's not surprising that y/y wage inflation gains are the smallest on record for the Employment Cost Index in 2Q of 2009 (+1.8% y/y). These figures reinforce our view that there is a good likelihood that the US economy should return to positive GDP growth in 3Q as the inventory bounce plays out. The 3Q cyclical bounce story remains entrenched, given the -$141 billion decline in inventories in 2Q (the level of GDP equals final sales plus the change in inventories, setting up a bounce).

- **Home prices and more positive earnings surprises pushed the equity markets higher again in late July.** Surprisingly, with signs of improvements in the economy, the Government Bond markets were also higher. Corporate bond spreads have continued to narrow; single-A and better spreads are tighter than they were before the Lehman collapse. Oil prices rallied $1 to close just over $69 a barrel. Also, for the third week in a row, the US dollar fell against European currencies.

- **Cash for Clunkers Update:** With survey data showing dealers were running close to using up the maximum $1bn for the Cash for Clunkers program, policymakers scrambled to extend more money to keep the program going. The House overwhelmingly passed legislation to provide an additional $2bn for the program before leaving for August recess. The action moves to the Senate where some roadblocks need to be overcome for passage. First, Senators are demanding information on sales (amount, type of sales) before moving ahead on new money. Second, some Senators want to amend the House bill. This is important because if the House bill is changed slightly, there is really no way for the House to come into session and concur with Senate changes. With Senate passage, adding an additional $2BN to the program can boost sales from the current target of 250k to 750k over time. Auto sales did improve smartly in July thanks to the "Cash for Clunkers" (CFC) program. In the past, the auto industry often provided incentives to boost sales when they were depressed. The industry itself is so depressed that it doesn't have the resources to do it again this time. So the federal government, which is the largest shareholder in GM, provided $1bn to destroy about 250,000 clunkers in exchange for purchases of as many new cars. As a result, the seasonally adjusted and annualized rate of motor vehicle sales jumped from 9.7mu during June to 11.3mu in July. That will be a big plus for the month's retail sales. But sales are likely to drop off quickly unless Congress soon provides more funding for the program.

- **Vehicle sales have been running between 9 and 10 million seasonally adjusted annual rate (SAAR).** Adding an extra 250,000 cars each month would be a boost of 3 million at an annual rate, which is a substantial increase in sales. However, to the extent these cars are in inventories that are not being replaced, or come from abroad, the impact on real GDP will be muted. But the baseline view that the government remains interested in pursuing policies that help growth generally still remains intact, and 3Q is likely to see a pop.

- **The housing da**ta **has shown some signs of decelerating weakness.** While mortgage applications fell -6.3% w/w last week, new home sales rose +11.0% m/m to 384,000, and more importantly there is some evidence of stability in home prices. While the Case-Shiller index was down -17.1% y/y, it was more stable m/m. Housing is one of the most seasonal pieces of GDP, and even during the recession there were stories that "housing is bottoming" in the off-season (moving in time for the next school year is still popular for families). As we move through the rest of 2009, the

bar becomes lower and lower for the impact of mortgage rates for this reason, but as we start to get into the 2010 Spring selling season, rates significantly above 6% are likely to again create housing headwinds. While there have been many government policies on housing - a tax credit for homeownership, foreclosure relief, and action on the Fed's balance sheet to buy mortgage securities - we still have not solved the fundamental problem of excess housing inventory, but we'll take "less bad" data in 3Q.

- **The S&P/Case-Shiller Composite-20 Home Price Index rose** for the first time in over three years in May. This index of Home Prices from 20 US cities was up only a half percent over the previous month, by still 17% below prices one year ago and 32% below prices in August of 2006. In other housing related news, the Sales of New Homes in the US rose 11% to 384,000 in June. This apparent bottoming of housing prices is not limited to the US. The Economist noted that "The Land Registry's survey of housing prices in England and Wales recorded its first advance, 0.1%, in 17 months." As owners of Princeton real estate, our team has a personal interest in the reports generated by one of the tenants in our building, Sotheby's, on the Princeton housing market. Although the Princeton market in no way typifies the US housing market, it often confirms what is experienced around the country. One of the owners of the real estate business indicated that in July Princeton single family home sales - in terms of number of homes- had risen 50% since June. The reality is that home prices have fallen and, as a result, sales have increased. This reality is true in Princeton as well as in many communities in the US. Although this does not confirm that we are at the start of a residential market rally, it may ease buyers' fears that the houses they purchase will decline in value the very next month.

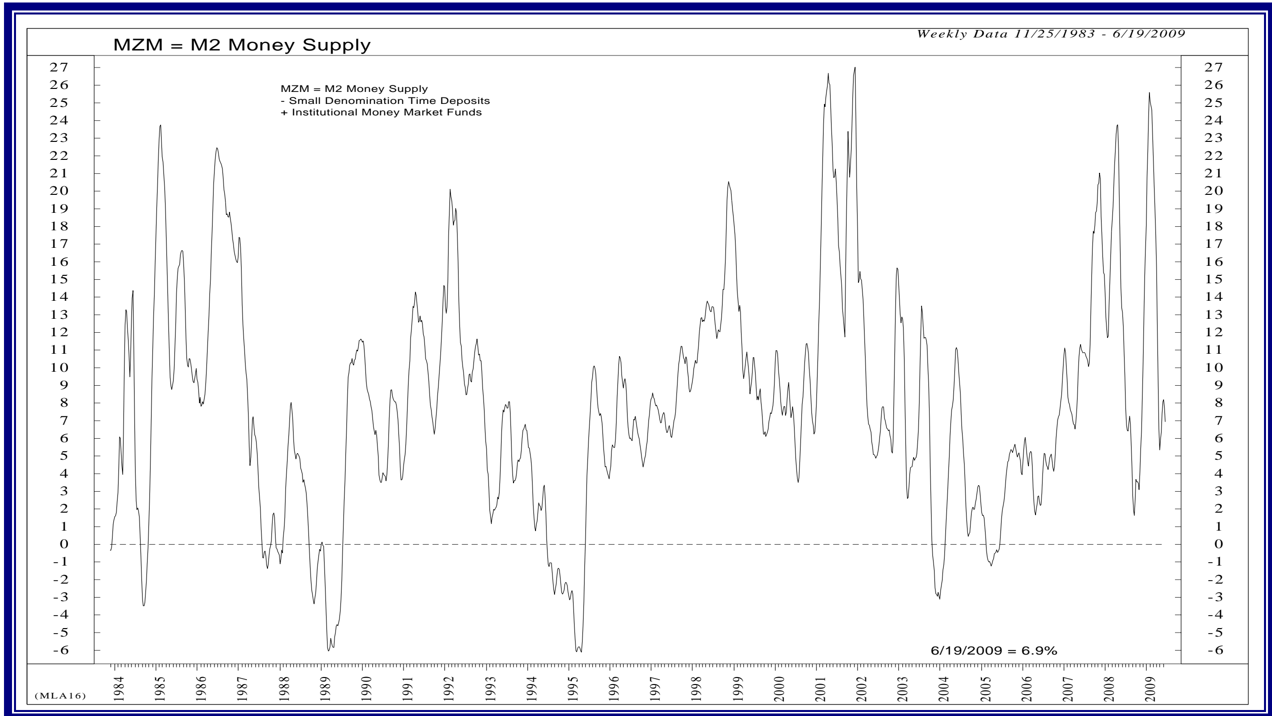
- **Has the US manufacturing recession bottomed?** It looks that way. July's Purchasing Managers Index (PMI) climbed to 48.9, after falling to a 28-year low of 32.9 in December. Especially encouraging was the jump in the production index to near 60 last month. Orders and export indexes have also recovered from December's record lows, and were both back above 50 in July. Manufacturers continue to cut payrolls, though at a slower pace. The prices-paid index is no longer signaling deflation, rebounding to 55.0 last month. It was at a six-decade low of 18.0 in December.

