



The Hardest Trade

March 2010



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Equities are the Hardest Trade

- Disconnect between Main Street and Wall Street has built a Wall of Worry
 - Macroeconomic backdrop is mixed
 - Unemployment/underemployment stats remain uninspiring
 - Retail investors crowded into “safety” side of the asset boat
- But...
 - Equities deserve an allocation in investor portfolios
 - Valuation
 - Mean Reversion
 - BRTRO (Best Relative Total Return Opportunity) versus other financial asset classes
- And...
 - Growth is Cheap relative to Value
 - Large Caps are Cheap relative to Small Caps
- ...Finally
 - JAG Large Cap Growth positioning

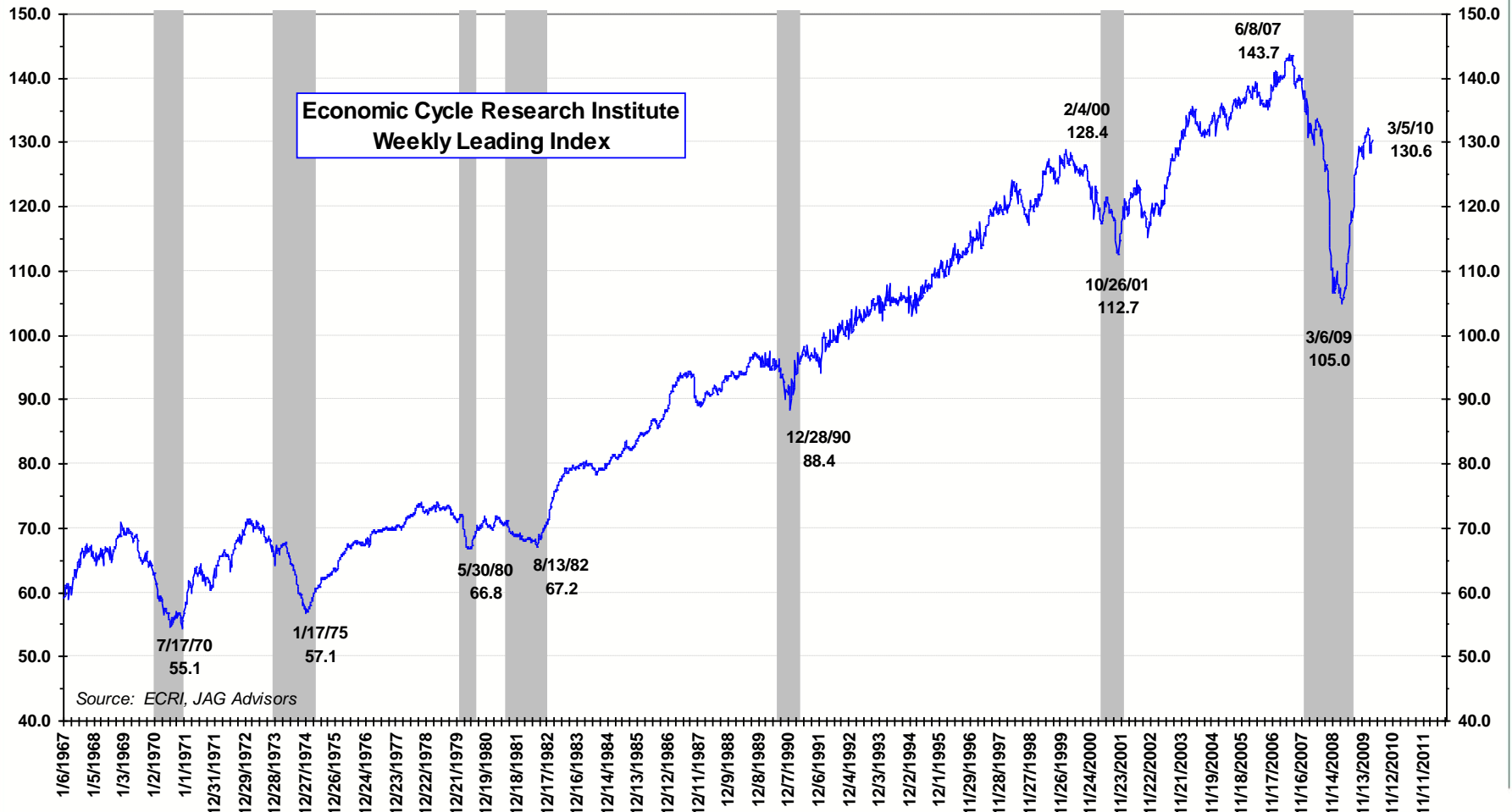


Macro Environment is Mixed



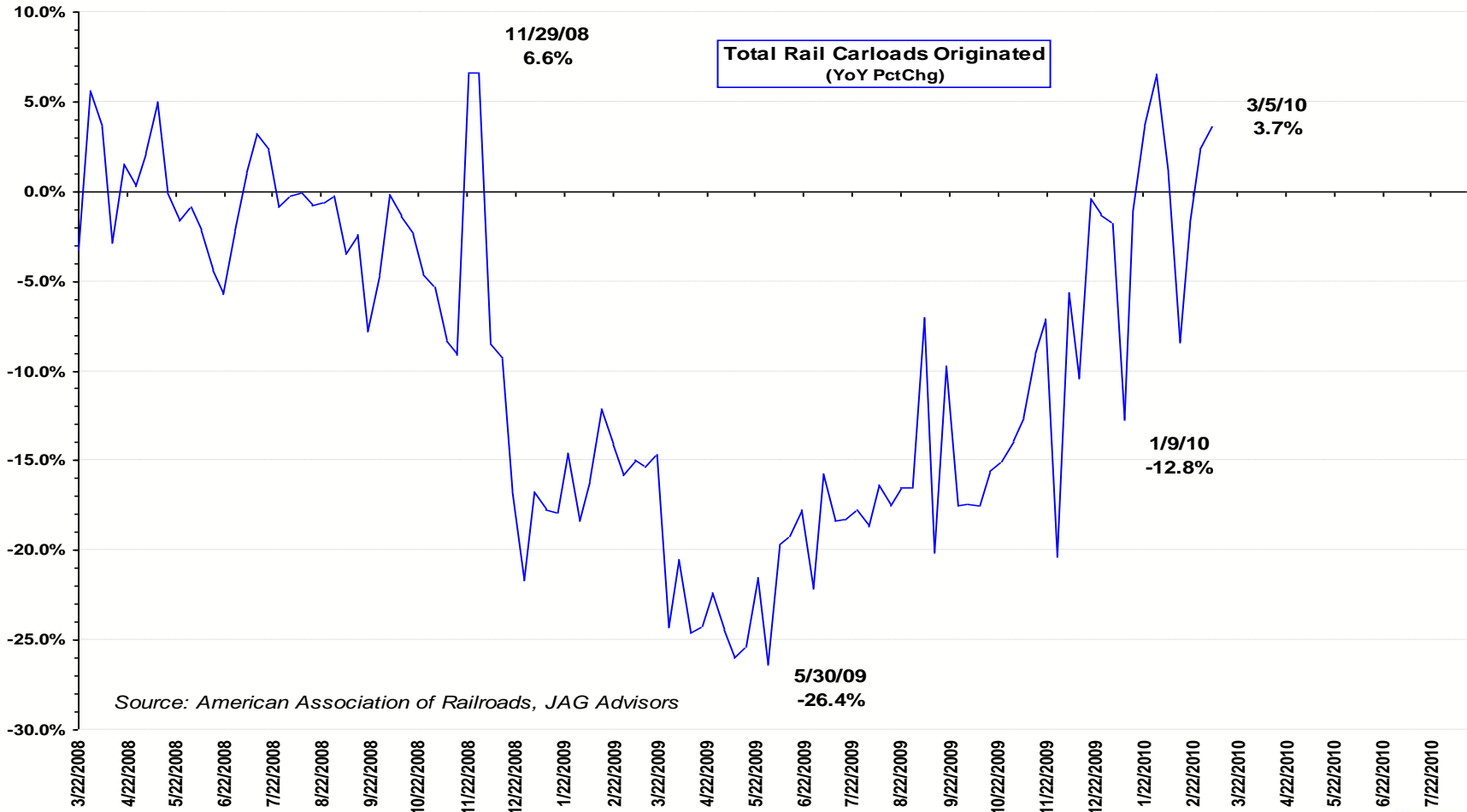
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ECRI Weekly Hovering Near Recovery Highs



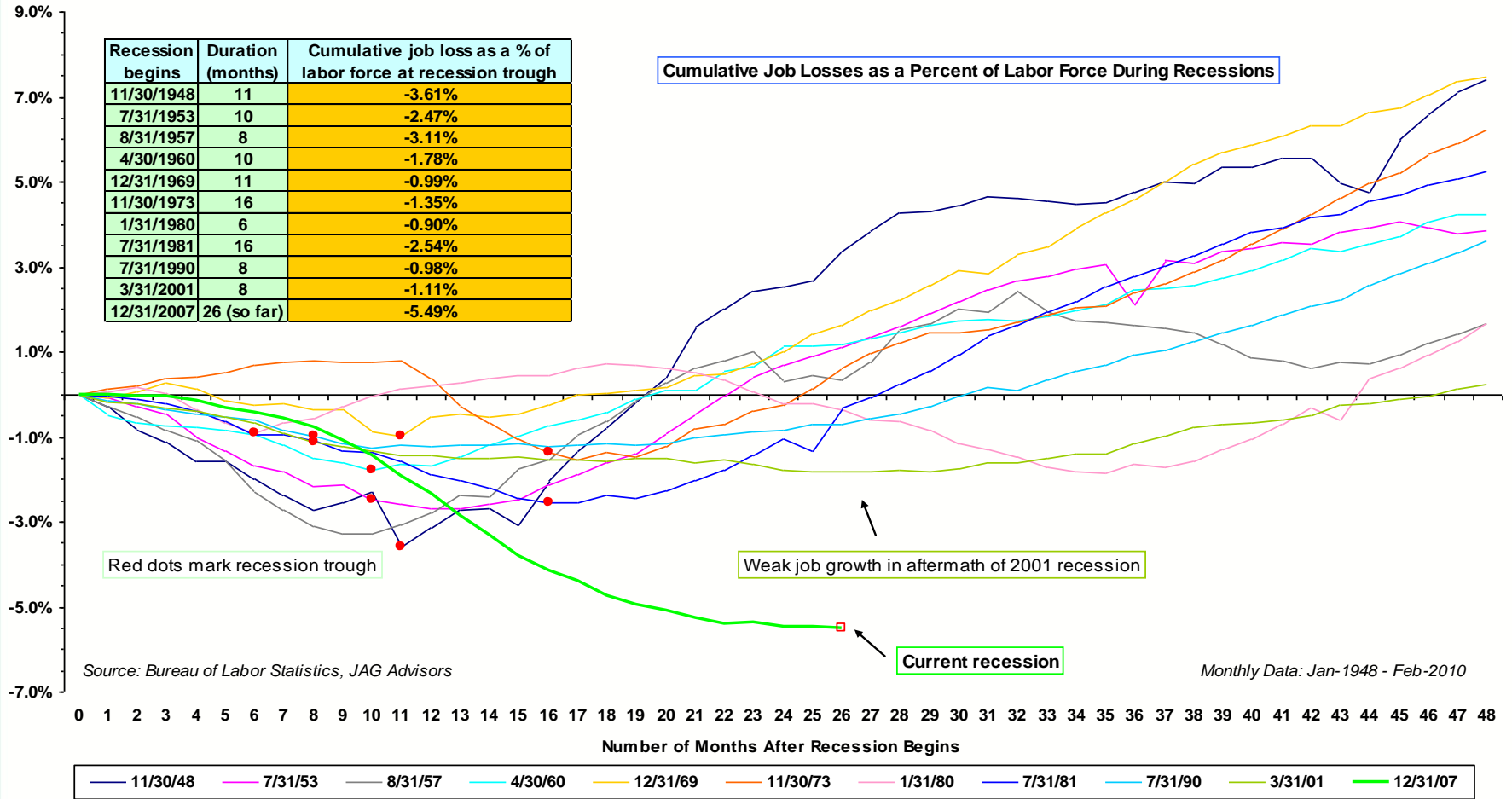
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Year-over-Year Rail Carloads Recovering (Finally)

