KINGS POINT
CAPITAL MANAGEMENT

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PORTFOLIO REVIEW & ECONOMIC OUTLOOK – SPRING 2011

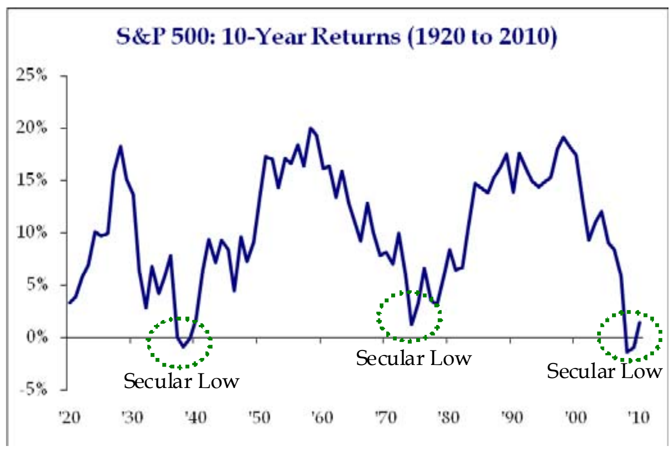
Trying to accurately forecast the U.S. economy on a short or long-term basis, under the best of circumstances, is difficult. Given all of the significant events that have occurred in the last five years, an accurate forecast is almost impossible. Consider a few negative trends now well known (but perhaps not well understood):

- Balance of Payment imbalances remain high and are not likely to materially improve. Despite the weaker U.S. dollar, we import more than we export to foreign countries. In addition, the increase in oil prices only makes the effort to reverse this trend more difficult.
- U.S. budget deficits have grown so large, that even Congress is trying to cut spending. However, what is astounding is that both parties are in agreement on the problem but remain wide apart on the solution.
- Housing remains weak with little sign that a sustainable recovery is in sight.
- Unemployment levels remain stubbornly high.
- Commodity and raw material price inflation is seeping into both foods and manufactured goods. This drives an increase in real cost for both corporate America as well as for all consumers.
- Energy costs (and in particular, gasoline) are sharply higher reflecting the unrest in the Middle East oil producing countries. This political unrest is not likely to end quickly nor peacefully.
- Interest rates may rise in the second half of 2011 as the Federal Reserves' Quantitative Easing program (QE2) will wind down in June.
- Corporate profit margins appear to be at or near peak levels. If true, the rate of future corporate profit growth is likely to slow.

Given these issues, it is relatively easy to believe that the U.S. equity market is likely to contract in the near future.

However, we have been positive on the market in the last two years. Despite the prospect of sharp market corrections, we continue to view the next 18-24 months as another period of rising stock market values. We have a number of reasons to support our view. First and foremost, the U.S. economy is in a recovery mode. While current expectations suggest that GDP growth may only be 1.5-2.5% in the next few quarters, the broader signs point to an accelerating level of GDP growth in the future. Secondly, employment growth is modest but finally moving in the right direction. In addition, consumer demand for goods and services are actually close to the peak reached in 2007 prior to the financial crisis. When we consider that employment is still well below the peak numbers from 2007, it suggests that consumers are likely to accelerate spending as employment continues to improve. Lastly, while corporate profit growth may slow in the future, equity valuations still remain attractive. Indeed, within a historical perspective, we are still in the early phase of a stock market recovery (See Chart I).

Chart I

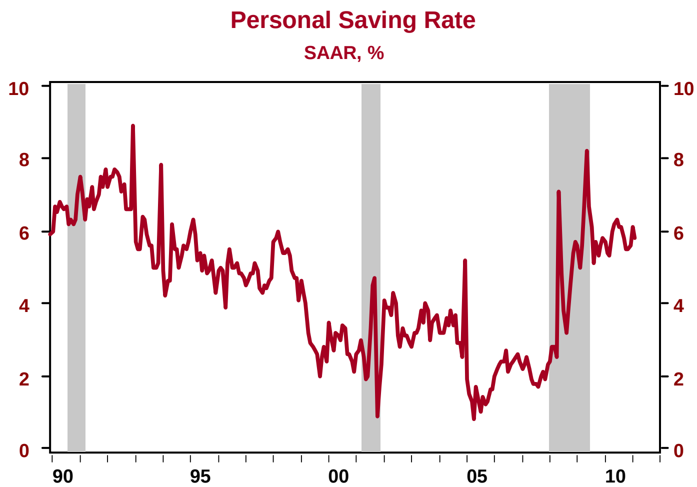


Source: Strategas Research Partners, LLC

As Chart I suggests, we still have a lot of room to grow over the next few years. Notwithstanding market corrections, the long term trend looks promising.

While not a perfect indicator, individual investor sentiment tends to be the opposite of the general direction of the market. Right now, investors continue to be fearful of equity investments. Many have eliminated or significantly reduced equity exposure in the last few years. At the same time they have shifted billions of dollars into bonds concurrent with increasing their savings rates. (Chart II).