- **Construction spending unexpectedly rose 0.3% in June, its second increase in three months and above expectations for a 0.5% decline**. Is the construction slump nearing a bottom? Hopefully. Residential construction rose for the second time in three months in June. Nonresidential construction, however, suffered a setback, falling the past two months, with recent gains revised away. Both real residential and nonresidential construction were drags on real GDP last quarter, though declines slowed from Q1 considerably for nonresidential. The 3-ma in housing starts leads real residential investment in the GDP accounts and suggests it could start contributing to growth during the second half. Nonresidential investment is holding around recent lows, with half the categories at or near record highs, and half falling. Amusement & recreation, commercial, and communications building has been especially weak, though the latter is stalled at recent lows. Public construction spending continues to hit new highs. Also, May's spending was upwardly revised to -0.8% from -0.9%. Within the private sector, nonresidential spending fell for a third month, slipping 0.5% in June. But the residential sector increased 0.5%, also its second gain in three months. Public construction climbed for a fifth straight month, rising 1.0% to a record high. Despite the monthly gain, overall construction spending is down 10.2% from a year ago, but the rate of decline has begun to stabilize.

- **We expect flat monetary growth in the current quarter with positive growth in the fourth quarter for an overall decline for the year of about 2.0%.** This sequential improvement is occurring because of expansionary monetary policy against the background of the Federal Reserve maintaining the Federal funds rate at 0-0.25%. In addition, the fiscal stimulus of $787 billion should impact the economy in the second half of 2009 and carry throughout 2010. See Exhibit I MZM monetary growth.

- **As a lagging indicator, we would expect unemployment could rise to over 10% by year end**. We still conclude that because of the deleveraging of balance sheets, the current recovery will most likely be relatively weak by historical standards since consumption, still 70% of the U.S. economy will be restrained. The consumer savings rate has risen to 6.9% this past May and compares to negative rates before the recession began. The contraction of debt among households and non-financial corporations last reported dropped 0.7% and the first such event since the early 1950's. The drop in the budget deficit projected by the Center on Budget and Policy Priorities is projected at $350 billion in the 2010-11 timeframe. These deleveraging secular forces are projected to slow the US economic recovery by as much as a full 10% of GDP growth in the next year.

EXHIBIT I



Source: Ned Davis Research

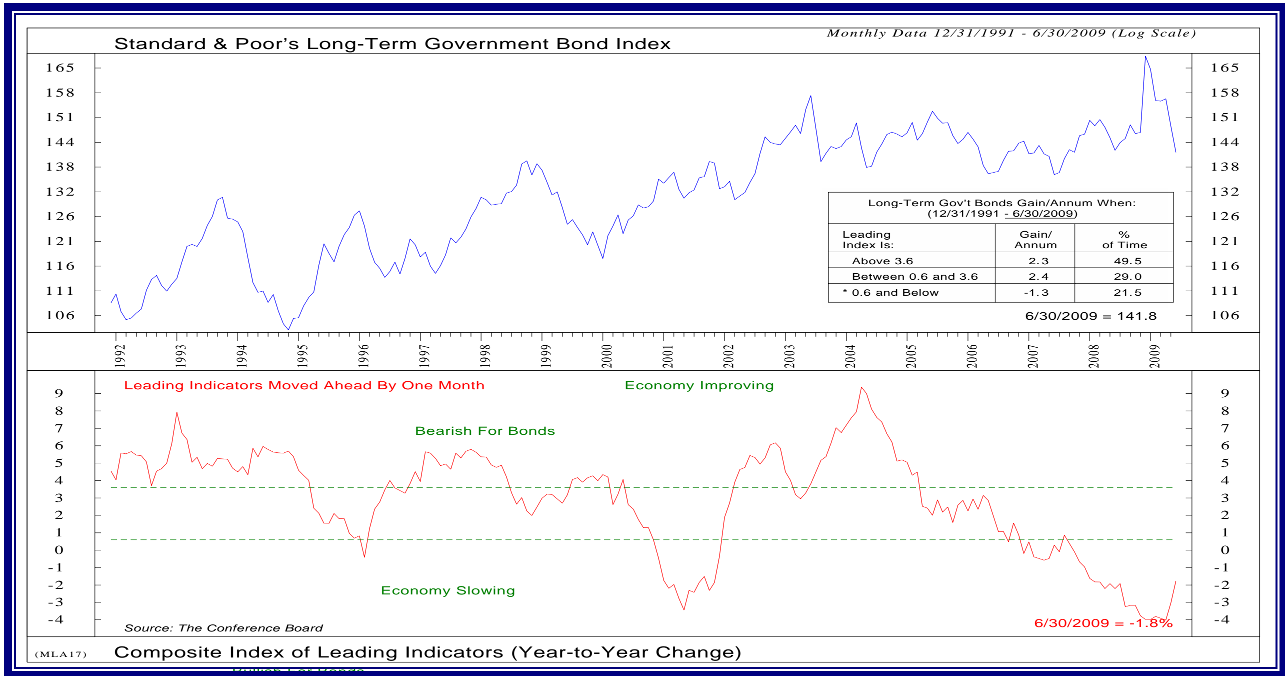
- **While fears of inflation have surfaced associated with the enormous monetary response, a better case can be made for modest deflation at present with the consumer price index down 1.4% over the past year and the Producer Price Index(PPI) down 4.6%.** In addition, an estimate of $15 trillion of asset wealth has been removed from consumer balance sheets by the drop in both stock prices and houses. Additionally market analysts have concluded that the recent improvement in corporate business profitability was primarily caused by operating margin improvement through cost cutting and not top line growth.