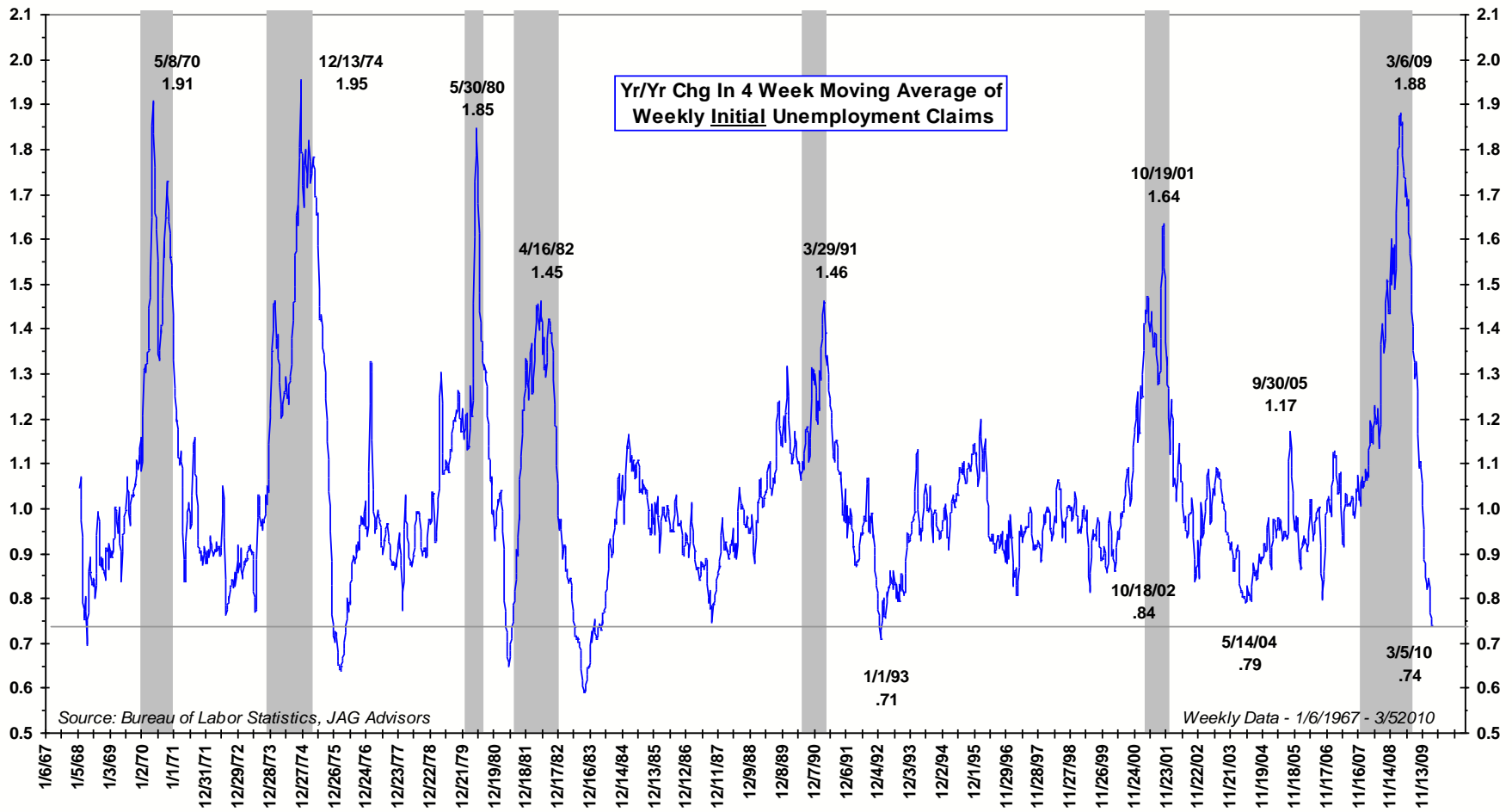


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Job Losses are Worst in Post-War Era

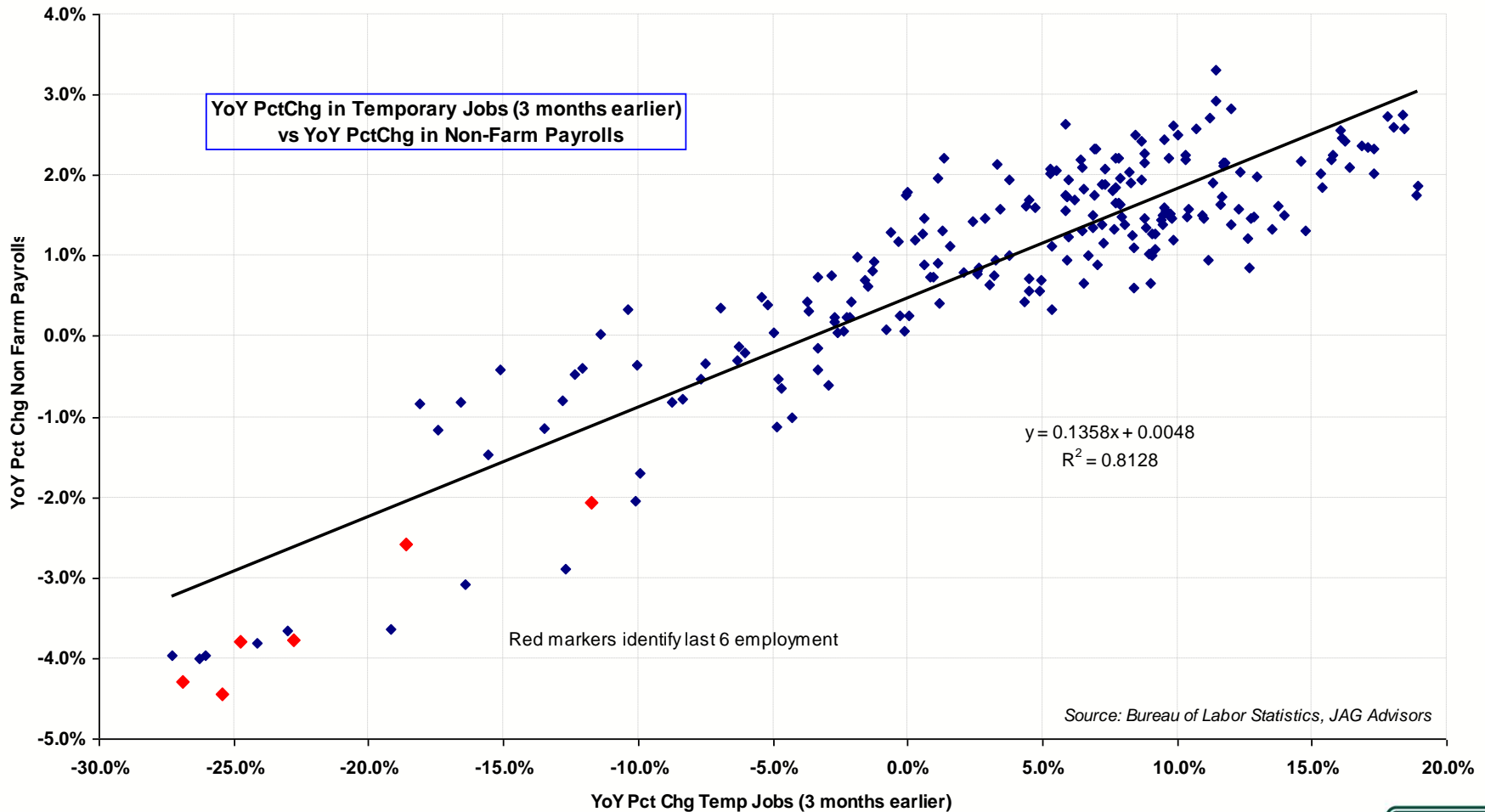


...But YOY Change In Initial Unemployment is "Less Bad"

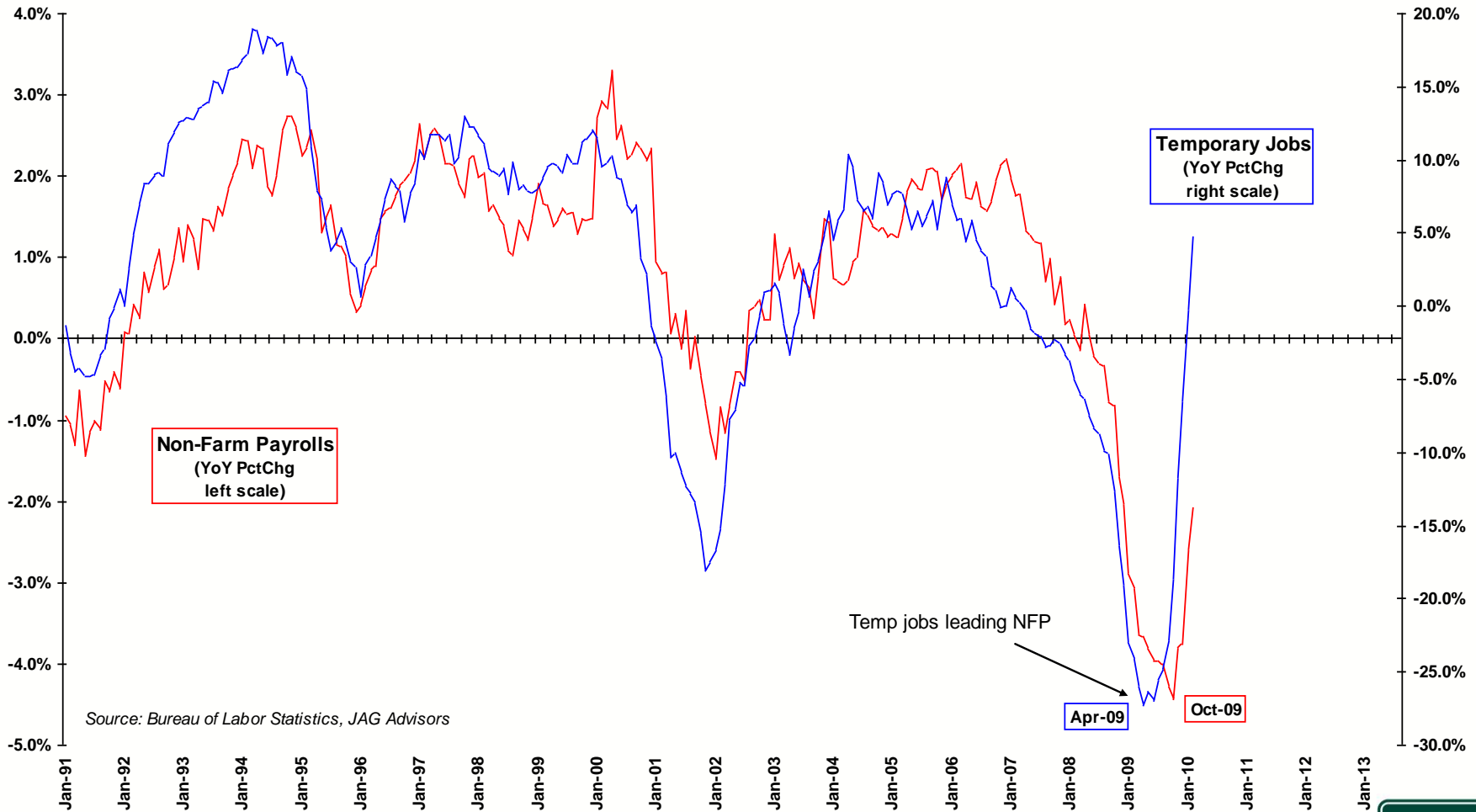


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Note That Temporary Hiring Leads Non-Farm Payrolls



