



Investment & Sector Strategy

May 2010

Nicholas Bohnsack

(212) 906-0132

nbohnsack@strategasrp.com

Strategas' Investment Outlook

	2009		2010				2011			
	3Q	4Q	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP Q/Q Pct. AR	2.2	5.6	3.0	3.0	2.0	2.0	3.5	3.8	3.8	3.5
Core CPI Q/Q Pct. AR	1.5	1.5	0.0	0.5	0.5	0.5	0.5	1.0	1.0	1.0
Fed Funds - End of Period	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.5	1.0	1.5
Mortgage Rate - End of Period	4.9	5.1	5.0	5.0	5.0	5.2	5.5	5.5	5.5	5.5
F = Forecast										

2011 S&P 500 Expected Value Table

Odds	Economy	Fed Posture	S&P Op Earnings	Expected Multiple	S&P 500
5%	Double-Dip	Easier	\$65	13x	845
10%	Too Cold	Neutral	\$74	14x	1036
75%	Goldilocks	Tighter	\$87	16x	1392
10%	Too Hot	T. Faster	\$94	14x	1316
Expected Value:					1321

Consensus Estimates

	Bottom Up
2010	\$82.21
2011	\$96.65

Strategas Earnings Estimates

	2009		2010		2011	
	Level	Y/Y	Level	Y/Y	Level	Y/Y
1Q	\$10.11	-39%	\$18.88	87%	\$21.00	11%
2Q	\$13.81	-19%	\$19.50	41%	\$21.25	9%
3Q	\$15.78	-1%	\$19.75	25%	\$21.75	10%
4Q	\$17.16	NA	\$20.75	21%	\$22.75	10%
Year	\$56.86	15%	\$79.00	39%	\$86.75	10%

Recommended Sector Allocation

Overweight

Energy
Technology
Industrials
Financials

Market Weight

Materials
Health Care
Discretionary

Underweight

Staples
Utilities
Telecom

Strategas Recommended Balanced Portfolio Allocation

	SRP	B'mark	Ratio
Equities	65%	60%	1.08
Fixed Income	18%	25%	0.72
Tangible	15%	10%	1.50
Cash	2%	5%	0.40

Strategas Recommended Size Allocation

	SRP	B'mark	Ratio
Large-Cap	75%	70%	1.07
Mid-Cap	10%	15%	0.67
Small-Cap	15%	15%	1.00

Strategas Recommended Style Allocation

	SRP	B'mark	Ratio
Growth	60%	50%	1.20
Value	40%	50%	0.80

2010's Major Investment Themes

1. The Emergence of a New Nifty Fifty
 2. Fed Watching – A Lost Art Rediscovered
 3. Rent Seeking – The Aristocracy of “Pull”
 4. The Great Immoderation – Volatility Makes a Comeback
 5. Crowding Out – Competition for Credit Among Sovereigns
-

Dear Santa List for the Year Ahead

1. A Return of the Bond Market Vigilante
 2. A Continuation of 15% Tax Rates on Capital Gains & Dividends
 3. A Free Floating Yuan
 4. The Fed's Political Independence
 5. A CDS Exchange
-

Velocity of Money Checklist (Using the Scientific Stoplight Assessment System)

1. China's stock market sustainably outperforms – **RED**
2. U.S. Dollar strength ebbs and the Japanese Yen stabilizes – **YELLOW**
3. Baa corporate and jumbo mortgage spreads recede – **GREEN**
4. 10-year yields move higher – **YELLOW**
5. Unemployment claims begin to trend lower – **YELLOW**
6. Fed's Senior Loan Officer survey shows improvement – **GREEN**

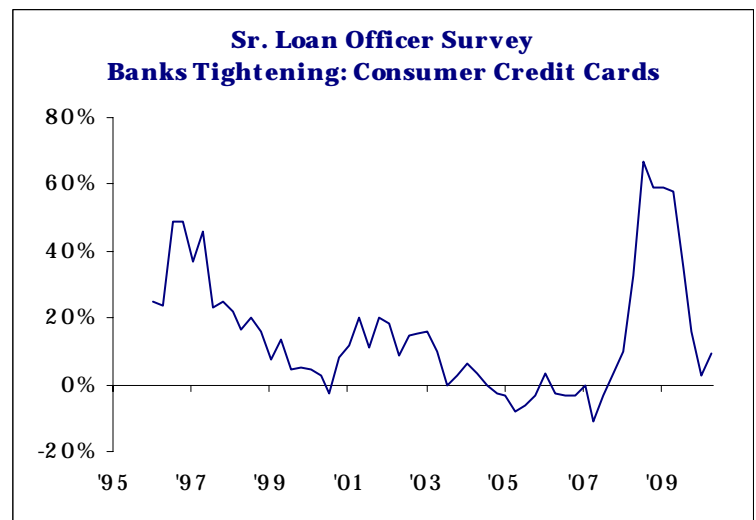
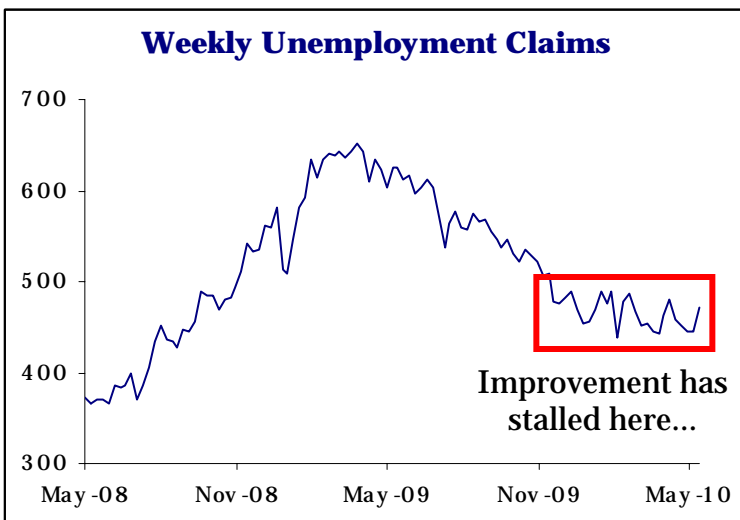
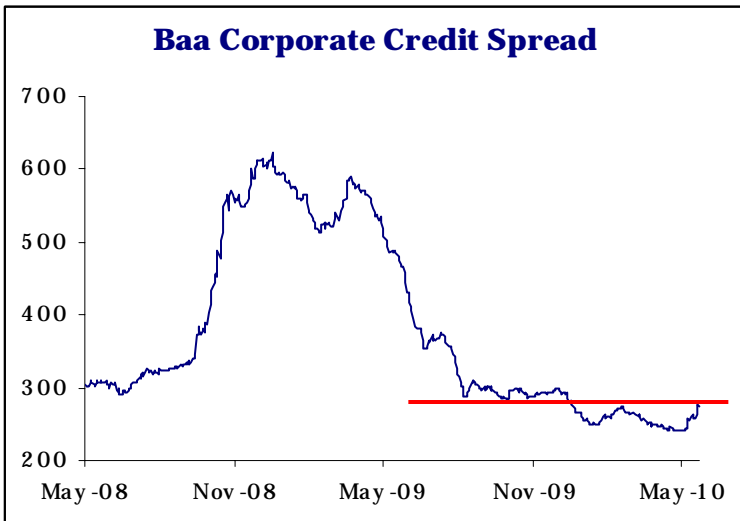
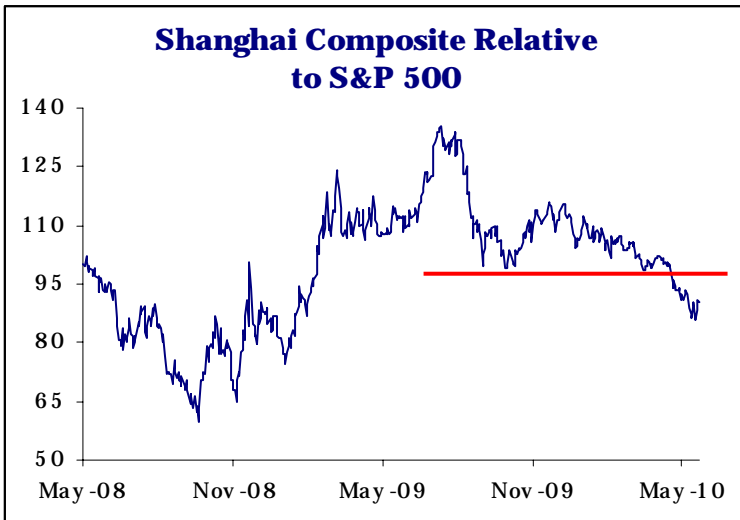
First Published: Strategas Investment Strategy Report, 12/8/2008

We're Bullish Until... (Bearish Inflection Points Worth Monitoring)

1. A poorly subscribed Treasury auction signals reduced appetite for U.S. debt.
2. 10-year yields break out above long-term down-trend. (**Watching 4.25%**)
3. Increased anxiety over significant tax increases to close the structural deficit gap takes hold.
4. ~~Holiday sales come in below expectations with income under pressure as government transfers fade.~~
5. Commodity price inflation prompts China to slow economic growth (again). ✓
6. Mortgage rates push above 6.0% in 2010.

