

# *The Big Picture*

*June 13, 2010*

**LongRun Capital Management**

## **IMPORTANT DISCLOSURE**

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## **Big Picture Executive Summary**

- **Equity markets around the world showed significant improvement last week as perceived risks of a European shutdown and Chinese slowdown appeared less threatening.**
- **On the other hand, the year-old improvement in credit markets has stalled with spreads widening over the past several weeks. A significant factor has been lower Treasury yields from a “flight to safety” away from the Euro. Any continued widening of investment grade and high yield corporate spreads would be a negative for the equity markets.**
- **Equity markets need further improvement in the short-term to get back above key trendlines. Lack of follow-through would be damaging to investor psychology and could lead to a deeper correction.**

# Global Asset Classes as of June 11

As of 6/11/2010

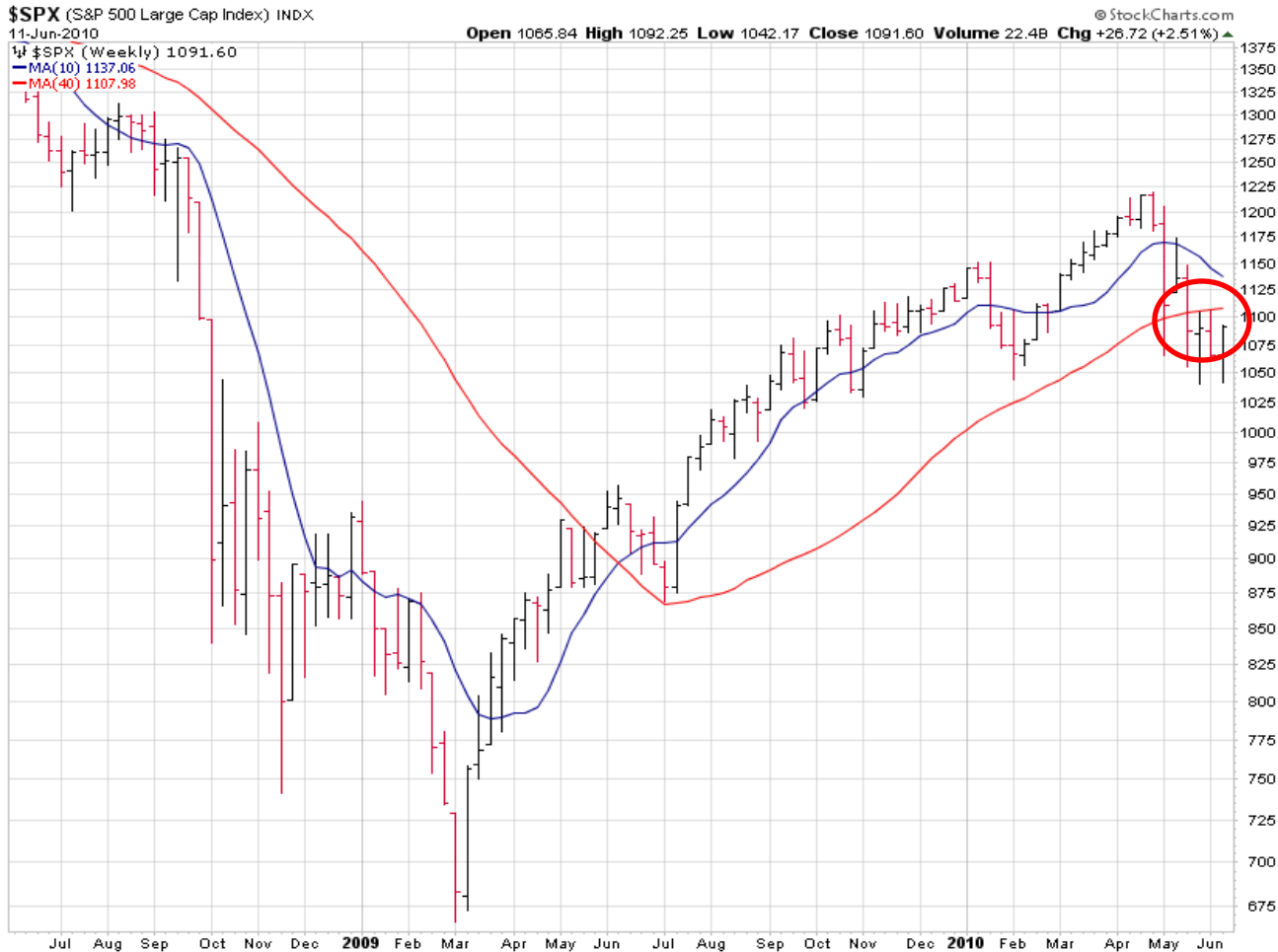
	Trailing Returns			Volatility		Moving Averages				
	5 Week	20 Week	40 Week	14 Day	65 Day	5/15/30	15/45/90	50	200	500
<b>US Large Cap (S&amp;P plus Sectors)</b>										
SPY SPDR S&P 500 Index	-1.42% 2	-3.70% 2	7.39% 2	2.61 3	2.13 3	3	3	3	3	1
DIA Diamonds Trust (DJIA)	-1.42% 2	-4.53% 2	8.24% 2	2.19 3	1.71 3	3	3	3	3	1
QQQQ Powershares QQQ (NASDAQ)	0.20% 2	-2.34% 2	13.02% 2	1.17 1	0.98 1	3	3	3	1	1
<b>US Mid Cap</b>										
MDY iShares Russell 2000	0.26% 2	0.88% 2	15.45% 2	3.71 3	3.26 3	3	3	3	1	1
<b>US Small Cap</b>										
IWM iShares Russell 2000	-0.64% 2	0.14% 2	11.95% 2	2.08 3	1.73 3	3	3	3	1	1
<b>US Microcap</b>										
IWC iShares Russell Microcap	-2.08% 2	0.63% 2	9.00% 2	1.39 3	1.13 3	3	2	3	1	1