Chart II



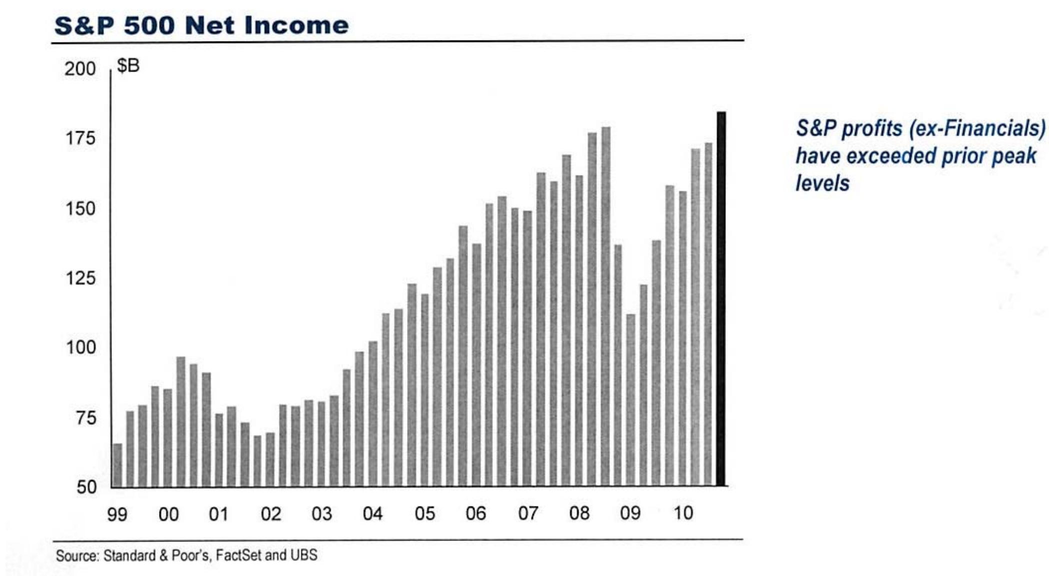
Source: Strategas Research Partners, LLC

As depicted in Chart II, the current saving rate matches the trends of the 1990-91 recession. This gives us confidence that when employment trends improve (1992-99), consumer spending will benefit not just from job formations but from the likelihood that savings rates may decline.

The movement of money from equities into bonds is all the more interesting when we recognize that bond yields are extremely low in a historical context. The decline in interest rates began, one could argue, around 1980-82 when inflation and interest rates peaked after the second “Arab oil crisis.” With both inflation and short term rates near zero, we expect the next trend to be upwards as the U.S. and global economies begin to accelerate growth into 2012 and 2013. This focus on keeping money in bonds may finally shift as interest rates begin to rise in the next few years. As rates rise, intermediate to long-term bond values are likely to decline. Thus, some investors may find the equity market a more appealing area for investment once the U.S. economy returns to more normal growth.

Another factor to consider is that given all of the aforementioned bad news, the stock markets globally, with few exceptions, are all higher than at the start of 2011. Clearly, excellent corporate profits account for much of this movement in equity prices.

Chart III



The strength in corporate profits (see Chart III) reflects a strong global recovery in demand for most products and services, aggressive cost reductions taken during the economic downturn, reduced capital spending to protect current cash positions, and improved productivity. Corporations should be poised for further major profit expansion once the U.S. economy moves into a faster expansion phase.

We also believe that equity valuations may improve once U.S. economic growth begins to return to normal. This should reflect a number of actions. Certainly investor confidence would improve once positive trends add stability to the economic recovery. Secondly, corporate profit margin pressure from expansion of the workforce and renewed strong capital expenditures are also likely to add to investor confidence that the recovery is underway.

So why are investors so defensive? We think it partly can be explained by the psychological damage done in 2007-09. Many investors are confused and still a little dazed about the recent financial crisis. The “great recession” of 2008-09 caused huge financial damage to the infrastructure of the U.S. financial system, the U.S. economy, and the wealth of most Americans. This last recession was far different than past recessions which were largely due to a slowing economy. Like the generations that lived through and recovered from the “Great Depression” of the 1930’s, it may take another generation of investors to fully recover from the psychological damage of 2008-09. Thus, we believe this next market recovery will still be met with skepticism by many investors. Regardless, as we return to a more normal economic scenario and as the U.S. government finally begins to deal with our debt crisis, a more positive posture is likely to be taken on equities, particularly when investment returns in fixed income remain unappealing.

The Kings Point Equity Strategy

We have always remained steadfast in our belief that high net worth clients should be focused on long term, tax-efficient growth. We also believe that a well researched and properly diversified portfolio of great companies should be the cornerstone of the equity exposure. We stress that "less" will mean "more" in building long-term appreciation. Our focus is on a limited number of equities that meet our growth requirements regardless of market capitalization. In recent years, the directional movement in equity prices has been highly correlated. In essence, most stocks move up or down together. One reason for this can be explained by the large amounts of money flowing into ETF's (Exchange Traded Funds). The more money that goes to market-oriented ETF's, the more investors will be exposed to macro trends. A second reason is due to the rise of large multi-billion dollar hedge funds and other investment firms that trade with quantitative (computer generated) strategies. With these strategies, the push of a button can send thousands of buy and sell orders in hundreds of stocks almost instantaneously. Add program trading to the mix, we find that well over 50% of daily equity volume is done with little focus on the individual names actually being traded. This activity is likely to be one of the reasons why large capitalization stocks tend to have low multiples (P/E ratios) relative to fundamentals.