Rise In Temp Jobs Point To Continued NFP Gains



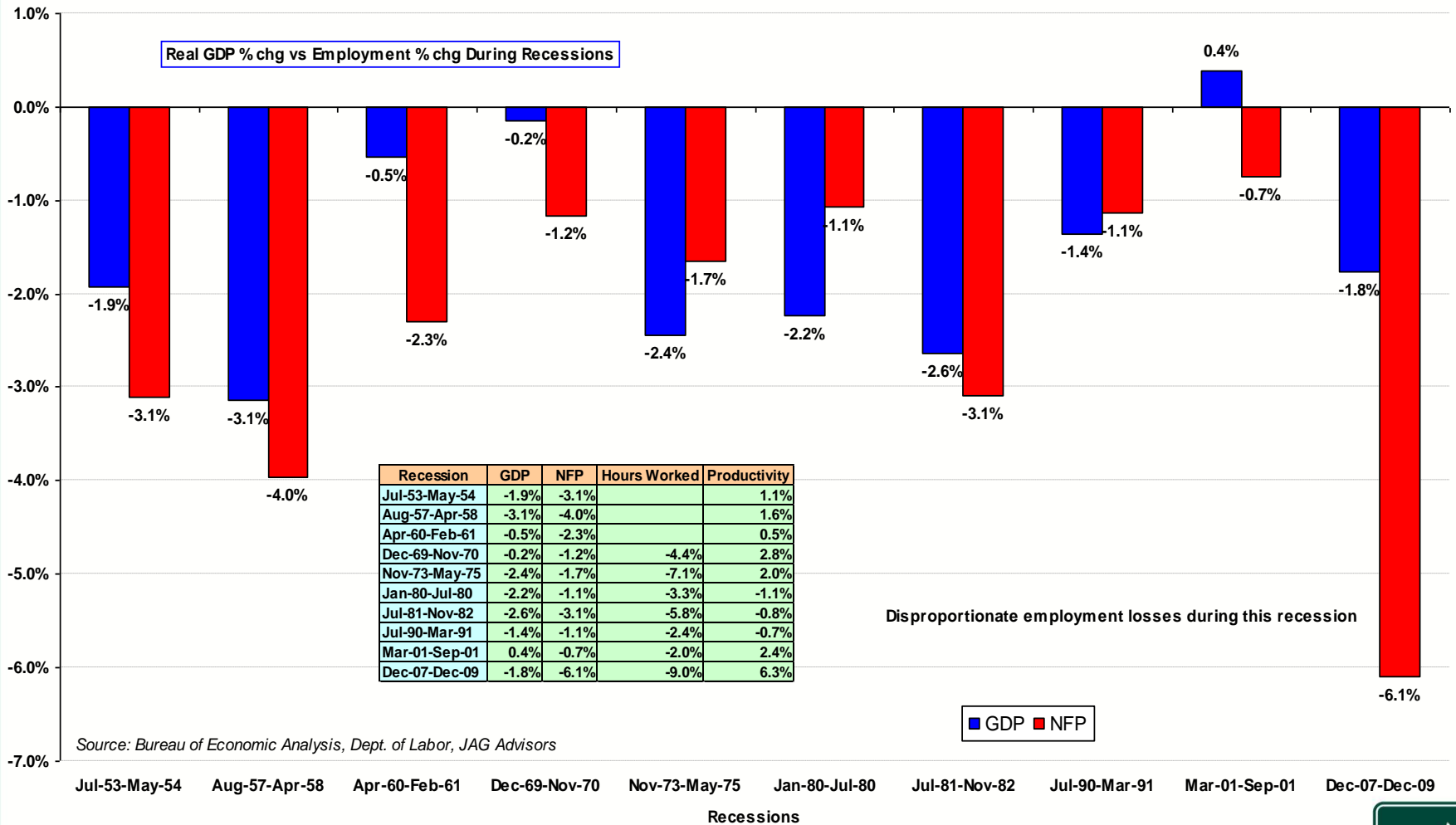
Temp jobs leading NFP

Apr-09

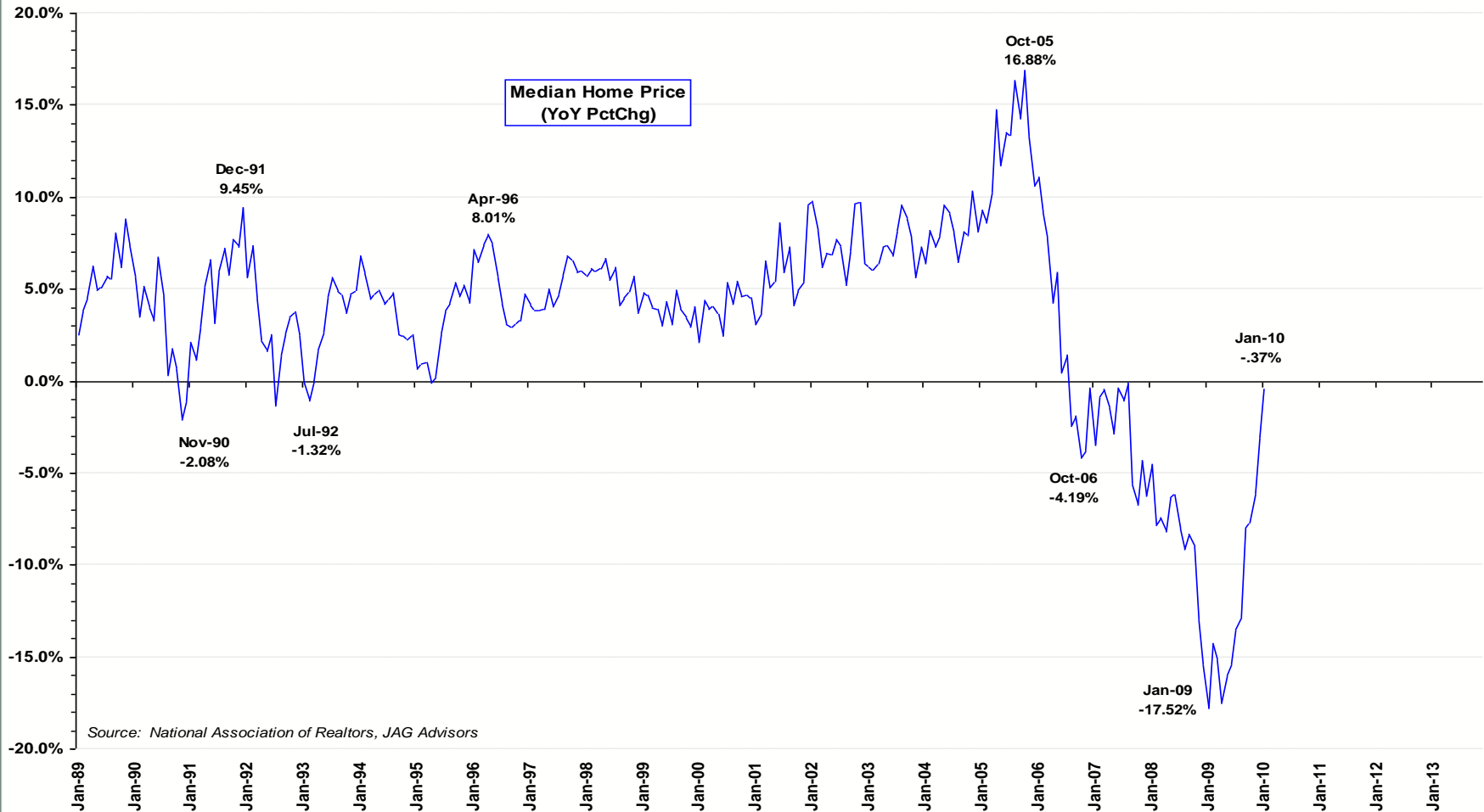
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...Probably Because Employers Panicked in '08-'09!

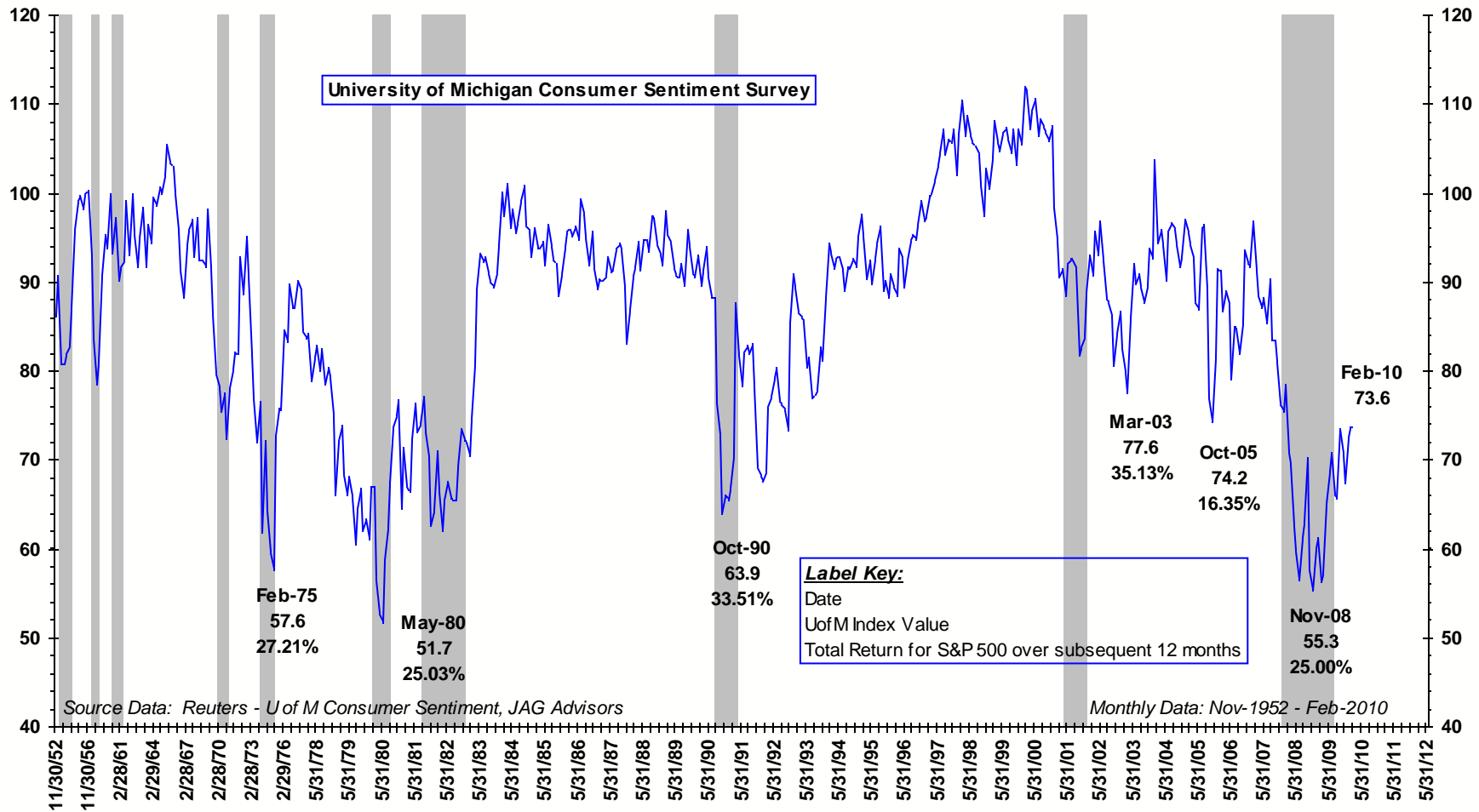


Glimmers of Good News in Residential Real Estate



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Consumer Sentiment Trough Bodes Well for Equities