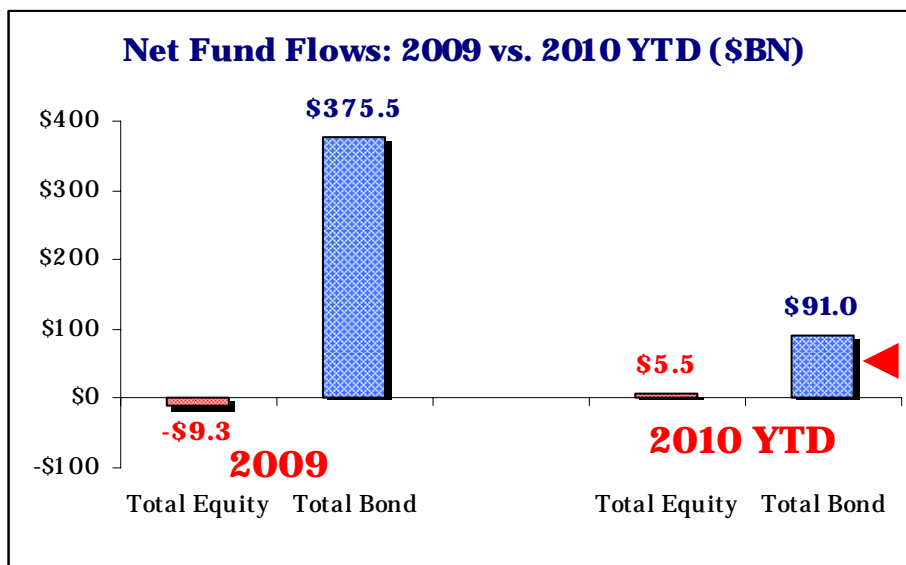
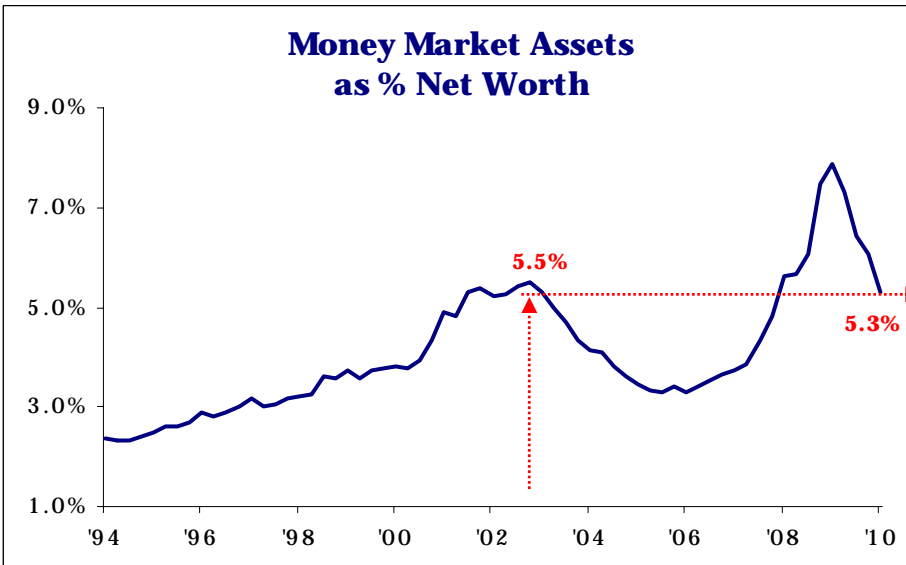
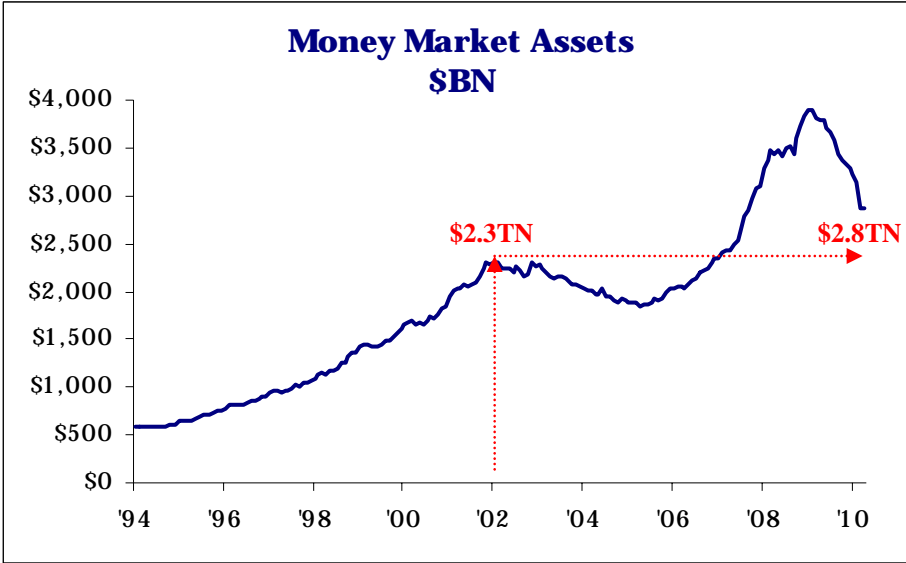
We have been monitoring two punch lists which may be a helpful guide to identify when structural headwinds begin to overtake cyclical tailwinds.

Velocity of Money Checklist – In Charts



Gas Left in the Tank?

Money Market Funds Still Above '02 Levels



Spurred by nearly zero percent short-term interest rates, the average investor has put nearly \$1 trillion to work in riskier assets since the peak in money market assets at \$3.9 trillion in January 2009. On an absolute level, the amount of “dry powder” is still higher than it was in 2002 in anticipation of the market low, although, on a relative basis it’s about the same. While some might question whether the retail investor will ever come back, **the best reason to continue to be bullish may be the fact that retail investors tend to be enthusiastic participants in the rally as the market tops.** Today’s fund flows, if anything, are more indicative of a top in the bond market than a top in equities.

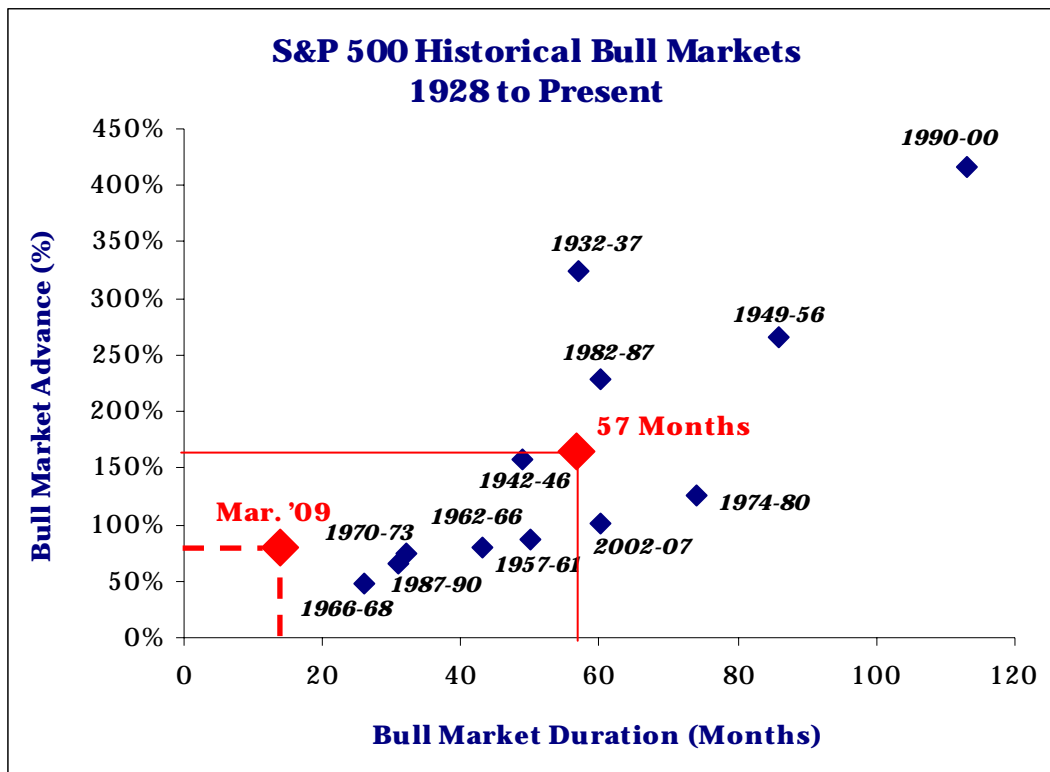
Bond Flows Outpacing Equity Flows 17:1 in 2010

Strong Relative Performance of Bellwether Cos. a Good Sign for Economic Momentum



Fed Chairman Alan Greenspan was rumored to have said that Parker Hannifin was the best economist he knew. In that context, we constructed Strategas' Bellwether index using the stocks most correlated with swings in nominal GDP growth over the past 10 years. The strong relative performance of Strategas' Bellwether Index suggests that economic momentum is still strong. Looking at the comments on the prior page, corporations themselves appear more bullish on the outlook for the global economy than most sell-side analysts.

Taking a Look at Historical Bull Markets; History Suggests it's Too Early to Fade the Bull



Easy to Stay Bullish After Reviewing Guidance from Strategas' Bellwether Index

Apple (AAPL)	Strong momentum resulted in a much smaller sequential revenue decline from the December to March quarters than we normally experience. All geographic segments are performing.
Advanced Micro (AMD)	An improved global economic environment delivered record first quarter revenue . Enterprise business really started to pick up in 2H of '09 and has remained healthy – though it's difficult to talk with any confidence about the pace or rate of a client surge in IT spending.
General Electric (GE)	1Q is a good testament to the ability to grow earnings and dividends in 2011. A lot of new orders are coming from outside the U.S., there's a strong pipeline of commitments , and the macro-environment and visibility is improving. Viewing 2010 framework as achievable with upside potential.
Schlumberger (SLB)	Visibility is much improved and utilization will be higher than originally planned. Higher oil prices are leading to tangible evidence that operators are contemplating higher levels of activity than originally planned in international markets. Improvements to offshore markets have lead to an increase in capex guidance by \$400mm.
American Express (AXP)	Travel sales are strong, both business travel and consumer travel – reflecting higher ticket prices, higher number of transactions, and customers moving from the back of the plane to the front. Global economy seems to be poised to continue to improve. Will continue to spend on technology to enable growth initiatives. 1Q '10 is back to the level of 1Q '08 – representing healthy spending levels for the U.S. and international consumer.
Halliburton (HAL)	Revenue grew 2% sequentially in 1Q, and was particularly strong in U.S. Will continue to invest in key markets with a focus on retaining a market share position moving forward. Increased visibility is providing increased confidence on the trajectory of international business in the latter half of 2010 and 2011.
Dover (DOV)	1Q was much improved across the company and better than anticipated with revenue increasing 15% over last year. Seeing clear evidence of a global economic recovery across a wide portion of company portfolio – this should be beneficiary over the next year. Headcount was up by 700 employees in 1Q, with more than half of the employment increase coming from Asia. Remain very confident on recent guidance.
Tellabs (TLAB)	Strong demand put cos. at the high-end of 1Q revenue and margin guidance. Expectations for full-year gross margin performance are higher than they were in January, and while operating expenses are increasing in real dollars, they will be kept to a lower percentage of revenue.
Sprint (S)	What were negative sequential and year-over-year trends have now changed from negative to flat, and some are now turning positive. Anticipate that full-year 2010 capital spending to be up \$2bn , but goal still remains stabilizing operations in 2010.
Monster Worldwide (MWW)	As global economy recovers, seeing growth in portions of every sector . There has been a dramatic pick-up in the small business segment.
Motorola (MOT)	Currently have a high degree of confidence in ability to ship more products this year, due primarily to greater visibility and commitments from carrier partners.

Bellwether companies yet to report: NWSA, DIS, HPQ, CSC

Distinct Possibility of S&P “Running Hot” in Near-Term; Earnings Remain Robust in 2010, But at What Multiple?

