SELECTED NUGGETS FROM ZACKS, VALUE LINE AND S&P

WHERE BEST TO TAKE CUES ABOUT THE MACROECONOMIC PICTURE

Zacks Investment Research; *Investing Lessons Learned from 2011;* January 3, 2012

> "The bond market is a lot less sentimental and has a lot better read on the macro picture than the stock market does. Bond investors employ the classic top-down approach to investing, conditioning them to get the big-picture right in order to get rewarded. The stock market is exposed to the same macro forces, but primarily employs a bottom-up approach to investing. More pertinent to the New Year, take your cue about the evolving eurozone picture not from how the stock market is responding on a day-to-day basis, but how the yields in the government bond market are behaving. The stock market appears to have been dealing with Europe with a lot more optimism in the last few weeks than is showing up in the bond market. Don't forget that yields on 10-year Italian bonds are still flirting with the 7% level."

Takeaway

While equities have performed pretty well lately, the fact that the bond market continues to force the Italian government to finance its operations at punitively high interest rates indicates that investors are still concerned about Italy's financial wherewithal. Note that investors also drove the yield on government debt issued by several other European countries to 7% and beyond before they required financial life lines. Italy cannot sustain the rates that the bond market is currently imposing upon it over the longer term so the current situation serves only to further stress Italy's already weak financial condition.

WHY THE U.S. MAY BE ATTRACTIVE BY BEING THE LEAST UGLY

Zacks Investment Research; *Outlook for 2012;* December 19, 2011

> "Recessionary worries about the U.S. economy have eased as reports started showing a pronounced improving trend in underlying data. Current expectations are for the economy to grow a little over 2% in 2012. It is hard to get excited over that level of growth. But relative to the growth prospects of the other major developed economies, the 2%-plus growth outlook for the U.S. starts looking very attractive."

CORPORATE EARNINGS GROWTH IS SLOWING, BUT U.S. STOCK PRICES MAY STILL RISE

Zacks Investment Research; *Outlook for 2012;* December 19, 2011

> "The earnings recovery in the corporate sector didn't miss a beat throughout the rollercoaster ride in 2011. While we still have one more quarter to go before we close the books on 2011, when all is said and done, earnings for the S&P 500 will be up close to 17% for the year. Current expectations are for further gains of around 10% in 2012. In addition to the typical growth deceleration at this stage of the earnings cycle, weak economic growth in Europe and China will also weigh on earnings growth in 2012. With margins effectively at peak levels and top-line gains getting hard to come by due to the relatively softer global economic backdrop, there could be some downside risk to current earnings expectations for 2012. Assuming a fairly conservative earnings per share of $101 for the S&P 500 (below current expectations of around $105) and using a historical price-earnings multiple of 14, that takes you above 1400 for the [S&P 500] index. I am looking for gains in excess of 16% by year-end 2012."