<b>International Developed</b>										
EFA iShares EAFE Index	-0.61% 2	-15.10% 3	-6.62% 2	1.41 3	1.16 1	3	3	3	3	3
GWX SPDR Int'l Small Cap	-0.24% 2	-8.88% 2	1.36% 2	0.64 1	0.89 3	2	3	3	3	1
<b>Emerging Markets Equity</b>										
EEM iShares Emerging Markets	1.49% 2	-9.44% 2	7.40% 2	1.18 1	1.00 1	2	3	3	3	1
EWX S&P Emerging Markets Small Cap	0.72% 2	-7.60% 2	13.44% 2	1.17 3	1.78 3	2	3	3	3	N/A
<b>Natural Resource/Commodities</b>										
IGE iShares S&P North American Nat Re	0.90% 2	-6.71% 2	10.28% 2	1.08 1	0.97 1	2	3	3	3	1
VAW Vanguard Materials	-1.11% 2	-8.33% 2	7.93% 2	2.00 3	1.68 3	3	3	3	3	1
VDE Vanguard Energy	-1.59% 2	-9.78% 2	5.06% 2	2.54 3	2.05 1	2	3	3	3	3
<b>US Real Estate</b>										
IYR iShares Dow Jones US Real Estate	1.94% 2	8.47% 2	27.93% 1	1.76 3	1.55 3	3	2	3	1	1
<b>International Real Estate</b>										
RWX SPDR Dow Jones Int'l Real Estate	0.31% 2	-10.13% 2	-2.36% 2	0.87 1	0.77 1	2	3	3	3	1
<b>Emerging Markets Debt</b>										
EMB iShares JPMorgan EM Bond Index	2.76% 2	-0.20% 2	5.84% 2	0.83 1	0.70 1	2	3	3	1	1
<b>US Corporate Debt</b>										
LQD iShares iBoxx Inv Grade Corp Bond	0.85% 2	0.45% 2	3.66% 2	0.56 1	0.59 1	2	2	1	1	1
<b>High Yield Debt</b>										
HYG iShares iBoxx High Yield Corporate	-0.26% 2	-5.32% 2	6.42% 2	1.08 1	1.00 1	3	3	3	3	1
<b>US Treasuries</b>										
SHY iShares Barclays 1-3 Yr Treasury	0.17% 2	0.46% 2	1.21% 2	0.11 1	0.11 1	1	1	1	1	1
TLT iShares Barclays 20+ Treasury	1.91% 2	6.18% 1	2.32% 2	1.39 3	1.18 3	1	1	1	1	1
<b>Currencies</b>										
UUP PowerShares DB US Dollar	3.08% 1	10.12% 1	8.94% 1	0.22 1	0.19 1	1	1	1	1	1
<b>Metals</b>										
GLD SPDR Gold Shares	1.47% 2	10.16% 2	29.34% 1	1.67 3	1.59 3	1	1	1	1	1

