CENTURION Asset Management

Economic and Market Perspective **August 11, 2011**

As the last few weeks' economic and political stories have played-out in the global capital markets, we have been cautiously optimistic about the prospects for growth in equity and fixed income investments for our clients. For close to two years our view has been that the global economy in the developed markets will endure an extended deleveraging process which, while it may take several years to unfold, will in the end be a healthy experience. During that time however, we will have several volatile periods which will cause investors to capitulate because of impatience. We feel this is one of those times.

The equity markets are not positioned to appreciate on a straight-line without any challenges. Rather, there will be good periods to take advantage of opportunities in different sectors of the market, and periods of peril during which we should avoid an over-commitment to the markets. A bit of micro management of a well diversified portfolio to help reduce overall risk will serve us well and provide the potential for benchmark outperformance.

With that said, we are targeting an overweight to high-quality large cap and mid-cap positions, but considering opportunities to increase small cap exposure if that segment greatly depreciates (after significant growth during 2009-11, small caps have the most potential for significant pull-back, and may provide superior entry points if the group breaks down by greater than 20%. As of now it is down approximately 15% from its high).

In the fixed income space (bonds), while it was compelling to consider the recent downgrade of US government debt a catastrophe, U.S. treasuries have actually risen as investors were driven toward these bonds in a "flight to quality". We have reduced our exposure to High Yield and moved closer to high-quality corporate bonds and mortgage backed (MBS) bonds. The extremely low yields (10yr treasury at 2.10%) in the safest segment of the market gives us pause, and we favor an overweight to the middle market segment as represented by the high-quality corps – a combination of reasonable safety and yield.

In summary, recent issues related to Europe (May-present), the budget (June) and the debt ceiling (August), coupled with the downgrade by S&P of U.S. government issued debt has spurred interest in the negative trading (selling) in stocks. Our position is that while there are fundamental issues facing the economic system, we are cautiously optimistic that the S&P 500 can trade to our year-ending target of 1350 (1119 recent close). Recent jobs data (Friday), corporate earnings and estimates, are all positives for U.S. stocks, but the economic debate is holding them back. We feel the U.S. economy is not going back into a recession, which would further roil the markets, rather we see progress as very slow over the past two years and continuing at that pace in the next two years. The recent politically motivated events have caused concern, but in our view these are story lines within the extended sluggish growth scenario as individuals and our broad economy unwinds from mountains of debt. This deleveraging process will take time, and the impatient will overreact to the micro situations that occur along the way. We choose rather to migrate money between sectors that show strength, and look for value in oversold positions.

Sincerely,
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