

LongRun Perspective

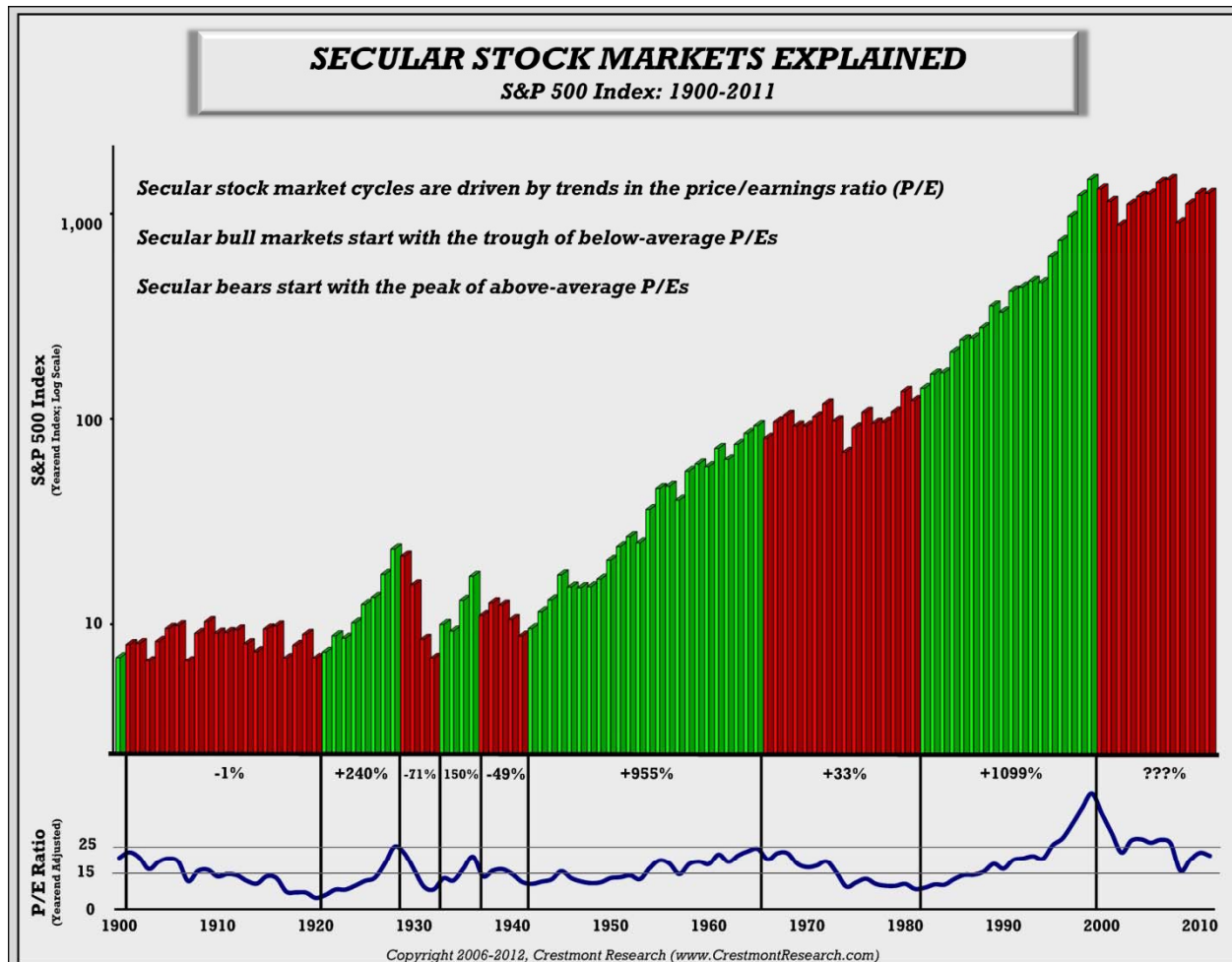
July 2012

IMPORTANT DISCLOSURE

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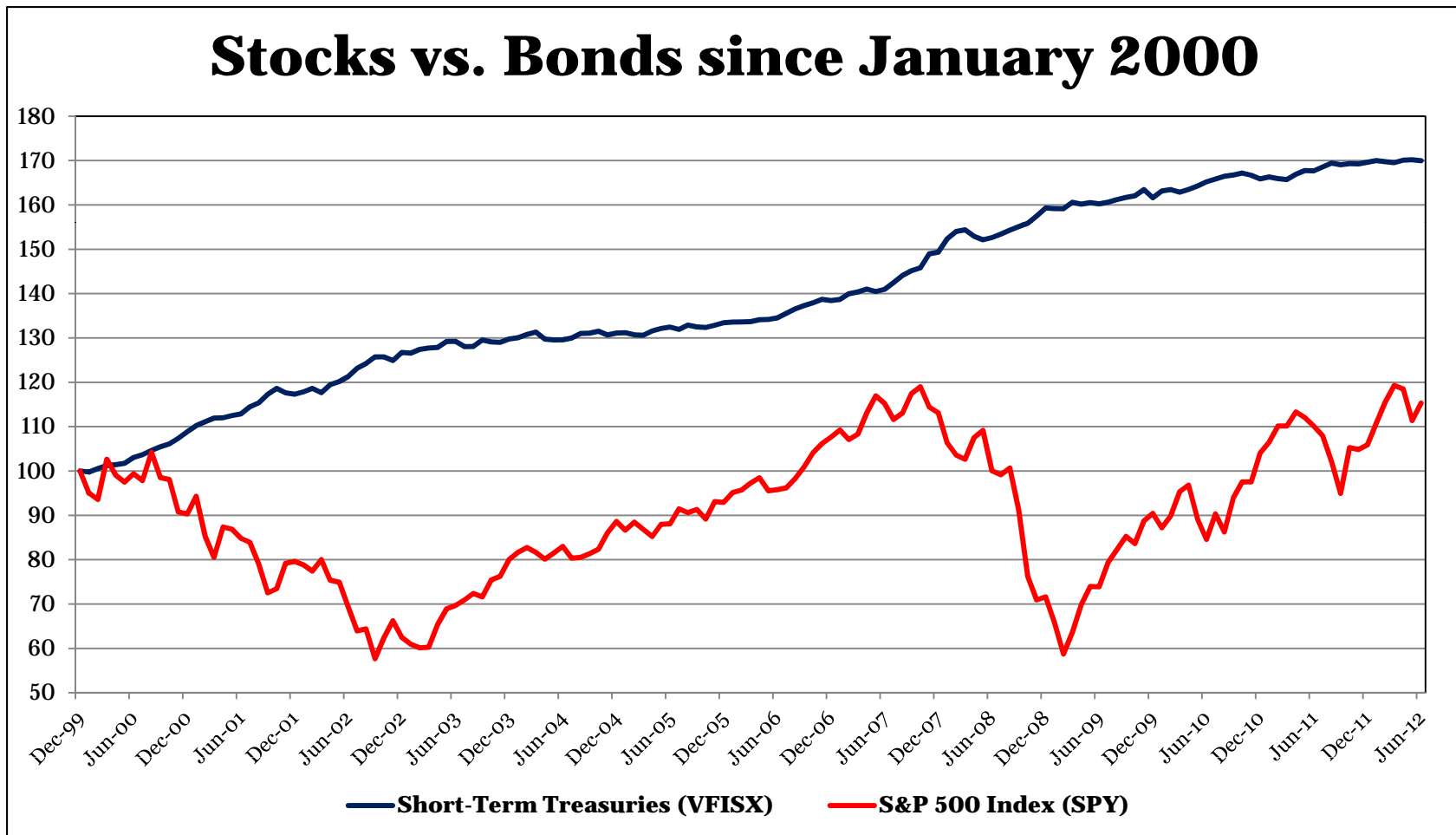
Where the heck are we?

According to Ed Easterling at Crestmont Research, we're in a bear market cycle that started in 2000.



How do I know for sure?

Short-term Treasury bonds have outperformed the S&P 500 index since the beginning of 2000.



How are stocks doing lately?

US and Asia have been good year-to-date but have weakened. International exposure has been a disaster.