# Global Asset Classes as of June 4

As of 6/4/2010

	Trailing Returns						Volatility				Moving Averages				
	5 Week	20 Week	40 Week		14 Day	65 Day	5/15/30	15/45/90	50	200	500				
<b>US Large Cap (S&amp;P plus Sectors)</b>															
SPY SPDR S&P 500 Index	-10.09%	-6.02%	7.95%	2.95	3	2.02	3	3	3	3	1				
DIA Diamonds Trust (DJIA)	-9.68%	-6.31%	8.22%	2.45	3	1.62	3	3	3	3	1				
QQQQ Powershares QQQ (NASDAQ)	-8.43%	-2.74%	15.85%	1.32	1	0.93	1	2	3	1	1				
<b>US Mid Cap</b>															
MDY iShares Russell 2000	-10.23%	-1.73%	16.57%	4.29	3	3.09	3	2	3	1	1				
<b>US Small Cap</b>															
IWM iShares Russell 2000	-11.29%	-1.09%	15.14%	2.37	3	1.65	1	3	2	3	1				
<b>US Microcap</b>															
IWC iShares Russell Microcap	-12.52%	0.64%	13.68%	1.60	3	1.07	3	2	3	1	1				
<b>International Developed</b>															
EFA iShares EAFE Index	-13.84%	-18.78%	-6.22%	1.58	3	1.12	1	3	3	3	3				
GWX SPDR Int'l Small Cap	-13.49%	-12.10%	1.29%	0.75	3	0.87	3	3	3	3	1				
<b>Emerging Markets Equity</b>															
EEM iShares Emerging Markets	-11.53%	-13.71%	6.96%	1.36	1	0.97	1	2	3	3	1				
EWX S&P Emerging Markets Small Cap	-10.75%	-11.09%	13.11%	1.50	3	1.75	3	2	3	3	N/A				
<b>Natural Resource/Commodities</b>															
IGE iShares S&P North American Nat Re	-12.41%	-12.56%	9.33%	1.23	1	0.93	1	3	3	3	1				
VAW Vanguard Materials	-13.84%	-13.83%	5.86%	2.29	3	1.62	3	3	3	3	1				
VDE Vanguard Energy	-14.17%	-14.62%	5.59%	2.76	3	1.95	1	3	3	3	3				
<b>US Real Estate</b>															
IYR iShares Dow Jones US Real Estate	-10.84%	2.16%	26.77%	2.03	3	1.48	3	2	3	1	1				
<b>International Real Estate</b>															
RWX SPDR Dow Jones Int'l Real Estate	-12.75%	-14.11%	-3.86%	0.97	1	0.75	1	3	3	3	3				
<b>Emerging Markets Debt</b>															
EMB iShares JPMorgan EM Bond Index	-2.59%	-1.42%	6.69%	0.98	1	0.68	1	2	3	1	1				
<b>US Corporate Debt</b>															
LQD iShares iBoxx Inv Grade Corp Bond	-1.59%	0.23%	4.30%	0.61	1	0.58	1	3	2	3	1				
<b>High Yield Debt</b>															
HYG iShares iBoxx High Yield Corporate	-6.53%	-6.26%	6.49%	1.52	3	0.96	1	3	3	3	1				
<b>US Treasuries</b>															
SHY iShares Barclays 1-3 Yr Treasury	0.41%	0.64%	1.27%	0.12	1	0.11	1	1	1	1	1				
TLT iShares Barclays 20+ Treasury	6.14%	8.27%	4.33%	1.51	3	1.14	3	2	1	1	1				
<b>Currencies</b>															
UUP PowerShares DB US Dollar	7.55%	13.42%	10.22%	0.26	3	0.18	1	1	1	1	1				
<b>Metals</b>															
GLD SPDR Gold Shares	3.32%	7.87%	28.81%	1.74	3	1.56	3	1	1	1	1				

