KINGS POINT
CAPITAL MANAGEMENT

February 8, 2011

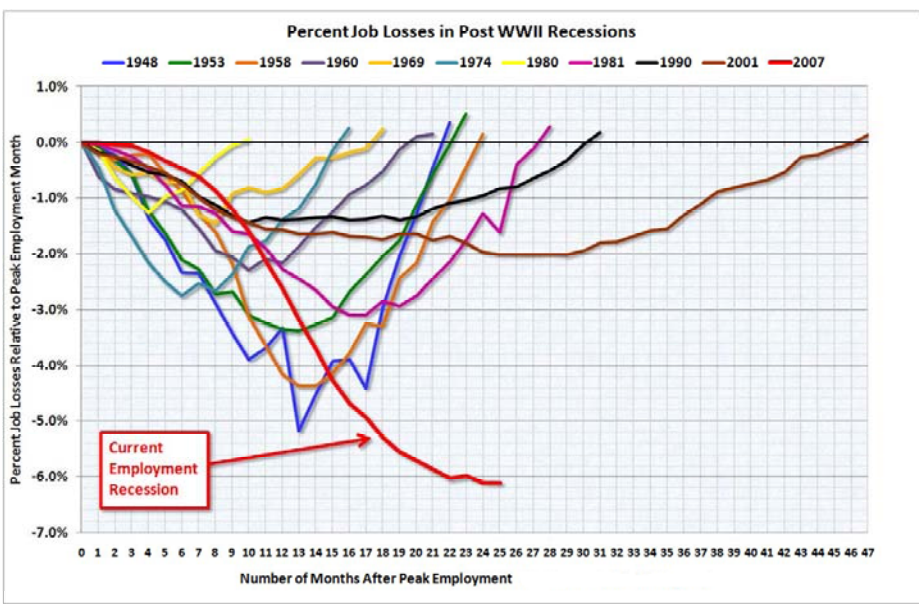
# Our Outlook for 2011 and Beyond

March of 2011 will mark the second year of a dramatic recovery in equity prices. After hitting a low of 666 in March 2009, the S&P 500 has recovered to 1319 (up 98%) as of today. Throughout this recovery, we heard a steady drumbeat of negative news and forecasts from various "market experts" suggesting the rally was "government stimulus related", unsustainable, or not based on revenue growth. Concerns over the financial markets in Europe also added to investor anxiety. We suspect that when this type of commentary shifts to a more positive refrain, a market top will not be too far away. However, at present, we remain constructive on the markets.

We would like to reiterate a theme that we have highlighted in the past few quarterly letters. Specifically, the U.S. and global economies are recovering from the worst economic and financial crisis since the Great Depression of the 1930's. Thus, positive trends in recently released economic data (GDP, ISM, Productivity,…) can not be properly compared to that of other more "traditional" recoveries.

As an example, we would highlight the following graph regarding the labor markets:

**Labor Market Carnage Was Unprecedented in Post-War Era, But Recovery is Gaining Traction**




Source: Maria Fiorini Ramirez, Inc.

