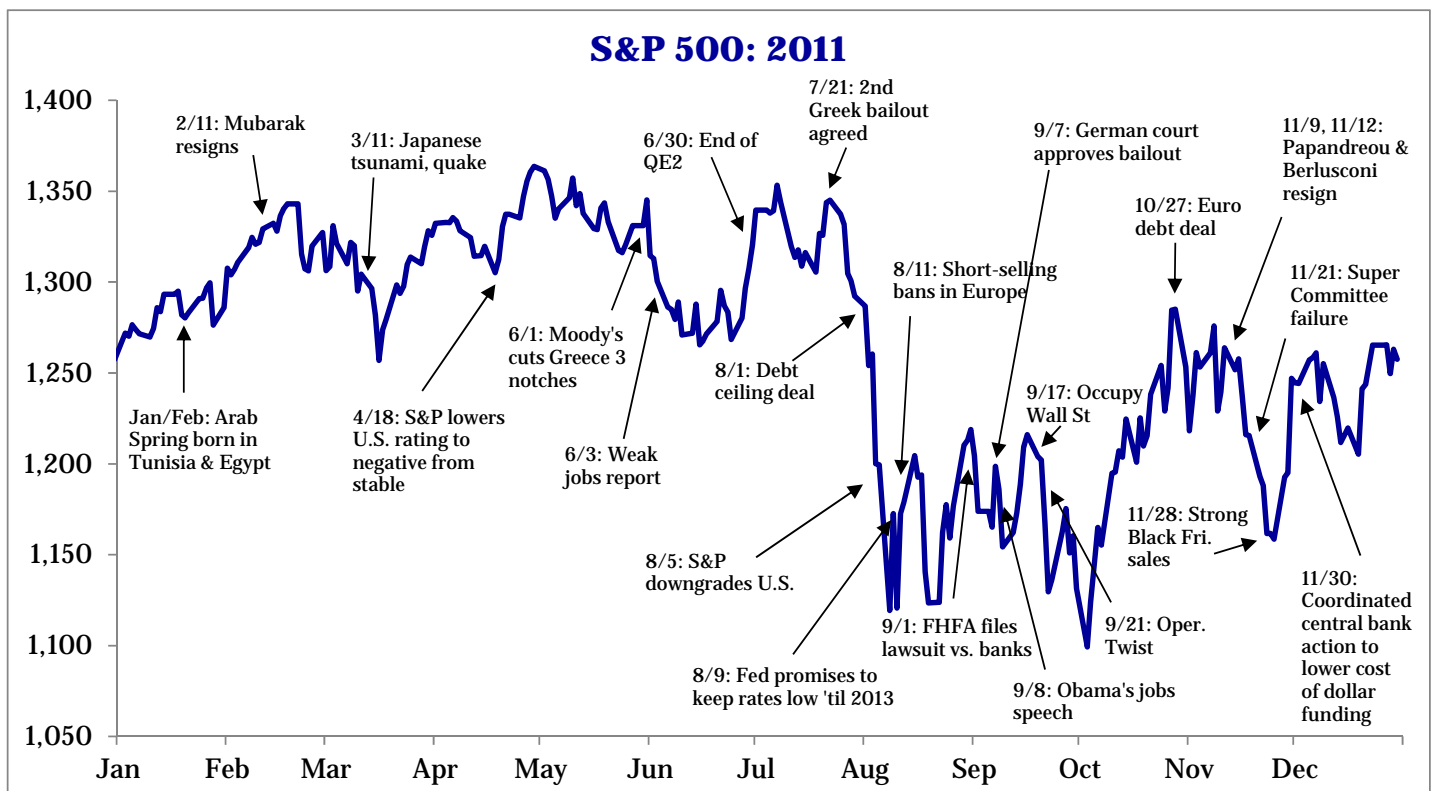


FIVE MAJOR INVESTMENT THEMES FOR 2012

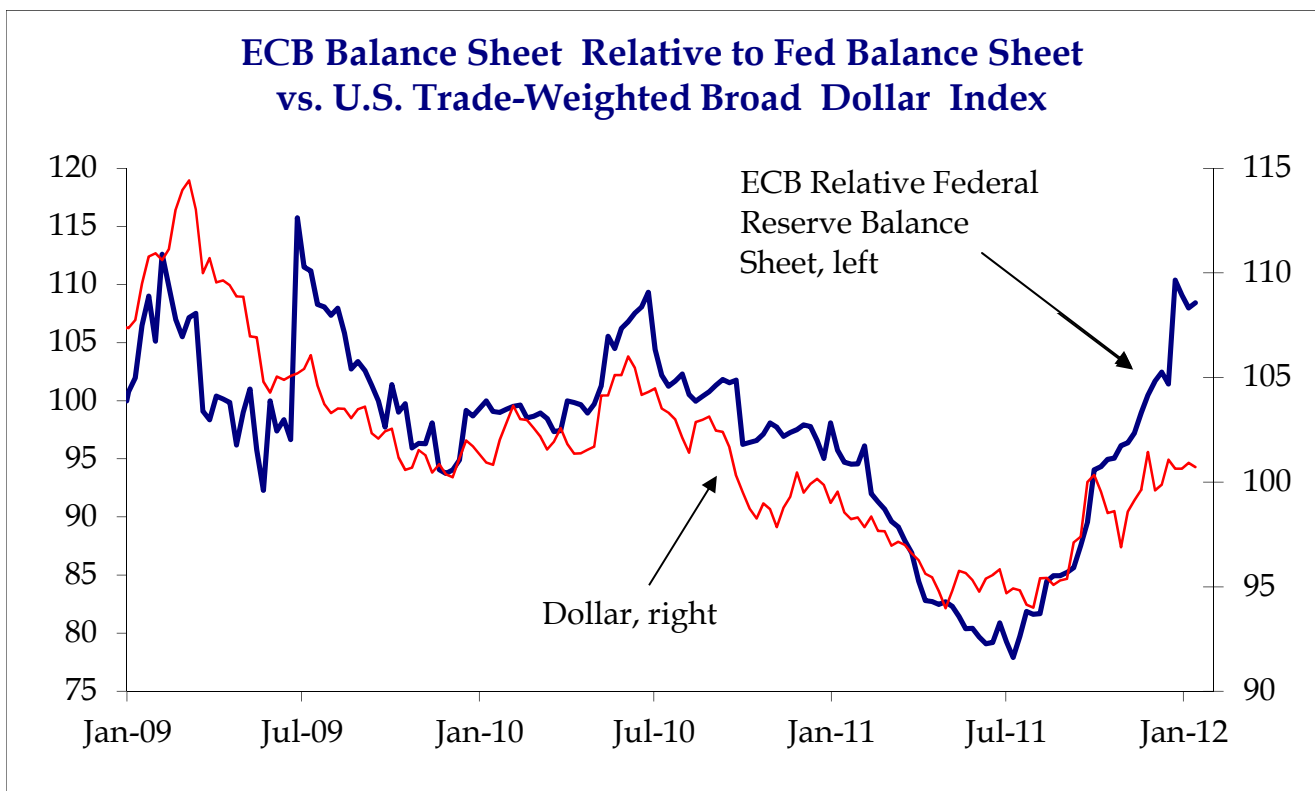
- 1. Financial Repression & A Short-Circuited Expansion*
- 2. The Emergence of a “Thrifty Fifty” and a Renewed Focus on Real Returns*
- 3. Battle Royale for Jobs: Drilling vs. Protectionism*
- 4. Global Backlash Against Political Incumbency*
- 5. Protecting Margins Through Acquisition*

2011 WAS A YEAR OF LIVING DANGEROUSLY



DOLLAR STRENGTHENING AS ECB EXPANDS BALANCE SHEET MORE QUICKLY THAN FEDERAL RESERVE

Although the ECB claims to be sterilizing its purchases of European sovereign debt, there is no denying that the pace at which the European Central Bank has been expanding its balance sheet has quickened dramatically relative to the Federal Reserve since this past summer. Not surprisingly, this change in European monetary policy has been consistent with the decline in the Euro and strengthening equity markets in both the U.S. and Europe. Additional monetary stimulus at this stage of the global business cycle may, of course, greatly decrease the chances of another financial crisis a la 2008 but it is also an unreliable strategy for robust long-term *real* Gross Domestic Product growth. Admittedly, signs of inflation remain quiescent but, sooner or later, one wonders what the long-term implications of such expansive monetary policy will be, especially in light of the fact that loan growth appears to be picking up. **For investors in equities and other risk assets, the expansion of global central bank balance sheets may be all you need to know – at least for now.**