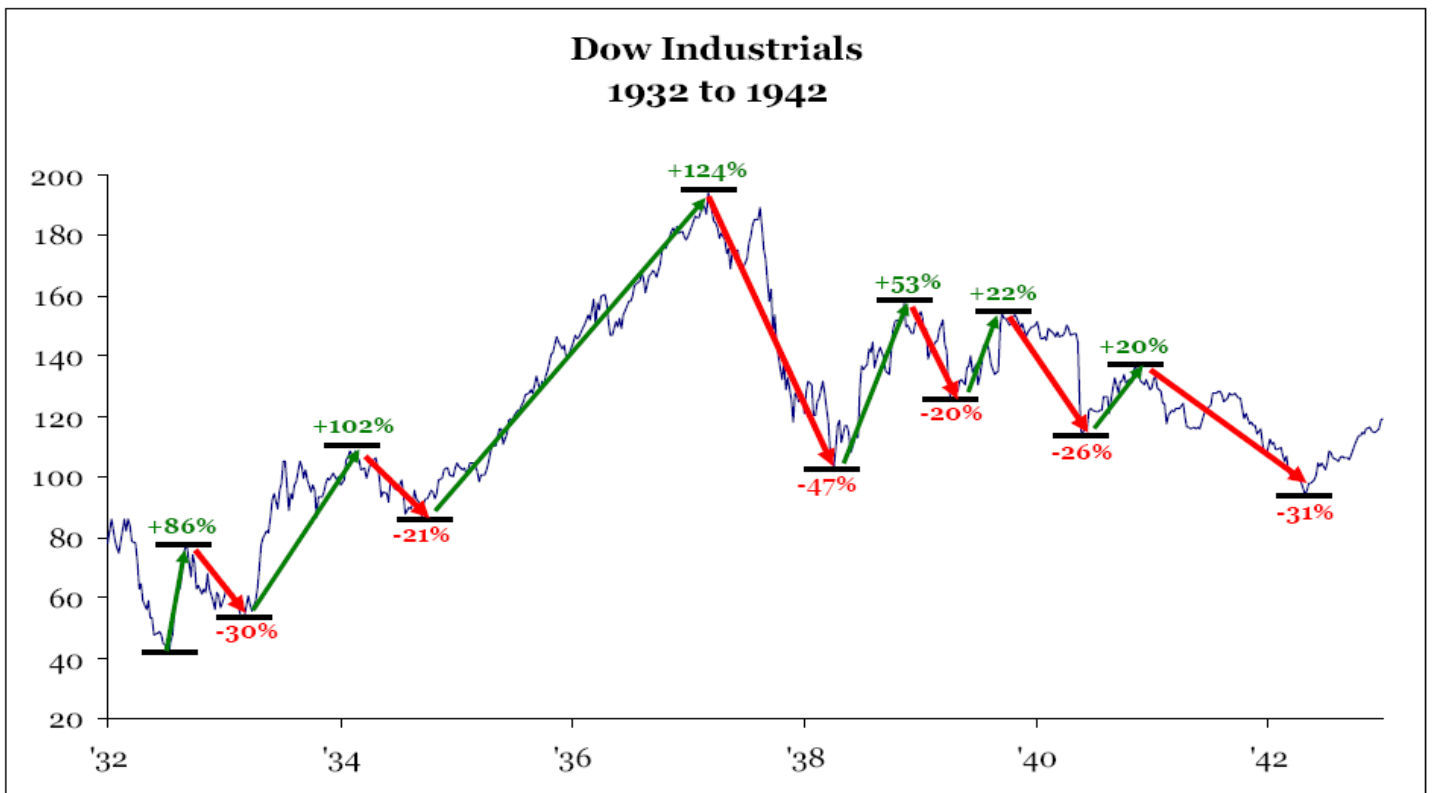
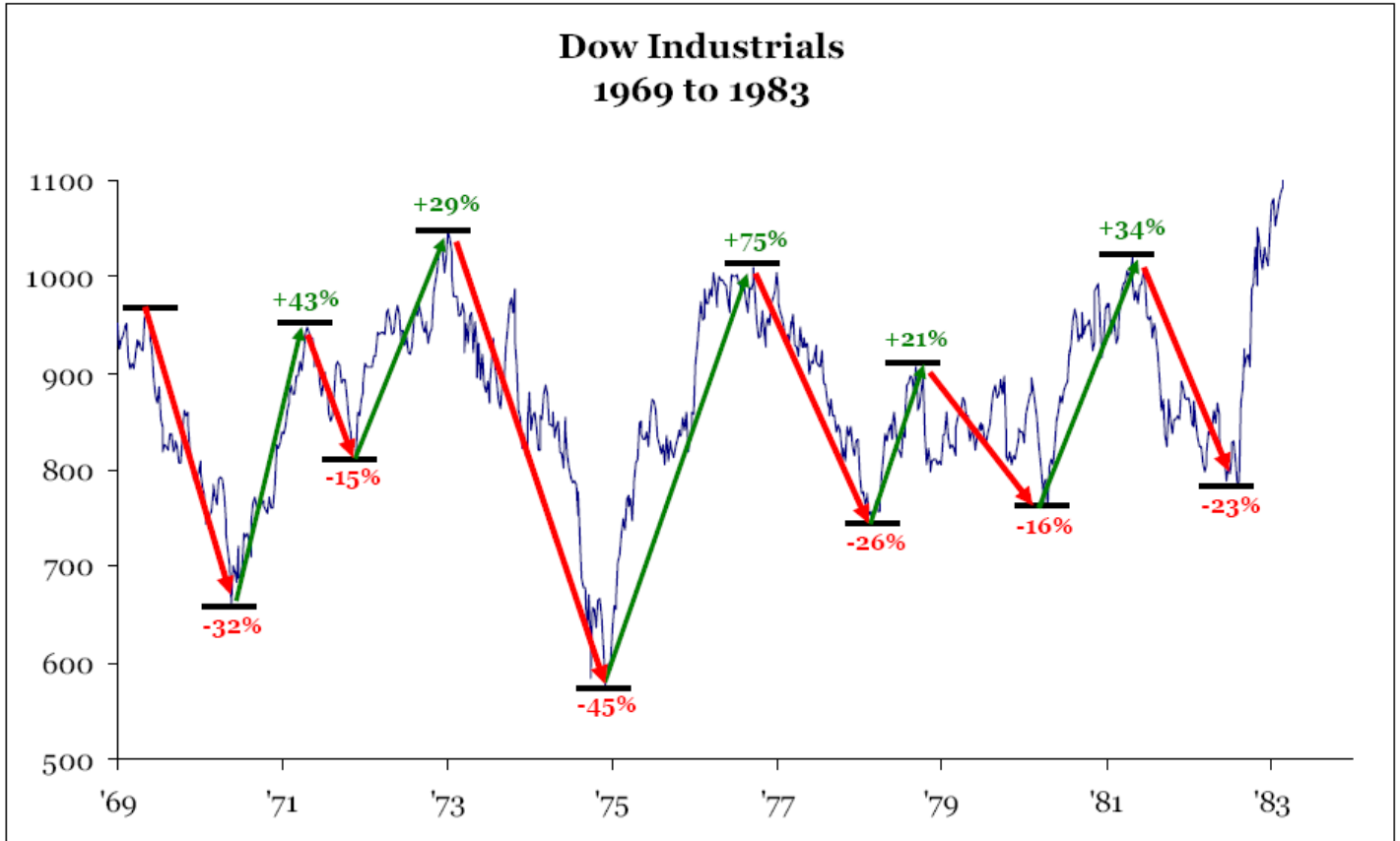
Strategas 2011 Year-End S&P 500 Expected Value

Odds	Economy	Fed Posture	EPS	Expected Multiple	Implied S&P	Pct Chg from Here
5%	Double Dip	Easier	\$65	13x	845	-27.0%
10%	Too Cold	Neutral	\$74	14x	1,036	-10.5%
75%	Goldilocks	Tighter	\$87	16x	1,392	20.3%
10%	Too Hot	Tighter Faster	\$94	14x	1,316	13.7%
<i>Expected Value:</i>					<u>1,321</u>	14.2%

Strategas 2011 Year-End S&P 500 Expected Value Assumptions

Odds	5%	10%	75%	10%
Economy	Double-Dip: Seems remote given governments' intent on stimulating growth globally	Too Cold: Watching Europe. Chance it's enough to stymie U.S. near-term is low	Goldilocks: Global trouble highlights cyclical strength in U.S. at \$ rallies.	Too Hot: Tough to achieve given reliance on stimulus and trouble abroad
Earnings	Profit decline would require recession and be coupled with writedowns	\$74 is equal to TTM EPS; implies no growth in earnings over the next 7 qtrs.	\$86.75 – our best guess for earnings next year, a +9.8% over our '10 \$79 est.	The Street's est is \$93.83 for 2011.
Multiple	Slower growth would collar equity premium	Sluggish growth, moderate inflation would lead to sideways multiple	16x likely multiple given growth profile	Inflation likely a stiffer headwind if economy overheating

1930s or 1970s? Deflation or Inflation? Range Bound Markets Proliferate

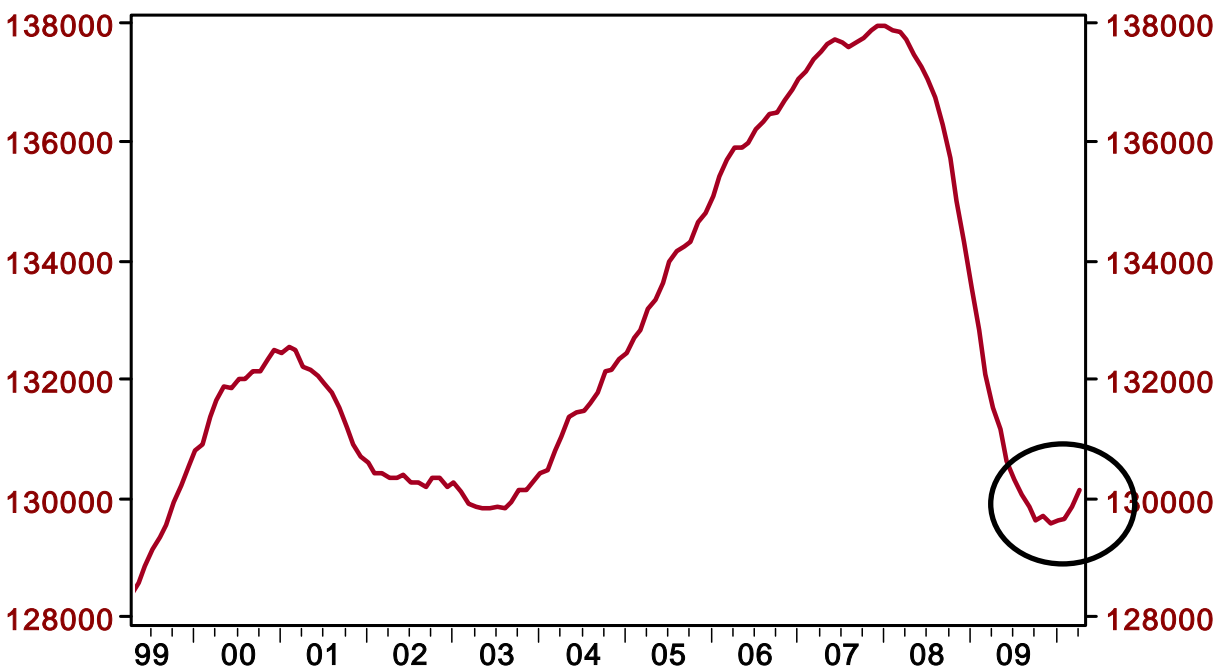


Credit Key in Determining Whether a Rollover in the *LEADING ECONOMIC INDICATOR* is Imminent

