Regional Specialists Review

January 2012

HAMILTON CAPITAL MANAGEMENT

WorldView

Overview: *The outlook for growth has improved, even as emerging nations slow, Europe slips into recession and its risk of financial shock remains high. Inflation has rolled over and is headed to 1.5% or below. And U.S. political and fiscal skirmishes seem to have taken a pause.*

Risks abound, but we continue to have several driving factors supporting growth. We've seen a meaningful downturn in commodity prices, loose or loosening monetary conditions nearly everywhere (now including many emerging nations), improved conditions surrounding the Arab spring and continued efforts in Europe to gain the advantage over its fiscal problems.

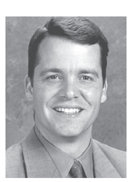
North America

Tony Caxide, CFA®
Chief Investment Officer

Even as Europe slows, the U. S. seems to have managed a degree of economic stability – even improvement – in the last few months. It's tentative and it's vulnerable, but more jobs are being created and more companies are choosing to expand or even relocate production to the U. S. – contrary to every bit of popular wisdom.

Even the unemployment rate has fallen. At 8.5% it looks absurdly high relative to the estimates of "full employment" near 3-4% of a few years ago. But that measure used to be estimated closer to 5.5-6%, and, compared to a peak level of over 10%, 8.5% will be trumpeted as an achievement in the presidential election season we're careening into.

Europe



Eric Shisler, CFA®
VP, Portfolio Management

Economic indicators suggest that the eurozone will move into recession, as economic growth is hindered by austerity measures and the drag on capital required to fund rescue plans. Slowing economies in the emerging markets should also negatively impact European economic growth thanks to lower exports.

Uncertainty over sovereign risk continues to cloud the outlook. A Greek default can be overcome, although European banks, as major holders of Greek debt, would need to raise capital. Greece's exit from the Euro could even occur, but it could be managed. The concern seems to lie in the risk of contagion, where the stakes multiply significantly should larger economies like Spain or Italy need rescuing. As a result, we continue to dislike the opportunity/risk ratio for the time being.

WorldView

Jeff Wilkins, MBA
Director, Portfolio Mgmt.

Asia

Economic fundamentals are hinting that Japan's post-disaster recovery is not leading to sustained growth. Industrial production, the trade balance and retail sales are all decidedly negative. The yen continues to strengthen, as it has for over two years, which puts ever-increasing pressure on the country's exports. The only bright spots are slow-but-steady improvement in employment numbers and household spending, which has been relatively positive for the past six months. At this point, it remains difficult to see how Japan's economy or corporate earnings can present an attractive buying opportunity.

Chris O'Daniel, CTP, CFA®
Director, Portfolio Mgmt.

UK

The economy is softening in the UK, as recent indications suggest a slowing from the third quarter's 2.4% pace. Industrial production has been contracting at a 2-3% annualized rate since last February and a recent survey suggests declines for UK manufacturing will continue. In addition, an index of leading indicators, though not always prescient, has turned lower. UK consumers have been paying down debt and limiting spending; both stymie growth, even though they are long-term positives.

There are patches of sunshine amidst the clouds. Both the Service and Construction sectors (84% of the UK's economy) are on track for gains in the near term. Exports have risen, helping to trim the deficit in the trade balance. And, in October, the Bank of England expanded its program of quantitative easing.

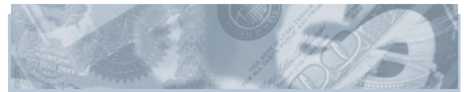
Resolution to the European Union's sovereign debt impasse is key to the UK's prospects. More than 50% of total UK trade is done with the EU, and the UK enjoys the benefits of the European single market, when it's healthy.

Tony Caxide, CFA®
Chief Investment Officer

Emerging Nations

Since our last issue, the shift toward easier policies – moving from braking to gentle acceleration – has continued in developing economies. As emerging nations fear a further drop in European demand, many are already experiencing lower exports and have begun to witness lower rates of domestic inflation, which give policy makers the wiggle room to lower interest rates or otherwise generate some stimulus.

Investors remain cautious and skeptical that earnings can recover strongly, particularly as Europe seems likely to see a recession (even if shallow and brief). So, much like elsewhere in the world, uncertainty is hurting the flow of capital into emerging economies.



THE HCM ADVANTAGE

The largest investors often have the benefit of sophisticated internal investment departments led by a qualified Chief Investment Officer to design and manage their investment portfolios.

Unfortunately, most investors can't maintain an internal team of that caliber. But if having an external investment team of that sophistication is something you could gain from, then we're here to serve.

We function in a fiduciary capacity as an external Chief Investment Officer for our clients. Our structure is similar to the investment departments of large, sophisticated institutional investors, and our team has extensive global investment experience. In fact, several of our team members have received national recognition for their abilities and accomplishments.

Each day, we diligently apply our disciplined investment process to the design and continuous, forward-looking supervision of your portfolio. Our goal: To build a complete investment solution for you.

Hamilton Capital Management, Inc.
5025 Arlington Centre Blvd., Suite 300
Columbus, Ohio 43220
614/273-1000 • 614/273-1001 (fax)
888/833-5951 (toll free)
www.hamiltoncapital.com