Ladenburg Thalmann Asset Management
LAMP Market Commentary
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INTRODUCTION

As anticipated, we continue to see over-exaggerated swings and reactions in the markets that are caused by investor fears and mixed economic results. There are both positive and negative indicators currently in the market and we continue to expect higher than normal volatility through the end of the year. The decline in consumer spending and poor housing data coupled with the European sovereign debt crisis have been the most concerning economic indicators as they are igniting both US and global volatility. Despite these concerns, there are positive indicators such as improved employment data, strong corporate balance sheets, and cheap access to capital for both consumers and corporations. Beginning last November, unemployment has slowly been trending in the right direction from 10.1% to 9.5%. Ideally, the excess cash on corporate balance sheets will drive spending and continue to improve wages and hiring. The continued Fed funds rate of 0-0.25% allows all companies, recently including small and mid size, to borrow at historical lows, helping to drive GDP growth. Anticipating this market volatility, in April we successfully rebalanced the portfolios to provide further downside protection while allowing us to take advantage of upside momentum.

DOMESTIC EQUITIES

For the second quarter, the S&P 500 returned -11.43% dragging the year-to-date returns to -6.65% after a positive first quarter. With low interest rates, the availability of credit and excess cash on hand, high dividend paying equities have become increasingly attractive. Based on these conditions, in our recent rebalance, we shifted to a value over growth tilt which has outperformed year-to-date by 2.42%. We have also increased our Mid Cap exposure due to their growth potential coming out of a recession, access to capital, and historical out performance in volatile markets. Accordingly, they have outperformed Large Caps by 4.34% year-to-date. We expect domestic equities to continue to be volatile, however, our tilts to value and Mid Caps should help drive performance.

INTERNATIONAL EQUITIES

The European sovereign debt crisis drove the second quarter's negative performance with International Developed equities down -13.97%. In comparison, emerging market equities were down only -8.37%. Our last rebalance consisted of trimming allocations to International Developed equities as a defensive hedge against questions concerning Europe and the possibility of the Spanish bond market becoming the next "Greek tragedy." While Greece's economy is too small to have a significant global impact, the instability of the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) has put the Euro and global economy in question. We added to our Emerging Market allocations as they continue to experience growth within their middle class and have much less debt than developed countries in relation to their economic size.

FIXED INCOME

The recent uncertainty caused by the European sovereign debt crisis has led to a flight to safety, causing Treasuries to outperform all markets returning 5.9% year-to-date, driving their yields to reach record low levels. Corporate debt was the second best performing bond sector returning 5.8% indicative of the improvements in corporate balance sheets and cash reserves. We recently replaced a portion of our ultra short term government allocation with a short term corporate allocation to capture additional yield. We made this change over concerns for the increasing government debt, but without substantially changing the risk profile of the portfolio. We also slightly increased our allocation to high yield corporate debt as we have less concerns around corporate default; this has helped to increase our overall portfolio yield. We are currently positioned to take advantage of a low yielding interest rate environment but continue to maintain a short duration in case inflation comes sooner than anticipated.

REAL ESTATE
Although we have no allocation to real estate in the portfolios, we continue to monitor for sustained fundamental improvements in the sector. Currently there are still signs of weakness, as new home sales were down substantially in May by -32.7%, partially caused by the expiring tax credit for new home owners. In the commercial real estate sector, vacant office space continued to rise in the second quarter sending the national office vacancy rate to 17.4%, the highest level since 1993. Although there has been weakness in this asset class, mortgage rates, which are tied to ten year Treasury rate, are trading near all time lows, which should help stimulate the real estate market.

NATURAL RESOURCES
The Natural Resources sector has underperformed the S&P 500 year to date with energy down -12.7% and materials down -13.8% due to renewed global economic concerns. Although this asset class is traditionally volatile and cyclical in nature, it offers many benefits such as inflation protection, diversification, and exposure to emerging market growth dynamics. Even though the oil spill in the Gulf of Mexico has the price of oil rapidly fluctuating, our funds are broadly diversified to include other natural resources beyond energy. Over the long term, we expect continued demand for hard assets within growing emerging markets to positively impact this asset class.

CONCLUSION
The debate continues whether there will be a double dip recession, or if this is just a hiccup in a slow recovery. We believe the US will have moderate GDP growth for the remainder of the year but expect sustained volatility. In order to see continued market expansion, both consumer spending and unemployment will need significant improvement. We continue to hold a number of hedges in our portfolios such as allocations to short term fixed income, conservative high yield, and managed futures. We are mindful of current events and economic data reports both domestically and internationally, and we will continue to look for opportunities to rebalance our portfolios when appropriate.