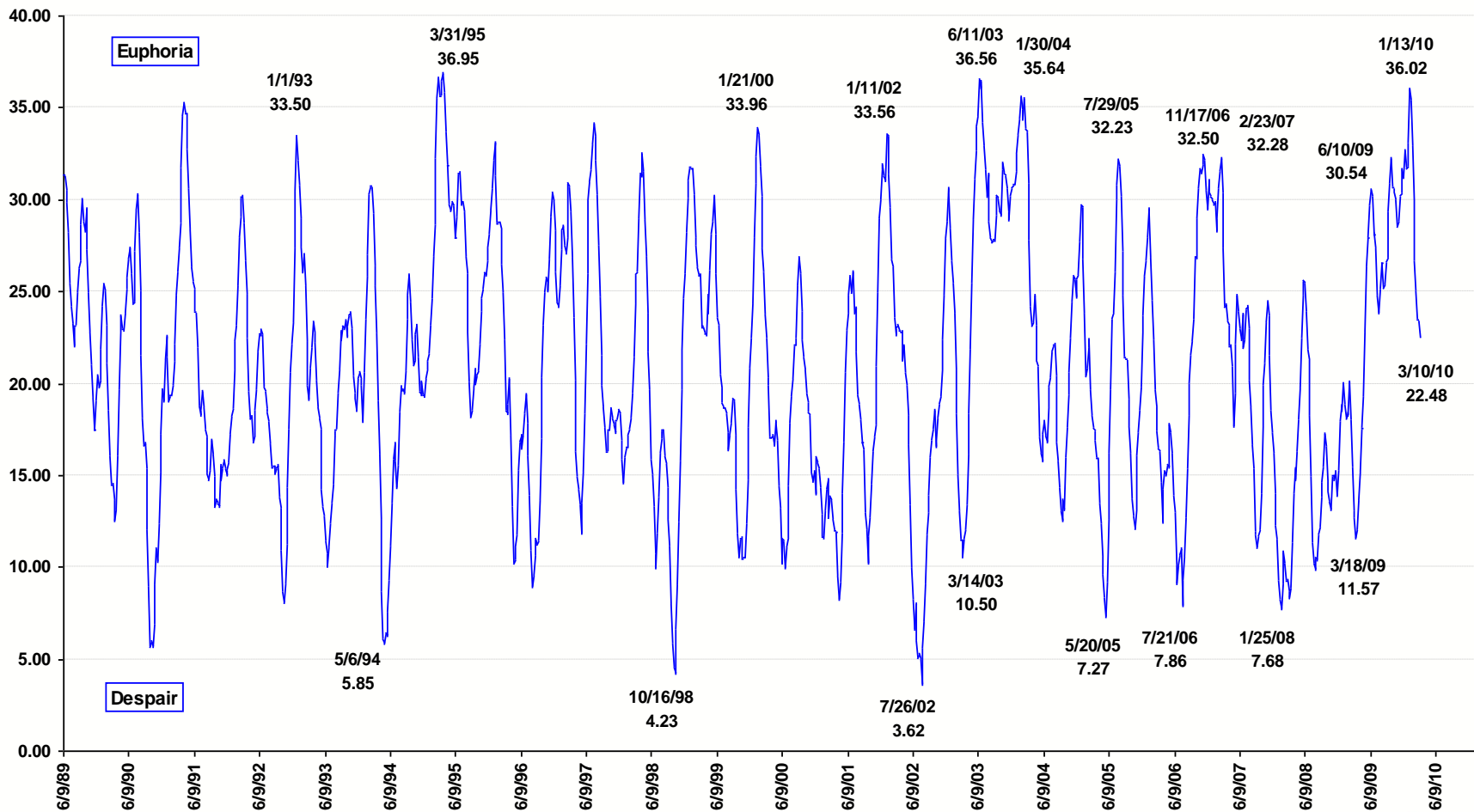


Sentiment



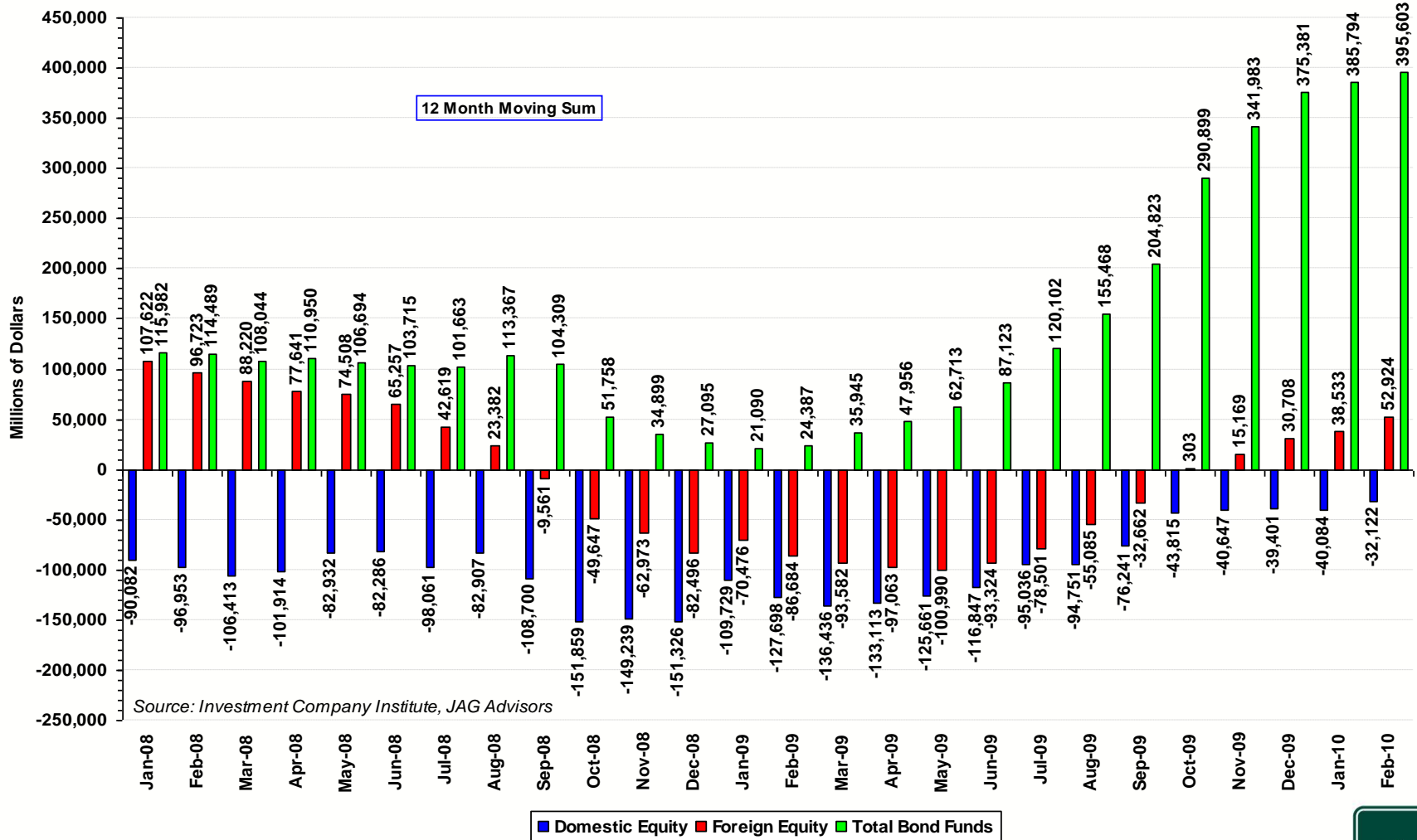
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10 Week Sum Sentiment Index



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This is What a “Flight to Safety” Looks Like



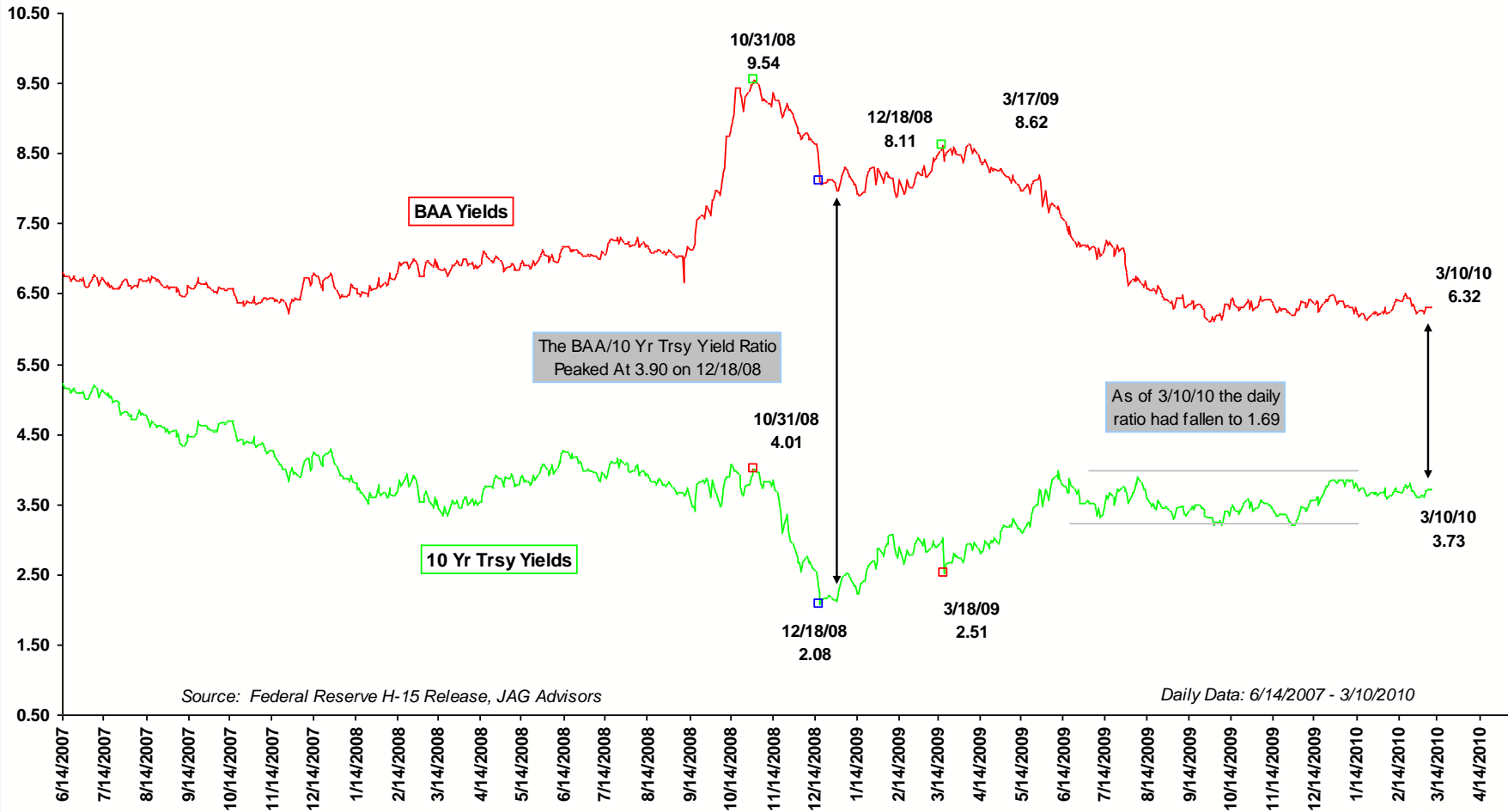
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Credit Markets Continue Recovery