- **While investors have begun to modify their recession forecasts of a delayed recovery late 2010 or early 2011,** our earlier expectation of an economic turnaround resulting in a positive 1% GDP growth for 2009 and corporate profits of 5.0% may be a bit too optimistic. However, we are still quite encouraged that the leading indicators have begun to reinforce our positive stance on equity participation through the spring of 2009.

An Update on the U.S. Fixed Income Markets

- **Fixed income markets have been lifted by the wave of renewed confidence,** led by formerly impaired consumer asset-backed securities and low quality corporate debt. Consumer ABS (credit card receivables) and High Yield, for instance, have gained more than 18% and 28% respectively. Many high quality sectors are approaching more "normal" trading ranges, as lower volatility reflects receding uncertainties about large financial institutions. The expectation is that the recession is in the process of bottoming and the fear of renewed weakness has passed.

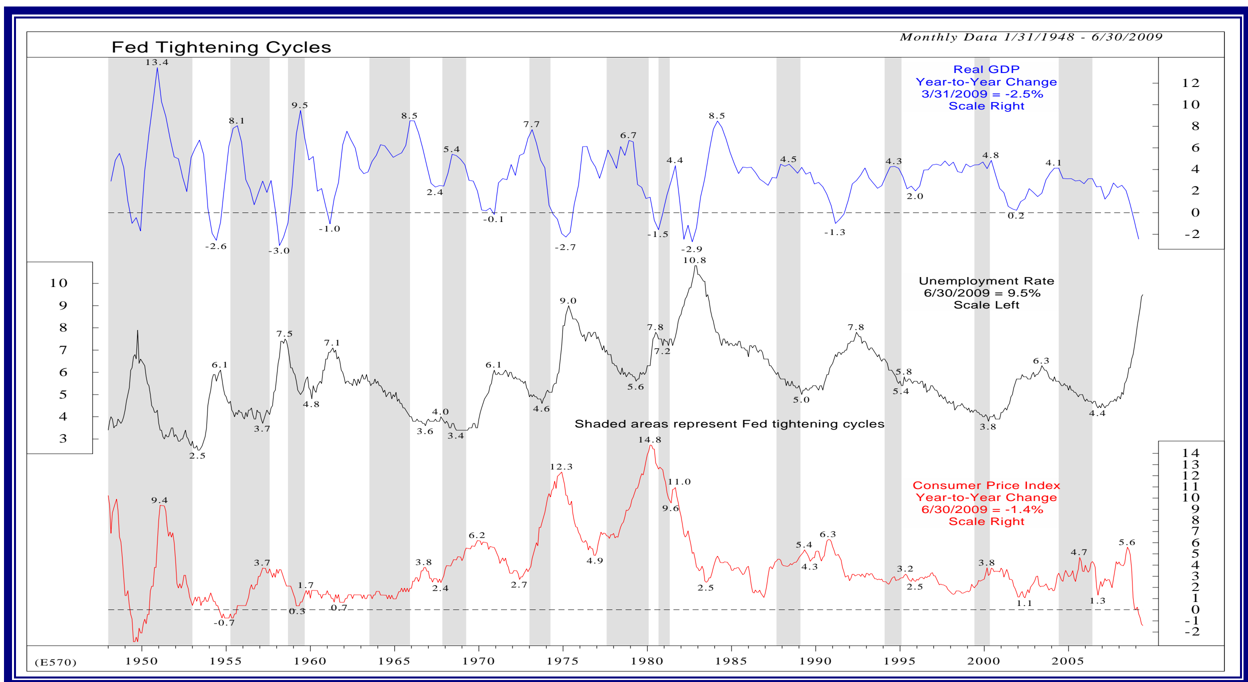
EXHIBIT II



Source: Ned Davis Research

- **The sheer magnitude of government and central bank support has been a key contributor to these trends,** fueling dramatic improvements in market liquidity. This, in turn, has bolstered risk appetites and the overall healing process. It also has allowed the 19 largest US banks to raise more than $100 billion over the last few months and recently prompted government officials to begin scaling back some of the support programs that were initiated to stem the crisis. For instance, the nine money managers selected for the Treasury department's long-delayed Public-Private Investment Program (PPIP) will be part of an initiative that is expected to be close to $40 billion compared to the original $1trillion commitment.

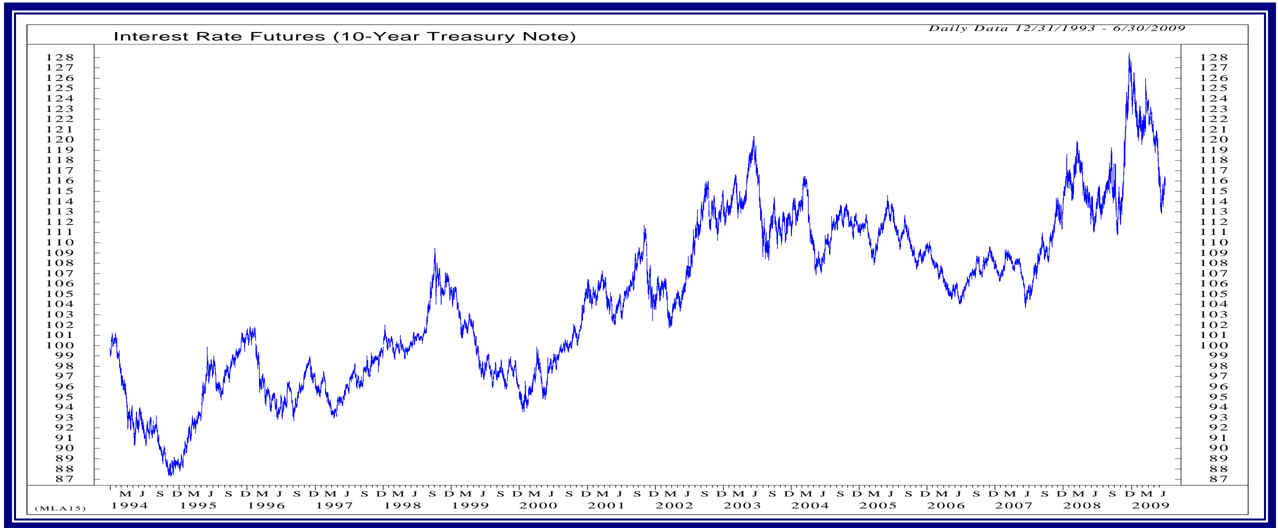
EXHIBIT III



Source : Ned Davis Research 1/31/1948 - 06/30/2009

- ❖ **That said, after strong performance during the second quarter, positive momentum in the bond markets has taken a breather.** Government bonds have staged a rally as futures markets reconsider the likelihood of Fed tightening near-term as investors accept improving economic fundamentals. However, the US labor report released on July 2nd reminded investors that the surprisingly less-weak than expected June employment numbers are likely to be an aberration at this stage of the cycle. Weaknesses in the labor markets are poised to persist in the developed economies well into next year until the private sector gets firmer footing. Additionally, with less credit available and tight lending standards still the norm, businesses and consumers still face substantial hurdles. Even if the US economy generates some modest growth during the second half of this year as we expect, the sustainability of any economic recovery will be critically tied to improved financial conditions.