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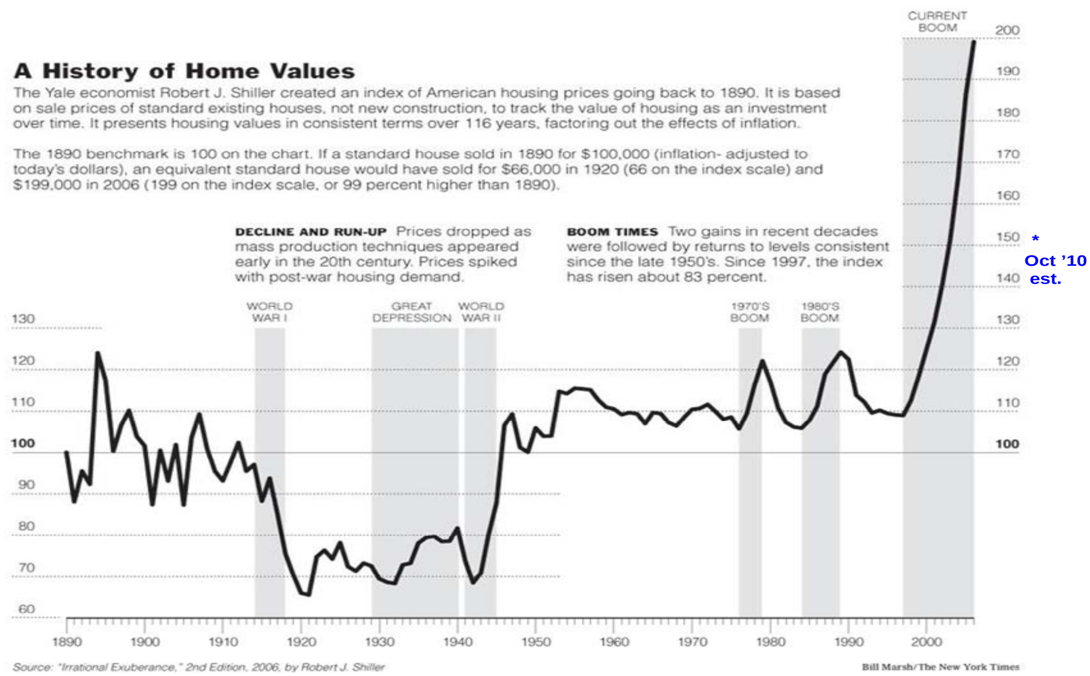
It is obvious from this chart that, at the two-year mark of this recovery, the limited success in creating jobs is clearly atypical.

Secondly, despite huge injections of liquidity into the markets by the Federal Reserve, inflation and interest rates remain relatively subdued (at least at this juncture). Moreover, housing starts, which have always been a key indicator of economic recovery, remain at extraordinary low levels. We would emphasize that government programs aimed at delaying or reversing mortgage foreclosures could be the cause. These programs are not allowing housing prices to bottom and are creating a glut of inventory that can not be cleared through distressed sales to new buyers. With the continued high level of unemployment and fear about a continued decline in the value of the consumer's largest asset, there is little economic incentive to rapidly improve the demand for housing.

## The Housing Bubble Was Unprecedented



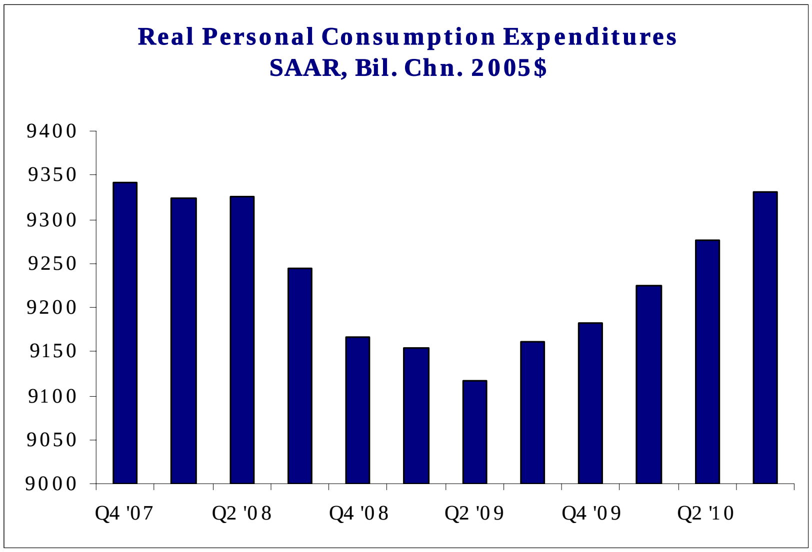

Source: Maria Fiorini Ramirez, Inc.

Notwithstanding our concern over the absence of efforts to clear housing inventory, the above table clearly depicts just how big the housing bubble was prior to recession.