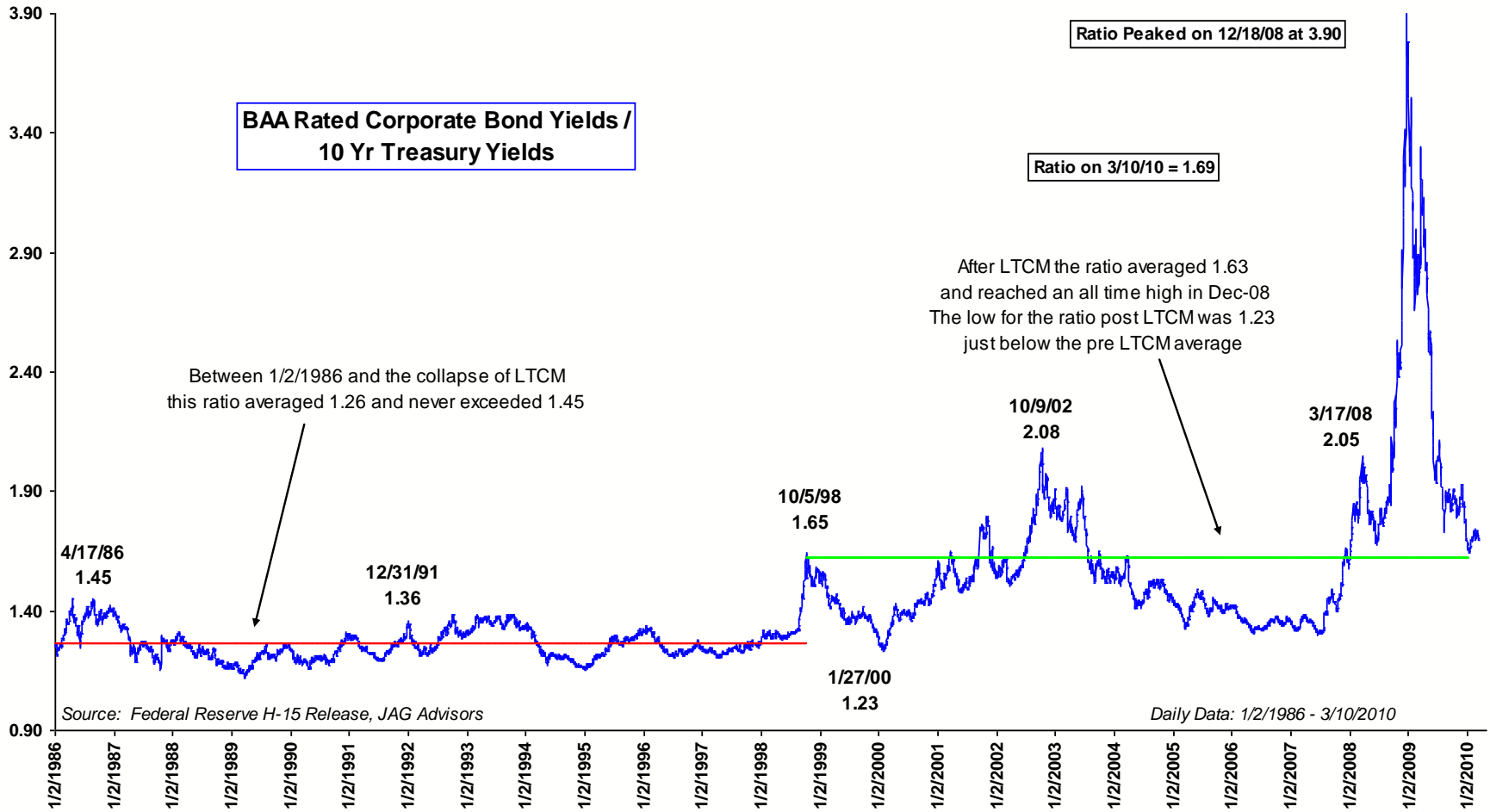
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Baa vs. 10 Yr Treasury Yields



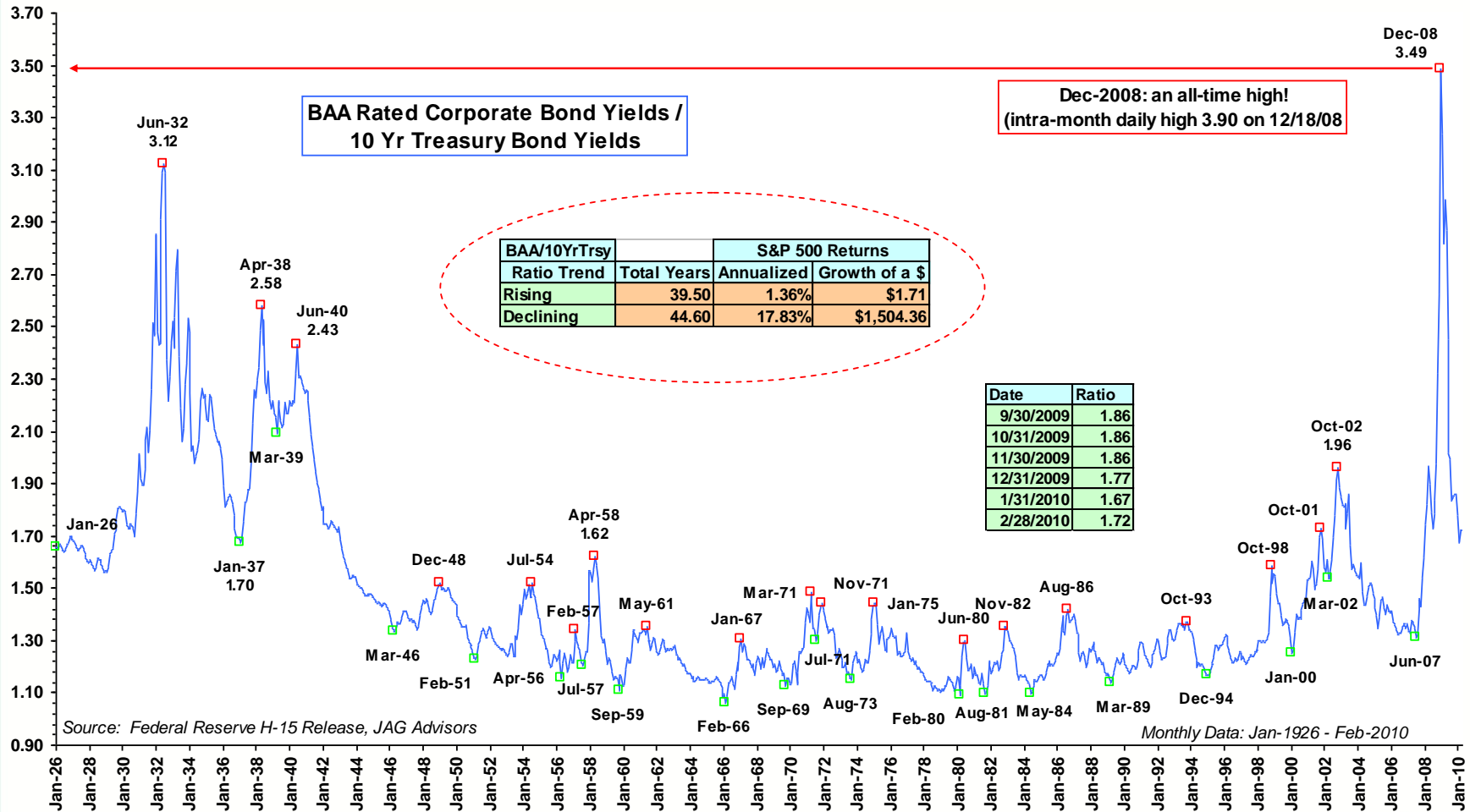
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Baa/10 Yr Treasury Yield Ratio - Daily



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Cannot Look at Credit in a Vacuum!



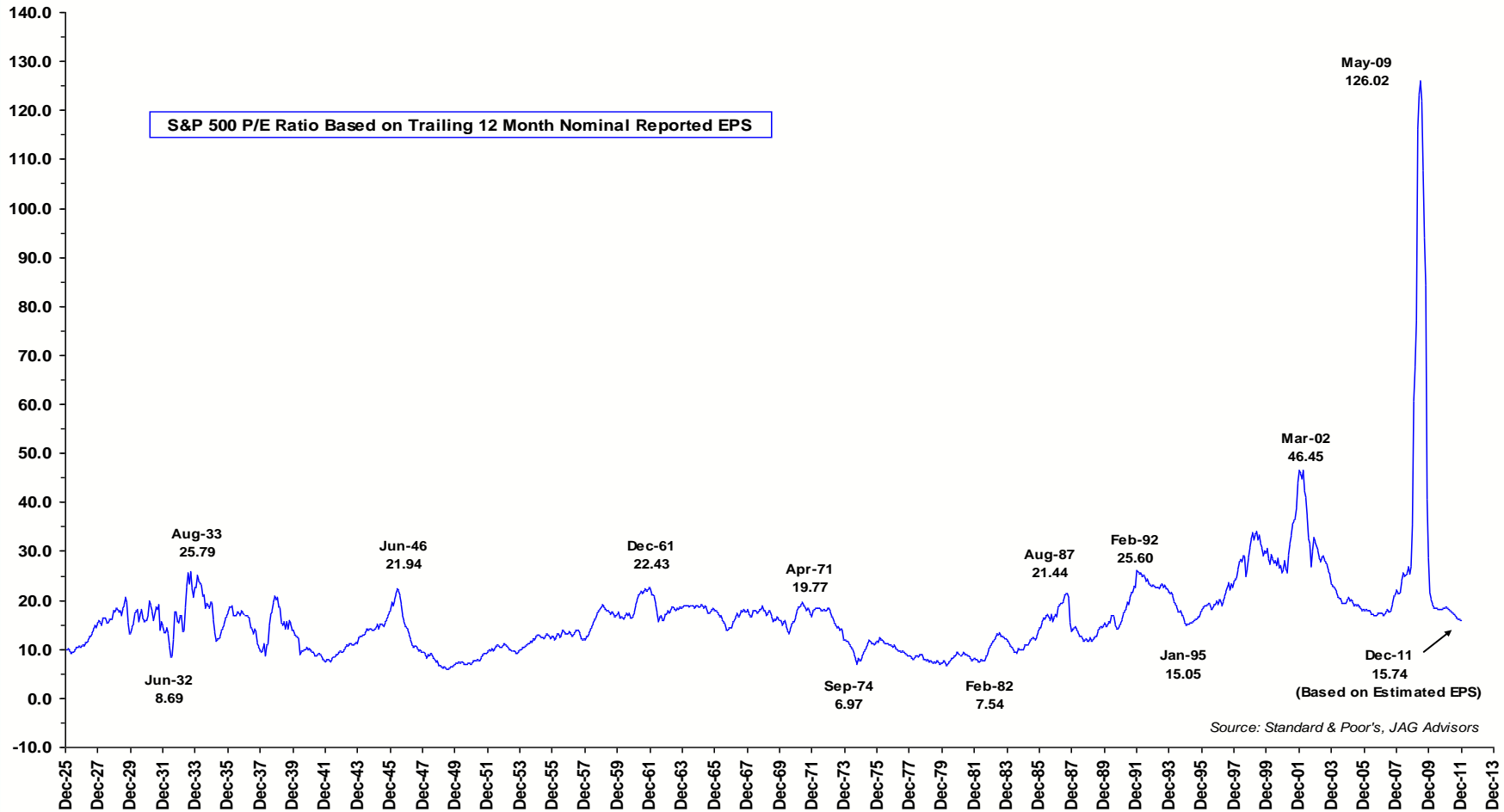
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Equity Valuation



