



A VIEW FROM THE HILL™

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Protecting Your Wealth in Today's Economic Climate

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With many economic issues facing the United States today, investors are concerned about protecting their portfolios. Here, Cedar Hill's Alan Cole and Chris

Engelman provide pointers on building a portfolio that can weather uncertain economic times.

How can I make my portfolio more secure?

In today's environment, security means having a truly diversified portfolio. Portfolios should not only be exposed to equity beta and interest rate risks, but also should include multiple complementary investment strategies. Each strategy should offer the opportunity for strong risk-adjusted returns.

Diversification requires more than simply investing in large cap stocks, small cap stocks, mid cap value stocks, growth stocks and the like. The correlations between these asset classes are significant. As a result, they don't offer much protection on the downside.

To diversify your investments, consider combining a traditional equity portfolio with a portfolio of what we call "equity income securities." These are equities that have a significant component of current income and the potential for capital appreciation, which can protect you against the downside.

These equities are also much less correlated to your traditional equity portfolio, offering additional protection.

Should I consider moving more of my portfolio overseas or to emerging markets?

That depends on where your investments are currently located geographically. Many U.S. investors are underinvested globally, particularly in emerging markets. There's more risk and volatility involved in investing in emerging markets or domestic companies that are selling into emerging markets, however.

What advantages do alternative investments offer?

For qualified clients, alternatives such as hedge funds, private equity or real estate investments offer the potential for returns that compare favorably with more liquid investments. These investments are not closely correlated with other asset classes, so they are not as susceptible to short-term market volatility. With alternative investments, success is based on the underlying assets' risk and whether the investment managers can execute their investment strategies properly.

With the 2008 financial meltdown firmly embedded in investors' minds, liquidity is in demand, creating opportunities for investors in private equity and certain real estate sectors. Low interest rates are also creating opportunities for private equity and other strategies that take advantage of the low cost of capital.

What else should I consider when building my portfolio?

Investors should take long-term global trends into account. For example, bonds have done very well during the past 30 years, but interest rates have declined steadily during that time. Since interest rates are at historically low levels and may rise, it's unlikely that we can expect the same returns from fixed income investments in the next few years.

At Cedar Hill, we complement our quantitative and qualitative analysis of individual companies with a broader assessment of macroeconomic trends that could influence performance. For example, one of the investment themes we are currently pursuing for equities is the possibility of higher energy prices in the future. We've already seen spikes related to a number of events, including hurricanes, earthquakes and unrest in the Middle East. While some of these causes are temporary, we think that these factors hint at a longer-term problem: It is becoming more costly to explore and find substantial new

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fossil fuel reserves. We believe that energy prices will continue to climb, and as a result, companies that have access to energy reserves in politically stable regions are likely to benefit and be much more highly valued during the next five to 10 years. Considering these types of trends is a key part of building a strong portfolio.



Financial Review

Global Markets May Face More Volatility This Year

Early last year, the market appeared positioned to continue 2010's upward trend and produce another year of good returns. 2011 turned out to be a year split into two distinct halves, however. While the markets exhibited low volatility and