Takeaway

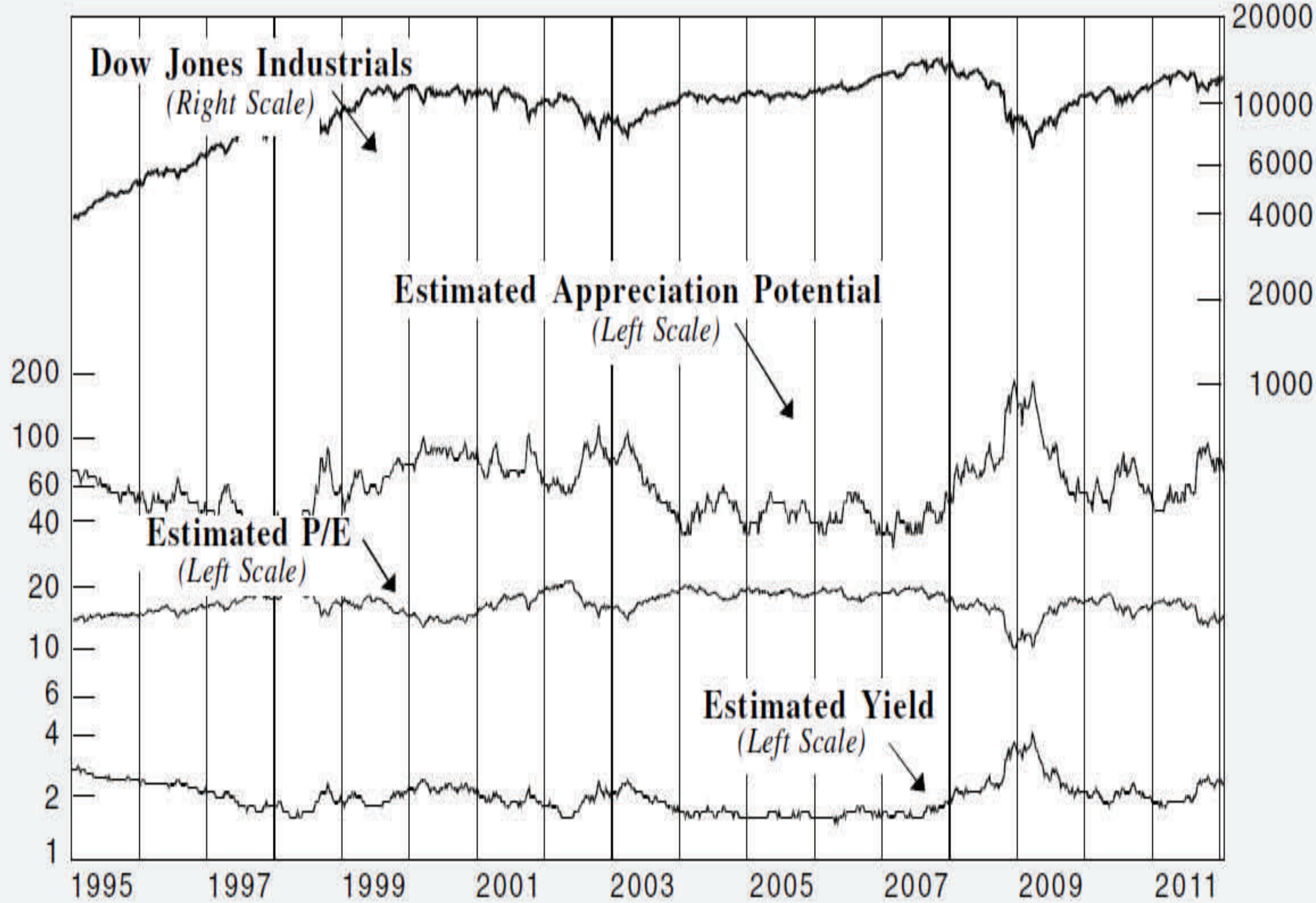
Although slowing, stocks seems to be reasonably priced so even a comparatively modest increase in corporate earnings during 2012 may still result in a material level of appreciation. Nonetheless, the downside risks that are present would seem to argue for high quality, dividend–paying equities that would ostensibly retain more of their value if things were to deteriorate. To the extent any new equities have showed up in your portfolio recently, chances are of the high quality, dividend-paying variety.

THE RELATIVE VALUATION OF U.S. EQUITIES BASED ON PRICE-EARNINGS (P/E) RATIOS

The Value Line Investment Survey; *Selection & Opinion*; January 6, 2012

P/E Ratio	
14.4	= Current Estimated Median P/E Ratio of All Stocks with Earnings
15.9	= as of 26 Weeks Ago
10.3	= as of the Stock Market Low of March 9, 2009
19.7	= as of the Stock Market High of July 13, 2007

