

Market Perspective

May 8, 2010

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The Good and The Bad

- **Positives**

- US economy getting better
- Employment picture may be improving
- Financial system is healing
- Most large companies in good financial condition
- Gov't providing low interest rates and lots of liquidity
- Democrats need stability going into mid-term elections (so will work to keep stimulus flowing)

- **Negatives**

- Still too much debt everywhere
- Credit scarce for those who need it
- Greece could be a falling domino
- China applying brakes will slow growth elsewhere
- Strong dollar bad for US exports and profits
- Hard to trust markets after what they did last Thursday
- Domestic terrorism back in the headlines

State of the Markets

- The following two slides illustrate what a difference a week can make
- At April 30th, equity asset classes showed average or above average returns, low volatility and solid trends
- As of Friday's close, 5-week returns have gone negative, volatility has jumped and trendlines are being broken

Explanatory notes for the charts that follow:

Green is good – above average returns, low volatility and price above trendline.

Yellow is average – values reside in a fairly wide band of average historical performance

Red is bad – returns at the low end of past performance, elevated volatility and price sinking below trendlines.

Global Asset Class Overview as of April 30, 2010

Average to above average conditions; No obvious signs of trouble

As of 4/30/2010

	Trailing Returns			Volatility		Moving Averages												
	5 Week	20 Week	40 Week	14 Day	65 Day	5/15/30	15/45/90	50	200	500								
US Large Cap (S&P plus Sectors)																		
SPY	SPDR S&P 500 Index	1.91%	2	7.76%	2	28.90%	1	1.58	1	1.40	1	2	1	1	1	1	1	1
DIA	Diamonds Trust (DJIA)	1.54%	2	6.22%	2	28.10%	1	1.22	1	1.12	1	2	1	1	1	1	1	1
QQQQ	Powershares QQQ (NASDAQ)	2.58%	2	11.81%	2	33.73%	1	0.71	1	0.62	1	2	1	1	1	1	1	1
US Mid Cap																		
MDY	iShares Russell 2000	4.54%	2	17.24%	1	42.00%	1	2.35	3	1.98	3	1	1	1	1	1	1	1
US Small Cap																		
IWM	iShares Russell 2000	5.66%	1	19.06%	1	40.13%	1	1.40	1	1.11	1	1	1	1	1	1	1	1
US Microcap																		
IWC	iShares Russell Microcap	8.83%	1	24.28%	1	41.48%	1	0.88	1	0.66	1	1	1	1	1	1	1	1
International Developed																		
EFA	iShares EAFE Index	-1.98%	2	-3.12%	2	17.87%	2	0.95	1	0.87	1	2	1	3	1	1	1	1
GWX	SPDR Int'l Small Cap	2.83%	2	7.04%	2	28.59%	2	0.42	1	0.39	1	2	1	1	1	1	1	1
Emerging Markets Equity																		
EEM	iShares Emerging Markets	2.31%	2	1.35%	2	27.85%	2	0.76	1	0.77	1	2	1	1	1	1	1	1
EWX	S&P Emerging Markets Small Cap	2.54%	2	7.25%	2	31.46%	2	0.96	1	0.80	1	2	1	1	1	1	1	N/A
Natural Resource/Commodities																		
IGE	iShares S&P North American Nat Re	8.50%	1	8.66%	2	31.47%	1	0.66	1	0.67	1	1	1	1	1	1	1	1
VAW	Vanguard Materials	1.78%	2	7.73%	2	37.55%	1	1.20	1	1.24	1	2	1	1	1	1	1	1
VDE	Vanguard Energy	7.02%	1	8.05%	2	28.38%	1	1.52	1	1.49	1	1	1	1	1	1	1	1
US Real Estate																		
IYR	iShares Dow Jones US Real Estate	5.69%	1	17.82%	1	66.18%	1	1.35	3	0.97	1	1	1	1	1	1	1	1
International Real Estate																		
RWX	SPDR Dow Jones Int'l Real Estate	1.67%	2	0.40%	2	23.77%	2	0.54	1	0.52	1	2	1	1	1	1	1	1
Emerging Markets Debt																		
EMB	iShares JPMorgan EM Bond Index	0.19%	2	2.73%	2	13.59%	2	0.41	1	0.42	1	2	1	1	1	1	1	1
US Corporate Debt																		
LQD	iShares iBoxx Inv Grade Corp Bond	1.48%	2	1.84%	2	9.54%	1	0.44	1	0.49	1	1	1	1	1	1	1	1
High Yield Debt																		
HYG	iShares iBoxx High Yield Corporate	0.87%	2	4.21%	2	18.74%	1	0.71	1	0.63	1	1	1	1	1	1	1	1
US Treasuries																		
SHY	iShares Barclays 1-3 Yr Treasury	0.30%	2	0.01%	2	0.86%	2	0.09	1	0.09	1	1	3	1	1	1	1	1
TLT	iShares Barclays 20+ Treasury	3.58%	1	-1.07%	2	0.72%	2	0.79	1	0.82	1	1	2	1	3	3	3	3
Currencies																		
UUP	PowerShares DB US Dollar	0.00%	2	6.58%	1	1.48%	2	0.14	1	0.15	1	2	1	1	1	3	3	3
Metals																		
GLD	SPDR Gold Shares	6.23%	1	1.99%	2	25.42%	1	1.37	3	1.50	3	1	1	1	1	1	1	1