EXHIBIT IV

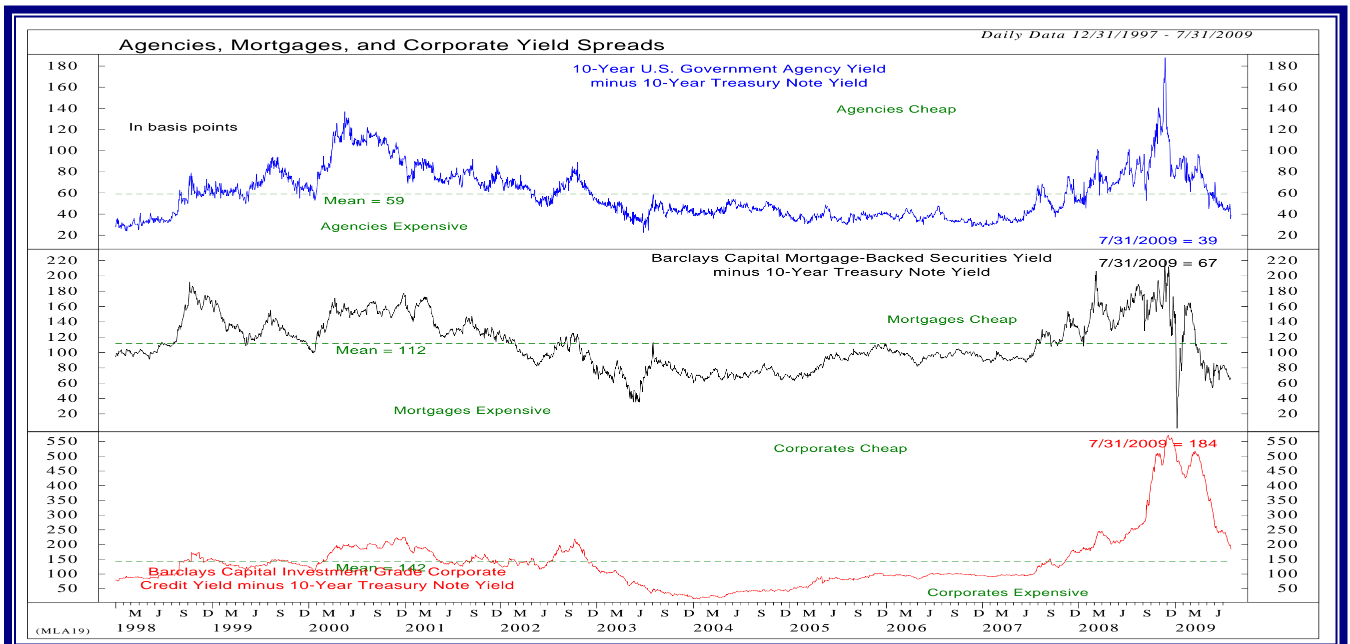


Source: Ned Davis Research

AGENCIES

- ❖ **Relative to US Treasuries, 5-7 year callable securities appear to be cheaper versus bullets (non-callable for life issues).** Supranational issuers also provide a yield pick-up over Treasuries due to their similar government sponsorship.

EXHIBIT V



Source: Ned Davis Research

HIGH GRADE CORPORATES AND PREFERREDS

- **Long-term opportunity exists, however near term returns would appear to be somewhat attenuated as a result of extensive spread tightening in the high-grade arena.** We are focusing on A/BBB rated issuers in utility/energy, and those industrial issuers with improving balance sheets. Within the financial sector we remain cautious. In our view, the best relative values are concentrated in the 3-year to 7-year maturity range. We need to keep credit quality high and duration low. Difficulty in refinancing debt/loans could be a catalyst for a correction. With respect to Preferred Securities, we favor issues with high liquidity from the bank/finance/insurance companies that are determined to be of systemic importance. Moreover, we recommend US-based issuers versus either UK or Euro area financial institutions. Investors should also consider diversifying with cable/media and utility issuers when possible, although these sectors trade relatively rich compared to finance-related names.

MUNICIPALS

- **The short end of the curve appears rich,** with investors better rewarded in the 15-year to 25-year range. Although long-term muni yields increased very slightly, the rest of the yield curve has remained extremely well supported over the near term. Indeed, the continuing round of negative news on budgets in a variety of states does not seem to have put a significant dent in demand.

- **Revenue Bonds versus Government Obligation bonds (GO's): Some investors have historically only purchased General Obligation debt, on the basis that the credit strength of such debt tends to be better able to withstand economic downturns than single purpose revenue bonds.** Recent events have suggested that this is not always the case. Many revenue bonds provide a needed service, and many revenue bond issuers have more flexibility to change revenue levels by raising fees as compared to raising taxes on their General Obligation counterparts. In addition, some of the patterns that have damaged the revenue generating capacity of General Obligation issuers, such as sharp declines in property values and in sales, income and/or capital gains taxes, may not have as direct an impact on essential service revenue bond issuers.

Our Positive Viewpoint on the Financial Markets Continues

- **While there are still five months left in the current decade, many investors may not fully appreciate how devastating the decade has been for market participants.** During the Great Depression stocks fell a cumulative 42%, or an estimated 5% per year. If you then added the dividends back to the total return, stocks actually appreciated by 1% per year. This study recently compiled by *Bloomberg* and *Business Week* took the current decade, excluded the last six months of 2009, which are as of yet unknown, and calculated that the S&P 500 Index has fallen 5% per year from its Dec. 31, 1999 high of 1469. When dividends are added back, the annual decline is 3% per year or materially worse than the decade of the 1930s.

- **Admittedly, the last six months of 2009 could result in a significant rally, ameliorating the decline to some degree.** Nevertheless, there is little doubt that for most investors it has been a lost decade. Looking ahead and assuming even a modest economic recovery, equities could be expected to return significantly higher returns of perhaps 7%-8% from current levels. With 10-year Treasury bonds yielding 3.5% against a background of large fiscal deficits for many years, it would be our position that equities should be favored over government bonds whose yields are not far from 60-year lows.