ANNUAL EARNINGS GROWTH VS. S&P 500 RETURN – LIKELY TO BE ALL ABOUT THE MULTIPLE THIS YEAR

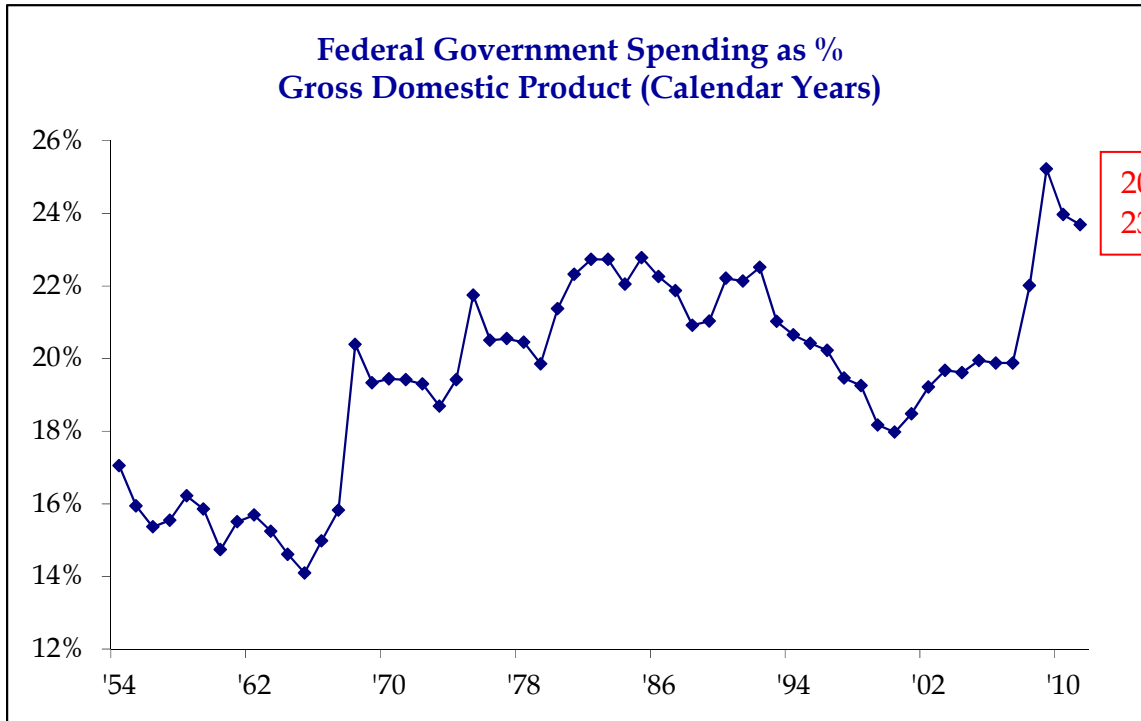
With margins near all-time highs and expectations for lackluster global Gross Domestic Product growth in nominal terms, we believe earnings growth expectations may be too high. As the table below indicates, slow or negative earnings growth doesn't always lead to weak markets. In a period of already-low interest rates, however, multiple expansion may be tougher to achieve.

| | Earnings Growth | S&P 500 Total Return | | Earnings Growth | S&P 500 Total Return |
|------|--------------------|-------------------------|------|--------------------|-------------------------|
| 1951 | -14.1% | 24.0% | 1982 | -17.7% | 21.4% |
| 1952 | -1.7% | 18.4% | 1983 | 11.0% | 22.5% |
| 1953 | 4.6% | -1.0% | 1984 | 20.6% | 6.3% |
| 1954 | 10.3% | 52.6% | 1985 | -1.7% | 32.2% |
| 1955 | 30.7% | 31.6% | 1986 | -4.9% | 18.5% |
| 1956 | -5.8% | 6.6% | 1987 | 25.8% | 5.2% |
| 1957 | -1.1% | -10.8% | 1988 | 23.4% | 16.8% |
| 1958 | -14.2% | 43.4% | 1989 | 0.8% | 31.5% |
| 1959 | 17.3% | 12.0% | 1990 | -6.9% | -3.2% |
| 1960 | -3.5% | 0.5% | 1991 | -14.8% | 30.6% |
| 1961 | -2.5% | 26.9% | 1992 | 8.1% | 7.7% |
| 1962 | 15.0% | -8.7% | 1993 | 28.9% | 10.0% |
| 1963 | 9.5% | 22.8% | 1994 | 18.0% | 1.3% |
| 1964 | 13.2% | 16.5% | 1995 | 18.7% | 37.4% |
| 1965 | 14.1% | 12.5% | 1996 | 7.8% | 23.1% |
| 1966 | 6.9% | -10.1% | 1997 | 8.3% | 33.4% |
| 1967 | -4.0% | 24.0% | 1998 | 0.6% | 28.6% |
| 1968 | 8.1% | 11.1% | 1999 | 16.7% | 21.0% |
| 1969 | 0.4% | -8.5% | 2000 | 8.6% | -9.1% |
| 1970 | -11.2% | 4.0% | 2001 | -30.8% | -11.9% |
| 1971 | 11.1% | 14.3% | 2002 | 18.5% | -22.1% |
| 1972 | 12.6% | 19.0% | 2003 | 18.8% | 28.7% |
| 1973 | 27.1% | -14.7% | 2004 | 23.8% | 10.9% |
| 1974 | 8.9% | -26.5% | 2005 | 13.0% | 4.9% |
| 1975 | -12.7% | 37.2% | 2006 | 14.7% | 15.8% |
| 1976 | 27.7% | 23.8% | 2007 | -5.9% | 5.5% |
| 1977 | 9.9% | -7.2% | 2008 | -40.0% | -37.0% |
| 1978 | 13.2% | 6.6% | 2009 | 14.8% | 26.5% |
| 1979 | 20.5% | 18.4% | 2010 | 47.3% | 15.1% |
| 1980 | -0.3% | 32.4% | 2011 | 16.4% | 2.1% |
| 1981 | 3.6% | -4.9% | | | |

* 2011 EPS growth is SRP est.