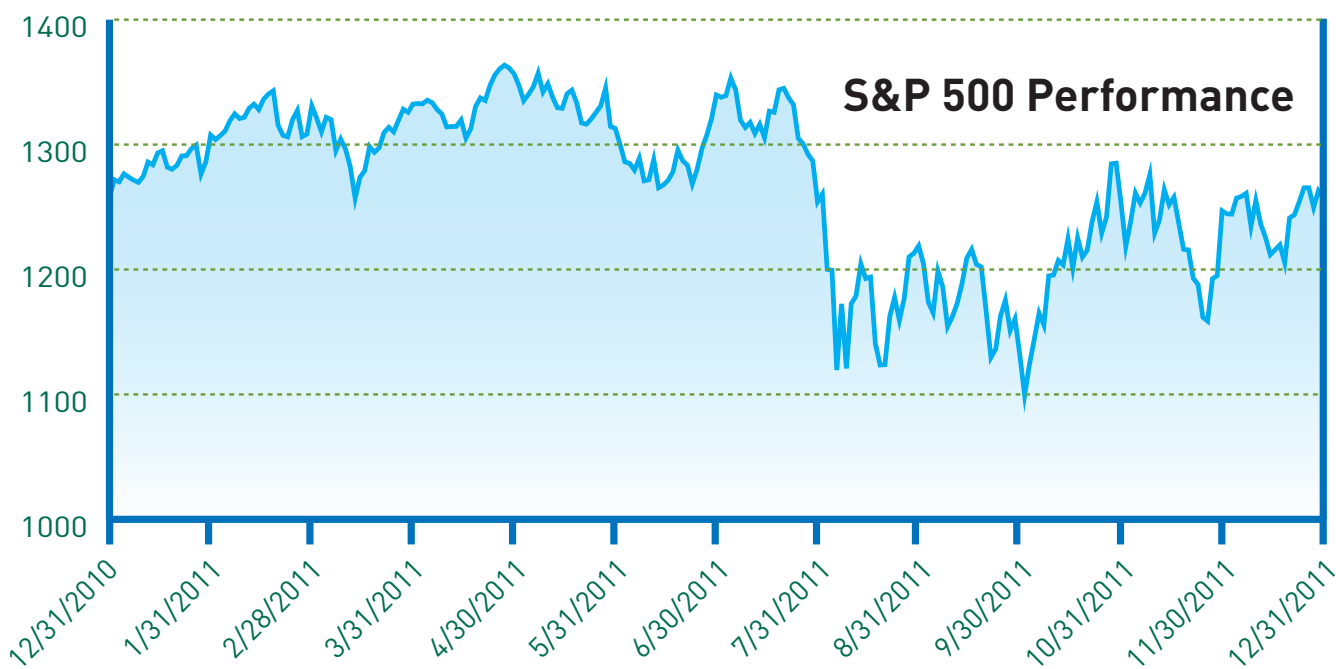
The European debt problem is more an issue of liquidity than solvency and, in our opinion, will require the European Central Bank to "write a check," which is an ability it does not currently have.

sustained resiliency in the first half of the year, the second half was marred by a number of events that caused a spike in market volatility and a crisis in investor confidence.

The S&P 500 gained 2.1 percent in 2011, which is a remarkable result for a year that witnessed revolts throughout the oil-rich Arab world, an earthquake and tsunami in Japan that caused global supply chain disruptions, the United States' downgrade by a major credit rating agency and fears of a European financial collapse. International markets proved more susceptible to these events, as the developed international market index (EAFE) and emerging market index (EM) declined 12.1 percent and 18.4 percent, respectively.

The markets may prove equally volatile in the year ahead with questions continuing to surround the strength of the U.S. economy, whether emerging markets will experience a hard or soft economic landing, and Europe's ability to avoid a deep recession.

The European debt crisis and the implementation of austerity programs across the Eurozone may drive Europe into a recession in 2012. Policymakers have finally shown a willingness to take aggressive actions necessary to rein in fiscal spending, reduce unsustainable deficits, and preserve the banking system. The European debt problem is more an issue of liquidity than solvency and, in our opinion, will require the European Central Bank to "write a check," which is an ability it does not currently have. The markets still lack confidence



in European governments to take correct and timely action, but we expect resolution this year as the clock ticks.

In most emerging markets, a moderate growth pullback (but still mid-to-high single-digit GDP growth) is anticipated during the year. Global GDP growth and U.S. export growth could be constrained by the international slowdown, but this may be priced into the market.

Though not robust, the United States' economy is continuing to improve. GDP accelerated throughout 2011 and appears poised for positive, though tepid, growth in 2012. Additionally, the U.S. unemployment rate declined to 8.5 percent in December – still high relative to historic normalized levels of 5.5 percent, but at its lowest reading since February 2009. Continued expansion in the manufacturing sector has also proven reassuring for the economy. With U.S. corporate balance sheets flush with a record \$2 trillion-plus

in cash, profit margins at or near all-time highs, short- and long-term interest rates near all-time lows, continued improvement in credit conditions, and a benign inflation environment, the U.S. economy may be a pocket of resiliency and growth in the year ahead.

We believe U.S. equities offer substantial opportunities for long-term investors. While the S&P 500 was virtually flat (excluding dividends) in 2011, U.S. corporate earnings during the trailing 12-month period grew by more than 12 percent. The continued strength in U.S. earnings, absent a corresponding increase in equity prices, has driven the market's price-to-earnings multiple down to very reasonable (and historically cheap) levels. Given depressed valuations, even unremarkable growth and modest improvement in investor confidence could move equity prices significantly higher by the end of this year.