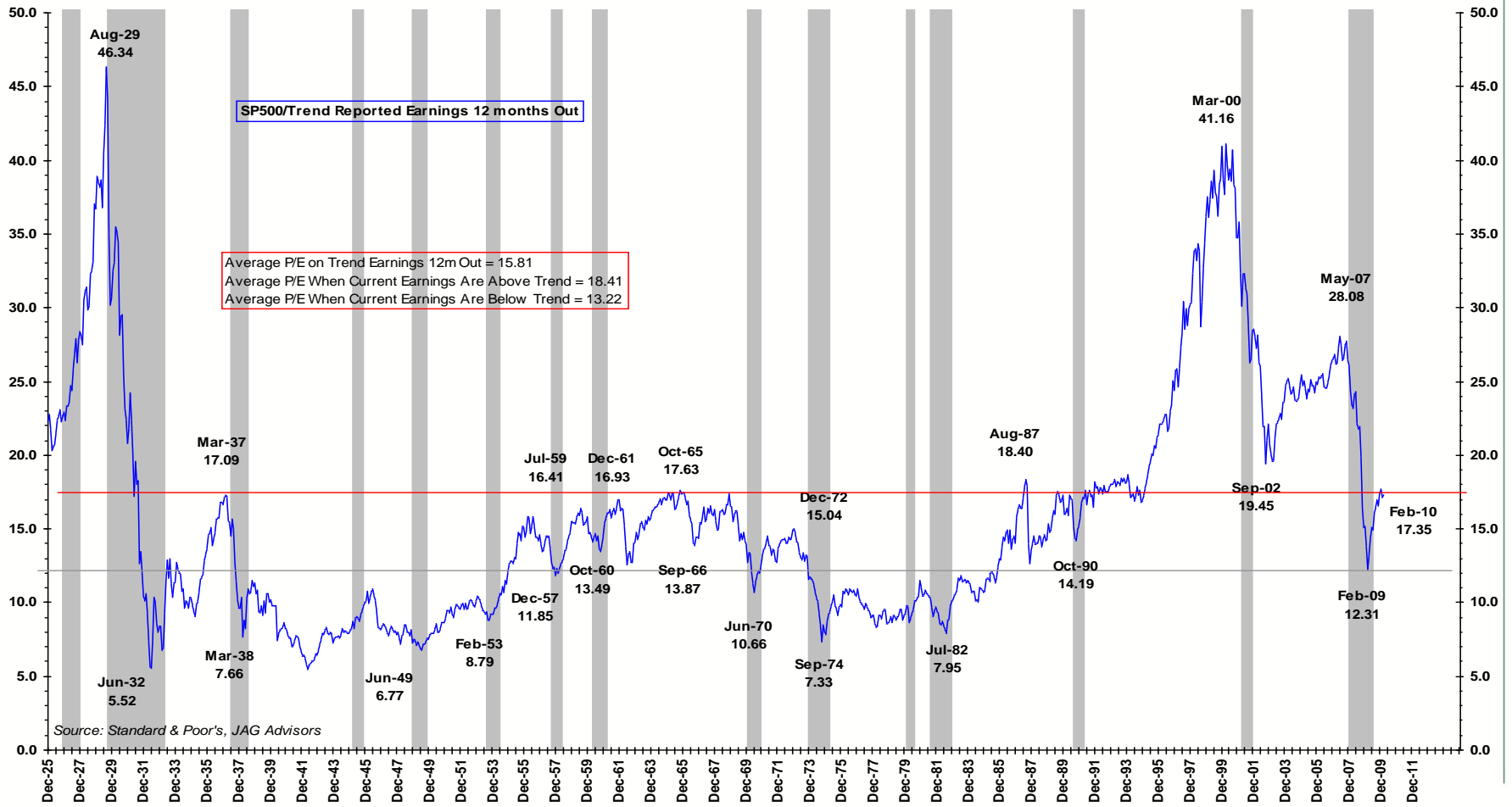
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S&P 500 Trailing 12 Month P/E Ratio



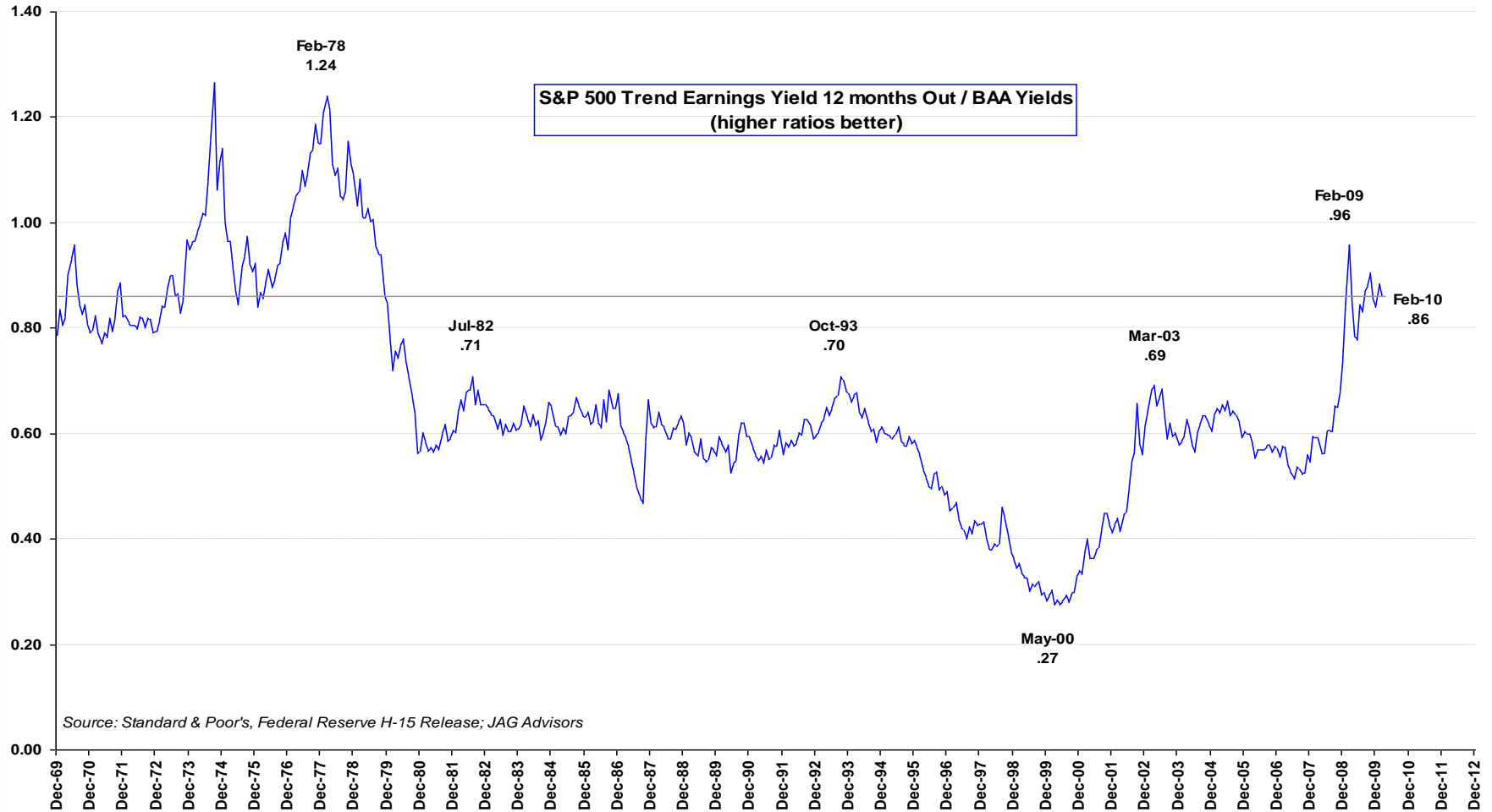
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S&P 500 P/E Ratio Based on Trend EPS 12 Months Out



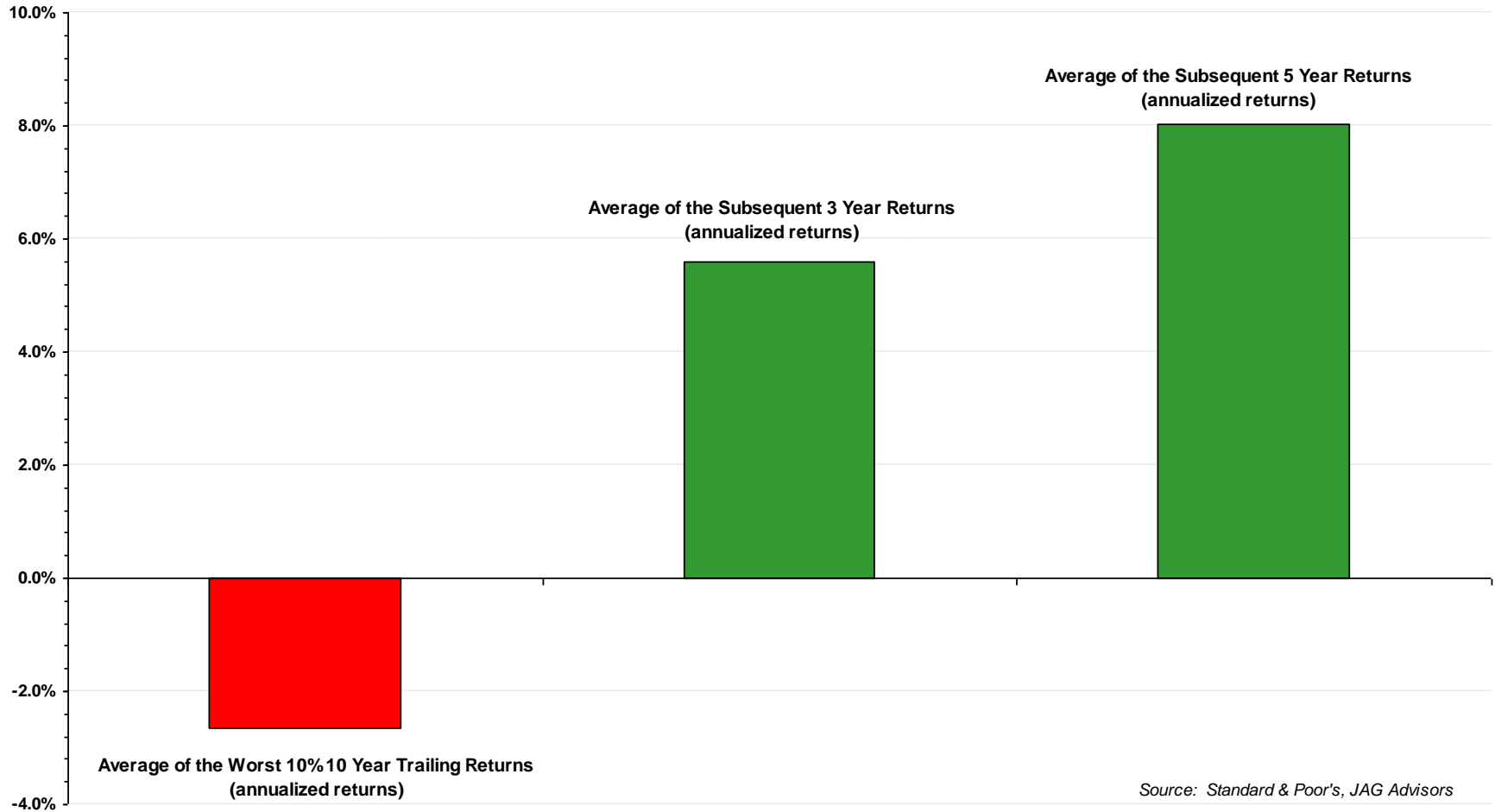
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Equities Quite Inexpensive on Forward Earnings Yields