**Blue boxes indicate years with negative S&P 500 earnings growth and positive total returns.*

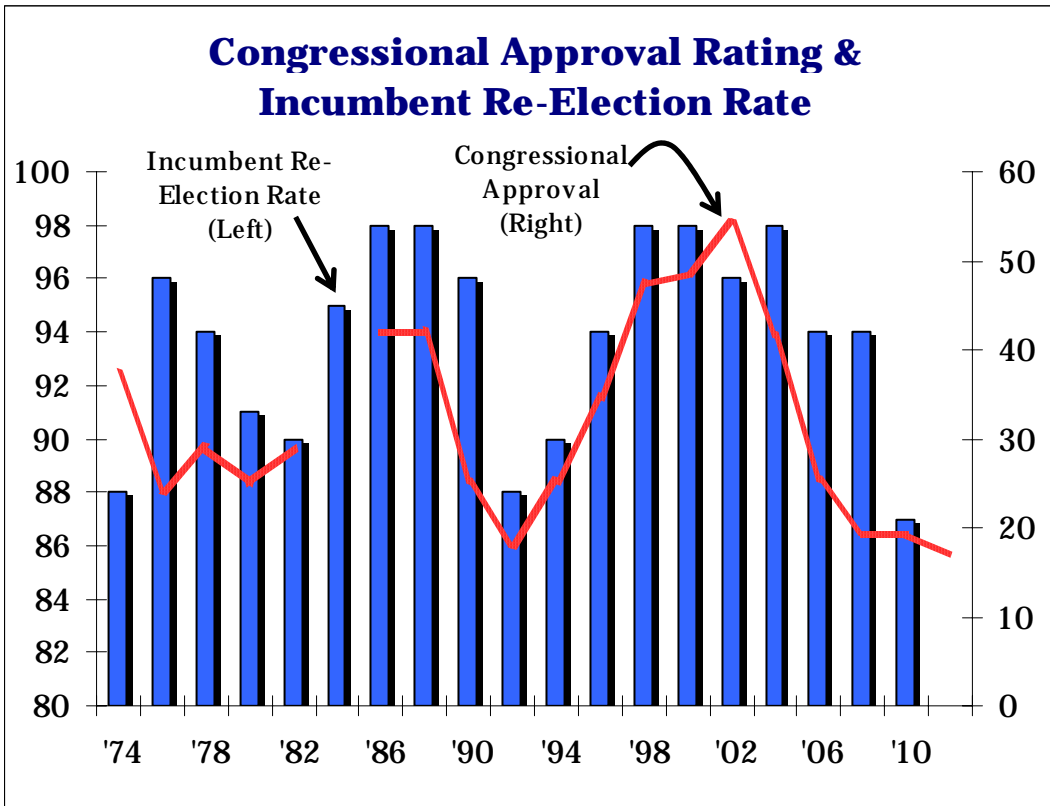
WASHINGTON'S LONG SHADOW



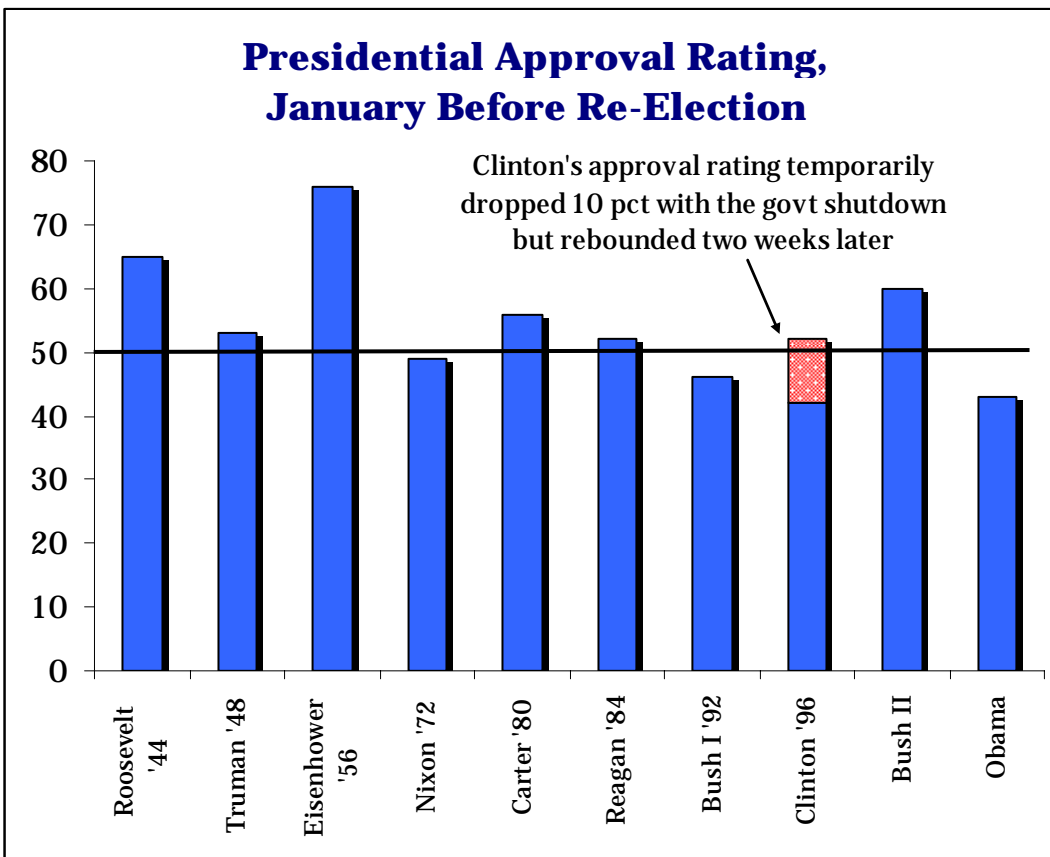
Sources of Major Political Uncertainty For 2012