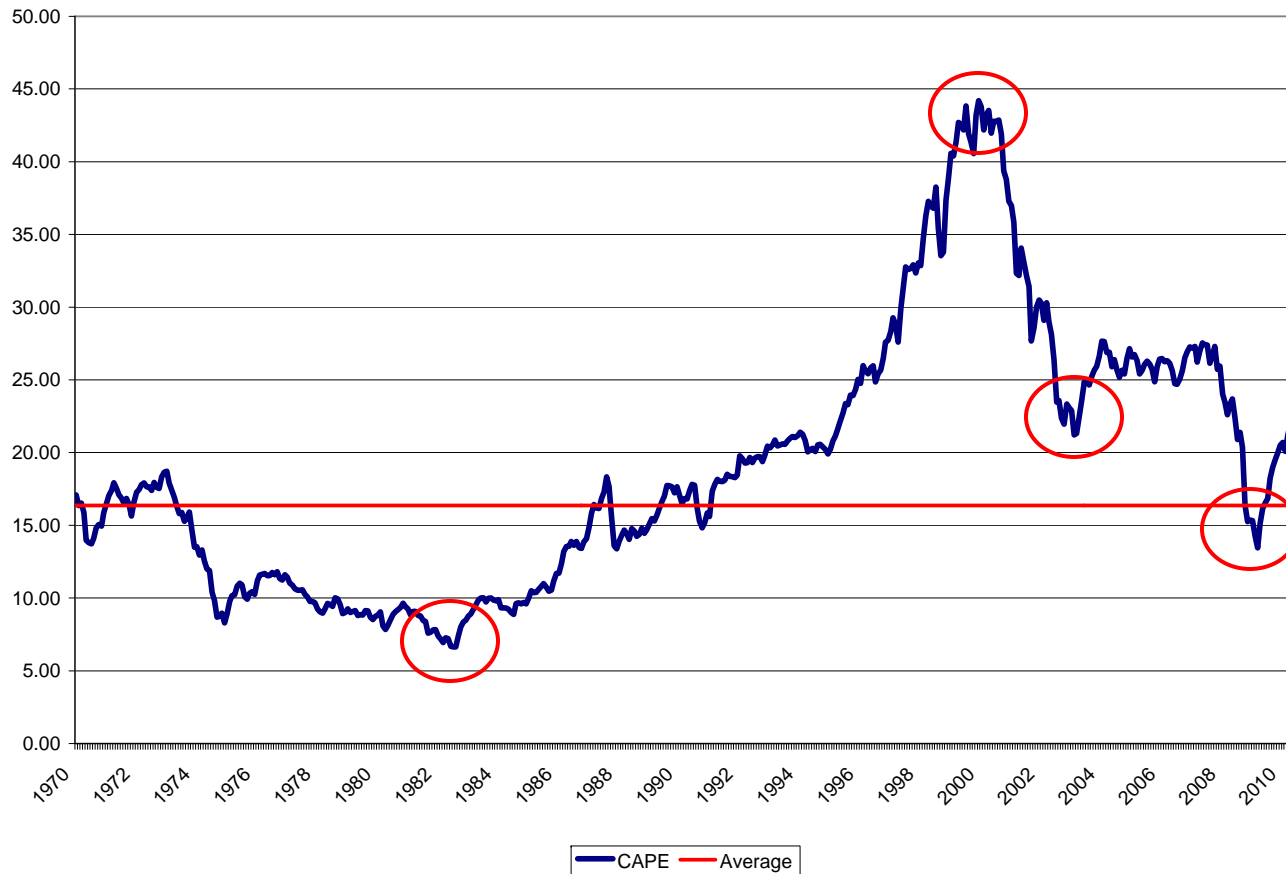
# Big Picture: S&P 500 Trendlines



Many analysts and investors monitor the performance of market indices against trendlines of various lengths. One of the most watched is the 200 day moving average and its equivalent 40 week moving average. Breaking above or below this average is often viewed as the signal of a change in market direction.

The recent correction has put the S&P 500 below its 40 week and 200 day moving averages. Last week saw a strong move to regain this lost ground. Additional follow through is necessary to re-establish a positive trend.