Global Asset Class Overview as of May 7, 2010

Suddenly it's all trouble except Treasuries, Dollar and Gold

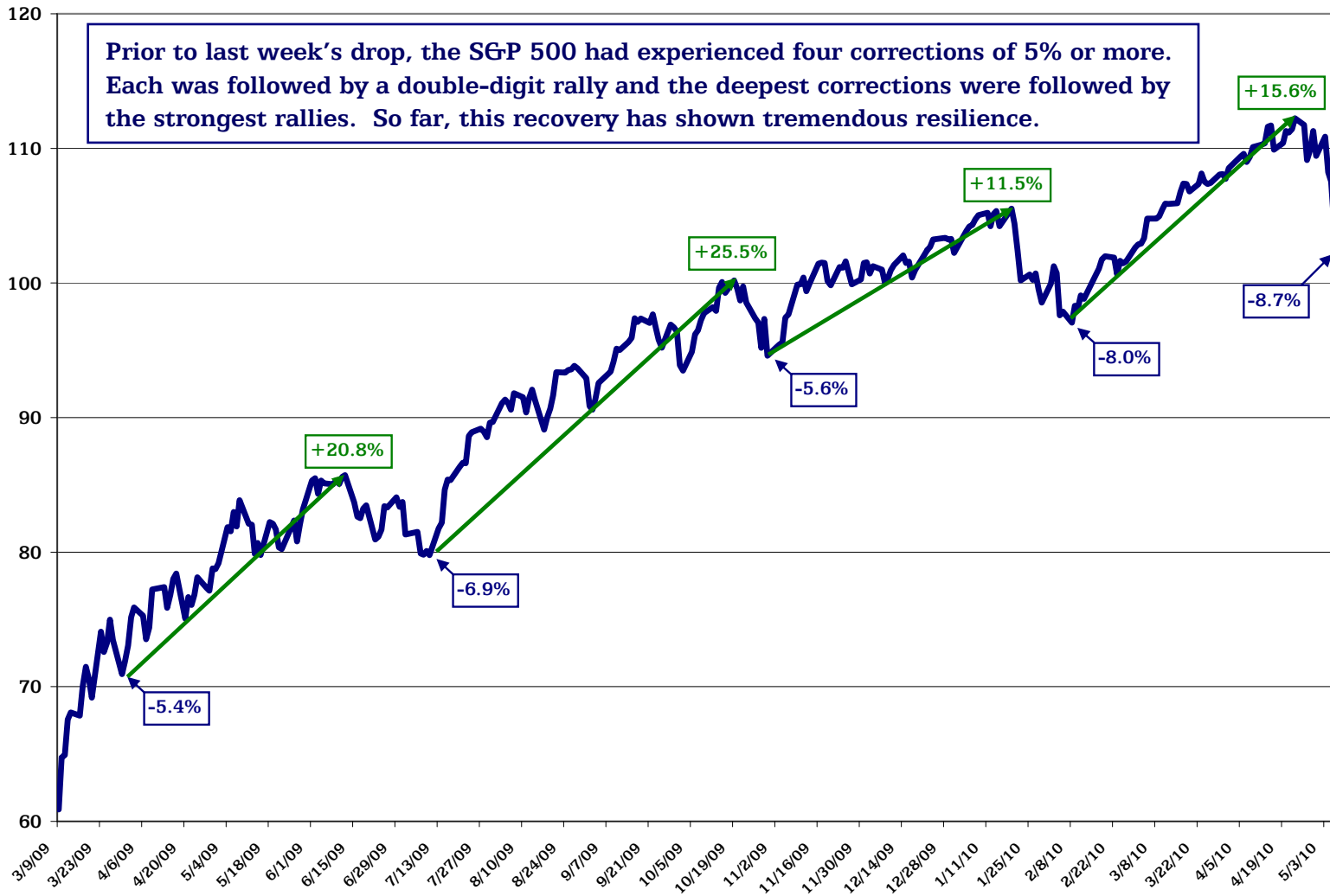
As of 5/7/2010

	Trailing Returns			Volatility			Moving Averages									
	5 Week	20 Week	40 Week	14 Day	65 Day	5/15/30	15/45/90	50	200	500						
US Large Cap (S&P plus Sectors)																
SPY	SPDR S&P 500 Index	-6.32%	3	-0.01%	2	15.08%	2	2.75	3	1.61	1	3	1	3	1	1
DIA	Diamonds Trust (DJIA)	-5.42%	3	-0.96%	2	16.05%	1	2.19	3	1.28	1	2	1	3	1	1
QQQQ	Powershares QQQ (NASDAQ)	-6.58%	2	3.09%	2	18.29%	2	1.33	1	0.73	1	2	1	3	1	1
US Mid Cap																
MDY	iShares Russell 2000	-6.49%	3	7.26%	2	26.64%	1	4.54	3	2.41	3	2	1	3	1	1
US Small Cap																
IWM	iShares Russell 2000	-6.24%	3	9.06%	2	24.45%	1	2.07	3	1.25	1	2	1	3	1	1
US Microcap																
IWC	iShares Russell Microcap	-4.52%	2	12.56%	2	25.12%	1	1.34	3	0.77	1	2	1	3	1	1
International Developed																
EFA	iShares EAFE Index	-13.71%	3	-10.46%	2	3.12%	2	1.40	3	0.95	1	3	2	3	3	3
GWX	SPDR Intl Small Cap	-10.06%	3	-2.15%	2	12.03%	2	2.34	3	0.80	3	3	1	3	3	1
Emerging Markets Equity																
EEM	iShares Emerging Markets	-12.43%	3	-6.88%	2	11.34%	2	1.09	1	0.82	1	3	2	3	3	1
EWX	S&P Emerging Markets Small Cap	-10.35%	3	-1.27%	2	17.70%	2	4.49	3	1.56	3	3	2	3	1	N/A
Natural Resource/Commodities																
IGE	iShares S&P North American Nat Re	-7.71%	3	0.30%	2	15.25%	2	1.45	1	0.80	1	2	1	3	3	1