| Event | Projected Resolution Date | Comments |
|--|----------------------------------|---|
| XL Pipeline Decision | 2/20/2012 | Obama Decision on XL Pipeline Deadline |
| Payroll Tax Cut, Unemp. Insurance, Doc Fix | 2/28/2012 | Huge Fight Brewing Over The Tax Cut Extension |
| Highway Funding | 3/31/2012 | Highway Funding Authorization Expires |
| Hydraulic Fracturing | 4/3/2012 | EPA Final Rule On Air Quality Limits For The Fracking Process |
| Supreme Court Healthcare Ruling | 3rd Week of June 2012 | Decision Could Remake The Entire Healthcare Landscape |
| Farm Bill Expires | 9/30/2012 | Current Farm Bill Authorization Expires |
| FY 2013 Budget | 9/30/2012 | New Budget Needs To be In Place For New Fiscal Year |
| 2012 Election | 11/6/2012 | President, House, & 1/3 of Senate Seats Up |
| Bush Tax Cut Expiration | 12/31/2012 | \$3.5 Trillion of Tax Increases Slated for 1/1/2013 |
| Debt Ceiling Increase | Estimated 12/31/2012 | Presidential Authority For Debt Ceiling Expires |
| Sequestered Spending Cuts | 12/31/2012 | \$1.2 Trillion of Defense, Healthcare, & Non-Defense Cuts |

VOTERS ARE NOT HAPPY WITH THEIR ELECTED OFFICIALS, INDICATIVE OF THE COMING ELECTORAL VOLATILITY

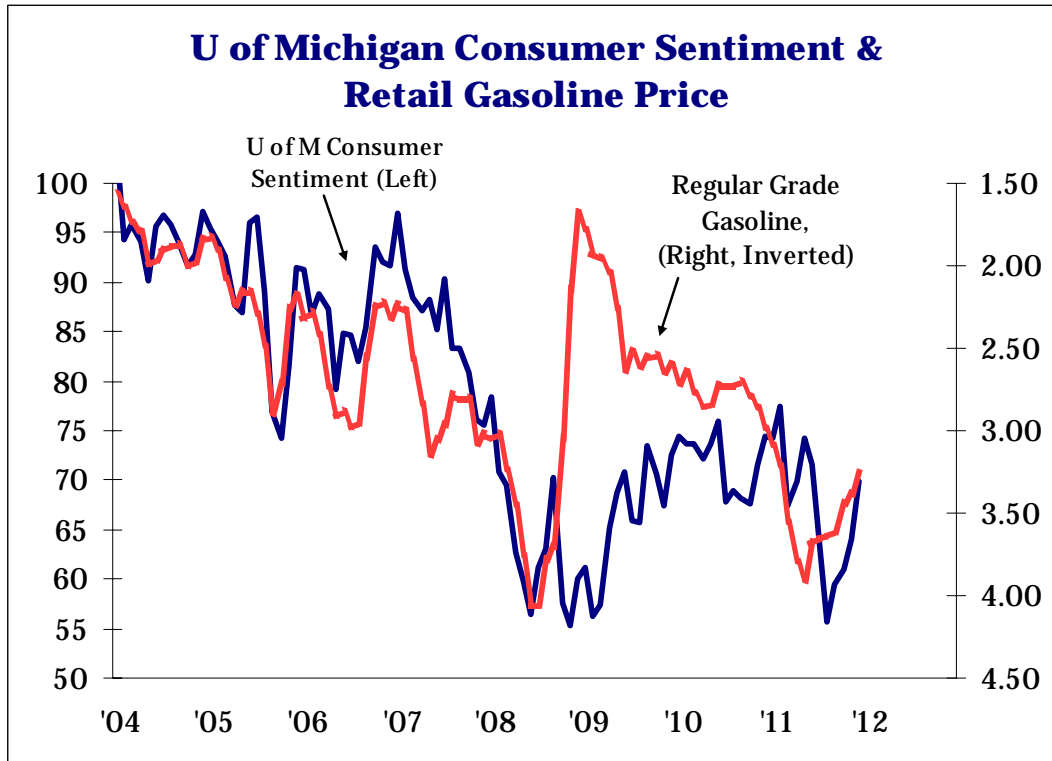


Congressional approval rating is at its lowest level we can find on record, and low levels have historically been correlated with larger losses for incumbent members of Congress.