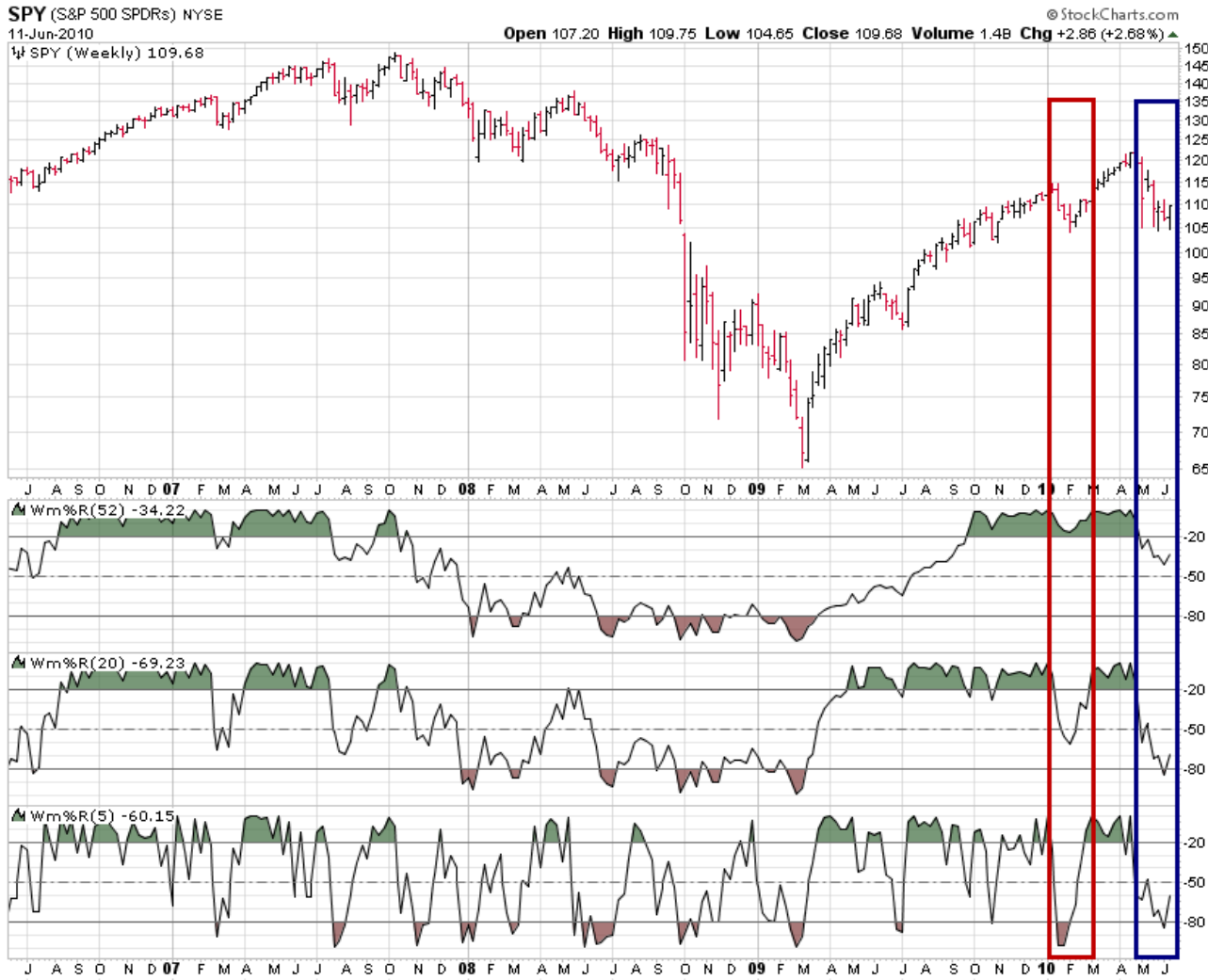
## Big Picture: Schiller P/E Ratio



Robert Schiller of Yale University developed a measure of the price/earnings ratio of the S&P 500 stock index that uses earnings over a 10-year history to adjust for cyclical ups and downs.

Working from left to right, 1982 showed stocks to be undervalued on Schiller's measure and marked the start of a long bull market. Conversely, 2000 marked the peak of the Internet bubble with record high P/E ratios. The subsequent decline failed to reach the long-term average but the 2008 crash brought the market back below fair value. The current level indicates moderate overvaluation.

# Big Picture: Overbought/Oversold



Measures whether a market is making new highs (overbought) or new lows (oversold) over three timeframes (5, 20 and 52 weeks). Overbought and oversold conditions can persist but rarely over all timeframes.

