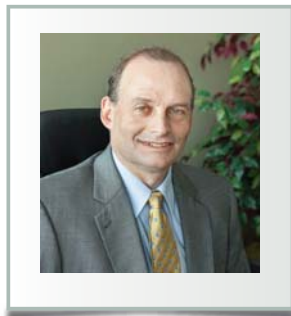




**CORE ALLOCATION**

**INDEPENDENT ADVICE ACTIVE MANAGEMENT**



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**2012 and Beyond**

In the unique investing environment that characterized 2011, two notable aspects were the incredible volatility and the well chronicled increase in correlations among markets -- but was this really the case? **There is no denying the volatility** of the broad U.S. equity market, which at different junctures was both 9% higher and 15% lower before ending the year exactly unchanged, and which featured a numbingly high number of huge daily moves. On the other hand, the widely circulated notion that all investments moved in unison was far from the truth.

**Target Allocation by Asset Class / Strategy**

55.5%	Equities - Domestic & Foreign
19.0%	Gold, Energy & Commodity Related
5.0%	Merger Arbitrage
7.0%	Equities - Short (Leveraged 200%)
6.0%	Bonds - Foreign
7.5%	Cash

Without question, the movements of the individual stocks comprising the S&P 500 were more in concert than at just about any time in history. But, all year long the discourse within the financial world seemed to interpret this data point as suggesting that **all** asset classes, sectors and foreign country stock indices were moving in complete coordination with each other. Very interestingly, as disclosed in a November study by MSCI, the **correlation between the US and other countries in the MSCI World Index was almost identical to the 10 year average** and correlations among world indices were continuing to decline from levels of the most recent 3 years. The result for 2011 was that although almost uniformly negative, there was widely varying foreign market performance.

Comparing MSCI foreign stock indices, notable declines included Greece's 63.6% loss, India's -38%, Brazil's -24.9%, and China's -20.3%. More modest losses were experienced in countries such as Mexico, -13.5% (with a significant portion of the decline currency related) and Columbia, -7.1%. An equally striking example of seemingly **uncorrelated investment results occurred in the "barely changed" domestic stock market, where the wide variation among sectors was quite pronounced.** The 18.2% decline of the Financials along with the 12.7% loss suffered by the Materials contrasted greatly with 14.8% gains made by the Utilities and the 10% positive returns of Health Care.

Commodities were also much less uniform in behavior than the year end summaries suggested. The broad CRB Index was down about 8%, but again there were wildly divergent results, even within commodity sectors. Within Energy, Crude Oil was up about 8% and Heating Oil was up a whopping 15%. But Natural Gas saw no respite from its punishing multi-year bear market as prices declined 32% -- so was Energy pricing strong or weak in 2011? Sugar prices, which for some time were thought to correlate with Energy, fell 28%, but other soft commodities such as Orange Juice and Coffee were just marginally lower on the year. Grains were perceived to be hit rather hard, with Wheat down 18%, but Corn prices actually rose 3% during 2011. Live Cattle, another CRB component, had a significant gain of 12%.

And then there was Gold -- despite a significant 4th Quarter decline, its 10% gain was the **11th consecutive year of rising prices.**

So on the heels of 2011's financial turbulence, what do we currently foresee, and how do we best position ourselves while staying true to our investing discipline?

- Even casual observation of the movements of the market leads to the conclusion that **macro economic trends and events have become at least as important as any other fundamental analysis** -- and when the macro focus is on crisis, such as with the global sovereign debt situation, no other factor is likely to matter.

We do not expect this focus to change anytime soon and as a result believe volatility and extreme price fluctuations in many asset classes will continue.

- We believe targeted investments in sectors and regions where we can define emerging and developed longer term trends, and which are also supported by unfolding global macro economic developments, will yield the greatest opportunity for sustained portfolio growth with the optimal risk/reward profile.

- Obviously, we are not pleased with the absolute returns generated by our portfolio in calendar year 2011. However, we are cognizant of the fact that our targeted investments consider trends which we anticipate will play out over far greater periods of time than one year and that our style of management has consistently reduced portfolio risk relative to broad equity market averages.

**Our methodology and discipline dictates that periods of high volatility create opportunities to expand exposure to investment themes of greater conviction at attractive valuations.** Many of our strongest investment convictions have been described at length on these pages in prior quarters -- and in 2011 we did in fact expand exposure to gold, grains and agricultural stocks, emerging markets, and biotechnology, among others.

- We will continue to be vigilant in assessing when investments are no longer characterized by a favorable longer term risk/reward analysis.

For example, we continue to believe economic growth in the emerging world will face fewer of the intense structural headwinds than in the developed world. However, at midyear we concluded that the relative risk of investment in India and Brazil were rising severely due to inflation and other factors, and they were replaced in our emerging market lineup.

We thank each and every one of our many clients for the confidence in our time-tested methodology and discipline. Our adherence to those tenets has served us effectively as we work for the successful attainment of your investment goals.

*This material contains forward looking statements. There is no guarantee these outcomes will be achieved. All investing involves risk of loss, and there is no guarantee that strategies that have been successful in the past will be similarly successful in the future.*