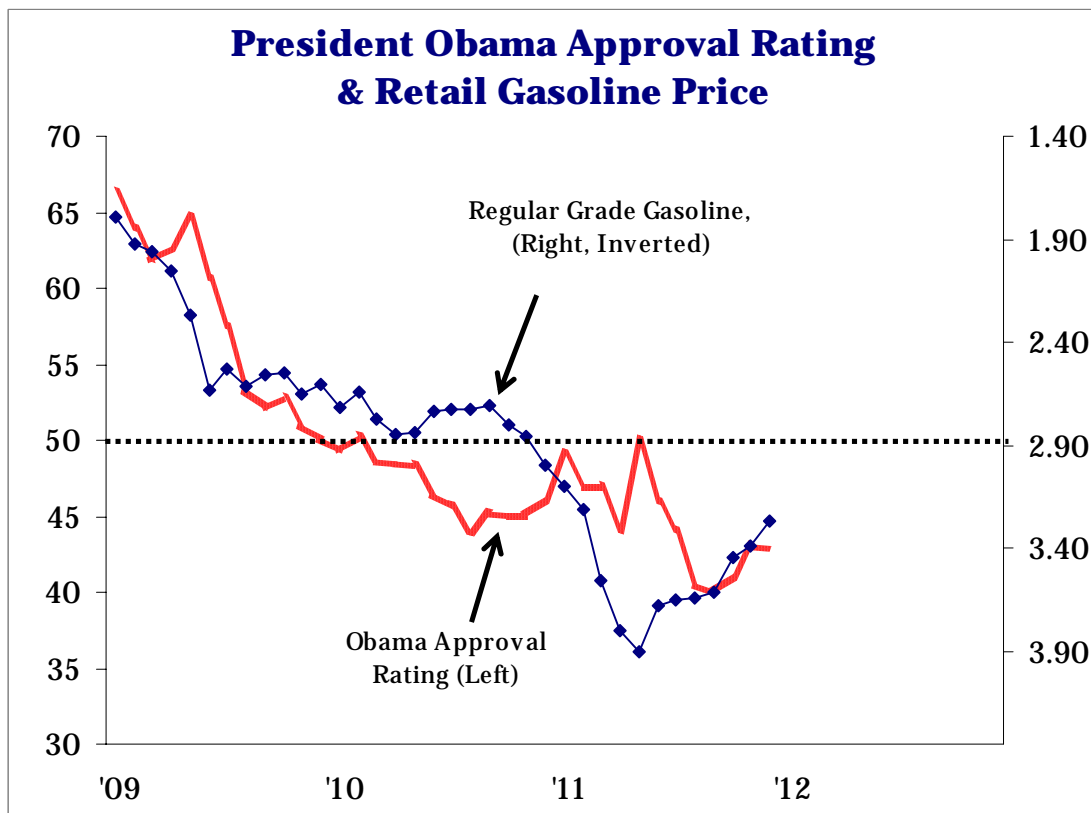


President Obama has the lowest approval rating at the start of a re-election year of all Presidents going back to Roosevelt.