		Trailing Returns			
		1 Month	3 Months	Yr to Date	1 Year
US Large Cap (S&P plus Sectors)					
DIA	Dow Jones Industrial Average	2.07%	-0.34%	8.55%	10.59%
SPY	S&P 500 Index	2.59%	0.34%	12.32%	10.25%
QQQ	Nasdaq 100 Index	3.02%	-0.99%	18.59%	14.82%
MDY	S&P Mid Cap Index	0.88%	-3.81%	8.91%	1.92%
IWM	Russell Small Cap Index	-0.43%	-2.28%	8.28%	1.02%
International Developed					
VGK	MSCI Europe Index	3.62%	-1.25%	7.12%	-9.04%
EPP	MSCI Asia less-Japan Index	6.55%	0.60%	13.96%	-2.89%
EWJ	MSCI Japan Index	-3.19%	-5.60%	1.00%	-13.07%
ILF	S&P Latin America Index	3.26%	-4.99%	2.07%	-10.87%
EEM	MSCI Emerging Markets Index	2.68%	-3.69%	7.18%	-12.86%

As of Tuesday, July 31, 2012

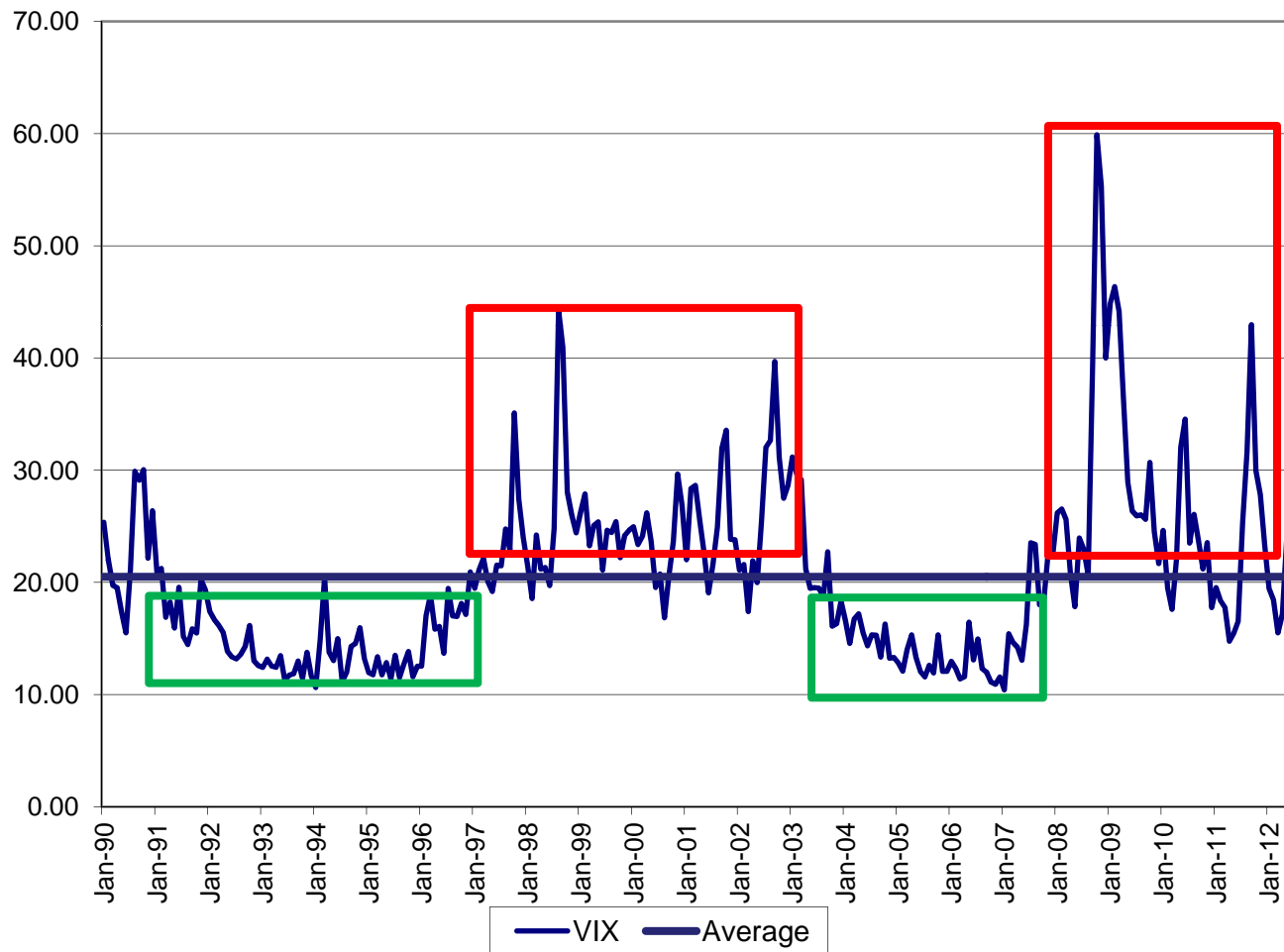
US stocks are not cheap



Robert Schiller of Yale University developed the cyclically adjusted price to earnings ratio (CAPE) for the S&P 500 stock index that uses earnings over a 10-year history to adjust for cyclical ups and downs.