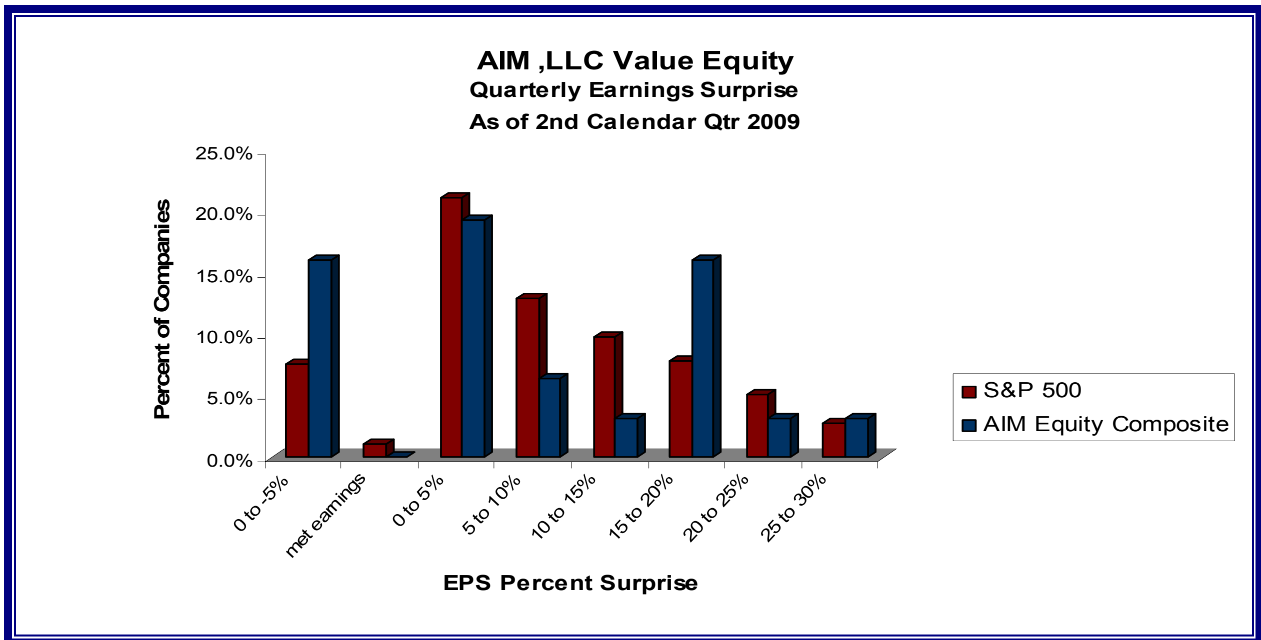
- **At present, yields on 30-day T-Bills are .13% versus .20% a month ago and 1.54% a year ago.** Yields on 10-year Treasury bonds are 3.48% compared to 3.53 a month ago and 4.1% a year ago. Similarly, long-term high quality corporate bond yields are 6.8% versus the same yield a month ago and 7.29% a year ago. Long-term municipal bonds currently yield 4.8% compared to 4.9% a month ago and 4.7% a year ago. 30-year mortgage

bonds also at 5.60% are little changed from a month ago and compare to 6.6% a year ago. The credit markets have stabilized because of Federal Reserve monetary policy including quantitative easing and keeping short-term interest rates close to zero. With modest deflation at present and a weak economy, we expect little change in interest rates over the next few months. Looking ahead a year, we would expect interest rates to rise as the economy recovers and with the expectation that the U.S. dollar could weaken as a result of the large fiscal deficits. At present, the U.S. dollar index is at 78.3 versus 80.13 a month ago. It has fallen a little over 10.0% since early March of this year and flat since the start of the year.

- **While commodities are down significantly from a year ago, they have generally risen during 2009.** The CRB Index (22 commodities) is at 257.5 versus 250.0 a month ago but down 38.2% from 416.4 a year ago. Copper at $2.62 per lb. is up from $2.33 per lb. a month ago but still down from $3.64 per lb. a year ago. A similar pattern exists with other metals and can be attributed to the economic recovery in China. Gold at $954 per ounce on July 31st is stable with year-ago levels and up from $926 a month ago. It tends to move inversely with the U.S. dollar and is viewed by many investors as means of maintaining purchasing power. While oil ($69.7 per gallon) has rallied in 2009, natural gas has collapsed due to factory closings as a result of the US recession. Oil is a global commodity, helped by Asian economic recovery, whereas natural gas is mainly a domestic energy source. Overall, we believe that commodities will continue to rise based on the global recovery. The S&P 500 has had a strong rally in July and at 987 sells at 15.1 times our $65 earnings per share estimate and at 13.8 times our $71 per share estimate for 2010. Our view is that earnings will gain 9.0% in 2010 with real GDP growing by 2%. The above multiples appear reasonable and we would therefore continue to maintain an asset allocation of 65% in equities, 20% bonds (corporate and municipal), 5% gold and 10% cash.

Second Quarter 2009 Preliminary Earnings Results:

EXHIBIT VI



Source: Altman Investment Research and Bloomberg

- **Exhibit VI illustrates the percentage of investment holdings within our value portfolio that exceeded street estimates during the 2nd calendar quarter of 2009.** Most notably, 77.4% of our investments earnings results exceeded street estimates as compared to 78.6% of the companies in the S&P 500. Our heavy emphasis on cyclicals continues to put near term negative pressure on our aggregate earnings reports in the second quarter versus the

comparable quarter a year ago. However our investment portfolio's aggregate top line is moving in the right direction exceeding the overall sales growth expectations of the S&P 500 during the quarter. As of May 4th 2009, 74% of S&P companies and 78% of our composite have reported. For your interest, we have included a chart below that NDR Research prepared on the S&P 500 Industry analyst earnings estimate disparities from the actual reports in the second quarter. Looking at top line sales, 51.6% of our investments exceeded street estimates as compared to 47% for the S&P. Turning to bottom line net income, the figures were 80.6% and 79.4% respectively.

- **Meanwhile, there's no hiccup in S&P 500 forward earnings.** At the end of July, S&P 500 estimates for 2009 were revised up again for a twelfth straight week to $68.81 from a low of $62.92 thirteen weeks ago. They are converging to the consensus estimate for 2010, which has been rising over the past few weeks to $75.00 at the end of July. That would be up 25.7% from the latest consensus estimate for 2009 of $59.66. We have been using $65 for this year and $71 for next year.

- **While the S&P 500 earnings reports are delivering lots of positive earnings surprises, the S&P 400 (MidCaps) and S&P 600 (SmallCaps) are not doing the same.** From the end of June through the end of July, the Q2 estimated/actual for the operating earnings of the S&P 500 rose 9.7% from $13.90 to $15.25. Over this same period, MidCaps rose 1.3% and SmallCaps fell 6.2%. Yet, during July, the S&P 600 stock index was up 10.2%, with the S&P 500 and S&P 400 trailing with gains of 7.4% and 8.6%, respectively.

