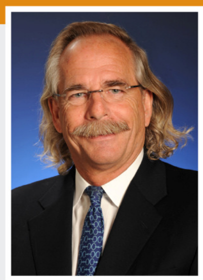
THE OMNIVEST MARKET VIEW



Tom Sowanick

Co-President
Chief Investment Officer
tom@omnivestgrp.com
Tel: +1 609 921 7939

Eleni Athanatos

eleni@omnivestgrp.com
Tel: +1 609 986 1001

The Investment Landscape

October 18, 2012

The global investment landscape appears quite favorable for the next 12 to 24 months. And while the economic environment can be described only as tepid, it is not the economy that will drive asset valuations. The driver for asset price movement will be dominated by Central Banks holding interest rates at or close to zero and continuing to embrace quantitative easing.

The broad absence of fiscal stimulus measures in developed countries places a very onerous burden on monetary policy. Central Banks, including the Federal Reserve, have adopted zero interest rate policies (ZIRP) with the hopes that financial asset price appreciation will wind its way through the economy via wealth creation. In essence, Central Bankers are targeting risk assets as a means of promoting investor confidence, consumer confidence and asset inflation.

This is most clear in the United States where the Federal Reserve is purchasing treasury securities and mortgage securities, which in turn forces investors to seek incremental returns from non-government backed assets. How long will this condition last? Europe will continue to struggle with austerity measures for some time to come. The Bank of Japan (BOJ) has been struggling with staving off deflation and the Federal Reserve has articulated the ZIRP, most likely, until 2015.

Will the Federal Reserve be forced to act sooner than is commonly expected? In the 2003/2004 period, the Federal Reserve, under Chairman Greenspan's watch, allowed the unemployment rate to fall from 6.3% in June 2003 to 5.6% in June 2004, before initiating a series of interest rate hikes. What gave the Federal Reserve the room to wait before lifting interest rates? It was the benign inflation pressures. During the same time period, core Personal Capital Expenditures (PCE) ranged between 1.4% and 1.5% from April 2003 until December 2003, before rising to 2.2% in June 2004. Current conditions show the core PCE at 1.6% and the unemployment rate at 7.8%. Fed Chairman Ben Bernanke has said repeatedly that he will keep interest rates at these low levels until he sees a sustainable improvement in the unemployment rate. Perhaps that means all the way down to 6%, as long as core PCE traffics around 2%.

Anchoring short term interest rates at or near zero for the foreseeable future, has and will continue to push investors further out the risk curve. Moreover, ultra-low interest rates should begin to push pension funds to increase allocations to equities, reversing the multi-year shift out of equities and into fixed income. We have to keep in mind that this is a condition that exists in most developed economies, ie: low inflation, low growth and near zero interest rates. We expect, just as the Federal Reserve does, that these conditions will prevail for quite sometime, allowing investors to be rewarded by taking risk.

While we expect that this will all change, we do not know when, nor does the Federal Reserve. Because of this, investors should seek money managers that have experienced multiple investment cycles and will recognize when the landscape is changing.