Investment Overview

Core Equity Portfolio

Undervalued equities should see positive growth in 2012

We did not add new positions to the portfolio in the fourth quarter, but we did sell our holdings in Target and Allstate.

Target (TGT) is an upscale discount retailer that provides high-quality essentials and fashions at lower prices. While we like the company's retail strategy, Target's geographical expansion has slowed in recent years, making execution more important. The company made several operational

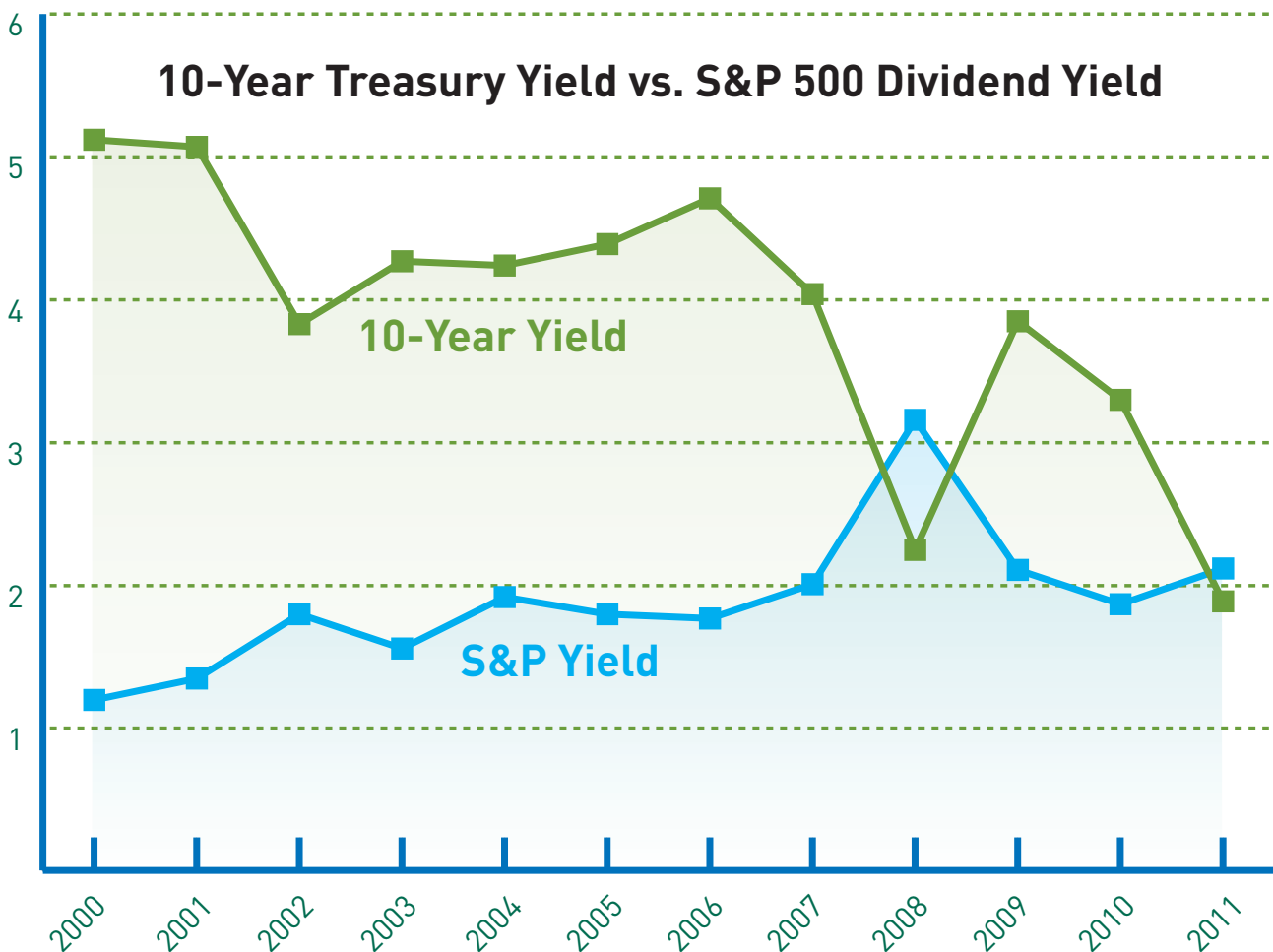
miscues recently and reported somewhat disappointing comp sales figures, which could be a harbinger for challenging times ahead. Target has enjoyed two highly effective sales initiatives during the last couple of years – an updated grocery concept (P-Fresh) and a credit card discount program (REDcard). We believe the “buzz” these programs generated will subside in the next few quarters. While both concepts