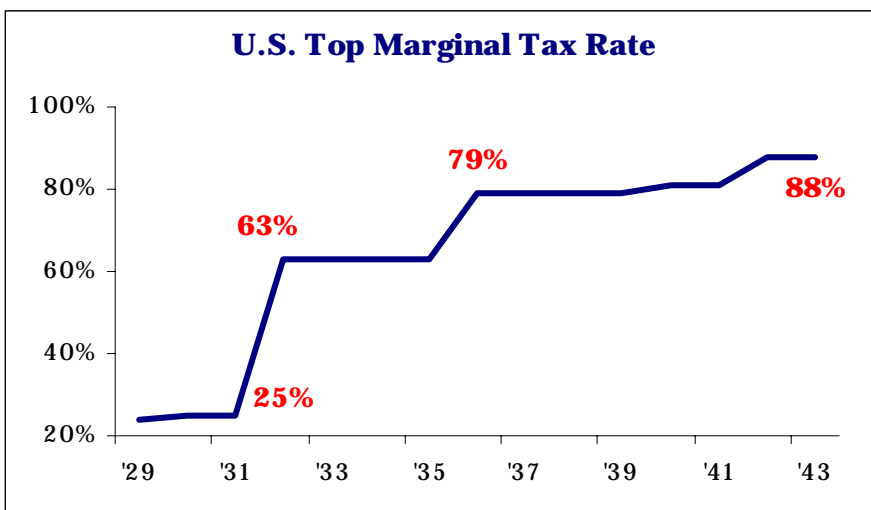
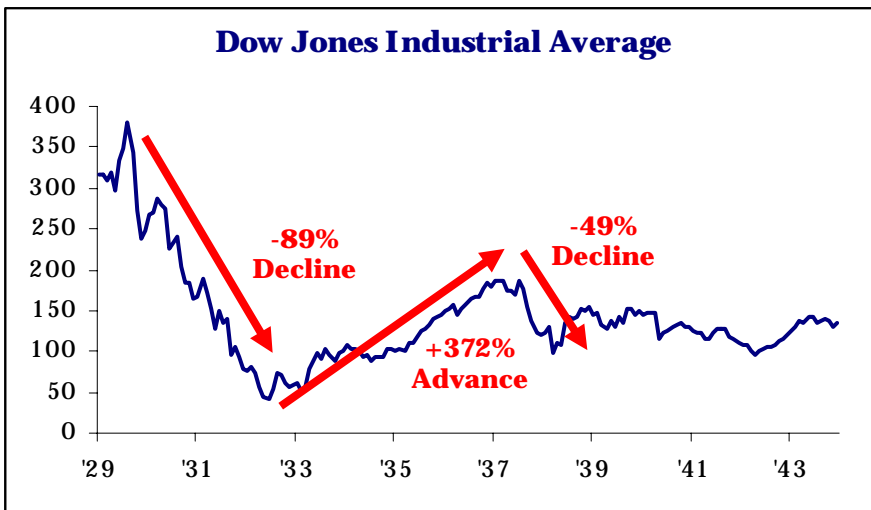
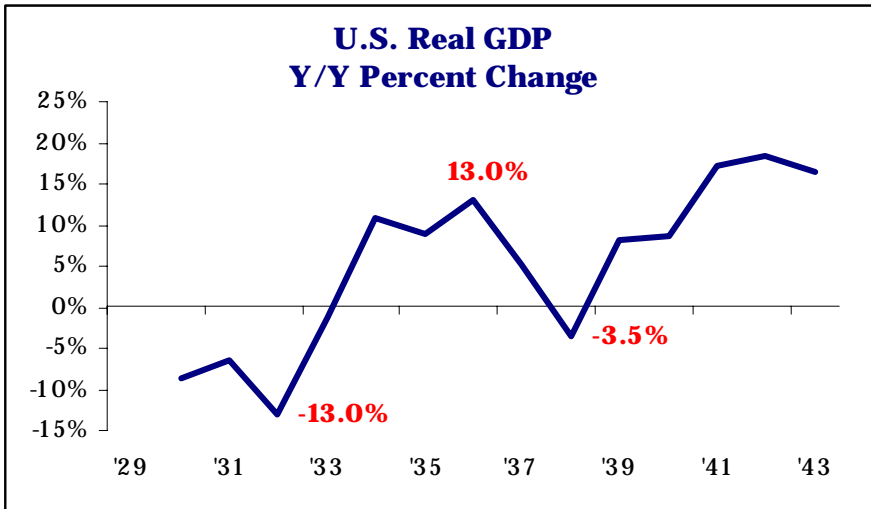
Of course, given the sheer magnitude of the fiscal and monetary stimulus brought to stave off deflation in 2007-2009, it seems natural that the pace of economic growth is poised to slow for a quarter or two in 2010. *It's never easy from a market perspective to fade the second derivative, or the change on the change, but we think that could be a reasonable bet this time, at least for a while.* The most compelling reason, in our view, is simply because loan growth has actually started to pick up, as has the velocity of money in the U.S. There is a large tank of gasoline (the Fed balance sheet & excess reserves), and while the “match” (bank lending) may be a mile away, it is now getting closer. More important perhaps is the fact that this is occurring in an environment in which the fed funds rate and mortgage rates remain low. It is true that interest rates are no longer falling significantly, but with 0% short rates and 4.4% long rates, it's hard to think of the position of monetary policy as restrictive – i.e., the levels of rates matter. Monetary stimulus has done a lot to stop the bleeding, but one must consider the consequences if it actually starts to heal the patient – that is borrowers and lenders actually have an interest in expanding outstanding credit from both the supply and demand side. *In short, it seems dangerous to fade the economy much before banks have even gotten into the act, or before the anticipated improvements in employment have taken place.*

All Employees: Total Nonfarm

SA, Thous



“G” Can Work for Markets & Economy Until the Bill Comes Due



While monetary stimulus is dependent upon the health of the financial sector to act as a proper transmission mechanism, fiscal stimulus is directly in the GDP equation and thus can have effects on both the economy and the markets. While it's one thing to fade monetary policy and say the Fed is “pushing on a string”, it's much harder to fade fiscal policy – even in the 1930s, once the government decides to spend money, it generally “works”.

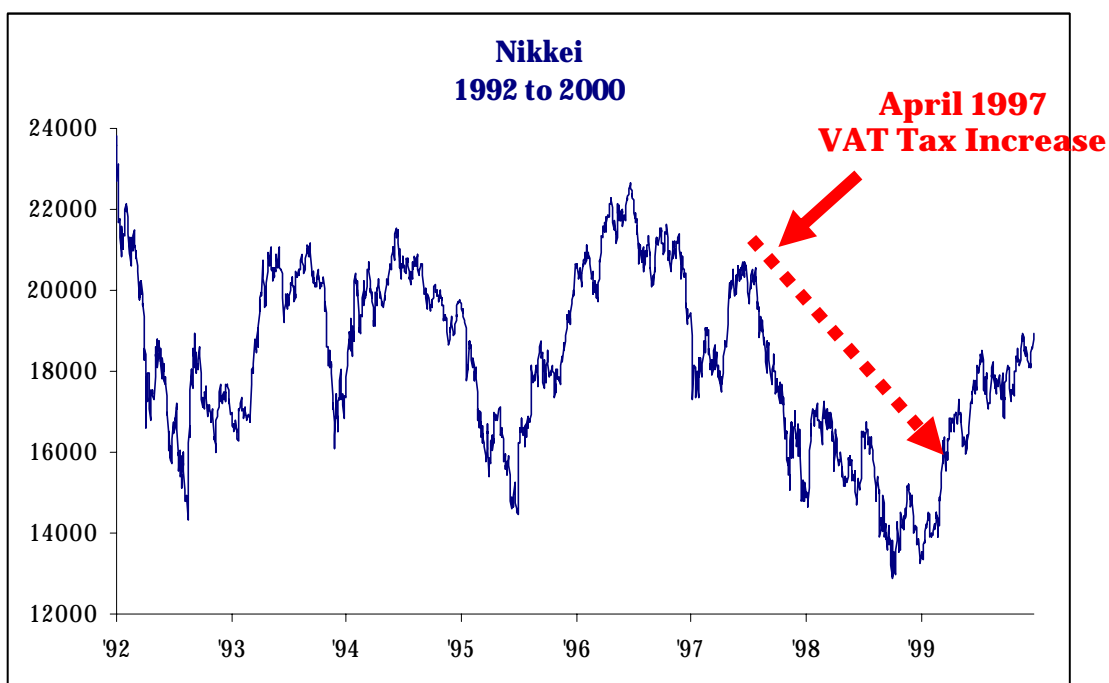
That is until, of course, the bill comes due. The 1930s is again a good case in point: massive fiscal stimulus resulted in year-over-year GDP gains of 10.8%, 8.9%, and 13% in 1934, 1935, and 1936 respectively. The Dow rallied 372% during the same period, weakening only when the bill for government spending came due with higher marginal tax rates in 1937. For the time being, it might be hard to fade government spending (cyclical bounce). In the long-term however, stocks are likely to have trouble when both long-term interest rates and taxes move higher (secular problems).

Stocks Can Withstand Higher Taxes on Income, Capital Gains, and Dividends But a VAT is Different

As we have written in these pages before (and perhaps too often) economies that become dependent upon public spending tend to have markets that get held hostage to the government's ability to pursue accommodative fiscal policies. Our analysis of past cycles, suggests that investors tend to deal with higher tax rates on income, dividends, and capital gains with far more equanimity than they do with the introduction or increase in VAT taxes. This may be due to the fact that a VAT is often seen as permanent and unidirectional. The President's Commission on Fiscal Responsibility is set to release its first report on December 1st and a VAT is widely expected to be one potential avenue to reducing the deficit. Stay tuned.

S&P 500 Performance Before/After Tax Change				
	-12 Mos	-6 Mos	+6 Mos	+12 Mos
Tax Increase				
11/5/1990	-6.8%	-7.0%	21.0%	23.6%
8/10/1993	7.2%	0.7%	4.3%	2.4%
Tax Cut				
5/20/2003	-15.8%	0.6%	12.4%	18.4%

Investors didn't run for the exits in these two examples.



Strategas' Recommended Asset Allocation

After trips on the road, our research team has always found it helpful to share their impressions, look for any regional trends that may be developing, and discuss frequently asked questions. It is this last bit – the frequently asked questions – that seems to be coalescing around one central tension, identifying the signposts that will signal the turning point between the cyclical tailwinds of broadly accommodative fiscal and monetary policy and the secular headwinds of massive budget deficits and the continuation of the deleveraging process. (Our colleague and chief economist, Don Rissmiller, sees this debate developing on a slightly different line, namely in the yawning gap between the views of academic economists inclined toward worrying about deflation and “Wall Street economists” – investors – with concerns about inflation.) With managers increasingly global focused, both in their mandate and in their need to identify the factors driving prices, we thought it would be a good idea to revisit our recommended asset allocation matrix and discuss our views on its component parts.

Strategas Asset Allocation Matrix				
	<i>Bullish</i>	<i>Neutral</i>	<i>Bearish</i>	
<i>Equities</i>	Global Operators	Developed Equities	Emerging Markets	
<i>Bonds</i>		Corporate Bonds	Municipal Bonds	Government Bonds
<i>Tangible</i>	Precious Metals	Industrial Commodities	Residential Real Estate	Commercial Real Estate
<i>Cash</i>	Aussie \$ & Canadian \$	U.S. \$ & Japanese ¥		British £ & the Euro

Corporates as Governments?

The idea that perennially strong, corporate credits could trade through U.S. Treasuries seems remote, particularly given the safe haven bid to the “core” sovereign credit markets as mangers dump the credit of fiscally shaky nations. However, it may not be too far outside the realm of reason in some more *pressured* sovereign debt markets. Perhaps, the best option for increasing debt exposure to troubled countries would be to buy a basket of their domestic “Nifty-Fifty-like” corporate credits. While the debt of the five highest rated U.S. corporate credit issuers – JNJ, XOM, MSFT, ADP (all AAA), and GE (AA+) – trade +47bps above the mid-point of the yield curve (10-year minus 3-month), debt of the highest rated issuers, in a number of countries, trade far closer to and (in some cases) well inside the sovereign.