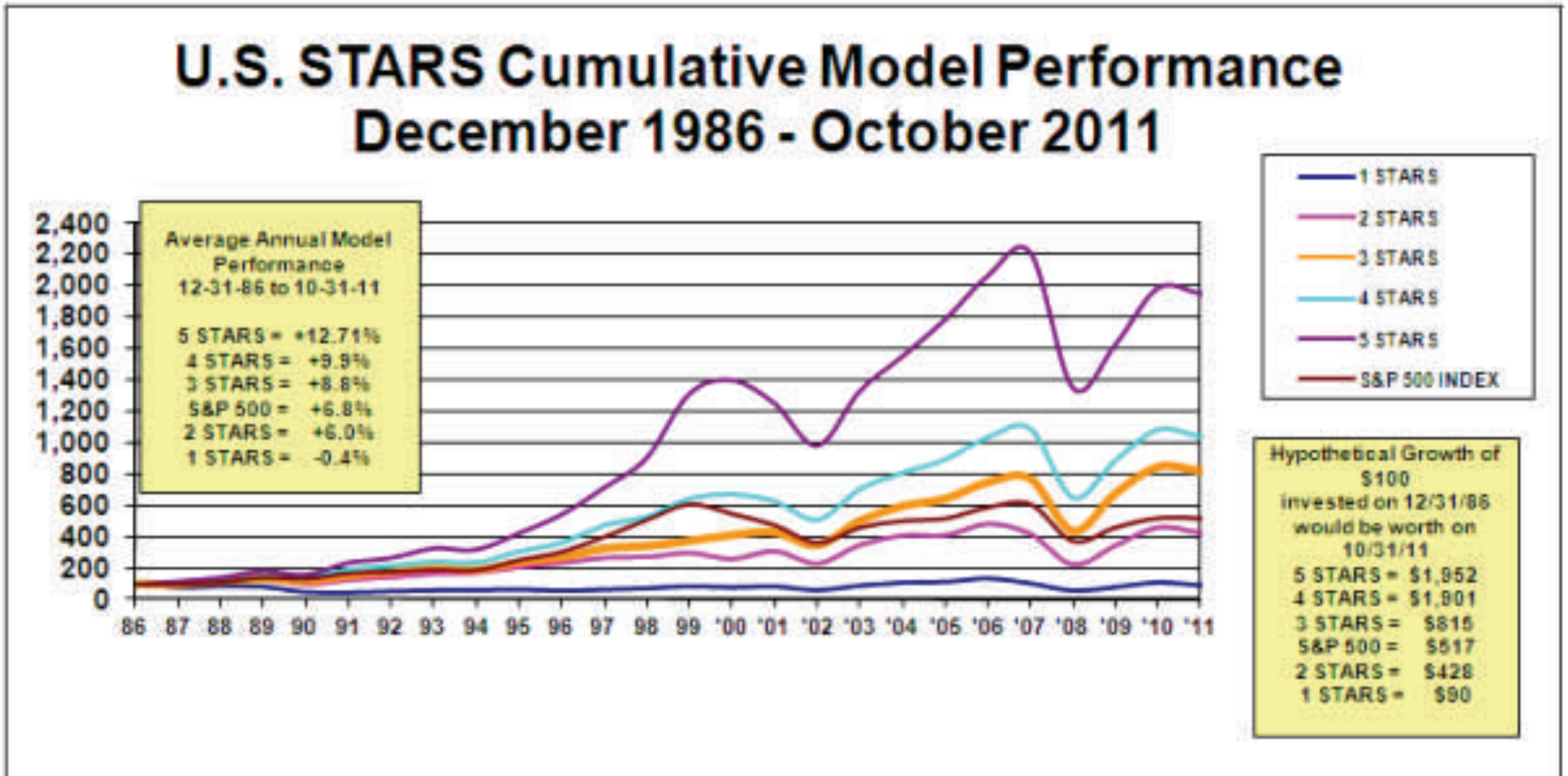
VALUE LINE ESTIMATED P/E, YIELD, APPRECIATION POTENTIAL VERSUS DOW JONES INDUSTRIALS *(JANUARY 5, 1995 - DECEMBER 27, 2011)*