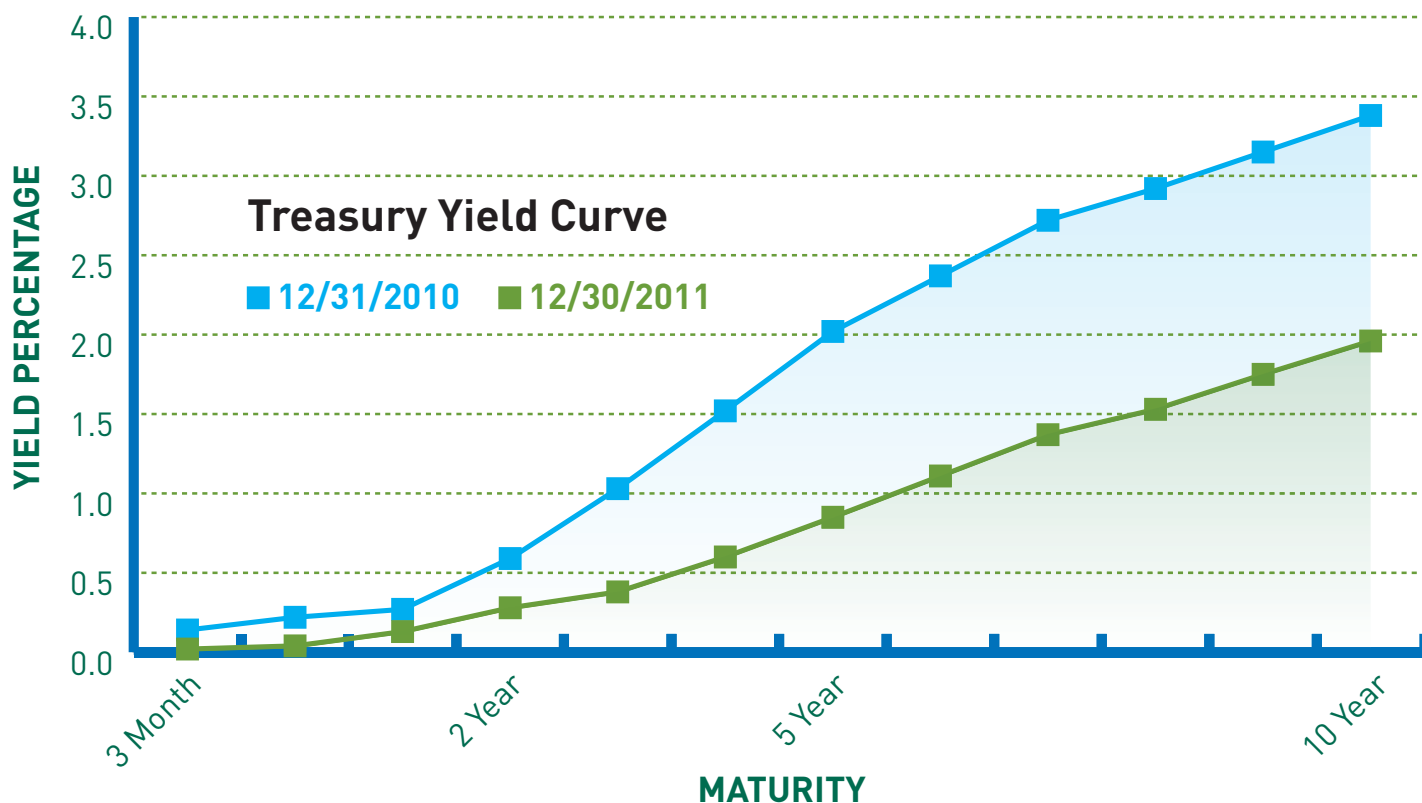
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made the company more competitive with Wal-Mart (WMT), we think Wal-Mart, one of our other Core Equity Portfolio holdings, will be the stronger retailer going forward.