Finally, federal and state governments are facing their own financial crises caused by a continuation of spending patterns but weaker revenue streams (tax related). In most cases, this is clearly unsustainable. For the first time in recent history, we are seeing hard-line budget reviews at both the federal and state level aimed at reducing costs in absolute. Additionally, certain states are implementing tax hikes to address the weakened revenue. These are all positive signs that government is beginning to address these financial problems more seriously than in the past.

Regardless of these various hurdles, the U.S. and global economies are clearly on the mend. Domestic employment is gaining some modest momentum. U.S. companies continue to enjoy strong balance sheets and are beginning to redeploy cash back into new jobs and greater capital expenditures. The U.S. government is becoming more sensitive to its past spending practices and may finally begin to take steps to encourage growth by lowering corporate tax rates, offer more incentives to small businesses and restrict some of its out of control spending. Even state governments are beginning to try to cut costs to balance budgets. Importantly, we believe that while specific cuts by the Federal and state governments may slow our GDP growth over the intermediate term, we believe a 3-4% GDP growth is still likely. This is more than enough to begin the process of improved financial stability in government as well as in the economy.

We also cannot ignore the recovery in spending by the high income consumer. As the following chart demonstrates, aggregate expenditures have returned to pre-crisis levels.




Source: Strategas

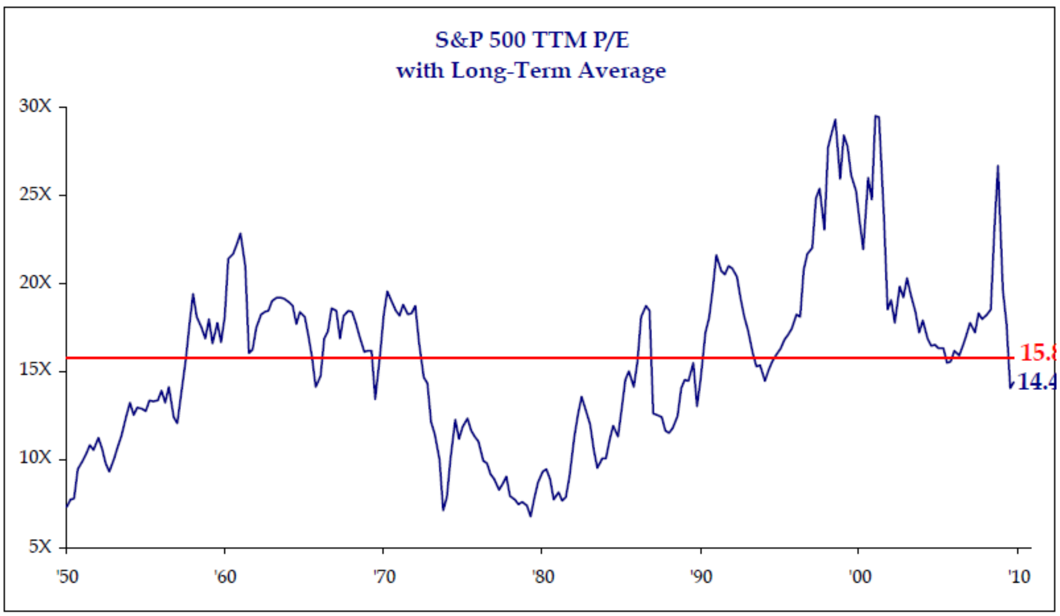
As these spending patterns move to the middle class, economic momentum should accelerate as the year progresses.

Unlike past global recoveries when the U.S. led the advance, the current U.S. economic recovery pales in comparison to the economic growth of many large Asian and Latin American economies. These "emerging market economies" are having a much more positive impact on the U.S. as markets have become more globally linked. Truly, this global economic recovery is different.

Our discussion would not be complete without addressing some specific concerns we face today. The first concern centers on European sovereign debt. At present, it is clear that Germany and France are providing the underlying support for some countries within the European Union. One could argue that a better solution would be for Greece or Ireland (or pick your own country) to restructure: i.e. withdraw from the EU, devalue the currency, implement budget constraints, and re-start the economy from a lower base. Historical examples of Russia, Venezuela, and Mexico provide guidance through this process. However, this is not the current path of choice within the EU. If Germany or France ultimately stops supporting the Euro, we would expect a fast and painful economic upheaval throughout Europe. What is more likely is that these key countries will support the Euro and thus must deal in some way with the weakened members of the European Union.