We think large capitalization equities are likely to continue to maintain lower valuations relative to other market capitalization categories. As a group, they are "over-owned". Given the need for liquidity, the large number of ETF's, and the globalization of the investor base, large capitalization stocks are the only usable vehicles for high frequency and other program trading strategies.

Chart IV

ASSET CLASS RETURNS

By Asset Class,

	1970s	1980s	1990s	2000s
Long-Term Government	5.5	12.6	8.8	7.7
Long-Term Corporate	6.2	13.0	8.4	7.6
Small-Cap Stocks	11.5	15.8	15.1	6.3
Intermediate-Term Government	7.0	11.9	7.2	6.2
Treasury Bills	6.3	8.9	4.9	2.8
Inflation	7.4	5.1	2.9	2.5
Large-Cap Stocks	**5.9**	**17.6**	**18.2**	**-0.9**

Style,

	1970s	1980s	1990s	2000s
Small-Cap Value	15.0	21.1	14.5	10.6
Large-Cap Value	12.2	20.2	13.9	0.3
Small-Cap Growth	5.8	10.8	15.0	-1.1
Large-Cap Growth	**3.4**	**15.8**	**19.9**	**-1.8**

Source: Ibbotson, Data through 12/31/2009.
Strategas Research Partners LLC

Because large capitalization equities (both value and growth) have been poor performers in the last 10 years, many strategists believe these equities are undervalued. To an extent, they are correct by traditional standards of fundamental analysis. However, the dominance of program trading for this asset class and the lack of new money entering the overall stock market may result in a continuation of this trend. Finally, we believe that the maturing of the U.S. and European economies will make it harder for these sizable companies to grow in the future.

On a secular basis, the U.S. economy has been the center of growth since the end of World War II. However, the recent rise of quasi-capitalistic societies in Asia and South America have created a formidable long term alternative for global investors seeking growth.

The aforementioned reasons give us conviction that owning a smaller group of well researched equities versus owning hundreds of names in various asset classes should be a better way to build long-term, tax efficient growth.

Our investment approach tends to be capitalization agnostic. We focus on core fundamentals as the selection criteria rather than style or capitalization alone.

The core fundamentals include a number of critical variables. First and foremost, we must consider management to be strong and capable of maintaining and improving market share in future years. Secondly, the company must be dominant in its core business. Companies that are not #1 or #2 in market position rarely achieve long term success. We also concentrate on companies generating significant cash flow and have a record of successfully redeploying the cash into assets that generate a superior return on capital. Lastly, we focus on valuation. Historically, valuation expansion and compression impact long term stock performance more than growth in earnings. In addition to the previously cited reasons, the underperformance in large capitalization stocks is due to compression in valuations versus earnings growth. Our position in Apple is a good example of this trend. Despite the enormous success of the company's new product programs and its huge earnings expansion in the last few years, the P/E ratio of the stock has steadily declined. In perspective, Apple is one of the few large capitalization companies that enjoy a steady, very high rate of return on capital employed. Fear of the possible slowdown in future growth and its already huge market capitalization (despite a significant amount of cash) press on its future valuation. Apple currently sells at only 14 times 2011 estimated earnings, or slightly better than the 13 multiple of the overall market. We believe its future earnings growth should exceed 20% annually. Thus, even if valuation continues to slightly compress, we still expect superior equity appreciation in the future.

American Tower is another good example of a unique equity that meets our criteria. We have held this equity in our core portfolio for over four years. During that time, the outlook for capital expenditures for cell towers has expanded and contracted. We have held the equity through all this "short term noise". Demand for wireless devices is in a secular trend upwards. American Tower is the largest and most well managed of the group. Expansion now encompasses Latin America and India among other regions. Currently, management is contemplating converting the company into a REIT by early 2012. We believe that the U.S. assets generate a steady stream of cash flow and make it an ideal asset to move to a REIT status. Should they do this, we believe the equity value (based on similar REITS now trading) could exceed $60 a share. More importantly, we believe that the management may keep the faster growing international tower properties and only spin out the U.S. assets as a REIT. Either way, we like the direction of the company.

Finally, we emphasize that holding a specific portfolio of well researched equities gives us the ability to liquidate positions when appropriate. It also allows us to act quickly in times of severe market stress to protect our capital base.

While the equity market faces many hurdles and sharp painful corrections are likely, the direction is still pointing upwards. Until either valuation or fundamental economic weakness push us to alter our investment outlook, we remain positive on the overall market.

Jack Salzman	Jeff Bates	Jake Marshall
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