Working from left to right, 1982 showed stocks to be undervalued on Schiller's measure and marked the start of a long bull market. Conversely, 2000 marked the peak of the Internet bubble with record high P/E ratios. The subsequent decline failed to reach the long-term average but the 2008 crash briefly brought the market back below the long-term average. The current level indicates moderate overvaluation.

But no one seems very worried



VIX measures the volatility of the S&P 500 index based on put and call options. Low volatility indicates general agreement on stock prices and a sense of complacency. Higher volatility implies wider swings in stock prices and is a signal of investor fear.

Volatility has recently been at relatively subdued levels, suggesting a lack of fear, but spiked as recently as September of 2011 and has not established a pattern of below average activity like those seen from 1991 to 1997 and 2003 to 2007.

What about bonds?

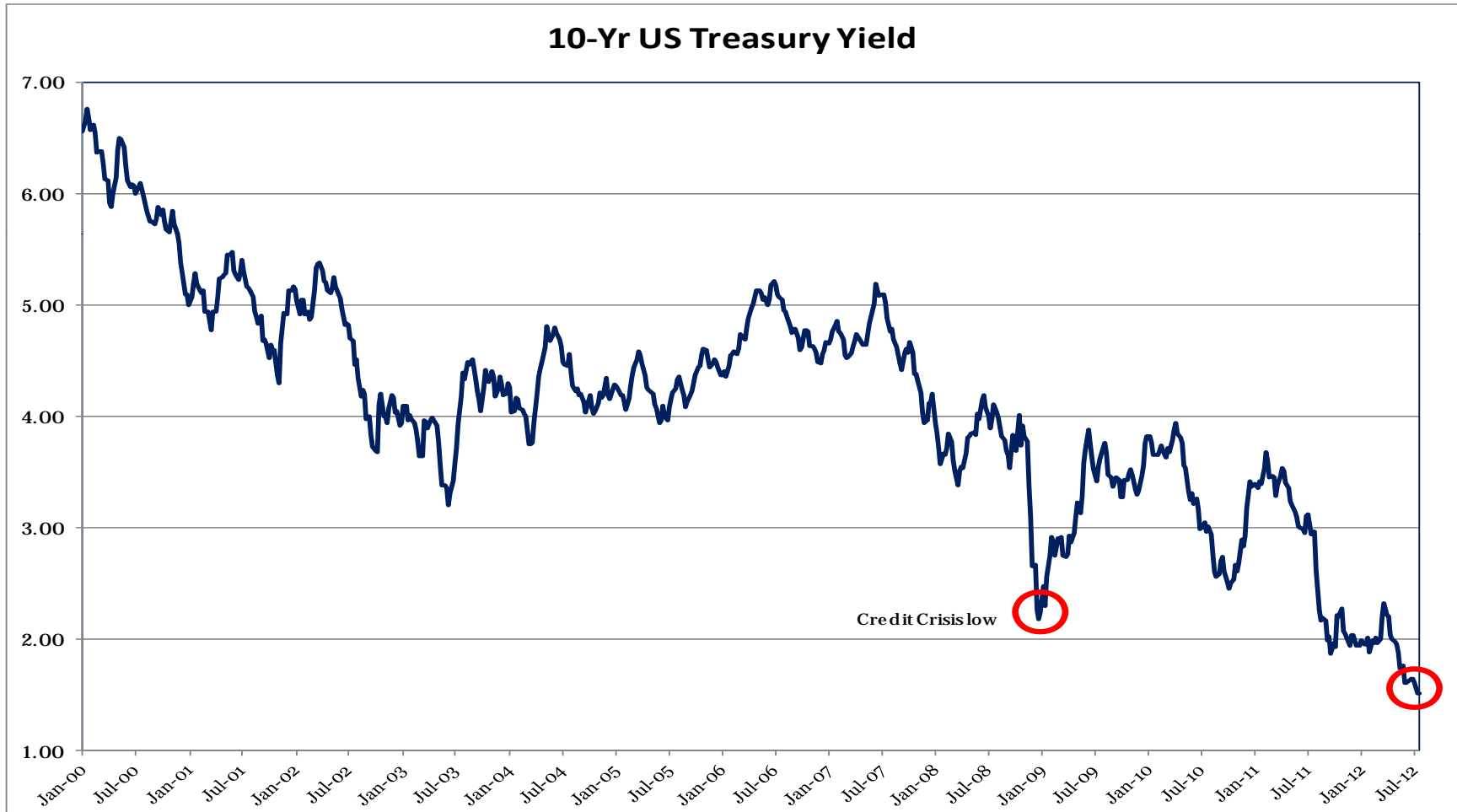
US Treasuries have been rocking as interest rates hit record lows. Emerging market bonds have also been strong.