RISING GASOLINE PRICES COULD BECOME THE SURPRISE DOMINANT POLITICAL ISSUE IN 2012

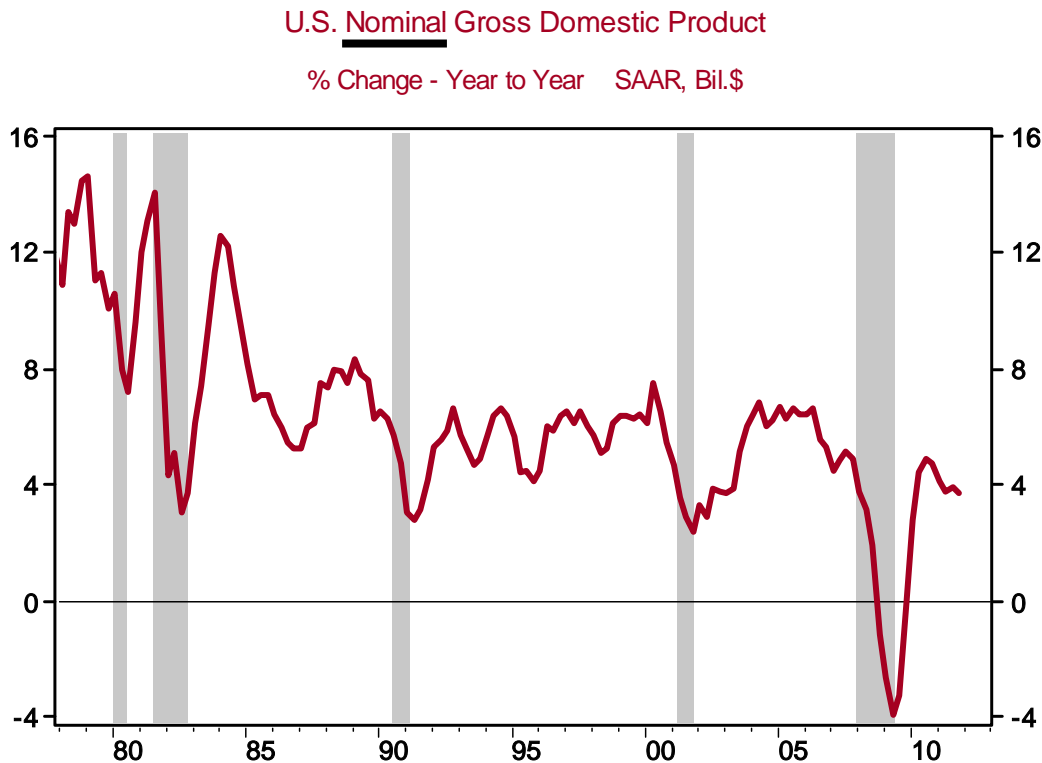


AND PRESIDENT OBAMA'S APPROVAL RATING SEEMS MORE TIED TO GASOLINE PRICES THAN JOB CREATION



4Q REAL GDP IN THE U.S. A TOUCH ON THE LIGHT SIDE. IS THE “STRONG PATCH” ENDING WITH WEAK NOMINAL GROWTH?

The initial look at fourth quarter real Gross Domestic Product in the U.S. showed growth at a solid, but not gangbusters, +2.8% quarter/quarter annual rate. The U.S. economy has been outperforming European counterparts, but that’s a low bar. However, the boost from inventory building in the U.S. (+\$56.0 billion) suggests that this pace of growth should fade as we move into 1Q. Additionally, with the Gross Domestic Product deflator up just 0.4%, **nominal Gross Domestic Product was a sluggish 3.2% quarter/quarter annual rate in 4Q.** With growth & inflation on such a trajectory, it’s not surprising the Federal Open Market Committee took steps in January to say policy should remain easy into 2014, and that the door remains open to a third round of quantitative easing (probably mortgage based) in 2012. **Our base case remains a sluggish but positive real U.S. growth rate (roughly 1.5% for 2012), a China soft landing, and a shallow euro-area recession** (the European Central Bank has bought some time with its recent moves).

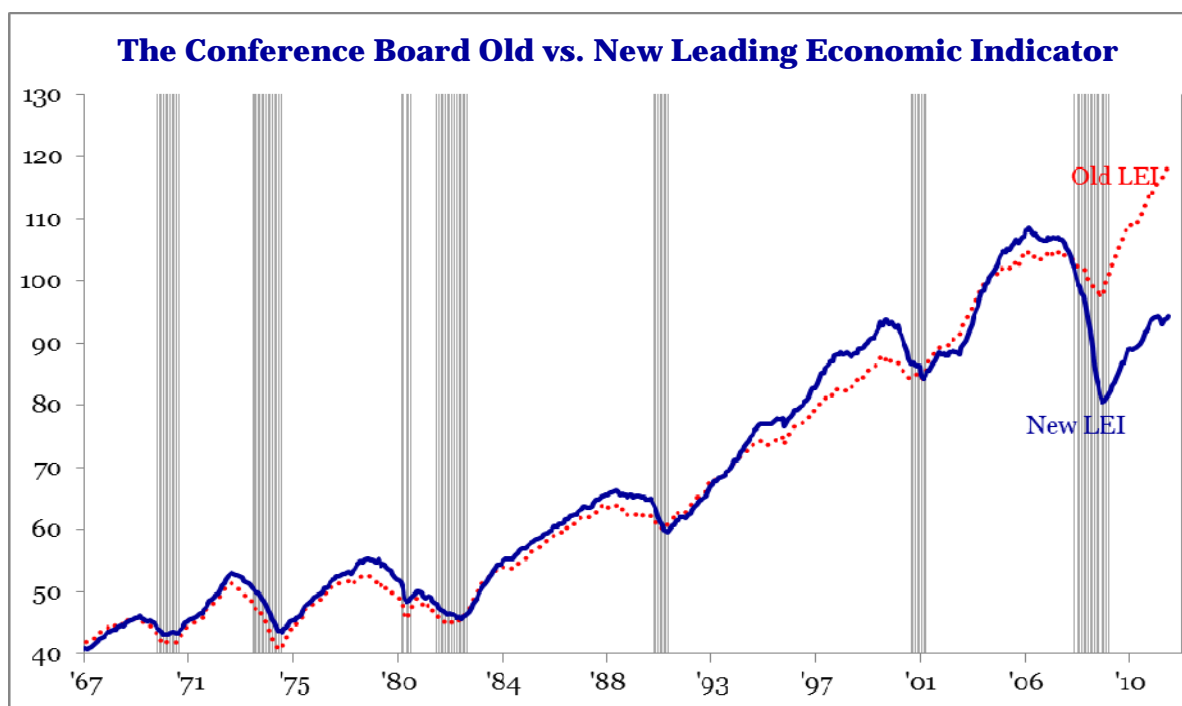


Source: Bureau of Economic Analysis

SAAR = Seasonally Adjusted at an Annual Rate

CONFERENCE BOARD LEADING ECONOMIC INDICATOR REVISIONS SHOW MORE OF A “SQUARE ROOT” SHAPE

The Conference Board made numerous and substantial revisions to the U.S. leading indicator in January. Some of the moves (eg, averaging different measures of consumer expectations) were more technical in nature. Some other items were more substantial, such as replacing measures of money with measures of credit. The latter move speaks to a point that Federal Reserve Chairman Ben Bernanke mentioned in his press conference last month – that the Fed has taken numerous steps to boost the economy, but the transmission mechanism for these policies has been in question. The “old” leading indicator looked like corporate profits in the U.S. – a recovery to a new high. But the real economy in the U.S., which is mainly consumer-based, has seen disappointments in key variables such as employment. **With the new revisions, the Conference Board Leading Economic Indicator series reflects the “square root” shaped economic recovery** (down a lot, up a bit, then flat) investors have become accustomed to. The LEI has been in a sideways channel since May.