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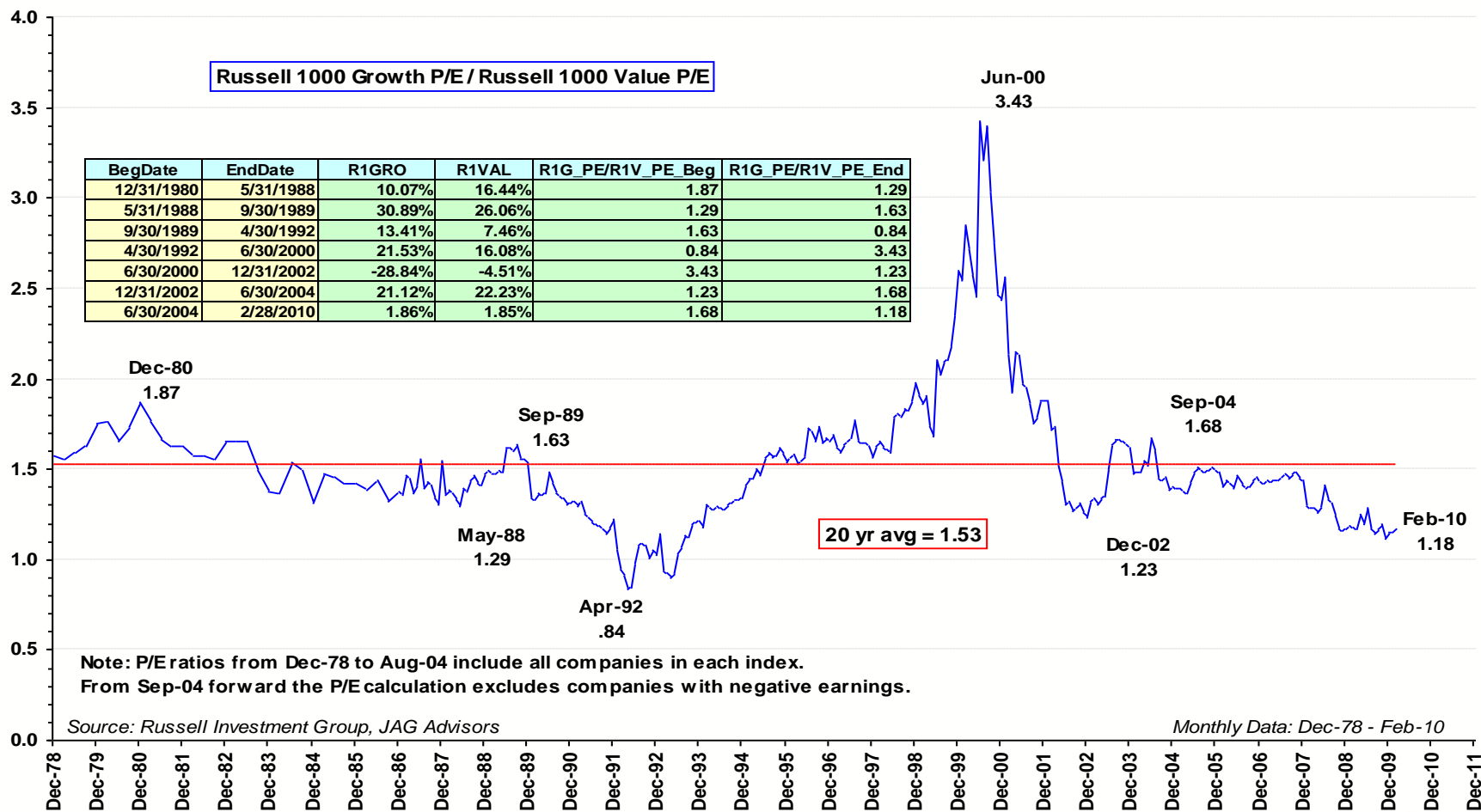
What Happens *After* 10-Year Equity Bear Markets?



