Ladenburg Thalmann Asset Management
LAMP Market Commentary
January 2010

SUMMARY

As we enter into a new decade, we look back at 2009 as a year of great returns in almost every asset class despite an unstable economy. As economic conditions begin to improve, we are more optimistic than we have been and we continue to monitor for clear signs of stability. Many of the banks forced to take on government support have paid back their loans and have begun to grow organically which is a sign that the banking sector is improving. A functioning banking system is critical to a global and US recovery. After the devaluation of the US dollar throughout the year, it rallied in December which shows confidence building in the US market. While unemployment came in better than expected, it is not anticipated to go as low as it was prior to the recession; however any improvement below 10% will be a positive sign. In light of improving conditions but mindful of the current unemployment rate, the Fed will most likely leave the Fed Funds rate near zero in order to stimulate the economy, which will continue to offer incentives to investors to move assets out of cash and into the market. As we go forward we will monitor the Fed for when it begins to raise rates (which is not expected in the next 12 months) as it can have an adverse affect on the recovery but will be necessary if the demand for Treasuries wanes due to low interest rates. These factors lead us to believe there will be continued strength in most markets in the first half of 2010 but we have concerns looking out 12-18 months.

DOMESTIC EQUITIES

The S&P 500 returned 6.04% for the forth quarter, up 26.47% for 2009. As we exit the recession, where value tends to outperform growth, we started unwinding our growth tilt which outperformed value by a staggering 17.25% for the year. We continue to hold a large cap bias over small caps primarily as a defensive hedge, which worked out to our advantage in 2009 even with the strong market rally where large cap outperformed small cap by 1.26%. Large caps should continue to outperform small caps going forward as access to capital is still scarce for smaller companies and larger companies are better positioned to take advantage of global opportunities in the face of a devalued US dollar. Our positive outlook for US Equities is predicated on recent earnings surprises and the restocking of inventories.

INTERNATIONAL EQUITIES

International developed and emerging markets returned 31.78% and 78.51% respectively for 2009. In November we increased our exposure to both asset classes since we expect them to continue outperforming the US market. We have high expectations for emerging market equities due to their growing middle classes and minimal national debts. Emerging market equity funds brought in a record $80 billion of new inflows in 2009, completely reversing the $50 billion net selloff in 2008. If there is a sell off in global markets, emerging markets will also pull back, although it may be temporary and we would view that as a good opportunity to increase exposure in this strong asset class.

REAL ESTATE

The battered real estate market saw a substantial comeback in the second half of 2009, but there still remains a long road to recovery. Some recent trends in the housing data such as improving sales indicate that the housing market is stabilizing. However, the government home purchase incentives that helped to revitalize home buying are set to expire this spring which may slow the recovery. The commercial real estate market faces headwinds as office property vacancy rates continue to rise and are expected to reach 17%. Billions in commercial real estate mortgages are set to come due in the next 18 months for properties that have lost substantial value since the market highs of 2007 and absorbing these mortgages will put a significant strain on the recovery of the industry. Because of the overall weak fundamentals of the industry, which is no longer a diversifier or source of yield for the portfolio, we removed our allocation to this sector.

NATURAL RESOURCES

The Natural Resources market experienced a significant rally in 2009 returning 36.93% for the year (measured by the S&P North American Natural Resources index). Economic forecasts for 2010 expect global growth of more than 3% which will lead to increased demand for natural resources and ultimately higher prices of raw materials. Economists estimate that developing economies will expand by 6% in 2010 an example of which is China's growth now outpacing the United States. The weakening dollar also helped to boost the prices of natural resources in 2009. Although volatile, the long term outlook is positive and we continue to hold an allocation to this sector.

FIXED INCOME

In the beginning of 2009, the fixed income market was severely undervalued as a result of the 2008 credit crisis. As the government actions including quantitative easing, debt guarantees, and a commitment to zero percent interest policy took affect, the once frozen credit markets thawed and investors' appetite for risk returned to the market. Since then, bond prices have normalized and the yields between treasuries and other fixed income securities are approaching historical levels. In accordance we maintain a shorter duration as a hedge to the affects of the increasing national debt and falling bond prices with inflation on the horizon. We continue to be rewarded by our tactical allocation to high yield which had record breaking returns last year for the asset class of 58.2%. Concurrently we took profits after a year of exceptional performance in our international fixed income position which continues to act as a hedge against the US dollar.

CONCLUSION

The US economy (nearly 70% of GDP) is driven by consumer spending and as a result when the consumer does not spend, the US does not grow. The result of the recent market ups and downs is that US Consumers have become more net "savers" rather then "spenders." Consumer confidence and spending are below historical levels compared to past recoveries, and although they may not return to 2007 levels, we expect them to increase and stabilize. From a pure replacement point of view spending will increase as cars breakdown, homes wear out and children need school supplies and clothing. Our optimism around the consumer, stabilizing unemployment and the banking recovery is what drives our belief that there is continued strength in the markets although we are closely monitoring the ballooning US deficits for its long-term implications. As always, our goal is to position our portfolios to be able to benefit from positive returns in equity markets while offering downside protection through the use of alternatives and tactical rebalancing to minimize the effects of possible pullbacks in the market. This strategy has served us well in both 2008 and 2009, and we expect similar results in 2010.