Allstate (ALL) is the largest publicly traded domestic personal lines insurance company. Allstate has a very good brand image and we felt it was deeply undervalued at the time of purchase. The company’s underwriting business has reported problematic trends recently, and an unusually high number of natural disasters have crimped Allstate’s earnings. While the company is reducing its exposure to future natural catastrophes by exiting certain markets, we are concerned that the strength of Allstate’s core operating platform has deteriorated.

As we enter 2012, we believe the Core Equity Portfolio is well-positioned. While some of our more broad-based themes have been slow to materialize, we consider it to be a delay in timing rather than a substantive change in outlook. In particular, although Europe’s financial crisis has kept interest rates in check, U.S. long-term rates will inevitably rise and our portfolio holdings benefiting from a rise should be revalued upward dramatically.





Our strategy of building positions in oil and natural gas companies in friendly geographies was not rewarded in 2011, as domestic energy prices were weaker than in foreign markets. We expect this strategy to pay off in 2012, either because of the recognition of global economic growth in spite of Europe's financial malaise or because of heightened global tensions.

Despite the portfolio's lack of growth in 2011, we are encouraged by the actions of the corporate management of the vast majority of our holdings. In addition to successfully navigating their businesses through a chaotic period, many have also pursued substantial share buybacks, reflecting their belief that the stock market is undervaluing their businesses. Dividend increases have also accelerated by 18 percent annually (compared with 14 percent for the S&P 500 index), and we believe this reflects corporate management's increasing confidence that earnings will continue to grow in coming quarters.

Fixed Income

European debt crisis continues to influence fixed income market

Yields on fixed income securities continued to decline in the fourth quarter as investors remained concerned over

Europe's debt crisis. Yields on 10-year treasury bonds ended last year at 1.96 percent, more than 140 basis points lower than the beginning of 2011.

The midrange (5-9 years) of the yield curves remains most attractive on a risk-adjusted basis, especially with municipal and corporate bonds. Spreads on financials remain particularly wide, as investors fear a potential contagion effect on our banks from the European crisis. We will monitor this segment particularly closely for some opportunistic purchases.

Alternatives

Alternative investments a mixed bag in 2011

The disparity of results among **Hedge Fund** strategies and managers was quite large in 2011. Most event-driven and credit strategies preserved capital by limiting market exposure, and high coupon payments helped offset price declines in the second half of 2011.

Equity long/short managers did not fare as well. High volatility made it difficult for managers focused on U.S. equities to adjust position sizes and net exposure levels appropriately. Steep declines in Europe, Japan and emerging markets, as well as commodity-related equities, made diversification away from large cap U.S. equities unattractive. Investor

sentiment favored high dividend paying companies, an area that does not lend itself to long/short equity focus, but as volatility subsides, investment opportunities for long/short managers should increase.

Despite subdued economic growth, certain **Real Estate** investments performed well in 2011. Demand for high-quality, income-producing properties in prime locations was high as investors sought safety from volatile equity markets and looked for higher income than that produced by fixed income securities. Real estate asset sales by commercial banks seeking to deleverage their balance sheets should create additional opportunities in 2012.

Private Equity investments also progressed in 2011. Concerns that less debt financing availability in the second half of the year would stymie investment activity were unfounded. The industry reduced its reliance on leverage a few years ago, so 2011 transactions tended to close as expected.



Private equity funds have significant amounts of fresh capital to put to use, and valuation levels remain near the high end of their historical range as industry participants seek strategic acquisitions to boost revenue.

Cedar Hill News and Notes

Parul Patel, CPA, recently joined our firm as Controller/Private Fund Reporting. Parul has 10 years of public accounting/audit experience, and she will concentrate on financial reporting for alternative investments and Cedar Hill's proprietary funds.

Emergency Contact

As a reminder, our website (www.cedhill.com) has an "Emergency" link at the bottom of the home page. In the event of an interruption to normal business operations at our office, this link will redirect users to a Web page that will provide updates and alternative phone numbers for communications with clients and interested parties. In such an event, updates will be provided continually until operations are fully restored to normal.