	Highest Rated Non-Government Debt Issuers			Avg of Highest Rated Corp Issuers	
	Sovereign			WACD*	Spread to Gov't Mid-point
	3Mo Yield	10Yr Yield	Mid-point		
Brazil	10.00	12.46	11.23	2.77	-846
South Africa	7.07	8.99	8.03	5.97	-206
Russia	2.37	5.85	4.11	3.06	-105
Italy	0.72	3.96	2.34	1.89	-45
France	0.23	3.48	1.85	1.86	1
Japan	0.12	1.33	0.72	0.80	8
China	1.38	3.40	2.39	2.59	20
Australia	4.25	5.67	4.96	5.19	23
Mexico	4.62	7.77	6.19	6.50	30
Germany	0.19	3.18	1.69	2.10	41
US	0.11	3.72	1.92	2.39	47
UK	0.57	4.15	2.36	3.15	79
Korea	2.05	4.89	3.47	4.48	101
Canada	0.41	3.52	1.96	3.06	110
Turkey	7.20	10.59	8.90	10.15	125
Indonesia	7.05	9.48	8.26	10.04	178
India	3.99	8.00	5.99	9.28	329

* WACD = weighted average cost of debt

Strategas' Bulldog Index Underscores Evolution to a “Company Without Borders”

Evolution to a “Company Without Borders” (Ways to Fight Slowing Domestic Growth)

Multi-national

1) Export – Begin to export domestic production given market analysis suggesting appetite for product or service.

2) Customize – Tailor offering to palate of foreign market's tastes.

Global
Operator

3) Trench Resources – Begin to utilize offshore infrastructure for production and marketing.

4) Rationalize Costs – Develop deep presence and use it to export product and services back to original domicile.

5) Trench Management – Executive build-up and increased influence of regional operating centers.

Without Borders

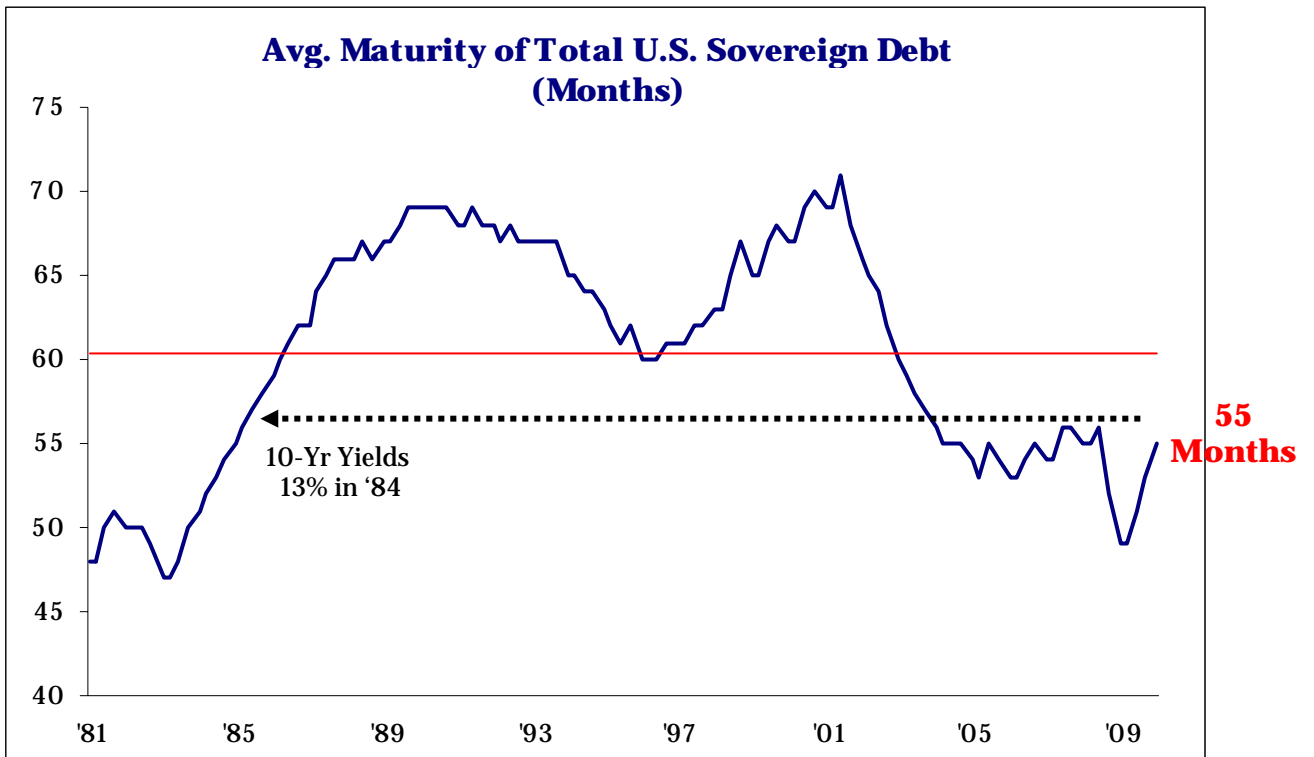
6) De-nationalize 1.0 – Shift principal executive team and HQ to new market.

7) De-nationalize 2.0 – The **Brand** becomes as, if not more, important than the company structure, personnel or location.

ETF Plays for our Major Investment Themes

Strategas Investment Theme	ETF Ticker & Description	Top 5 Holdings & Weights
Large-Cap Quality Stocks Stage a Comeback: <i>The Retail Investor Creeps out the Risk Curve.</i>	OEF iShares S&P 100 Index Fund	Exxon Mobil (4.7%), Microsoft (3.4%), Apple (3.2%), GE (2.9%), Bank of America (2.7%)
Dividends Back in Vogue: <i>Income Becomes a Larger Share of Total Return.</i>	DVY iShares DJ Select Dividend Fund	Lorillard (2.7%), Entergy (2.1%), Mercury (2.0%), Chevron (2.0%), VF Corp (1.9%)
Global Operators: <i>Branding and Revenue Diversity are Key in Low Nominal Growth Environment.</i>	IOO iShares S&P 100 Global Index Fund	Exxon Mobil (4.4%), Microsoft (3.1%), GE (2.7%), HSBC (2.5%), BP (2.5%)
Hard Asset Exposure: <i>We're Making a Secular Bet on Commodity Outperformance.</i>	DBC Powershares DB Commodity Index	Gasoline (11.9%), WTI (11.8%), Brent (11.7%), Heating Oil (11.7%), Gold (8.3%)
Precious Metals: <i>A Bet Against Paper Currencies, and a Hedge on Inflation Volatility.</i>	GLD SPDR Gold Trust	Holder of Gold
A Storm is Brewing: <i>Positioning for the next Bear Market in Government Bonds.</i>	TBT ProShares UltraShort 20-Year+ Treasury	Long-Dated U.S. Treasuries

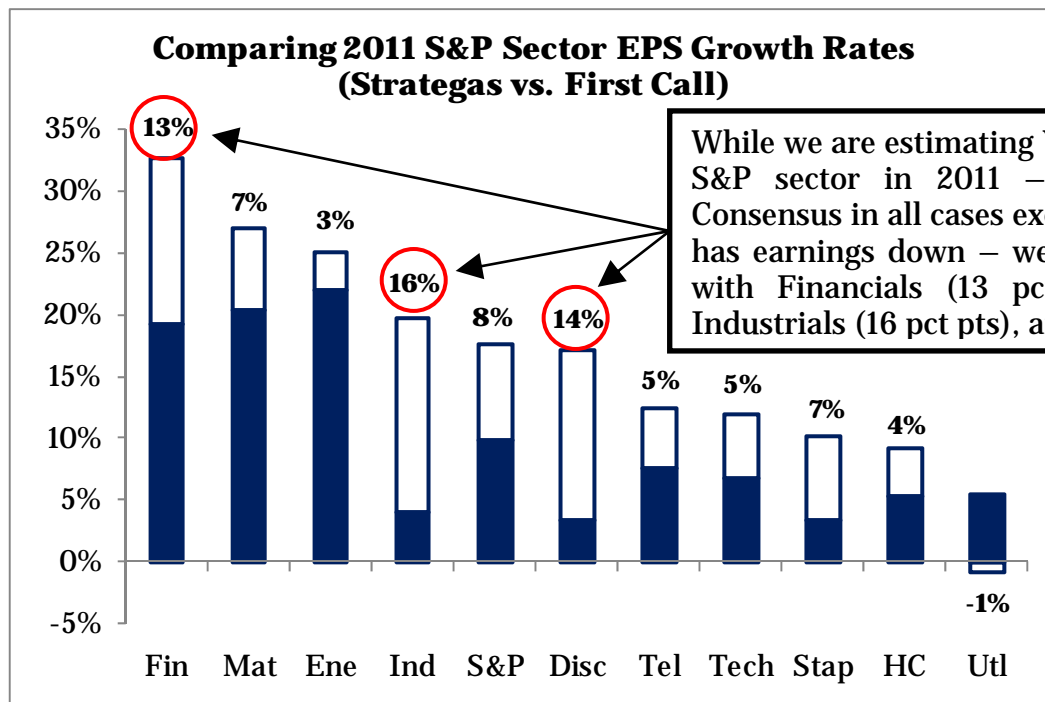
Lack of Confidence in Fiat Currencies Strongest Support for Gold & Precious Metals



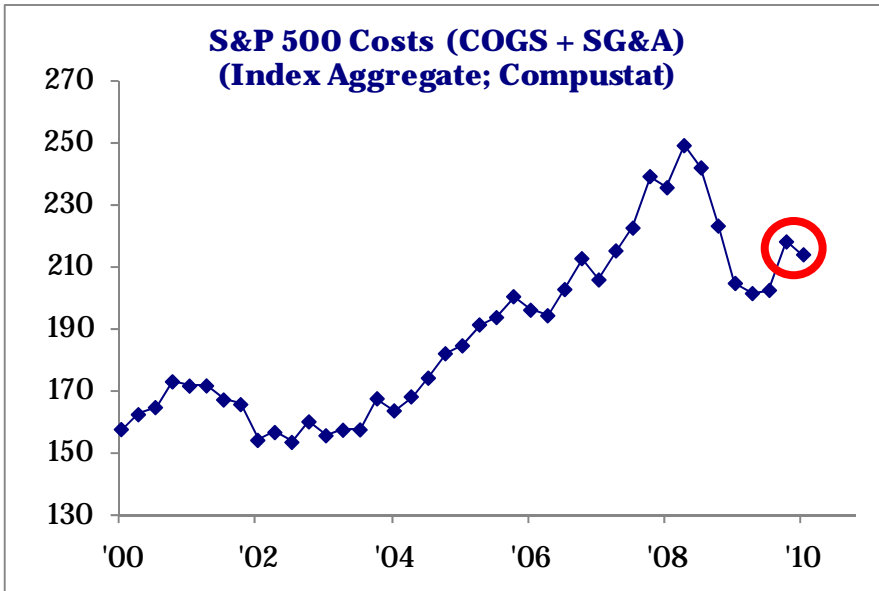
2010 – Cyclical Tailwind; 2011 – Profit Growth Tougher to Come By

