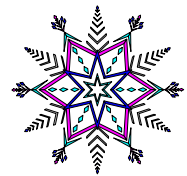


Hamilton-Bates Market Update *January 6, 2012*



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A whole lot of movin' to get nowhere. That could be said for the US stock averages in 2011, where the S&P 500 traveled 600+ S&P points in numerous volatile swings, only to end the year virtually unchanged. Along the way it traded at a high of 1370 and a low of 1075, with a least a dozen 5% swings. Flat is the new black. The unchanged US equity markets were actually the best performer of the major global indexes in 2011. Many foreign markets fell 15-20% or more, and Europe was especially hard hit. As 2012 dawns the focus will once again be Europe, and whether the US economy can withstand the negative pressure of the events unfolding there.

Earnings, Economics, Interest Rates, & Energy

Since October empirical data for the US economy has actually been better than expected, showing slight growth rather than a feared return to recession. Jobless Claims, Unemployment, and Payroll Figures have been the one roadblock from believing the 'sustainable growth' story. We have gotten some improvement on that front recently. Weekly jobless claims moved back below 400K, and the latest NFP report showed a gain of 200K jobs for December. Jobs are the critical factor for economic growth, and as long as job creation remains above 200K per month positive US economic performance is possible. This trend must hold. Earnings have been decent. The 3rd Quarter saw 69.0% of the S&P 500 companies exceed expectations, 10% come in in-line, and 21% disappointed. These are ok results given what is going on in Europe and the uncertainty its created. Current S&P 500 earnings are around \$99, and a modest 13 P/E based on current earnings and projected growth of 9% equates to an S&P 500 of 1284 and 1400 sometime in 2012. There is valuation room for the market to move higher if we see some catalyst to restore investor confidence (such as a reasonable plan for Europe, Fed Action, Stimulus or Housing Plan from Washington).

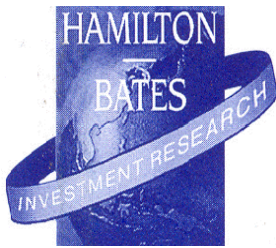
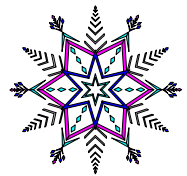
Market Outlook

Our road map had called for a continuation of the rally that began at the end of November. The November dip went deeper than expected, but our markets did eventually bottom and rallied strongly to finish out the year. The major are in the process of pushing through resistance from in the their 200-day moving averages and the declining tops line

back to the 2011 highs (see charts on page 2 for clarity and specific S&P projections). The S&P toyed with its 200 day average in November but could not move above it conclusively. The averages have moved up in December but volume and breadth have been lackluster. Strong demand still has not returned to the market, but seasonality has followed its historical patterns. We are still in a period of positive seasonality, but we are expecting an air pocket sometime within the next two weeks. The major averages are short-term overbought and many of our short-term models support the case for some consolidation/pullback soon.

For 2012 the major issues confronting investors are well known. Tops on the list is European sovereign debt. There are estimates of as much as \$200 billion worth of European debt maturing in the first quarter of 2012, and nearly a \$trillion of debt for Europe in the full year. Who will buy all this debt and at what price? Italy's 10-year yield ended the year near the 7% mark, which was the level where Greece, Ireland, and Portugal needed bailouts. The US has to fund 1.3 \$trillion this year, but so far finding buyers hasn't been a problem. The second issue is trend of the economy. Will the U.S. be the oasis in a world of economic storm, or is the U.S. economy just the last of the dominoes to fall? Earnings have been solid, but earnings projections have dropped. If the economy sputters and earnings can't achieve a 9% growth rate investors won't have the appetite for stocks, and will continue to hunker down in bonds. Valuations based on spreads between equity and bond yields remain at levels where stocks should be very attractive versus bonds, but low rates still reflect stress in the financial system.

The US stock market is once again at a short-term inflection point. The averages look to be pushing above levels that have held the market back since the middle of 2011, but will volume and breadth increase to confirm the rally—or will we see another breakout fake-out, and see the market fall back down. Investors still need to be cautious due to European sovereign debt issues and their lack of any sort of realistic comprehensive plan. Recent economic news has shown improvements, but we continue monitoring for any signs of a global economic slowdown, as this would require defensive portfolio adjustments.



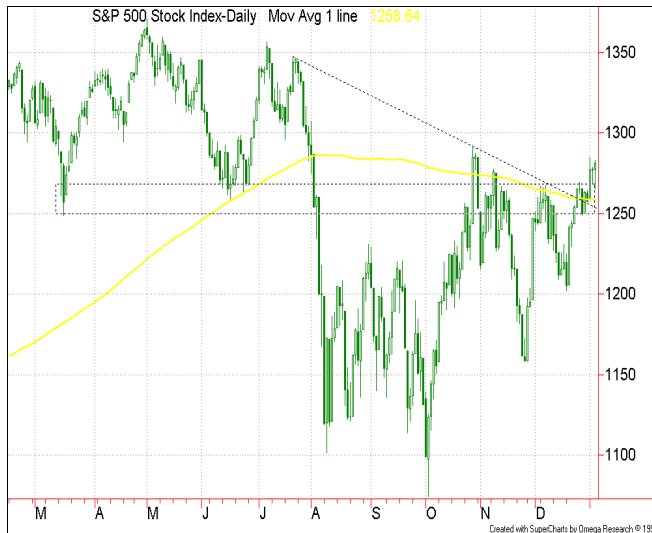
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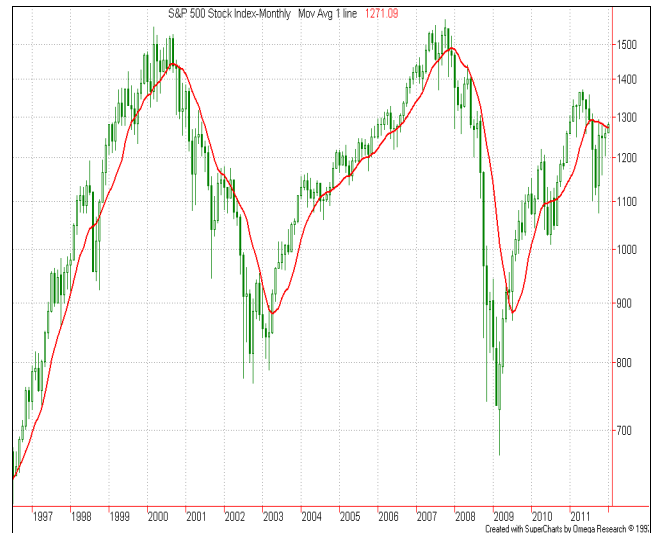
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S&P 500 Charts

Near-Term



Long-Term



The near-term (above left) the market action has been favorable, with the S&P managing to get above its 200-day average in yellow and the descending trend line back to the summer 2011 highs. This resistance stopped the prior market rallies in October and early December. This 'breakout' allows for a move above 1300 and toward the 2011 highs as we begin 2012.

The long-term chart also has shaped up, with the S&P now nudging above its 10-month average for the first time since August. If the S&P can make a monthly close above 1270, it would flip the long-term outlook back to the bullish case. We expect a good deal of volatility for the early part of 2012, and we could see the S&P move above and below this level a few times during the month until the picture settles out.

We looked for the S&P to challenge the prior resistance around 1265, it has taken out that level in the first week of 2012. As long as the S&P holds above this level a push to 1300 toward 1350 is possible in early 2012. We still believe that Europe will be a problem, and March could be an important date as Greece needs funding by then to avoid an outright default.

Disclosures:

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