- **How's the Q2-2009 earnings season looking for the S&P 500 with over 71% of the companies reporting?** According to Ned Davis Research, it's looking like there will be a positive surprise again in Q2 following six straight negative surprises through Q4. S&P 500 Q2 earnings have beaten the forecast by +15.8% so far, the highest since the earnings surprise series began in Q1-1987 and well above the final 5.5% positive surprise recorded in Q1. Excluding the 94.7% surprise from the Financials sector, the S&P 500 earnings surprise of +7.1% is still very strong and would rank as the third best quarter in the 90-quarter history of the series. Analysts expected earnings to be down y/y again in Q2 for the S&P 500 and its 10 sectors, but Health Care is up so far. 75.3% of the companies that have reported so far have a positive surprise, ahead of the 64.9% recorded in Q1, but just 29.9% of the companies are up y/y. Nine of the ten sectors have a positive earnings surprise, but just six have a positive sales surprise so far. During Q1, eight of 10 sectors had a positive earnings surprise, but only two had a positive sales surprise. S&P 500 Q2 sales are ahead of forecast by 0.5% so far, but the sales surprise drops to -0.4% excluding the 5.4% sales surprise for Financials. 47.9% of the companies have a positive sales surprise, but just 24.9% of the companies have sales up y/y.

- **Over the next couple of weeks, most of the remaining 30% of the S&P 500 companies will report.** More positive earnings surprises are likely. If the Obama Team fails to push Congress into passing the health care legislation before the summer recess, the S&P 500 will likely rise to 1000. Then, it might retest the gap created during mid-September, as issues such as AIG and Lehman resurface. The S&P 500 closed at 1251.70 on Friday, September 12 and plunged 4.7% to close at 1192.70 on September 15. We think we could test both levels over the next 6-12 months. It has been a remarkable rally since the March 9 closing low. The S&P 500 is up 44.7% since then. During the past five bull markets, it rose 20.6%, on average, during the same initial takeoff. Of the last five, the previous leader was the 37.9% gain during 1982. With just over 350 companies in the S&P 500 reporting, over 75% of the S&P 500 reporting companies announced positive surprises and 17% reported negative surprises. As the current rally completed its third week, Financials & Industrials have led the way.

EXHIBIT VII

S&P 500 SECTORS EARNINGS SURPRISE SCORECARD

Re-sort by Name	Qtr 2 2009 Median Reported Growth %	Qtr 2 2009 Median Surprise %	% Reporting Earnings	% Positive Surprise	% Negative Surprise	% In-Line	Qtr 3 2009 Median Expected Growth %	Fiscal Year 2009 Median Expected Growth %	Fiscal Year 2010 Median Expected Growth %
Energy	-59.8	2.6	60.0	58.3	29.2	12.5	-66.2	-58.1	23.1
Materials	-36.4	15.4	85.7	79.2	8.3	12.5	-17.0	-37.4	22.5
Industrials	-23.5	6.0	86.2	76.0	16.0	8.0	-24.6	-18.4	11.4

Consumer Discretionary	-16.1	13.0	64.2	86.3	13.7	0.0	-16.7	-10.6	13.7
Consumer Staples	3.7	6.2	51.2	76.2	19.0	4.8	0.0	4.5	10.2
Health Care	10.0	6.2	81.1	83.7	11.6	4.7	4.5	7.5	10.4
Financials	-38.8	6.8	78.5	59.7	33.9	6.5	-15.6	-18.1	19.4
Information Technology	-18.2	8.3	64.5	71.4	10.2	18.4	-14.8	-10.5	15.4
Telecomm Services	-6.0	0.0	55.6	40.0	40.0	20.0	-3.0	-3.3	4.3
Utilities	-1.6	7.3	48.6	70.6	17.6	11.8	-3.2	-1.3	7.6
S&P 500	-15.7	7.1	69.4	73.1	18.5	8.4	-12.7	-8.1	12.5

Report Notes: Report utilizes median consensus EPS estimates. The report is based on active constituents and may exhibit some volatility from period-to-period as securities move in and out of the index. A blank space indicates that the data is not available. NDR-based indices are rebalanced in July of each year, and the report may reflect dramatic changes that occur in the membership of the index during this period. S&P industry classifications are based on S&P/MSCI GICS.

Earnings Growth Rate Notes: Quarterly growth rates are versus same period last year.If earnings change from negative to positive: Normal rate of change (ROC) calculation * -1 (reverses sign for growth in correct direction)If earnings change from zero to positive (negative); Growth rate is +100% (-100%)If earnings change from positive (negative) to zero; Growth rate is -100% (+100%)

