



Market Commentary

1ST QUARTER 2011

Economic Summary

At the start of the year, it would have been hard to imagine the stock market shaking off political turmoil across North Africa and the Middle East, a catastrophic earthquake and tsunami in Japan, and over \$100/barrel oil prices, to end the quarter in positive territory (Chart 1).

The volatility of stock prices in the first quarter may be attributed to a tugofwar between the troubling events abroad and the mounting evidence that the economic recovery in the U.S. is gaining momentum. GDP and corporate profits are both at new nominal highs with first half GDP growth on track to advance around 3%. Net job creation has been positive for the last six months, something that hasn't happened since June, 2007. Stronger employment and increased consumer spending are both signs of badly needed economic growth (Chart 2).

The economic expansion and the market recovery are both young in duration and magnitude, when viewed from an historical perspective. The U.S. economy turned up in June, 2009 and has been expanding for 22 months, while the average duration of a U.S. economic cycle since WWII is 58 months. Similarly, the recovery in stock prices is likely in the early stages. If the current bull market ended today, it would go down as one of the shortest in history. Another more important factor that favors stock investment is that valuations are reasonable. Selling at 13 x our estimates of next twelvemonth earnings, equities are far from rich relative to their own history and when compared to bonds.



Chart 1

SOURCE: STRATEGAS "QUARTERLY REVIEW IN CHARTS",
APRIL 1, 2011

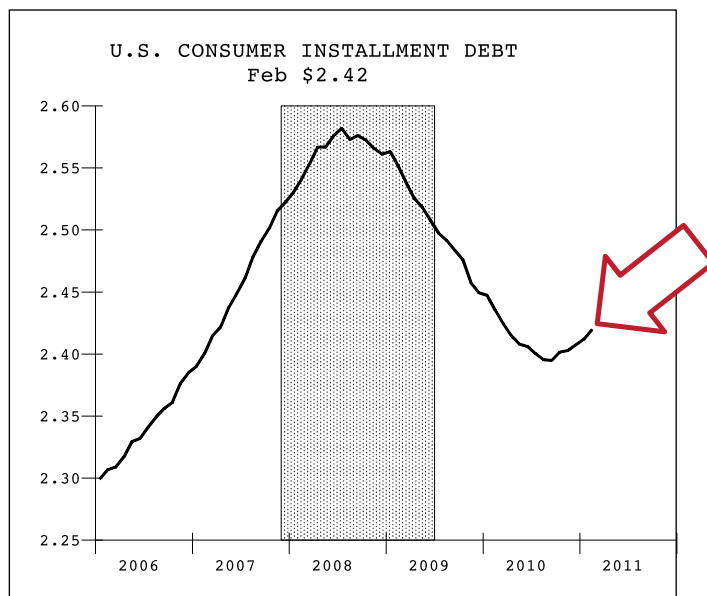


Chart 2

SOURCE: ISI: "WEEKLY ECONOMIC REPORT —
CHARTS OF THE WEEK", 4/11/2011

Past performance does not guarantee future results.

Economic Summary (continued)

Another way to look at valuations is Chart 3, which illustrates that rolling 10-year equity returns are just beginning to turn up from a secular low.

A third factor that may positively impact stock prices in the months ahead is that investors appear to be making a major asset class shift – moving money from cash and bonds into stocks (Chart 4). Finally, common stocks have historically been regarded as a hedge against inflation, which continues to be our main concern.

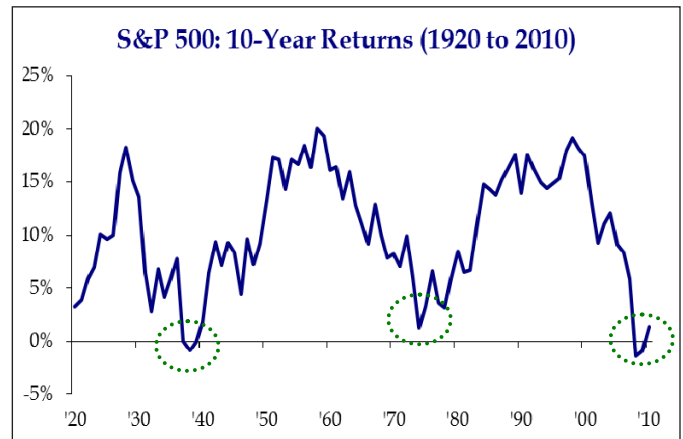


Chart 3

SOURCE: STRATEGAS "QUARTERLY REVIEW IN CHARTS",
APRIL 1, 2011

Equity Market

We continue to think that the best stock values are found in large U.S.-based, multinational companies that can produce consistent cash flow in an inflationary environment while the dollar continues to weaken against other major currencies. We want companies with strong, sustainable market positions, strong balance sheets, and the ability to raise prices. Our Funds are invested in a number of these great companies, selling at surprisingly attractive prices.

Fixed Income Market

On the fixed-income side, we remain defensive. Our outlook is for interest rates to rise as a result of the massive monetary stimulation of the past two years. We continue to limit investments to short and intermediate-maturity bonds of the highest quality.

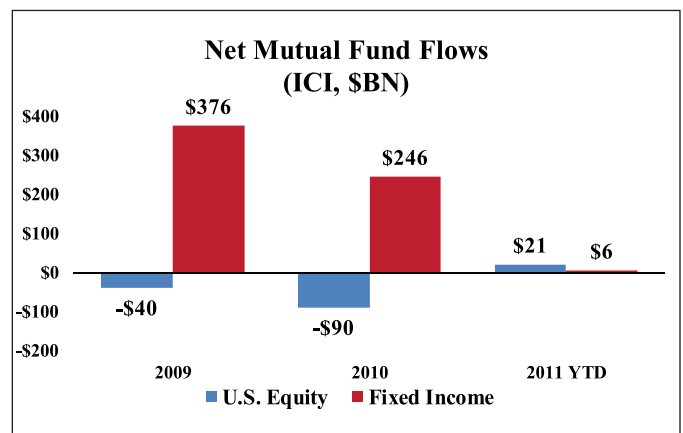


Chart 4

SOURCE: STRATEGAS "QUARTERLY REVIEW IN CHARTS",
APRIL 1, 2011

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