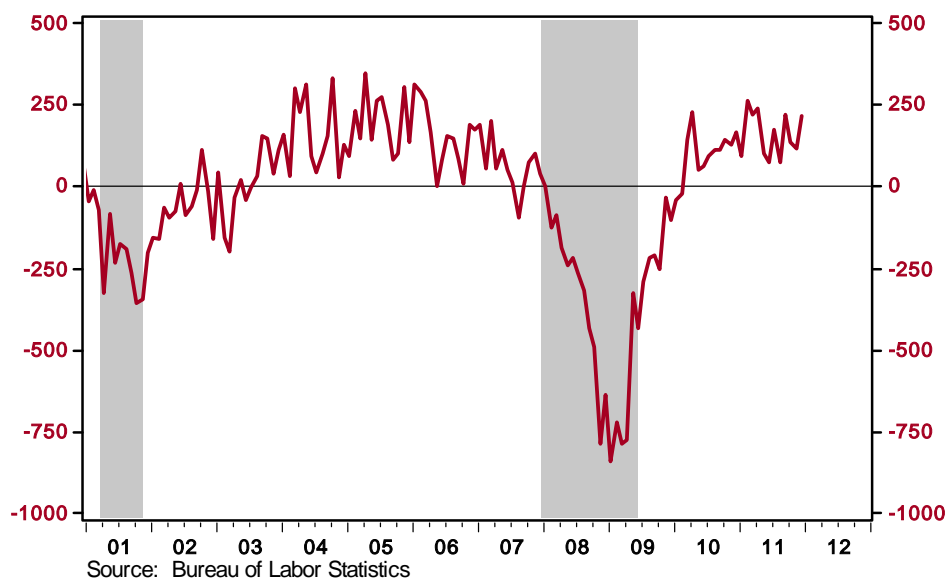
“In addition to regular annual revisions, The Conference Board implemented a comprehensive revision of The Conference Board Leading Economic Index® (LEI) for the United States effective with the January 26, 2012 release.”

Changes detailed at: <http://www.conference-board.org/data/bcicountry.cfm?cid=1>

A SOLID U.S. EMPLOYMENT REPORT ACROSS THE BOARD CONTINUES THE STRONG PATCH

U.S. payroll employment rose +200,000 month/month in December, with broad-based job gains, and the unemployment rate fell to 8.5% versus a revised 8.7% in the prior month (the labor force again fell slightly). The under-employment rate fell to 15.2%. There were small net revisions to prior months' payrolls (-8,000). Average hourly earnings increased +0.2% month/month and the workweek moved higher – so this was a solid report, almost across the board. Government employment did decline -12,000 from the month before, and temp-help employment fell -8,000. But the bulk of the data suggest that 2011 ended with the U.S. in an economic “strong patch,” despite some of the uncertainty in the euro-area, and talk of more global easing continues, with German orders weak early in January and China again refraining from bill sales.

All Employees: Total Private Industries
Change - Period to Period, Seasonally Adjusted, Thousands



The People's Bank of China, which refrained from selling three-month bills for a second week, said it will suspend debt sales ahead of the Lunar New Year holiday... Premier Wen Jiabao said business conditions may be “relatively difficult” this quarter and monetary policy will be fine-tuned as needed.

Bloomberg, 1/6/2012

STRATEGAS ECONOMIC FORECASTS

| | 2011 | | | | 2012 | | | | 2013 | | | |
|-------------------|------|------|------|----------|------|------|------|------|------|------|-------|-------|
| | 1Q | 2Q | 3Q | 4QF | 1QF | 2QF | 3QF | 4QF | 1QF | 2QF | 3QF | 4QF |
| Real GDP Q/Q % AR | 0.4% | 1.3% | 1.8% | 3.0% | 1.0% | 1.0% | 1.0% | 1.0% | 0.0% | 0.0% | -1.0% | -1.0% |
| Core CPI Q/Q % AR | 1.7% | 2.5% | 2.7% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.0% | 1.0% | 1.0% | 0.0% |
| Fed Funds EOP | 0.1% | 0.1% | 0.1% | 0.1% (a) | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% |

a = actual; F = Forecast; EOP = End of Period
Q/Q % AR = Quarter/quarter percentage change at an annual rate

Disclosure: The views expressed are the views of Strategas Research Partners, LLC (Strategas) as of January 2011. Strategas has used sources of information which it believes to be reliable; however, this publication is not intended to be and does not constitute investment advice. These views are subject to change at any time and they do not guarantee the future performance of the markets, any security or any funds managed by Envestnet.