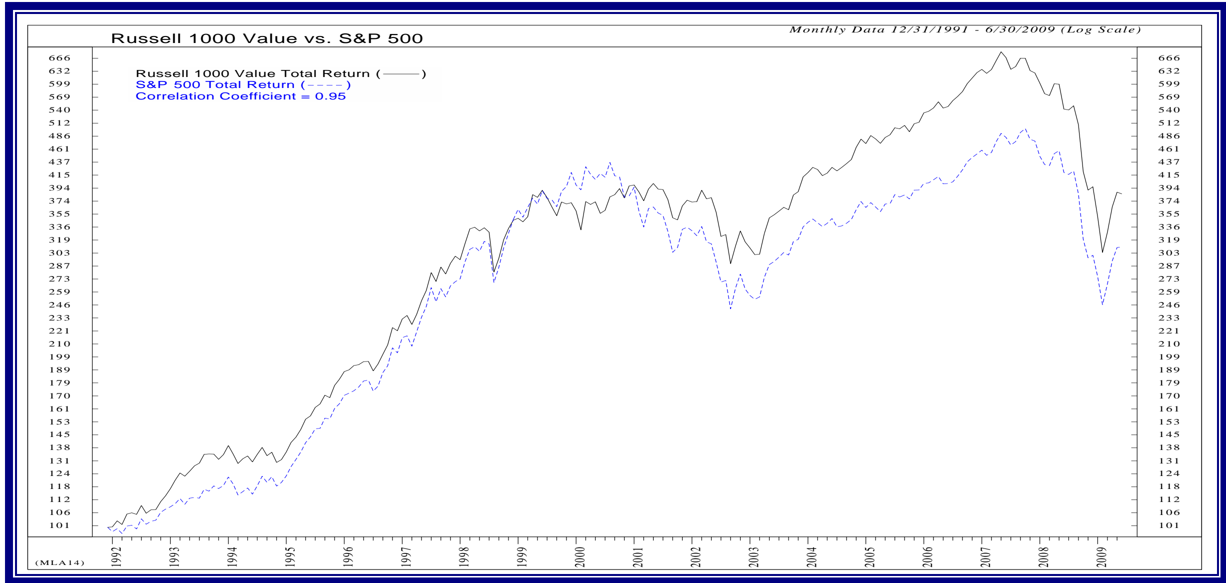
IN SUMMARY

- **The S&P 500 is one of the ten key components of the Index of Leading Economic Indicators.** It seems to be forecasting a robust V-shaped economic recovery. This has got to be the most contrary scenario of all right now. Everybody is hung up about the anemic outlook for employment and a compelling argument against any kind of recovery near term. So what is the S&P 500 seeing out there? Besides a classic inventory restocking, are we seeing yet another global bubble developing? This one is led by China, where M2 was up 28.5% y/y in June. Copper futures seem to agree with this outlook. The price of this basic metal rose to $2.52 a pound at the end of last week, the highest since October 7, 2008. China's Dow Jones Shanghai Composite is up 53% since March 6, well ahead of the S&P 500. It actually bottomed on November 4, 2008, and is up 122% since then to 383.78. That's certainly an impressive meltup. Even more impressive would be if it recovers back to its record high of 588 on October 16, 2007. Anything is possible in a bubble.

- **While monetary stimulus is dependent upon the health of the financial sector to act as a proper transmission mechanism, fiscal stimulus is directly in the GDP equation and thus can have effects on both the economy and the markets.** While it's one thing to fade monetary policy and say the Fed is "pushing on a string", it's much harder to fade fiscal policy - even in the 1930s, once the government decides to spend money, it generally "works". That is until, of course, the bill comes due. The 1930s is again a good case in point: massive fiscal stimulus resulted in year-over-year GDP gains of 10.8%, 8.9%, and 13% in 1934, 1935, and 1936 respectively. The Dow rallied 372% during the same period, weakening only when the bill for government spending came due with higher marginal tax rates as we moved through 1937. For the time being, it might be hard to fade government spending (cyclical bounce).

- **We would continue to emphasize an asset allocation of 65% in equities, 20% in bonds (emphasizing corporates and municipals) and 10% in cash in balanced accounts.** We have reduced our cash allocation in growth accounts as the third quarter unfolds. When appropriate we might suggest 5% in gold. While gold flirts with the $1000 per ounce level, we would advocate a hedge against an inflationary outcome of the increase in the money supply and continued geopolitical concerns. We believe that equities are attractive based on the beginning of an economic recovery in the second half of 2009, and have attached several charts that summarize our portfolio strategy.

EXHIBIT VIII

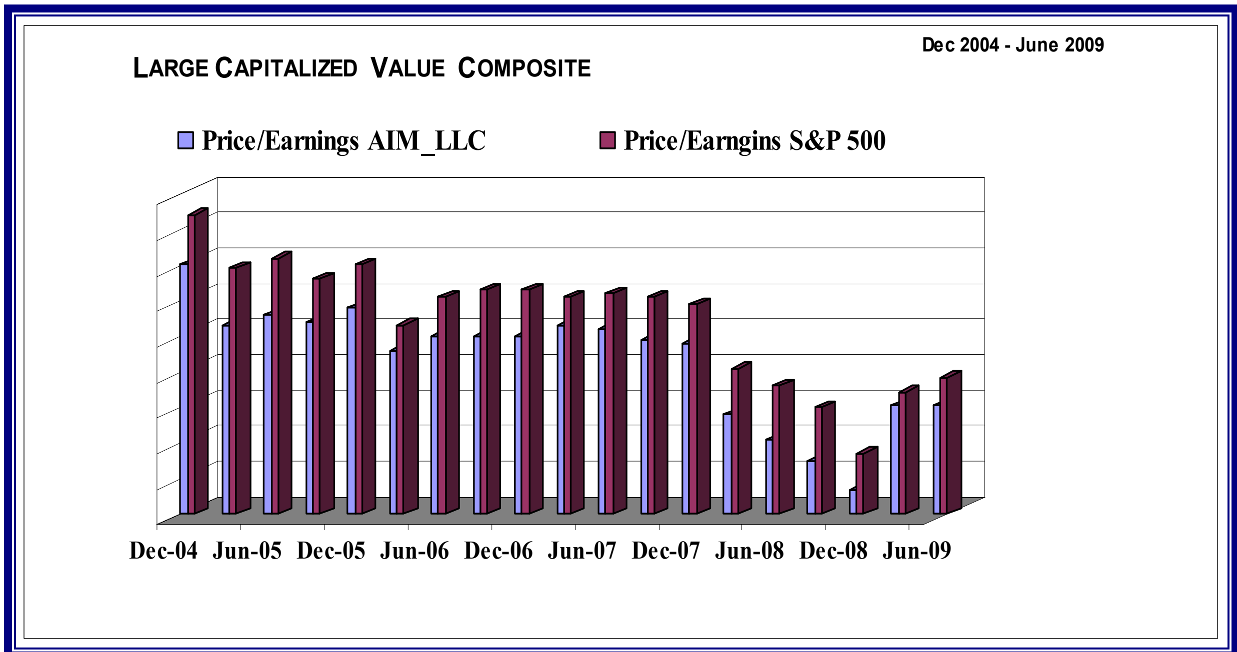


Source: Ned Davis Research

- In recent months the market multiple expanded as earnings bottomed and the outlook for stocks began to improve. See <u>EXHIBIT IX</u> for our PE comparisons.

EXHIBIT IX

Price / Earnings Comparison:



Source: Altman Investment Management Research and Bloomberg.

- **We can expect as the growth rate in earnings accelerates, similar to historical post recessionary periods, that the rate of multiple expansion will begin to decline.** Continued improvement in earnings surprise comparable to those observed in the 2nd quarter, should help to uphold multiple levels. See P/E Ratio Chart Exhibit X at bear market bottoms.