VAW	Vanguard Materials	-10.24%	3	-1.30%	2	19.16%	2	2.14	3	1.37	3	3	1	3	3	1
VDE	Vanguard Energy	-7.80%	3	-0.57%	2	13.49%	2	2.71	3	1.65	1	2	1	3	3	3
US Real Estate																
IYR	iShares Dow Jones US Real Estate	-2.82%	2	11.86%	2	52.65%	1	2.18	3	1.16	1	2	1	3	1	1
International Real Estate																
RWX	SPDR Dow Jones Int'l Real Estate	-10.40%	3	-5.96%	2	9.56%	2	1.18	3	0.64	1	3	2	3	3	3
Emerging Markets Debt																
EMB	iShares JPMorgan EM Bond Index	-4.33%	3	-1.97%	2	6.01%	2	0.98	1	0.53	1	3	2	3	3	1
US Corporate Debt																
LQD	iShares iBoxx Inv Grade Corp Bond	0.55%	2	0.37%	2	5.28%	2	0.84	3	0.55	1	2	1	3	1	1
High Yield Debt																
HYG	iShares iBoxx High Yield Corporate	-3.41%	2	-2.96%	2	8.78%	2	1.47	3	0.78	1	3	2	3	3	1
US Treasuries																
SHY	iShares Barclays 1-3 Yr Treasury	0.79%	1	0.42%	2	1.20%	2	0.13	1	0.10	1	1	2	1	1	1
TLT	iShares Barclays 20+ Treasury	9.27%	1	4.04%	2	6.40%	2	1.50	3	0.96	3	1	2	1	1	1
Currencies																
UUP	PowerShares DB US Dollar	3.87%	1	9.15%	1	5.24%	2	0.19	1	0.17	1	1	1	1	1	1
Metals																
GLD	SPDR Gold Shares	6.66%	1	7.28%	2	26.82%	1	1.66	3	1.54	3	1	1	1	1	1

But We've Been Here Before

- The next chart shows that we've experienced four corrections of at least 5% since the market bottomed in March 2009
- In each case, the market followed up with a double-digit rise
- The last correction was an 8% downtick in February and the global asset class overview had a lot of red on it, as it does today