A second concern is the speed of corporate profit growth in the future. While costs are beginning to have a negative impact, we see other factors that could hinder overall corporate profitability. Many industries are reporting either record or near record profit margins despite lower revenue versus prior periods. This reflects the reduced workforce of recent years and reduced capital expenditure programs. As a result, corporate cash levels remain elevated and productivity levels are exceptionally high. We believe that as more companies gain confidence that the U.S. and global economies are beginning to accelerate, employment and capital expenditure growth will follow. While this could temper the degree of corporate profits growth this year and into 2012, the offset is faster (and higher quality) employment growth and accelerating capital investments. To maintain a competitive position, U.S. multinationals as well as domestic companies must increase the pace of job growth and investment or risk losing their competitive positions in the future.

The U.S. stock market is reasonably priced given all the issues discussed. Corporate profits are growing and global growth in almost all economic regions is beginning to accelerate.




Source: Strategas. A Year In Review, A Look Ahead. Jan. 3, 2011.

The U.S. stock market is also attractive when measured by alternative investments. Clearly bonds are likely to yield returns in the low single digits during the next year or so. Money market accounts currently yield modest returns and strong returns in real estate investments are far from certain. Thus, the U.S. stock market appears far more attractive when compared to other asset alternatives. Importantly, investor fear of equity markets has also kept valuations lower than normal. As investor fear begins to lessen, we expect a reversal of recent money flow trends back into equities. In fact, this trend may have just started.

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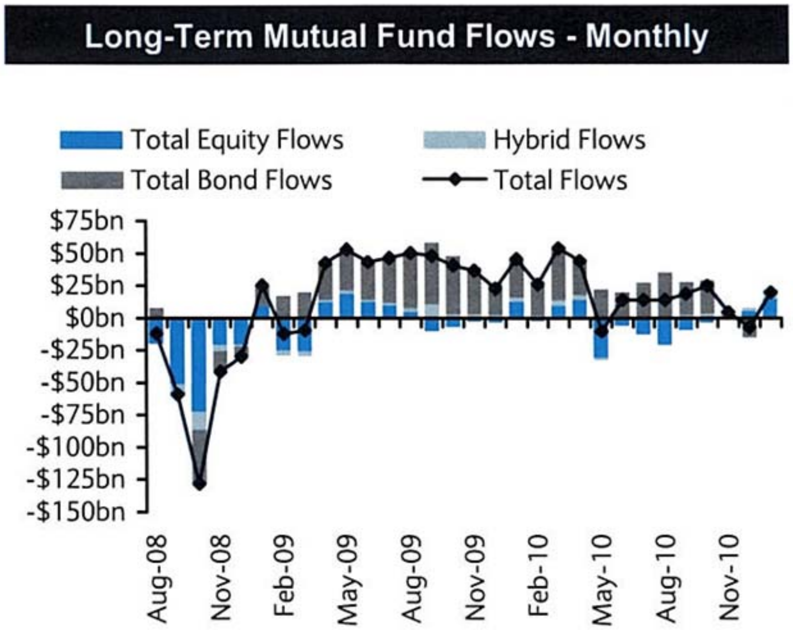


*Source: Barclays Capital and Investment Company Institute*

Our core portfolio is well positioned for the continued domestic and global upturn. Our exposure in energy and financials tempered our performance in 2010. We expect these two sectors to lead the advance in 2011 and into 2012.

Finally, we want to re-emphasize that our focus is on tax efficient long term growth. We know that in recent years it has been popular to preach the need to more actively trade portfolios. However, our long term approach lets us filter out the "noise" of corrections due to a variety of short term factors. We remain focused on core growth, attractive valuations and the need for capital preservation.

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