Strategas S&P 500 Operating Earnings Estimates							
	2009		2010 *		2011		
	Level	Y/Y	Level	Y/Y	Level	Y/Y	
1Q	10.11	-39%	18.88a	86.7%	21.00	11.2%	
2Q	13.81	-19%	19.50	41.2%	21.25	9.0%	
3Q	15.78	-1%	19.75	25.2%	21.75	10.1%	
4Q	17.16	NA	20.75	20.9%	22.75	9.6%	
Year	56.86	15%	79.00	38.9%	86.75	9.8%	

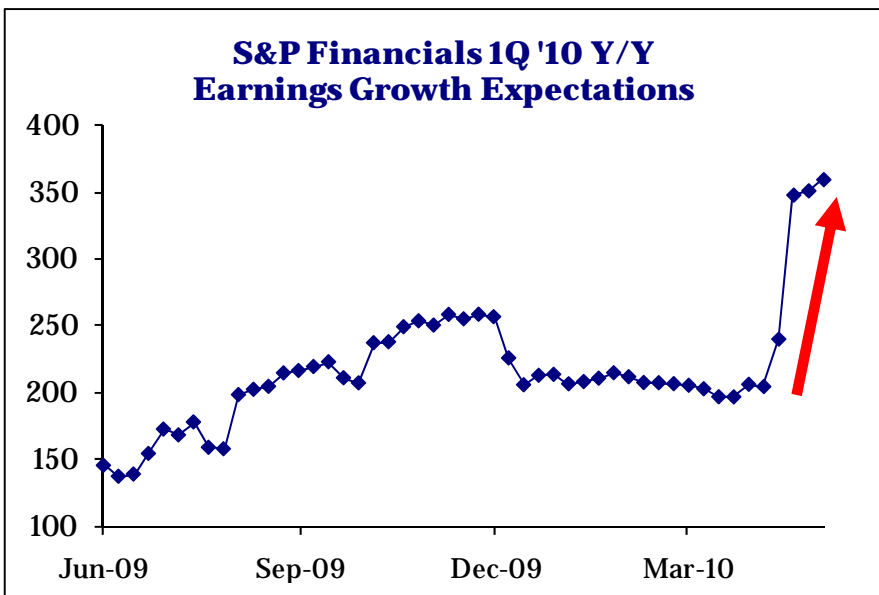
* Full year estimate may not sum due to fully reported quarters.



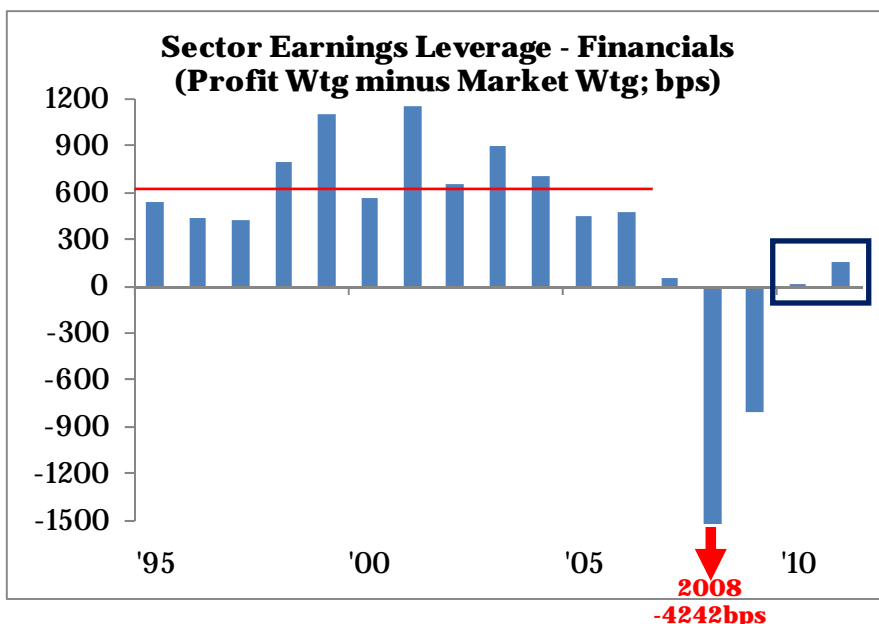
	Sector Contribution to S&P 500 Earnings					
	Actual				SRP Estimates	
	2006	2007	2008	2009	2010	2011
Discretionary	7.82	6.51	2.45	4.96	7.50	7.75
Staples	6.99	7.82	8.49	8.51	8.75	9.00
Energy	13.39	14.32	16.14	5.22	9.75	11.75
Financials	23.75	14.66	-14.87	3.52	13.00	15.50
Health Care	8.93	10.03	10.54	10.92	10.50	11.25
Industrials	9.14	10.16	10.05	6.73	7.25	7.50
Technology	9.08	10.39	9.58	10.35	14.25	15.25
Materials	3.00	2.99	1.53	1.40	2.50	3.00
Telecom	2.57	2.64	2.56	2.24	2.50	2.50
Utilities	3.05	3.01	3.05	3.02	3.00	3.25
S&P 500	87.71	82.54	49.51	56.86	79.00	86.75



Also, as top-line growth has started to materialize, taking over for the largely cost-cut-driven profit surprises of '09, companies have also been diligent in keeping the cost line in check. While up Y/Y (+4.5%), the companies that have reported 1Q results, have show a decline in aggregate costs (COGS + SG&A) of roughly -2% sequentially vs. 4Q '09.

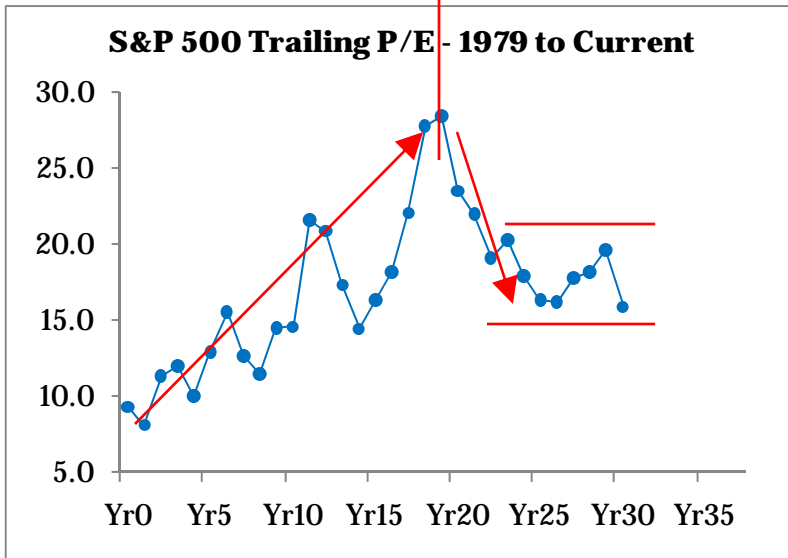
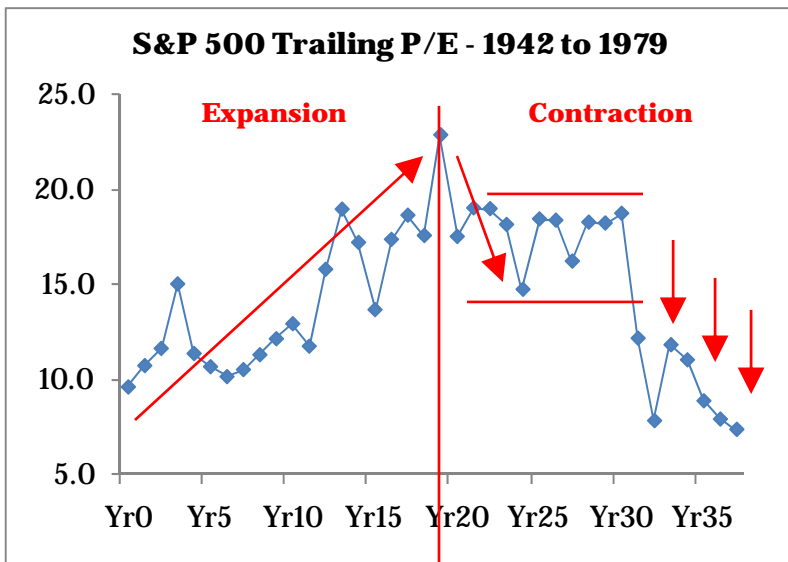


We were too bearish on the potential that the Financial complex could right its profit model as quickly as it did. If measured by the percentage of companies that positively surprised in 1Q (*just* 61% vs. 77% for the Index) the quarter was mixed, but those that did beat, did so handsomely – besting final estimates by +48.6% ...

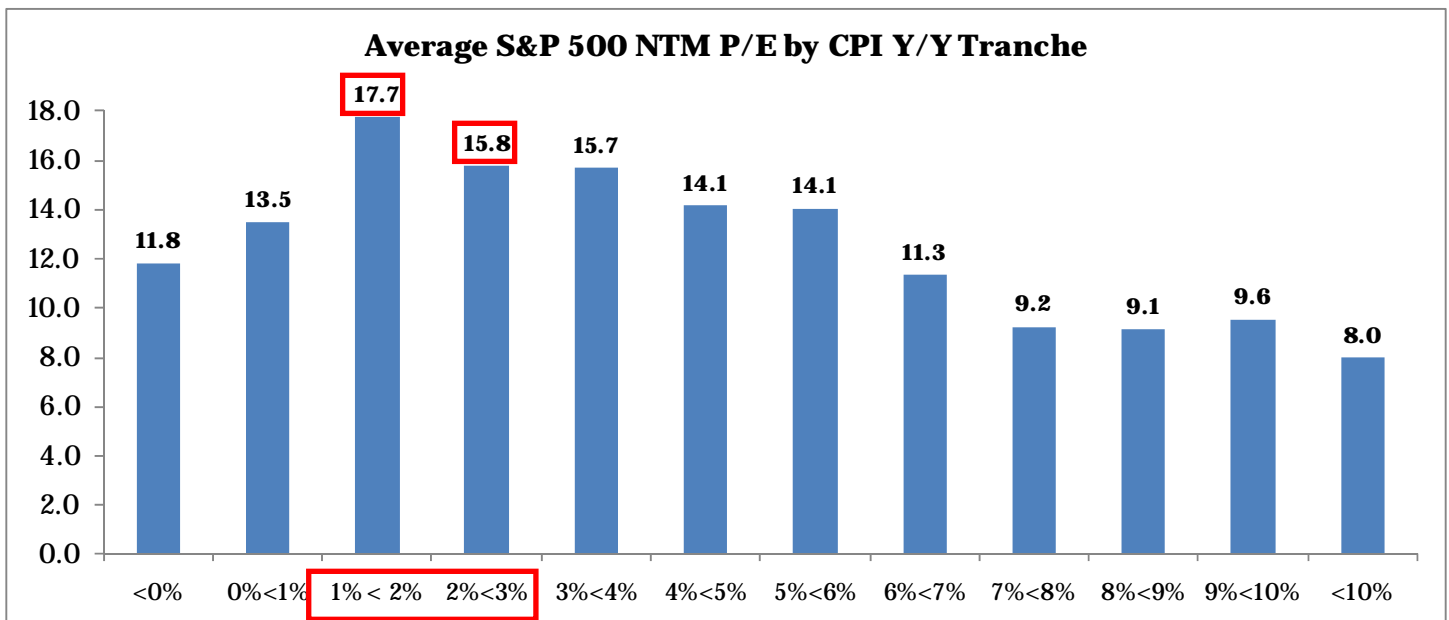


...however, in the decade ending in '07, the difference between the Financial sector's contribution to aggregate profits and its share of Index mkt-cap has averaged roughly **630bps** (essentially, aggregated financial leverage). In '08 & '09 this relationship was turned on its head. Even assuming the sector did not increase its mkt-cap share of the Index (outperform), the variance would only barely turn positive; this lends to our less-than-the-Street view of 2011 EPS.