Comparing the recent downturn with February, the S&P 500 has reached levels more oversold for 52 week and 20 week measures. Last week saw a reversal. Continuation of that move is critical.

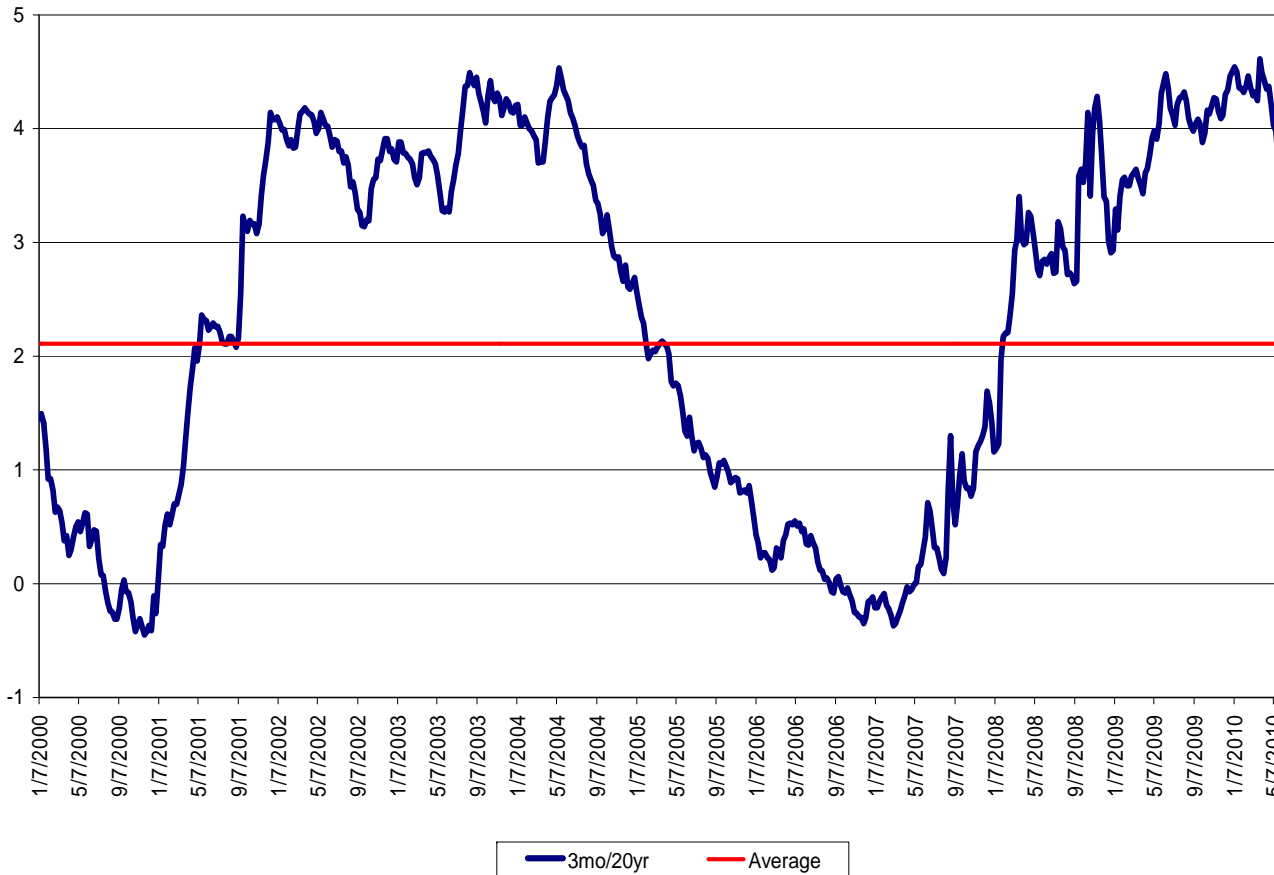
# Big Picture: Volatility (Fear Gauge)



Measures the expected volatility of the US stock market based on put and call options. Higher volatility implies wider swings in stock prices and is used as a gauge of investor fear.

Volatility remains at elevated levels but saw a sharp drop last week as the market finished higher.