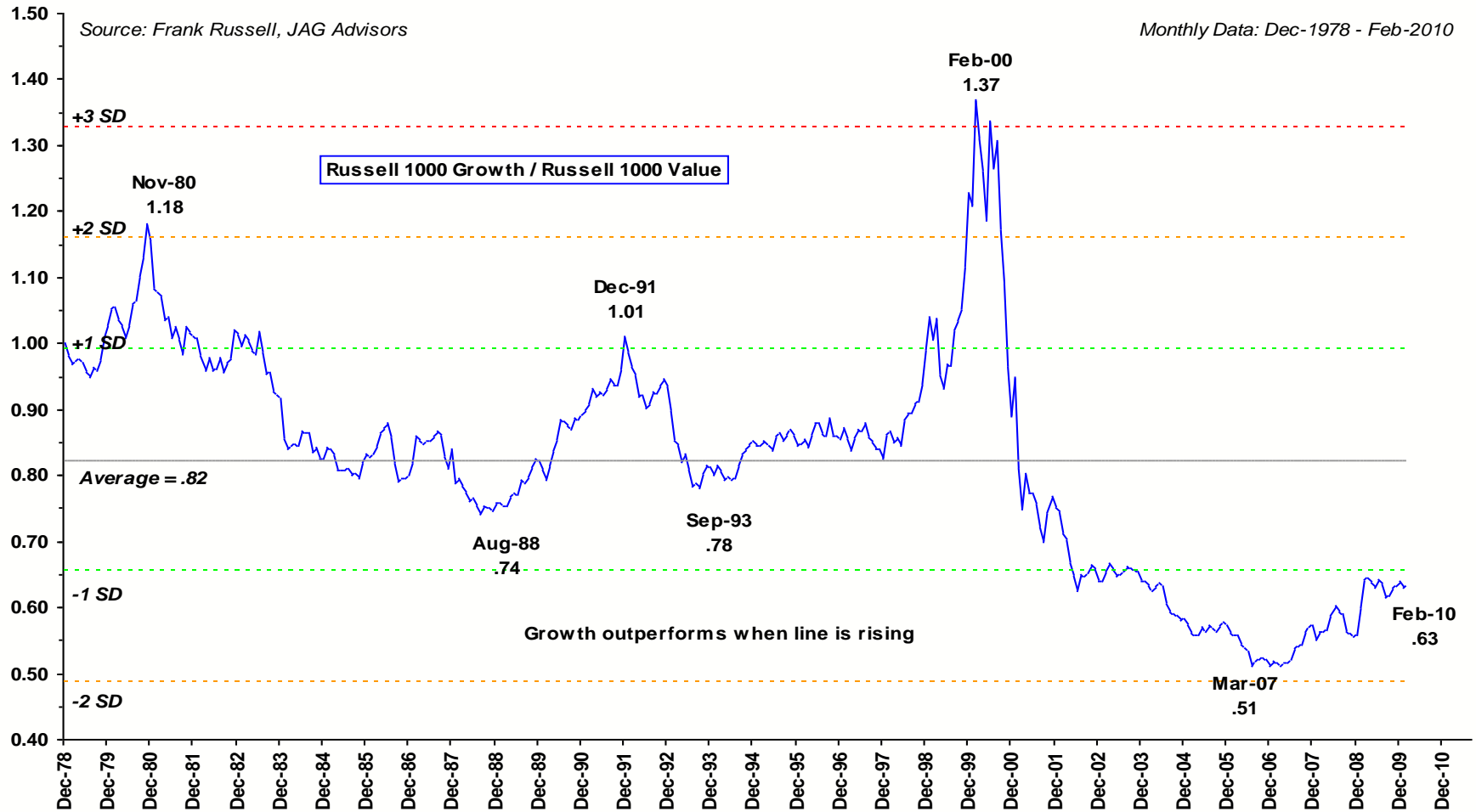
Source: Standard & Poor's, JAG Advisors



Large Cap Growth Cheap Relative to Large Cap Value

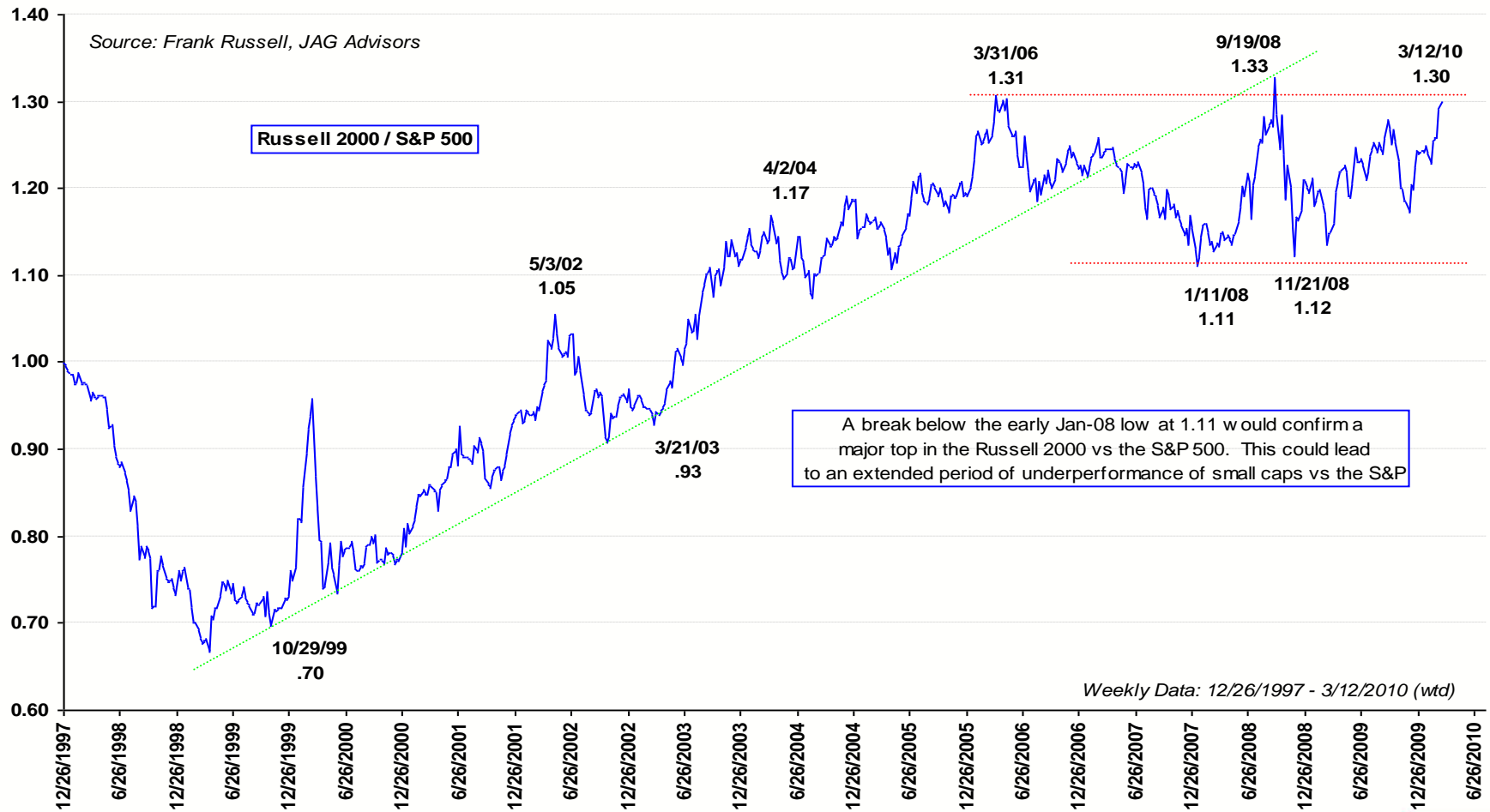


... And Growth Has "Room To Run" vs. Value



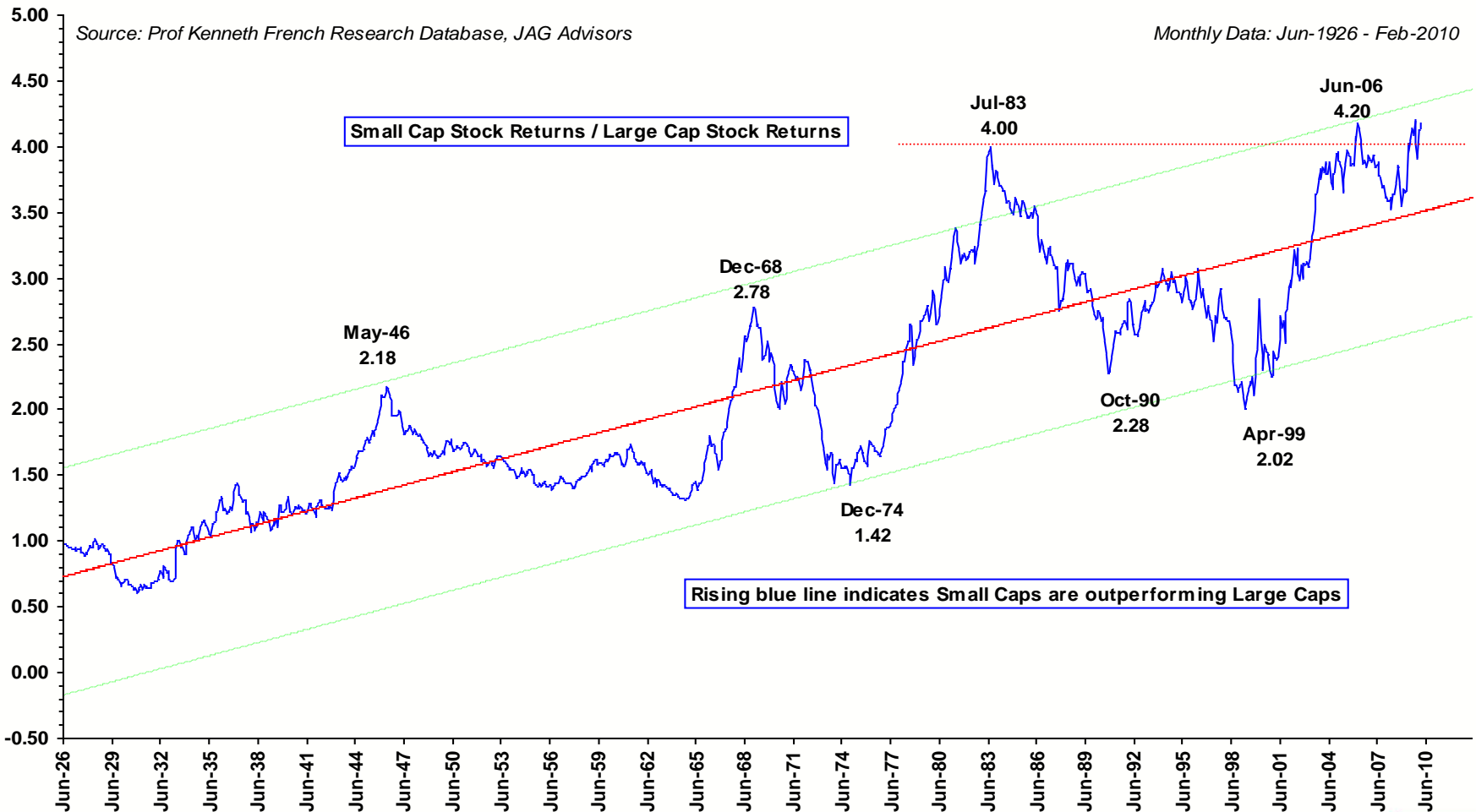
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Small Caps Unable To Make New Relative Highs vs. S&P 500



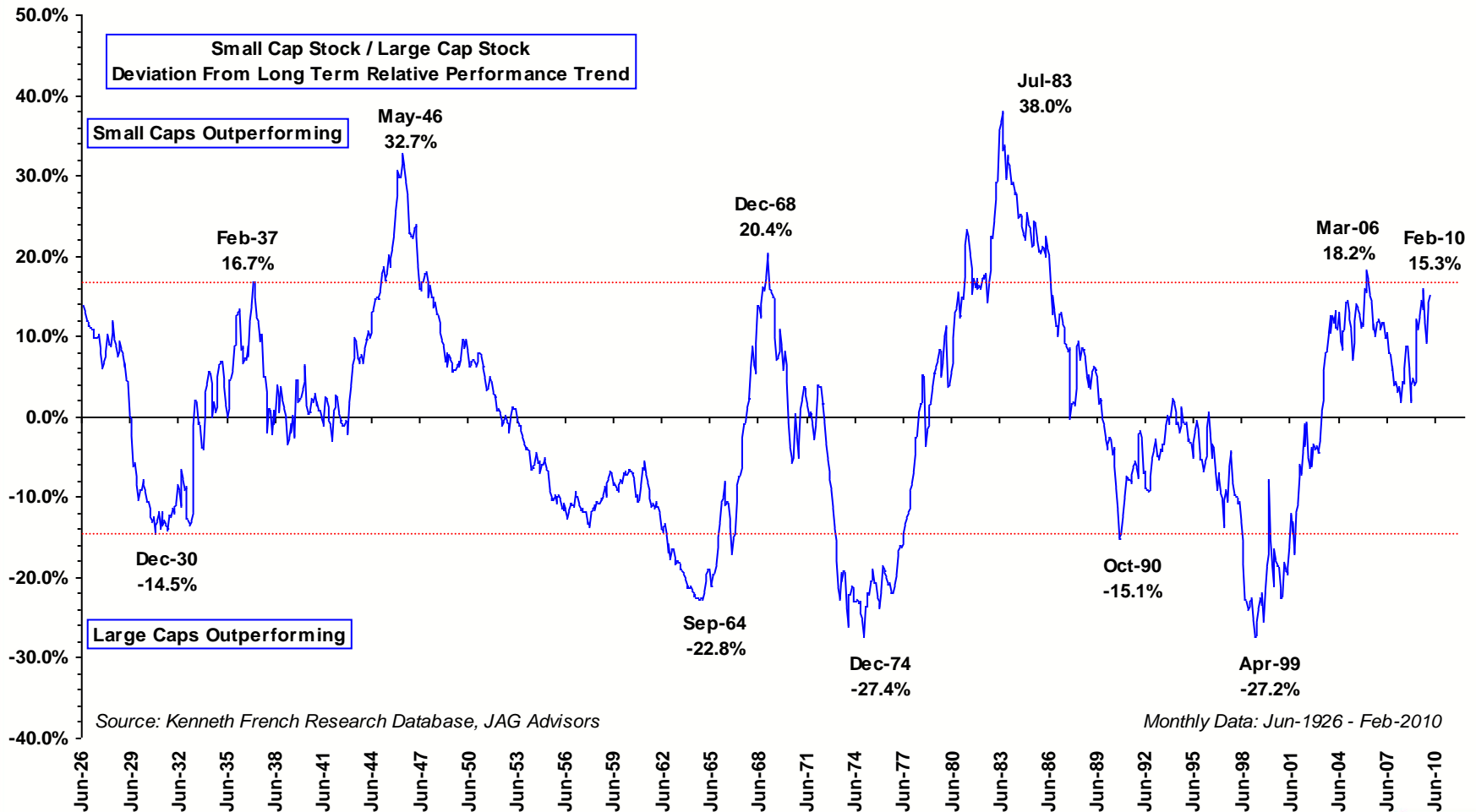
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Is This Cycle of Small Cap Out Performance Ending?



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11 Year Run of Small Cap Out Performance May Be Ending



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JAG Large Cap Growth Notes



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JAG Large Cap Growth Philosophy & Process Summary

Mission/Goal Our mission is to build long-term wealth for our clients by proactively managing a portfolio of growth equities. We seek to consistently generate annualized excess returns versus the Russell 1000 Growth Index over rolling three to five year periods.

Philosophy JAG believes that stock prices are driven by earnings growth and earnings expectations. We employ a bottom-up, quantitatively-derived buy discipline to identify and acquire stocks with superior earnings and revenue growth characteristics. Our rigorous sell discipline is designed to eliminate holdings with deteriorating growth metrics.

Construction The Large Cap Growth strategy invests primarily in common stocks of U.S. companies with large market capitalizations (i.e. over \$5 billion) that JAG believes possess strong earnings and revenue growth potential. The portfolio typically consists of 30-40 securities.



JAG Large Cap Growth Current Positioning

- **Overweight Sectors**
 - Information Technology
 - Web 2.0... components, software, infrastructure, applications
 - Consumer Discretionary
 - Consumer “Not Dead Yet”
 - Sector made relative strength bottom in July 2008
 - Industrials
 - Early-cycle beneficiary, “bull whip” effect on YOY sales possible
- **Underweight Sectors**
 - Consumer Staples
 - Low growth, high multiples = unattractive (unless you are willing to bet on double-dip recession)
 - Energy
 - Troubled by revenue/earnings results & guidance
 - Would rather overweight in Materials (specifically agricultural)



JAG Large Cap Growth: 2010 Themes

- Sales Growth More Important than Earnings Growth
 - Last 3 quarters: EPS growth was driven by cost cuts
 - 2010: Bottom-line growth will not be enough to ward off multiple compression
 - 2010: Companies with strong sales growth will be rewarded
 - YOY Top-line growth is key now that we are “lapping” Fall 2008 collapse
 - Revenue guidance also extremely important
- Web 2.0 Is For Real
 - Mobile Internet + The Cloud
 - Secular, not cyclical theme
 - Similar in scale to PC revolution ('80's – mid 90's) and Internet revolution (mid 90's through 2000)... But timeframe is compressed
 - Amazing uptake rates (i.e. Facebook, iPhone)
 - New Products (i.e. iPad)
 - New Applications (i.e. Apple's App Store)
 - No IPO's yet... But watch out for some in late 2010 and 2011



Conclusion

- Equities are the hardest trade, but deserve a portfolio allocation
 - Valuation not stretched
 - Economy is recovering
 - Mutual fund flows are contrary indicators at extremes
 - Bias should be “buy the dips” in 2010 (and there will be dips)
 - Through at least 2012, investors will view every correction as “the big one”
 - This dynamic will create opportunities
- Big Cap Growth Stocks
 - Cheap to Small Caps, Cheap to Value
 - *Already* “de-leveraged”
 - Healthy Tech weighting can provide a longer-term “call” on Web 2.0



Contact

- Norm Conley
CEO
nconley@jaglynn.com
- Todd Gilmore
VP/Director of Institutional & Dealer Sales
Cell: 314.616.4114
tgilmore@jaglynn.com
- Contact
P: 800.966.4596
F: 314.997.7307

9841 Clayton Road, St. Louis, Missouri 63124