		Trailing Returns			
		1 Month	3 Months	Yr to Date	1 Year
US Bonds					
AGG	Barclays Aggregate Bond Index	0.97%	2.05%	3.11%	6.70%
LQD	iBoxx Investment Grade Corp Bond Index	2.99%	4.68%	8.29%	12.02%
HYG	iBoxx High Yield Bond Index	0.96%	2.25%	6.11%	8.18%
TLT	Barclays 20+ Year Treasury Bond Index	2.03%	9.38%	6.60%	34.28%
TIP	Barclays Treasury Inflation Protected Securities	1.66%	2.94%	5.64%	9.27%
MUB	S&P National Muni Bond Index	1.65%	2.13%	4.65%	10.98%
International Bonds					
IGOV	S&P/Citi International Govt Bond Index	1.36%	-1.11%	0.43%	-5.47%
EU	WisdomTree Euro Debt	2.88%	-3.89%	1.52%	-13.08%
EMB	JPMorgan Emerging Markets Bond Index	4.47%	5.70%	11.37%	12.75%
WIP	DB Intl Govt Infl-Protected Bond Index	2.65%	-0.43%	6.50%	-0.80%

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How low can interest rates go?

The yield on the benchmark US 10-year Treasury has reached all-time lows. Even so, rates on comparable German Bunds are even lower.



Are real assets a good bet?

Real estate has been very strong as a source of yield.
Agriculture has been the strongest commodity.

		Trailing Returns			
		1 Month	3 Months	Yr to Date	1 Year
Real Estate					
IYR	Dow Jones Real Estate Index	2.60%	3.55%	17.50%	12.83%
RWX	Dow Jones International Real Estate Index	5.66%	3.90%	22.86%	1.41%
Commodities					
GSP	S&P GS Commodity Index	9.40%	-4.70%	-0.30%	-6.06%
DBA	Deutsche Bank Agriculture Index	6.13%	9.75%	3.70%	-7.13%
DBE	Deutsche Bank Energy Index	8.72%	-8.23%	-0.65%	-9.94%
DBB	Deutsche Bank Base Metals Index	-3.01%	-11.95%	-4.83%	-29.20%
DBP	Deutsche Bank Precious Metals Index	0.74%	-4.99%	1.67%	-9.30%
GLD	SPDR Gold Shares	0.72%	-3.45%	2.84%	-1.26%