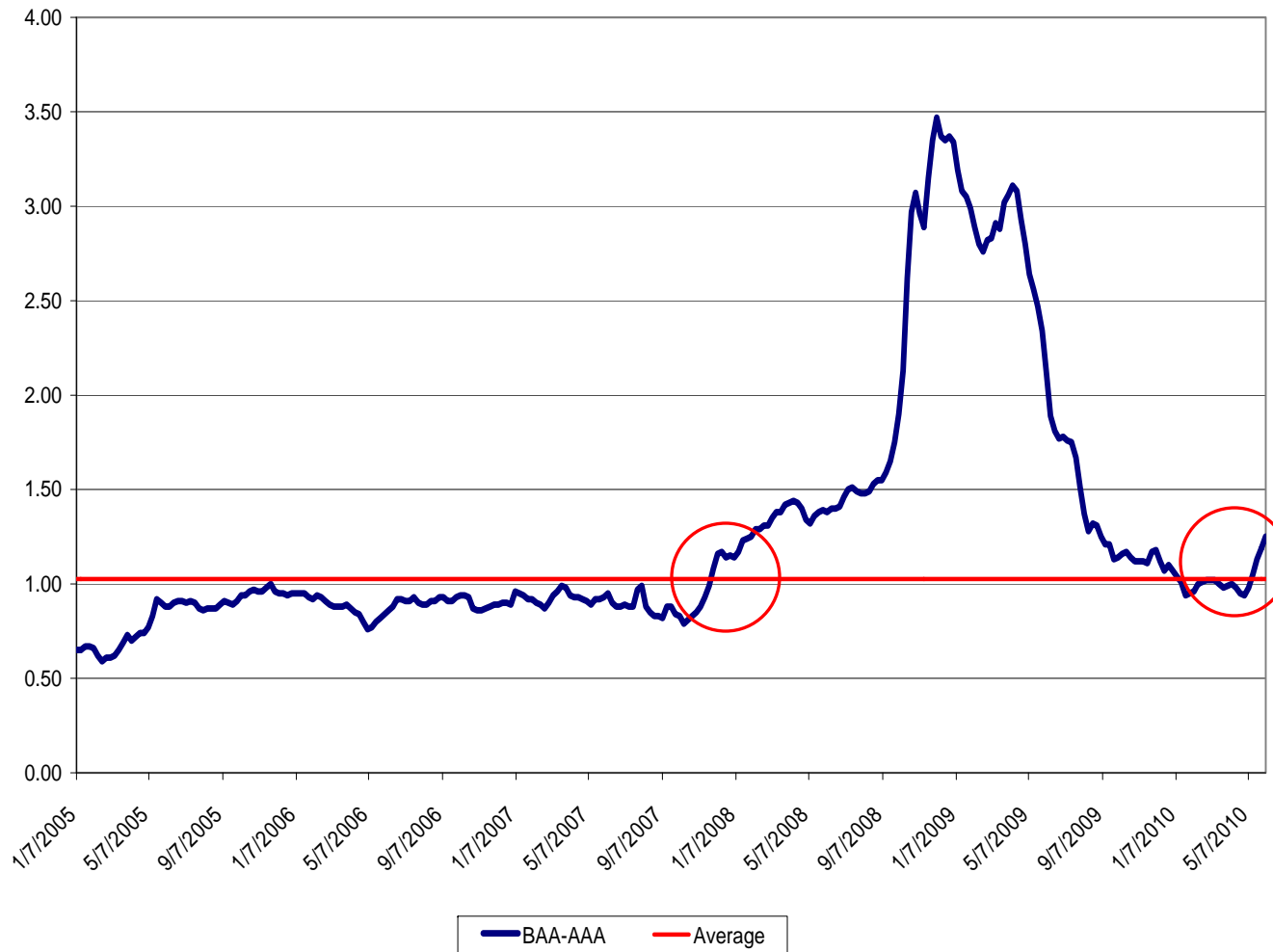
# Big Picture: Treasury Yield Curve



Measures the difference between interest rates on 3-month Treasury Bills and 20-year Treasury Bonds. Spreads below zero (inverted yield curve) often precede recessionary periods. Wide spreads encourage lending to support economic growth.