EXHIBIT X

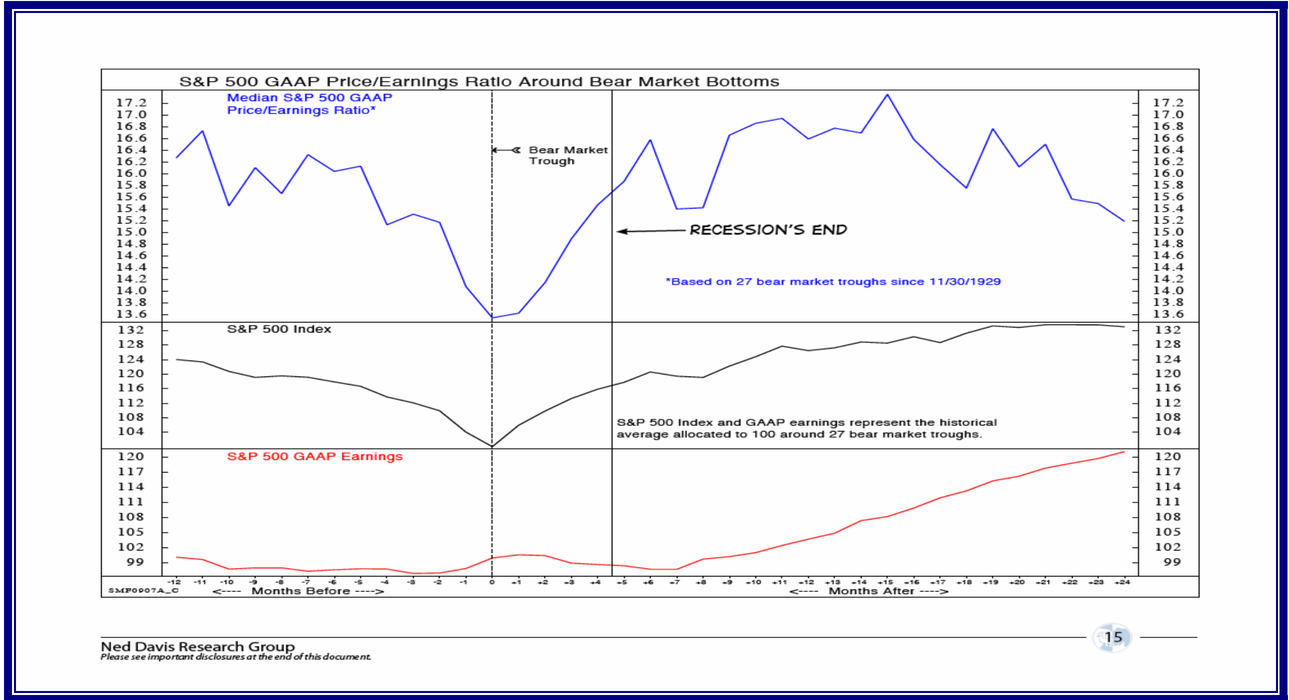
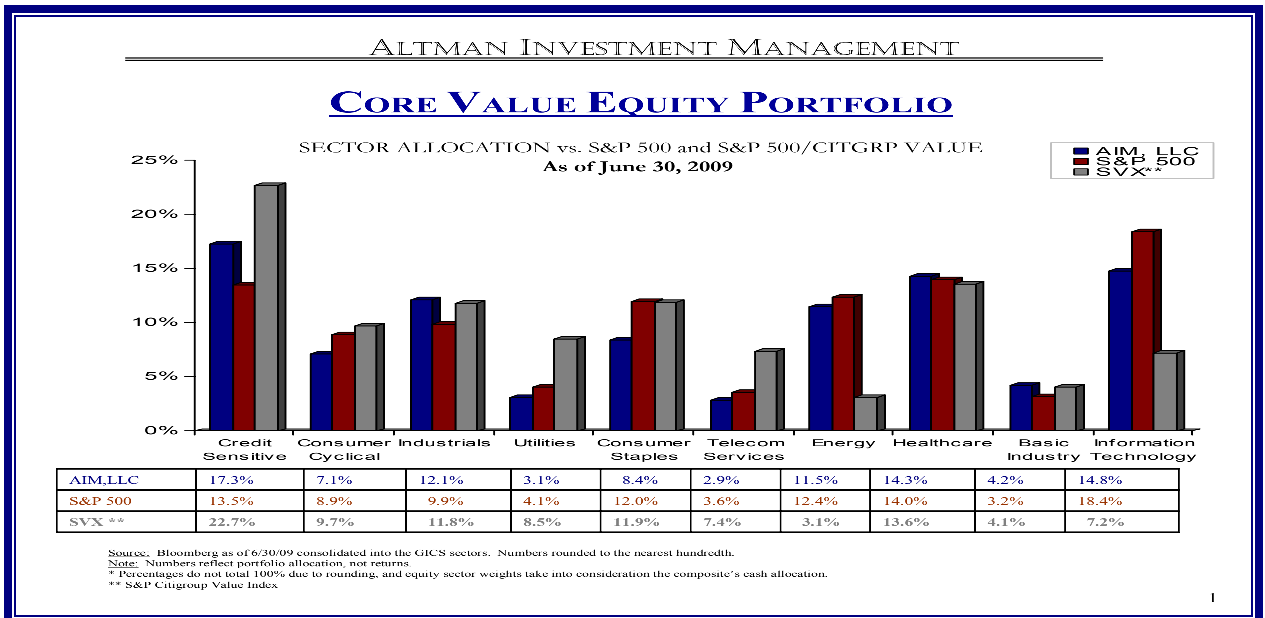


EXHIBIT XI

GICS Sector Allocation - Snapshot:



	Credit Sensitive	Consumer Cyclical	Industrials	Utilities	Consumer Staples	Telecom Services	Energy	Healthcare	Basic Industry	Information Technology
AIM,LLC	17.3%	7.1%	12.1%	3.1%	8.4%	2.9%	11.5%	14.3%	4.2%	14.8%
S&P 500	13.5%	8.9%	9.9%	4.1%	12.0%	3.6%	12.4%	14.0%	3.2%	18.4%
SVX **	22.7%	9.7%	11.8%	8.5%	11.9%	7.4%	3.1%	13.6%	4.1%	7.2%

Source: Bloomberg as of 6/30/09 consolidated into the GICS sectors. Numbers rounded to the nearest hundredth.
Note: Numbers reflect portfolio allocation, not returns.
* Percentages do not total 100% due to rounding, and equity sector weights take into consideration the composite's cash allocation.
** S&P Citigroup Value Index

1

Source: Altman Investment Management Research and Bloomberg.

EXHIBIT XII

Portfolio Characteristics – Highlights:

ALTMAN INVESTMENT MANAGEMENT

AIM PORTFOLIO CHARACTERISTICS

As of June 30, 2009

	Value Equity	S&P 500
# of Holdings	40 stocks	500 stocks
Portfolio Beta	1.03	1.00
Wtd. Avg. Price to Book	1.7x	2.0x
Wtd. Avg. Price-Earnings (Current)	13.4x	14.3x
Wtd. Avg. Price-Earnings (FY1)	11.8x	12.3x
Wtd. Avg. Price/Sales Latest 4 Qtrs	.82x	.93x
Wtd. Avg. Dividend Yield	3.0%	2.3%
Price to Cash Flow	5.1x	5.4x
Market Cap.	$65.1 Billion	$73.0 Billion
Ten Largest Holdings (% total)	38.0%	--
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 June 30, 2009 for weighted average book value, price/earnings, price/cash flow, and price/sales figures.

1

Source: Altman Investment Management Research and Bloomberg.

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.