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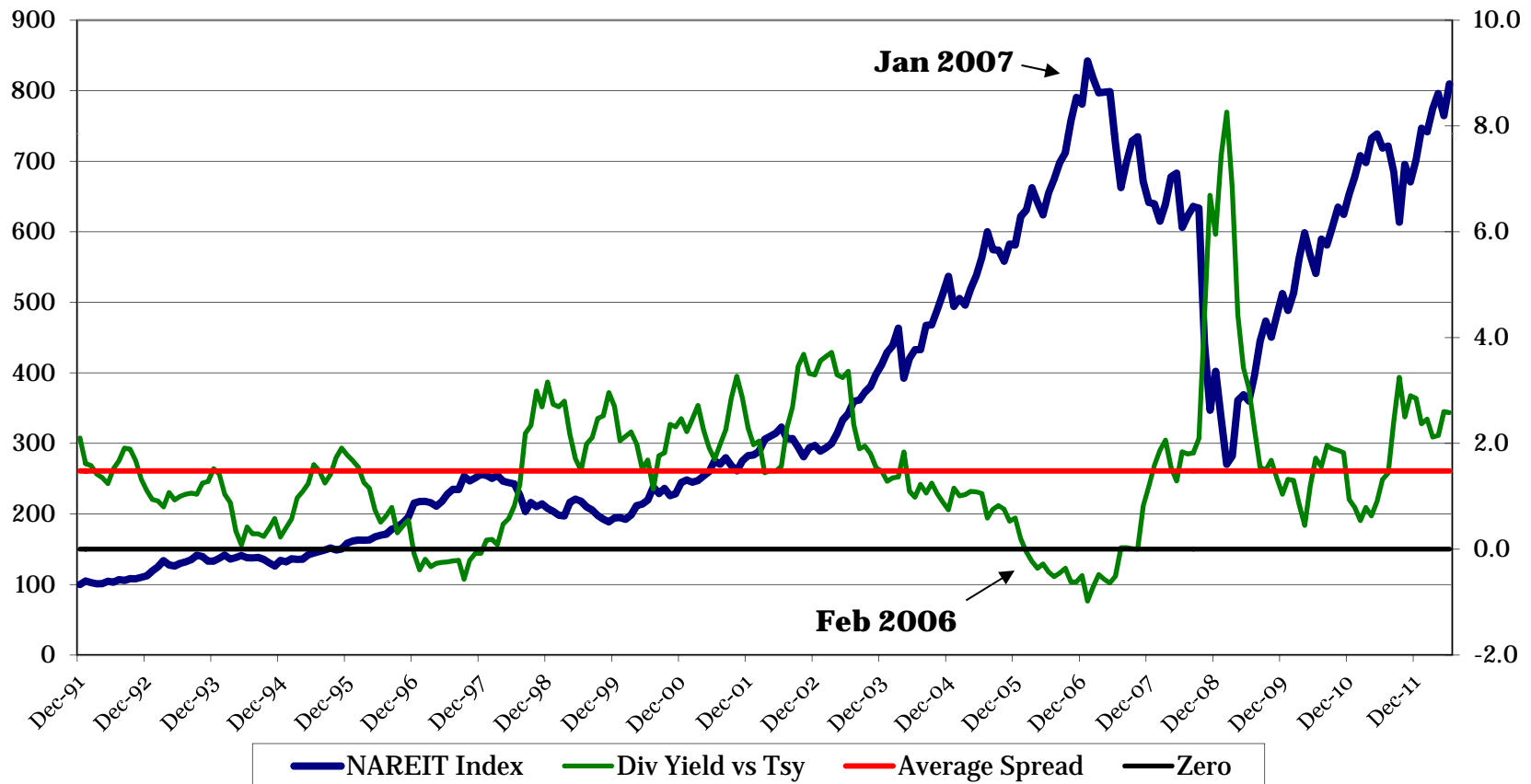
Is the run in gold over?

Gold nearly tripled from its 2008 low to 2011 high. Future path will be a function of how the global debt crisis is resolved.



Will real estate keep working?

REITs have nearly recovered to 2007 highs. Dividend yields have dropped but remain attractive relative to Treasury yields.



Is there a safe haven currency?

Diss the dollar all you want, but it's been the only place to be over the last year.

		Trailing Returns			
		1 Month	3 Months	Yr to Date	1 Year
Currencies					
UUP	US Dollar Index	0.58%	3.62%	0.58%	7.47%
FXE	Euro	-2.12%	-6.45%	-4.43%	-13.83%
FXB	British Pound	-0.37%	-3.91%	0.30%	-5.17%
FXY	Japanese Yen	2.16%	1.97%	-1.83%	-2.00%
FXA	Australian Dollar	3.37%	2.00%	5.13%	-0.53%
FXC	Canadian Dollar	1.84%	-1.17%	1.96%	-4.30%
FXF	Swiss Franc	-2.05%	-6.41%	-3.25%	-19.17%
BZF	Brazilian Real	-0.80%	-5.07%	-4.78%	-18.79%
FXS	Swedish Krona	3.12%	0.43%	3.15%	-5.31%
SZR	South African Rand	-0.42%	-4.03%	1.51%	-14.79%

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Will the dollar get stronger?

Major countries are competing to devalue their currencies to improve competitiveness. Sustained strength of the dollar would hurt exports.



What does it all mean?

More than any time in history mankind faces a crossroads. One path leads to despair and utter hopelessness, the other to total extinction. Let us pray that we have the wisdom to choose correctly.

