



**Ladenburg Thalmann Asset Management
LAMP Market Commentary
October 2011**

Overview

During the summer, markets reacted more on headlines coming out of Washington and Europe than on fundamentals, contributing to the increased volatility in global markets. The fragility of the European sovereign nations and the banks holding debt of these countries was the main driver of market turbulence. However, we do not believe a recession is imminent and the fundamentals of our economy are showing signs of improvement. Corporations are flush with cash and profits remain at record highs up 8.5% versus a year ago. Consumers, a key component of GDP growth, continue to increase spending with retail sales and car purchases stronger than they were a year ago. Manufacturing is trending upward signaling that our economy is expanding, not contracting. The recent market downturn has been a near term overreaction to headline news and has created the potential for possible market advances. These potential advances would not come without continued volatility, therefore we maintain our defensive posture in our portfolios.

Domestic Equities

The third quarter was a difficult period for equities with the S&P returning -13.87%. Our overweight allocations in more defensive styles (large cap and growth) helped to protect our portfolios during the recent downturn. Large caps outperformed small caps by 7.19% and growth stocks outperformed value by 2.73% for the quarter. Large cap stocks are better positioned to weather downturns due to their greater ability to borrow, stronger balance sheets, and wider global reach for customers. With the current yield of the S&P 500 above the yield on the 10 year Treasury investors may be enticed to invest in riskier assets such as equities for this reward.

International Equities

International Developed & Emerging markets underperformed US markets returning -19.01% and -22.56% respectively in the third quarter. Global markets will likely remain unstable until a solution for the European sovereign debt crisis becomes more clear. The weakness in the European markets has contributed to emerging markets and frontier markets selling off, bringing their prices to attractive levels not seen in many years. Foreign stocks, are now approximately 30% less expensive than the S&P 500. Additionally, the growing strength of the emerging market consumer will be a driver in global consumption growth over the next 10 years, which may lead to excess returns in this asset class. The strengthening of the US dollar contributed to the underperformance of international equities versus domestic equities however we do not expect this trend to continue over the long run.

Commodities

Natural resources declined for the second quarter in a row, returning -18.9% year to date. Oil closed at \$79.20 a barrel, down 30.5% from its high on April 29th of \$113.93. While commodities generally declined more than equities, we anticipate this asset class will outperform once demand

returns. One positive aspect of declining commodity prices, in particular oil and gas prices, is that they act as a stimulus program for consumers, leaving them more disposable income. We remain optimistic about the future demand for commodities specifically from the growing emerging market economies.

Fixed Income

Despite the downgrade of US debt, treasury yields are at record low levels and the Fed is committed to keeping short-term interest rates at essentially zero percent through at least mid-2013. The recent volatility has led to a flight to quality resulting in Treasuries outperforming all other asset classes so far this year. We have maintained a position in government debt despite its record low yields and credit downgrades as Treasuries act as a safe haven in volatile markets. The Federal Reserve announced their "Operation Twist" program, whereby they will move approximately 400 billion dollars currently held in short term Treasuries to longer maturity Treasury debt. While we believe Operation Twist will be successful in lowering long term Treasury rates, its desired effect to lower financing costs for companies and consumers is yet to be seen. For example, mortgage rates and treasury yields don't always move in unison, so lower treasury rates may not be successful in further lowering mortgage rates. While Treasuries had a strong quarter driving prices up and yields down, lower quality fixed income markets did not perform as well. As the yields on Treasuries have come down, yields on lower quality fixed income (such as investment grade and high yield debt) have increased making them more attractive.

Real Estate

The real estate market continues to be a drag on the economy and recent economic data shows signs of further deterioration. The average price of new homes sold was \$246,000, down 8.5% versus last year. New home sales declined slightly in August and remained in the depressed range they have been in since May of 2010. In order to help spur a recovery in the real estate market, the Federal Reserve has used many tactics including the recently launched Operation Twist intended to push mortgage rates to historic lows which could boost home sales or refinancing. The new low rates, however, have not yet resulted in the desired effect because many would-be buyers or homeowners are having trouble meeting the strict credit requirements needed to get a new loan. Due to the excess inventory of homes on the market, it may take years for the sector to recover therefore we do not hold an allocation to real estate.

Conclusion

While our most recent rebalance in July further increased our conservative stance, we believe the recent pullback was an overreaction. The S&P is also at levels seen 13 years ago dating back to 1998. Corporate earnings are still strong, their balance sheets still sound, and unemployment has stopped getting worse. There are headwinds in the market surrounding the European debt situation that will need to be resolved before markets can be more fundamentally driven. It is important to look beyond market movements on a day to day basis and consider a longer term view.

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