S&P 500 Corrections Since March 9, 2009



Global Asset Class Overview as of February 8, 2010

Quick corrections can make things look bad

As of	2/8/10	Trailing Returns			Volatility		Moving Averages				
		5 Week	20 Week	40 Week	14 Day	65 Day	5/15/30	15/45/90	50	200	500
US Large Cap (S&P plus Sectors)											
SPY	SPDR S&P 500 Index	-6.56% 3	-0.33% 2	24.12% 1	2.02 3	1.46 1	3	2	3	1	1
DIA	Diamonds Trust (DJA)	-6.10% 3	2.16% 2	25.52% 1	1.71 3	1.25 1	3	2	3	1	1
QQQQ	Powershares QQQ (NASDAQ)	-6.73% 2	2.33% 2	29.38% 1	0.93 1	0.66 1	3	2	3	1	1
US Mid Cap											
MDY	iShares Russell 2000	-4.54% 2	0.38% 2	30.47% 1	2.43 3	2.01 3	3	2	3	1	1
US Small Cap											
IWM	iShares Russell 2000	-6.02% 3	-2.44% 2	26.77% 1	1.35 1	1.16 1	3	2	3	1	1
US Microcap											
IWC	iShares Russell Microcap	-4.84% 2	-5.23% 2	27.19% 1	0.80 1	0.70 1	3	1	3	1	3
International Developed											
EFA	iShares EAFE Index	-8.72% 3	-6.97% 2	27.23% 1	1.24 1	0.95 1	3	2	3	3	3
GWX	SPDR Int'l Small Cap	-5.21% 2	-5.73% 2	36.03% 1	0.55 1	0.44 1	3	2	3	1	1
Emerging Markets Equity											
EEM	iShares Emerging Markets	-11.25% 3	-2.69% 2	36.16% 1	1.23 1	0.82 1	3	2	3	1	1
EWX	S&P Emerging Markets Small Cap	-9.18% 2	1.55% 2	50.26% 2	1.16 3	0.87 1	3	2	3	1	N/A
Natural Resource/Commodities											
IGE	iShares S&P North American Nat Re	-7.93% 3	-3.45% 2	26.97% 1	0.96 1	0.76 1	3	2	3	1	3
VAW	Vanguard Materials	-9.20% 3	-4.20% 2	30.58% 1	1.85 3	1.44 3	3	2	3	1	3
VDE	Vanguard Energy	-5.84% 2	-1.05% 2	23.58% 2	2.12 3	1.67 1	3	2	3	1	3
US Real Estate											
IYR	iShares Dow Jones US Real Estate	-7.27% 3	0.24% 2	39.47% 1	1.17 1	0.98 1	3	2	3	1	3
International Real Estate											
RWX	SPDR Dow Jones Int'l Real Estate	-6.76% 2	-8.11% 2	37.49% 1	0.72 1	0.61 1	3	3	3	1	3
Emerging Markets Debt											
EMB	iShares JPMorgan EM Bond Index	-2.27% 2	-0.06% 2	15.93% 2	0.46 1	0.42 1	3	2	3	1	1
US Corporate Debt											
LQD	iShares iBoxx Inv Grade Corp Bond	0.36% 2	0.71% 2	12.36% 1	0.53 1	0.57 1	2	1	3	1	1
High Yield Debt											
HYG	iShares iBoxx High Yield Corporate	-4.46% 3	1.62% 2	21.80% 1	0.90 1	0.55 1	3	2	3	1	1
US Treasuries											
SHY	iShares Barclays 1-3 Yr Treasury	0.69% 1	0.99% 2	1.32% 2	0.11 1	0.11 1	1	1	1	1	1
TLT	iShares Barclays 20+ Treasury	2.55% 2	-2.21% 2	-6.34% 2	0.87 1	0.93 3	2	2	1	3	3
Currencies											
UUP	PowerShares DB US Dollar	3.14% 1	4.42% 2	-6.75% 2	0.15 1	0.19 1	1	1	1	1	3
Metals											
GLD	SPDR Gold Shares	-5.25% 3	4.13% 2	15.96% 2	2.02 3	1.88 3	3	2	3	1	1

What's Next?

- Start with the obvious – No one knows what's next
- 2007 proved to be the start of a recession compounded by a massive credit/liquidity crisis in 2008
- The Fed led an unprecedented campaign to supply liquidity, stabilize the financial system and restore credit to the economy
- Market-based credit/liquidity suppliers (banks, non-bank finance companies and securitization markets) are not yet back in business to the extent needed to support a full recovery
- The Fed is trying to slowly withdraw from its position as primary provider of credit market liquidity as market participants re-emerge (e.g. the return of fully-financed leveraged buyouts)
- However, as we saw on Thursday, market participants are providing liquidity only when it is convenient and profitable
- If market liquidity dries up, the Fed will be forced to reverse course and reactivate its programs
- If investors perceive any further slippage in liquidity, watch out!