Yield curve remains in a distinctly positive slope but has declined in recent weeks with significant buying of US Treasury securities as a "flight to safety" away from Europe and Japan (the two largest non-dollar currencies)

# Big Picture: Moody's Quality Spread

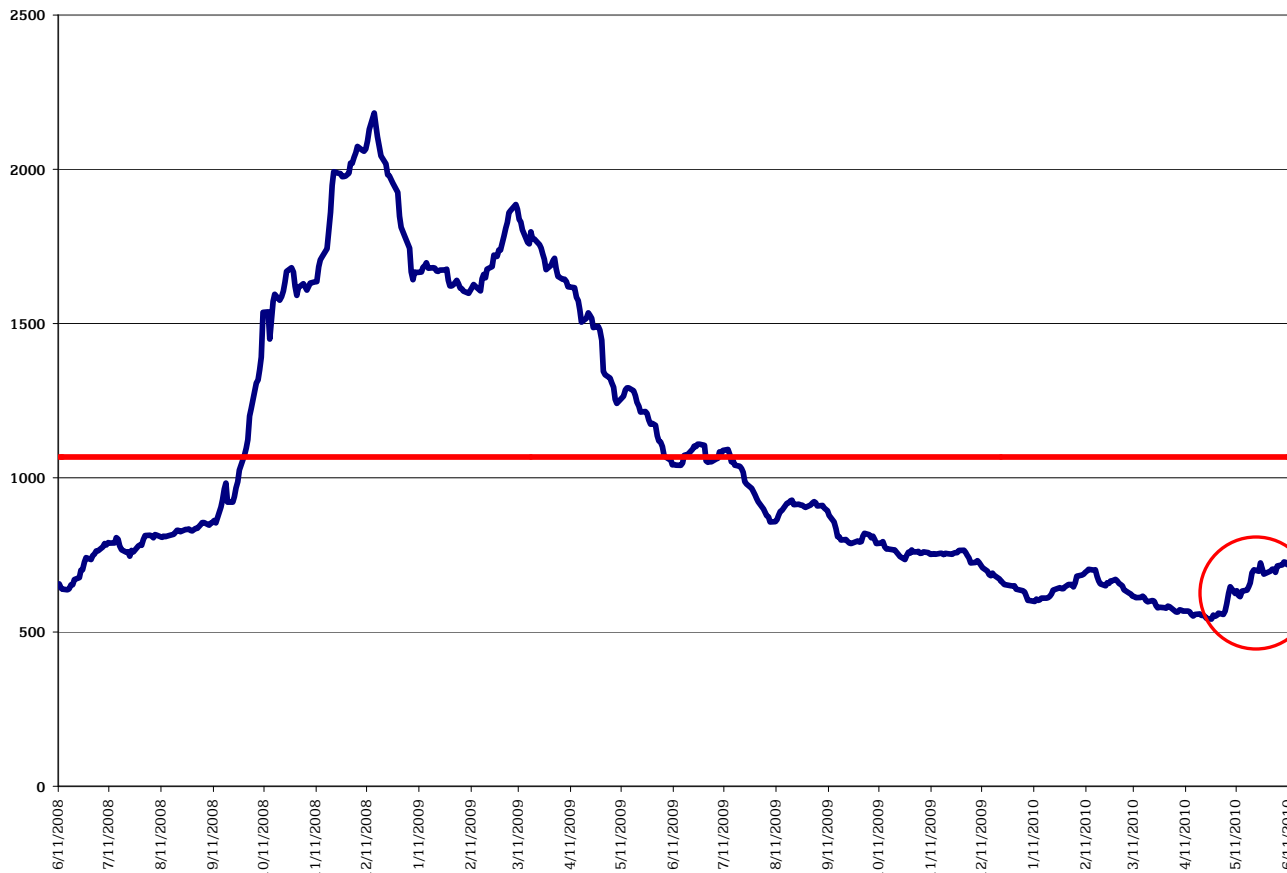


Measures the difference between interest rates on moderate quality corporate bonds (BAA) and highest quality (AAA). Wide spreads indicate credit market risk aversion.

As Treasury yields have come down in recent weeks, corporate spreads have widened even though prices and yields on investment grade corporate bonds are essentially unchanged. Still, this trend is in the wrong direction and bears close attention.



## Big Picture: High Yield Bond Spread



Measures the difference between interest rates on the Merrill Lynch High Yield Master Index and 10 year Treasuries. Wide spreads indicate credit market risk aversion.

As Treasury yields have come down in recent weeks, corporate spreads have widened and average bond prices have dropped in sympathy with the equity markets. As with higher quality corporate bonds, this trend is in the wrong direction and bears close attention.