Earnings Multiples Remain in Contraction Phase

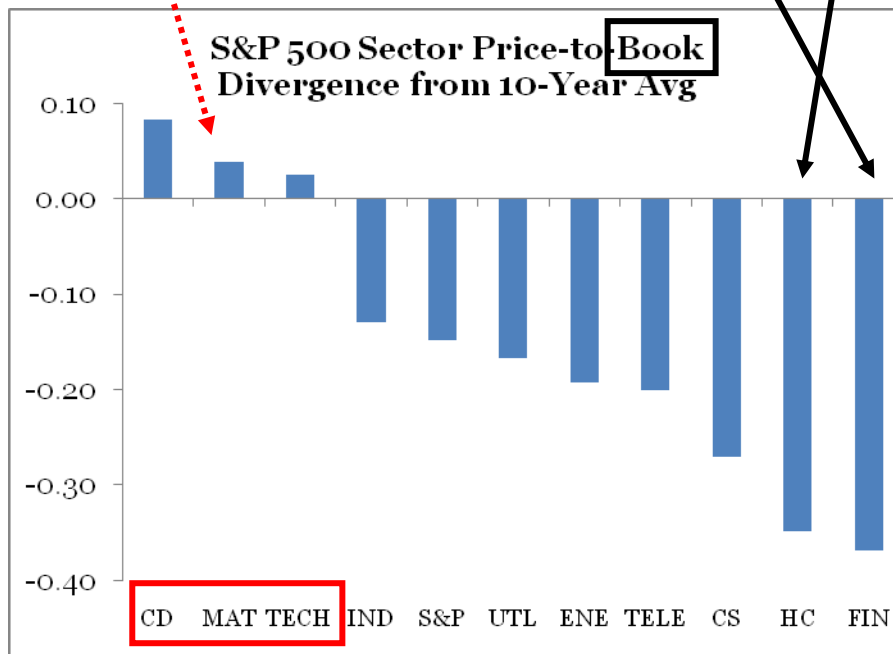
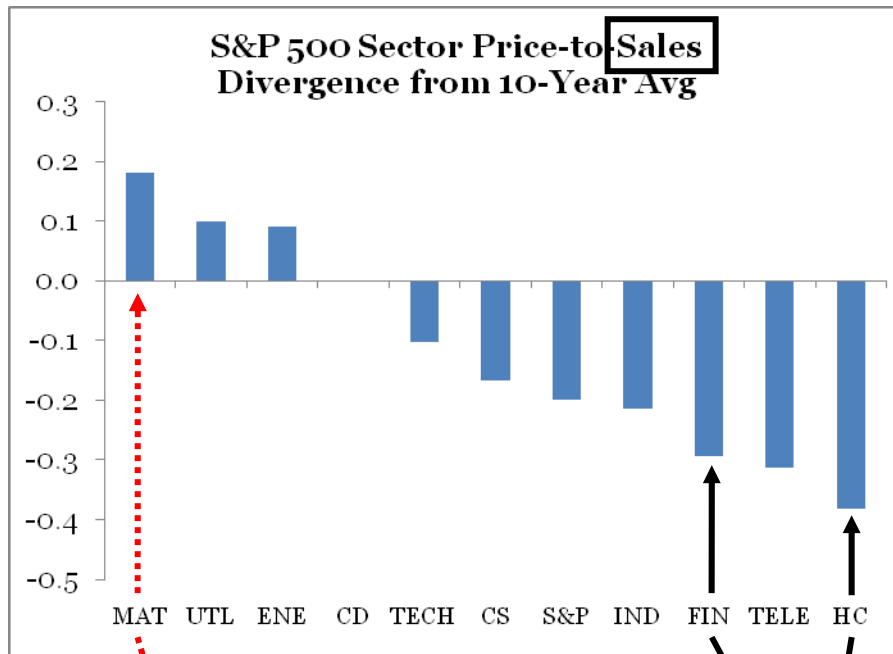


In the modern financial era (post-WWII), equity market multiples have moved in near 40-year cycles – roughly a 20-year expansion phase, followed by an equally long contraction phase. The two phases, however, are distinctly different. Expansion is best described as linearly upward sloping, and the fundamental backdrop is highlighted by easier regulation, lower taxes, lower interest rates, and lower inflation. Secular multiple contraction is a whole different animal. Falling earnings, higher Index turnover, and the reversal of the 4 tailwinds of expansion – taxes, regulation, interest rates, and inflation – leading first to a period of sideways multiples and then, if unaddressed, a sharp move lower. Our assessment of the current landscape suggests the market is likely to trade 16x earnings.



What's Consistent Here?

Materials Overvalued; Financials & Health Care Attractive



The massive destruction in corporate profitability only heightens the debate regarding earnings – and their composition. We have long been watchers of two other valuation metrics – Price-to-Sales and Price-to-Book. At the moment, while cyclical shares are ascendant in the market, valuations for the complex – particularly Materials, Discretionary, and Technology – are best described as trending toward the expensive end of the range.

Conversely, Financials – which are starting to show signs of breaking out from tight trading ranges – look attractive relative its long-term average.

Health Care, also flashing below trend multiples, is likely to be weighed down by legislative process; we believe the benefits of a tactical overweight have passed.

Strategas Recommended Sector Allocation

	Index Weight	Strategas Weight	Ratio	Inception Date	Liner Notes	
Overweight	Technology	19%	21%	1.12	10/30/09	Emerging Market exposure; capex – the “new” labor in a jobless recovery
	Financials	16%	18%	1.12	1/14/10	Cyclical recovery underway, paving recovery in profits; Regulation gridlock looms
	Industrials	11%	11%	1.07	10/30/09	Benefits from 2010 stimulus story; the transition sector for 2 nd phase of cyclical recovery
	Energy	11%	12%	1.07	1/26/09	Bridges gap between cyclical and secular; best positioned for long-term outperformance
Market Weight	Health Care	12%	12%	1:1	1/14/10	Legislative process aches along; benefit of tactical overweight likely spent
	Discretionary	11%	10%	1:1	1/14/10	Consumer balance sheet improving modestly; job losses have ebbed
	Materials	3%	3%	1:1	10/30/09	Taking cyclical profits given outperformance in '09, but long-term bias shades positive
Underweight	Staples	11%	9%	0.79	1/14/10	Difficult to see much Alpha as sustainable recovery takes hold; Defensive Trade winding down
	Telecom	3%	2%	0.73	9/16/08	Regulatory pressures remain (net neutrality, surveillance); VZ & T only significant weight
	Utilities	3%	2%	0.57	7/23/08	Yields moving in the wrong direction in 2010, pulls capital away from the sector

Strategas Quality Composite

			Market -Cap	Perfor- mer	Free CF Yield	WACD (bps)	ROE	Net Inc Margin	P/Bk	Div Yld	Factor Rank
Energy	INT	World Fuel Services	1,592	62%	-4.0%	245	17.81	0.9%	2.9	0.53	4
	OXY	Occidental Petroleum	65,728	61%	1.0%	257	12.6	21.2%	2.2	1.49	4
	SE	Spectra Energy Corp.	13,951	74%	-3.1%	341	12.7	19.1%	4.0	4.28	4
Materials	ECL	Ecolab Inc.	11,122	72%	-0.1%	212	26.4	7.6%	49.8	1.27	5
	LZ	Lubrizol Corp.	5,798	53%	9.3%	333	32.0	12.2%	19.6	1.37	5
	NEM	Newmont Mining	27,102	62%	1.6%	359	16.5	19.8%	2.4	0.71	5
	SIAL	Sigma-Aldrich Corp.	6,513	65%	2.3%	105	23.4	16.5%	5.5	1.08	5
Industrials	CUB	Cubic Corp.	1,037	68%	9.1%	250	13.7	5.6%	2.8	0.48	6
	GD	General Dynamics	27,213	65%	3.9%	255	20.9	7.7%	NA	2.20	5
	ROL	Rollins Inc.	2,167	63%	0.1%	67	34.3	7.9%	NA	1.66	5
	UTX	United Technologies	65,950	70%	2.7%	271	22.2	7.5%	NA	2.27	5
Consumer Discretionary	CMCSA	Comcast	36,558	59%	6.5%	318	8.9	10.3%	NA	1.91	5
	COCO	Corinthian Colleges	1,322	64%	10.6%	279	24.1	8.4%	20.1	0.00	5
	DV	DeVry Inc.	4,411	72%	3.5%	67	24.4	13.6%	10.7	0.32	5
	MHP	McGraw-Hill Cos.	9,133	46%	7.6%	294	49.2	12.9%	NA	2.79	5
	ROST	Ross Stores Inc.	6,336	69%	7.3%	305	41.1	NA	5.5	1.14	5
CS	KO	Coca-Cola Co.	122,504	59%	-1.0%	163	31.1	22.6%	9.8	3.29	5
	MKC	McCormick & Co.	4,698	58%	0.9%	283	25.7	9.6%	NA	2.63	5
HC	MRX	Medicis Pharma	1,423	55%	8.8%	263	16.7	17.4%	4.3	0.95	5
Financials	AFG	American Fin Group	3,107	73%	21.2%	318	16.6	12.2%	0.8	1.87	5
	AFL	AFLAC Inc.	21,135	72%	22.1%	306	22.0	8.5%	2.3	2.20	5
	GS	Goldman Sachs	70,711	52%	43.3%	139	22.0	27.8%	1.2	0.96	5
	RGA	Reins. Grp of America	3,549	67%	51.2%	308	15.3	6.7%	0.9	0.93	5
	SFG	StanCorp Fin Group	2,038	70%	13.1%	301	14.0	8.2%	1.2	1.78	5
	TRH	TransAtlantic Hldgs	3,019	76%	25.0%	381	11.5	9.3%	0.8	1.61	5
Tech	GPN	Global Payments Inc.	3,469	62%	7.6%	243	21.5	12.3%	23.4	0.19	6
	FDS	FactSet	3,366	65%	1.0%	0	31.1	23.6%	11.7	1.06	5
	JKHY	Jack Henry & Assoc	2,111	67%	3.2%	66	17.4	14.5%	8.0	1.49	5
	MSFT	Microsoft Corp.	250,623	65%	2.9%	209	41.8	29.0%	7.7	1.70	5
Tel	CTL	CenturyTel Inc.	10,222	63%	-0.7%	330	11.0	11.4%	NA	8.50	5
UTL	DUK	Duke Energy Corp.	22,244	63%	-10.3%	264	5.4	9.0%	1.2	5.72	5
	SO	Southern Co.	28,256	64%	-12.0%	273	13.6	12.8%	1.8	5.27	5

Strategas Quality Composite Screening Parameters

Universe	S&P 1500 companies with market-cap greater than US\$1 billion
Market Performance	Frequency (pct of time) the company outperformed the sector in weeks the sector was down. (From 1/1/07; the company is in the top quintile)
Total Return	Company's cash disbursed for common equity dividends increased in the latest fiscal year vs. the previous.
Valuation	Price-to-Tangible Book Value below the sector average. (Company is in the bottom quartile)
Bal Sheet: Equity	Return on Equity greater than the company's own 5-year average ROE.
Bal Sheet: Debt	Debt as a percentage of equity is less than the sector average AND the weighted average cost of debt (WACD) is less than the sector average.
Income Statement	Both EBIT (Operating) margin and net income margin positive and increasing.
Statement of Cash Flow	The company's free cash flow yield spread to Treasuries is greater than the sector average.