STARS Performance

Comparative Performance of 1 STARS and 5 STARS Portfolios with the S&P 500

	1 STARS PORTFOLIO	S&P 500	5 STARS PORTFOLIO
10/31/2011 - 11/30/2011	-10.69	-0.51	-0.69
12/31/2010 - 11/30/2011	-26.04	-0.85	-2.59
12/31/1986 - 11/30/2011	-0.87	+6.80	+12.64



Takeaway

The current relationship of stock prices to corporate earnings stands at a ratio of 14.4:1, which is squarely between the stock market nadir of March 9, 2009 when prices were overly depressed and the market peak of July 13, 2007 when optimism ruled and stock prices were elevated. Since the current price-earnings ratio of 14.4 is near the long-term average, one might conclude that domestic equities are fairly valued. The presumption of fair value makes it easier to stick with stocks in an environment where the growth rate of corporate earnings is decelerating.

THE RELATIVE VALUATION OF U.S. EQUITIES BASED ON DIVIDEND YIELDS

The Value Line Investment Survey; *Selection & Opinion*; January 6, 2012

Dividend Yield	
2.3%	= Current Estimated Dividend Yield of All Dividend Paying Stocks under Review
2.0%	= as 26 Weeks Ago
4.0%	= as of the Stock Market Low of March 9, 2009
1.6%	= as of the Stock Market High of July 13, 2007

Takeaway

Averaging the stock market extremes of July, 2007 when lofty prices forced the yield of dividend-paying stocks down to an average yield of 1.6% and March, 2009 when depressed stock prices pushed dividend yields up to 4.0%, the mid-point dividend yield would be about 2.8%. Since the current 2.3% yield of dividend-paying equities falls below that mid-point, one could argue that stock prices are somewhat *unattractive* at the moment.

This may be the case, but it also makes sense to compare the dividend yields of stocks to the yields available on various investment alternatives. When the rates on those alternatives are especially low as they are now, the somewhat low dividend yield on stocks looks much more attractive. Therefore, even though the dividend yield offered by stocks might not be attractive on an absolute basis, the low comparative rates offered by competing investment instruments makes stocks more attractive on a relative basis.

AN ESTIMATE OF THE APPRECIATION POTENTIAL OF U.S. EQUITIES 3 — 5 YEARS HENCE

The Value Line Investment Survey; *Selection & Opinion*; January 6, 2012

Appreciation
Potential

70% = Currently Estimated Appreciation Potential of Stocks 3 — 5 Years Hence

60% = as of 26 Weeks Ago

185% = as of the Stock Market Low of March 9, 2009

35% = as of the Stock Market High of July 13, 2007

Takeaway

Projections such as these have very little chance of being accurate, but it is interesting to note that domestic stock returns were muted after peaking on July 17, 2007 and that they have advanced markedly since March 9, 2009. If stocks were to advance another 70% over the next 3 — 5 years, the average annual total return would be somewhere in the range of 11 — 19%.

TWO-PAGE INSERT

The two-page insert to the left might be worth a look. The Value Line chart provides you with a glimpse of the historical relationship between stock prices, their relative valuations, and Value Line's estimate of their appreciation potential.

The Standard & Poors' chart on the other side of this insert depicts the performance of its stock ranking system over the years. This, too, may be worth a look since S&P's stock ranking system figures heavily in our willingness to hold most stocks. Despite the fact that a number of portfolio management constraints conspire to make it impractical to hold *only* 5-Star rated stocks, we do monitor the average Star rating of the stocks we hold. The average Star ranking has tended to hover just below 4.0. At the moment, the average S&P rating of the stocks we hold is 3.85.

Please let me know if I can help you in any way.

— Glenn Wessel