Performance Leading up to First Fed Tightening Favors Materials, Industrials, Energy Sectors

While we ultimately believe the “bill will come due” in the form of higher interest rates, higher taxes, or a weaker currency, it’s not necessarily the *first* step in this direction which causes problem for the equity market – more often than not, it is the *last*. A simple analysis of equity sector performance in the months leading up to and following the first Fed tightening finds that the Materials, Industrials, & Energy sectors are consistent outperformers.

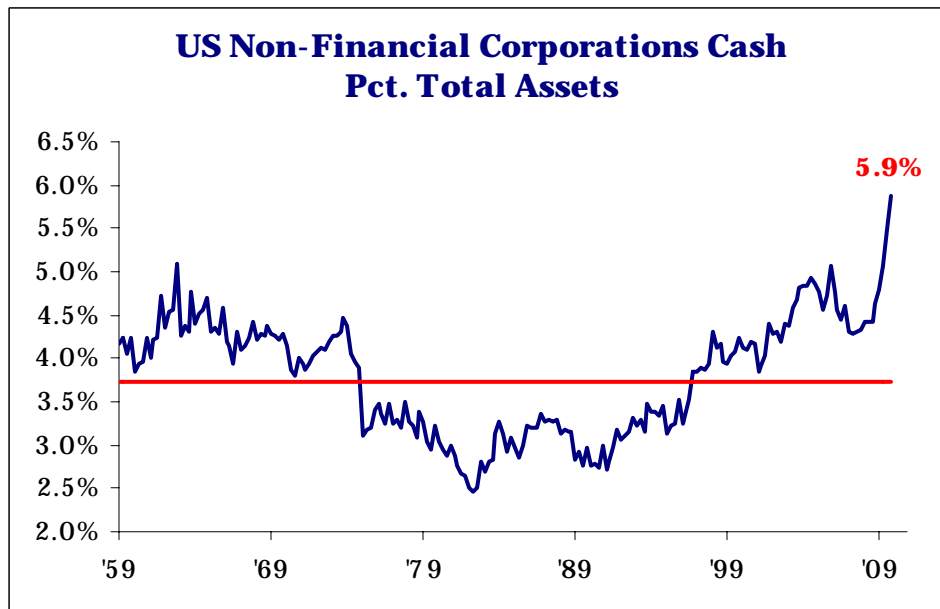
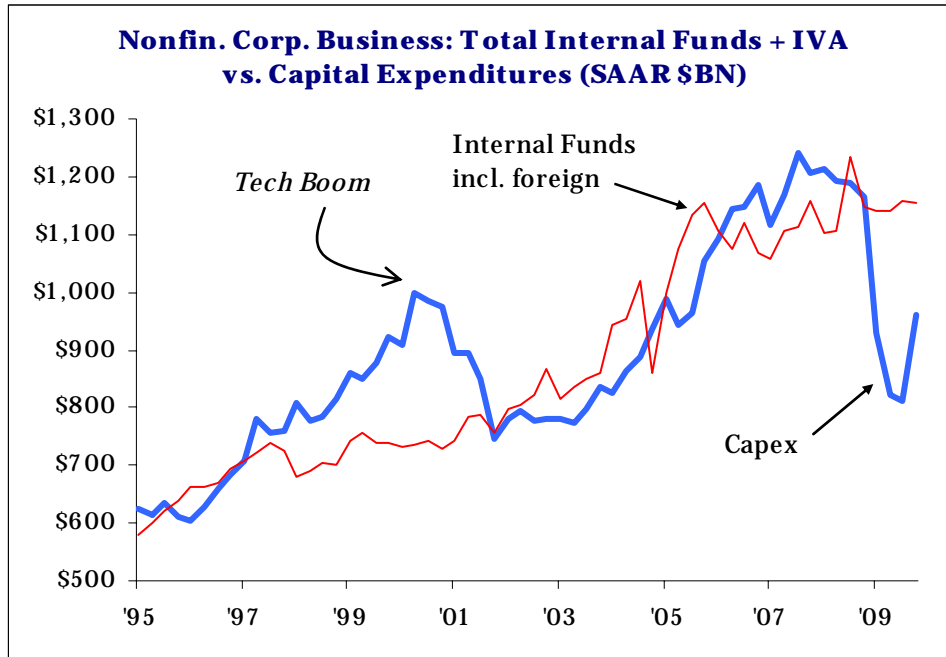
Average S&P 500 Sector Performance Before & After First Fed Tightening

	BEFORE		AFTER	
	-6 Mos.*	-3 Mos.	+3 Mos.	+6 Mos.
Materials	19.5%	11.4%	2.8%	12.1%
Industrials	17.5%	11.0%	-0.2%	6.6%
Energy	16.7%	8.7%	6.5%	10.7%
Discretionary	12.4%	3.6%	0.5%	8.2%
S&P 500	11.6%	6.1%	0.8%	8.0%
Financials	9.4%	5.0%	-1.2%	2.6%
Telecom	6.2%	3.5%	-1.7%	5.1%
Staples	6.0%	3.1%	-3.3%	3.1%
Health Care	5.9%	2.7%	0.4%	4.4%
Technology	5.2%	3.3%	-3.3%	6.7%
Utilities	-0.1%	1.7%	-4.4%	-2.6%

* Sorted; Aggregate of '83, '87, '94, '99 & '04

Corporations Loaded with Cash – But How Will They Use It?

The corporate funding “gap” – the difference between cash flow and capital expenditures – suggests that nonfinancial corporations have a substantial ability to spend on everything from capex to dividends to M&A. While corporate cash flows have fallen slightly, capex budgets have fallen more substantially. Again, this is virtually the mirror image of what appeared in the late ‘90s at the height of the capex boom. Capex may wind up being the winner of the excess cash flow sweepstakes - guidance updates from our proprietary Bellwether Index points to an increased appetite for technology spending.



“Rent-Seekers” Continue to Outperform, Monitoring the Strategas Lobbying Index

In an effort to measure the extent and efficacy of big business’ efforts to influence policymakers, Dan Clifton and his team in Washington have assiduously collected data on the amount companies in the S&P 500 have spent on lobbying back to 2002. And wouldn’t you know it, Strategas’ K Street Index of the companies spending the most on their efforts to influence Washington has outperformed the broader market every year under both Republican and Democratic administrations alike.

Strategas 2009 K-Street Index:

S&P 500 Top 50 Lobbying Firms: Measured by Lobbying Expenditures % of Assets

MO	Altria	GD	General Dynamics	NOC	Northrop Grumman
AMGN	Amgen	GENZ	Genzyme	NUE	Nucor
ADSK	Autodesk	GR	Goodrich	BTU	Peabody Energy
BAX	Baxter Intl	HRB	H&R Block	QCOM	QUALCOMM
BA	Boeing	HRS	Harris	RTN	Raytheon
CELG	Celgene	INTU	Intuit	RAI	Reynolds American
CF	CF Industries	LLL	L-3 Communications	RHI	Robert Half Intl
CNX	Consol Energy	LMT	Lockheed Martin	SO	Southern
CMI	Cummins	LO	Lorillard	TE	TECO Energy
DRI	Darden Restaurants	MRO	Marathon Oil	TDC	Teradata
DVA	DaVita	MA	MasterCard	TXT	Textron
LLY	Eli Lilly	MHP	McGraw-Hill	TSN	Tyson Foods
FII	Federated Investors	MDP	Meredith	UPS	United Parcel Service
FDX	FedEx	MON	Monsanto	X	United States Steel
FLIR	Flir Systems	MWW	Monster Worldwide	VRSN	VeriSign
FLR	Fluor	MCO	Moody's	WPI	Watson Pharmaceuticals
FMC	FMC	NSC	Norfolk Southern		

Proprietary Lobbying Portfolio: Annual Performance

Relative Performance vs. S&P 500 (Non-Cumulative)

	Tracking Year	+1 Year from Inception	+2 Years from Inception
2002 Constituents	9.6%	20.9%	13.8%
2003 Constituents	16.0%	19.2%	13.0%
2004 Constituents	20.5%	21.1%	1.4%
2005 Constituents	20.0%	5.5%	17.9%
2006 Constituents	4.2%	26.3%	4.3%
2007 Constituents	30.6%	-0.2%	18.1%
2008 Constituents	1.6%	12.5%	--
2009 Constituents	9.9%	--	--
Average	14.1%	15.0%	11.4%

Note: Equal Weight, Rebalanced Annually by top 10% of S&P 500 Cos. Lobbying Expenditures % of Assets, 2009 Constituents Above

Sustainable Economic Recovery is a Tailwind for Dividend Story

S&P 500 Dividend Breakdown

	# Of Issues Paying	% of S&P 500	% of S&P Market Value
1980	469	93.8%	98.0%
1981	462	92.4%	97.4%
1982	458	91.6%	96.2%
1983	454	90.8%	96.1%
1984	446	89.2%	95.9%
1985	442	88.4%	95.3%
1986	426	85.2%	95.0%
1987	429	85.8%	94.2%
1988	432	86.4%	95.1%
1989	437	87.4%	94.2%
1990	438	87.6%	96.6%
1991	434	86.8%	95.8%
1992	436	87.2%	95.7%
1993	435	87.0%	94.7%
1994	436	87.2%	93.6%
1995	432	86.4%	92.5%
1996	428	85.6%	91.0%
1997	427	85.4%	90.6%
1998	418	83.6%	85.2%
1999	402	80.4%	74.8%
2000	372	74.4%	79.4%
2001	351	70.2%	79.3%
2002	351	70.2%	81.6%
2003	370	74.0%	84.7%
2004	377	75.4%	85.4%
2005	386	77.2%	87.0%
2006	383	76.6%	85.8%
2007	390	78.0%	84.7%
2008	372	74.4%	85.1%
2009	363	72.6%	81.9%
Average	415.2	83.0%	90.1%

While the relative market performance of dividend payers has started to trend sideways over the last several months, we have noticed a tiny wiggle in a series we follow closely – the ratio of favorable-to-unfavorable dividend actions has turned positive. Given the strength of corporate balance sheets, we believe there is a case to be made for a marked increase in dividend payouts over the next several quarters.

Source: S&P

