High Pointe Capital Management, LLC
One North LaSalle, Suite 2001
Chicago, Illinois 60602
312.726.2500
312.726.6100 fax
www.highpointecapital.com

Innovate. Deliver.

High Pointe

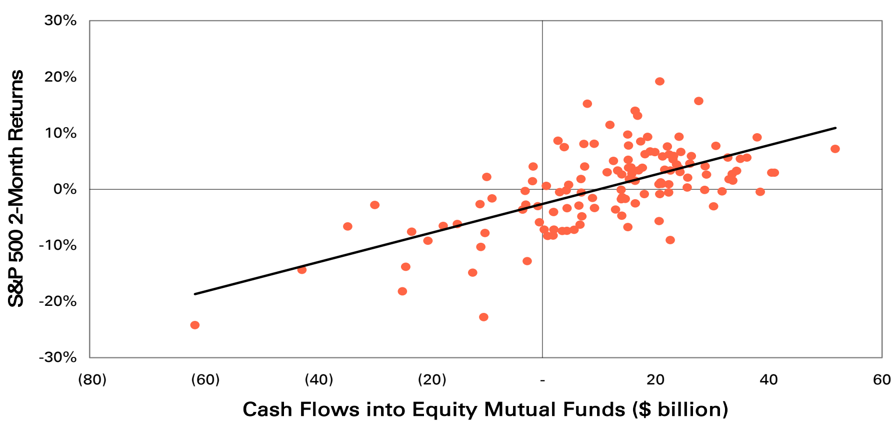
DATE: April 20, 2011
TO: Clients
FROM: Gautam Dhingra
RE: Economic and Portfolio Review

The Bandwagon Soloist

How do investors decide whether to increase or decrease their exposure to stocks? One would like to think that this decision is based on fundamental changes in investors' financial situation or a major change in the risk-return potential of the stock market. As it turns out, the true answer may be much simpler than that.

It seems investors increase their equity exposure if the market has gone up over the most recent two months and decrease their exposure if the market has gone down over the same time period. Does that sound too simple? Perhaps, but it is borne out by data as shown below. This exhibit plots stock market return over the most recent two months on the vertical axis and cash flows into equity mutual funds on the horizontal axis. The strong relationship between recent stock market returns and investors' actions is easy to see.

Stock Market Returns and Cash Flows into Equity Mutual Funds



Source: Strategic Insight data from Oct 2000 - Mar 2011

So, it appears that investors extrapolate recent short-term trend in the stock market. In doing so, they follow the crowd and jump on the bandwagon. "Bandwagon" investing can work under certain circumstances. For example, if trends are long lasting, people jumping on the bandwagon early enough have sufficient time left to enjoy the ride. Academic research has also documented the merits of bandwagon investing (more commonly known as momentum investing) in individual stock selection. However, exclusive reliance on bandwagon investing, with no regard to risk or valuation is hazardous. Just ask those who jumped on the internet stock bandwagon in 1999 or housing bandwagon in 2006.

In our view, smart investing respects the power of momentum but is otherwise based on sound valuation principles. In other words, a good investor recognizes the role of the bandwagon to get on it when helpful and get off it when needed to become a soloist and march to his tune.

Currently, there are a number of themes in the markets that are bandwagon investing views. For each of these consensus views outlined below, we give you our thoughts on where the bandwagon is headed.

1) **Large government deficits will lead to higher inflation and interest rates**
It is indeed true that our government has printed unprecedented amounts of money and is running large deficits. Other things being equal, this should lead to higher inflation and higher interest rates. However, other things are not equal.

There are two types of money – government printed money and bank-created "money". Banks create "money" by lending the original money, then accepting it back in the form of deposits, then re-lending it, and so on. For every dollar printed by the government, banks typically create about $9 more thus leading to a total money pool of $10. Lately, banks are not able to lend as much and are creating only $4 for every dollar printed by the government. Thus, the total amount of money available to buy goods and services is not growing as fast as the government money printing figures would have you believe. So, don't expect high secular inflation until economic growth takes hold and leads to a higher rate of money creation by banks.

2) **Municipalities and states are in trouble and municipal bonds are too risky to invest in**
Yes, it is true that municipalities and states are in dire straits financially. But they do have taxing power, as Illinois proved recently by hiking its income tax rate from 3% to 5%. So, states will most likely raise taxes and reduce services to avoid defaulting on their debt. As it is, municipal bond yields are higher than Treasury bonds even though municipal bonds enjoy tax-exempt status and typically yield less than Treasury bonds. If federal taxes rise in the coming years, as most observers expect, the attractiveness of municipal bonds will increase further.

A corollary to this consensus view is that high yield or "junk" bonds are a good place to get higher fixed income returns. Investors have chased high yield bonds so much over the last couple of years that this asset class no longer offers sufficient extra yield to compensate for its higher default risk. High Pointe and its clients have enjoyed the high yield bonds bandwagon ride, but for now we have gotten off the bandwagon as too many others have hopped on.

3) **Emerging markets are growing faster than developed markets, so one should invest increasingly in emerging markets**
Economic growth will indeed be faster in emerging markets but it does not mean that they are "automatically" a better place to invest all the time. Risk and valuation are important factors in determining their attractiveness. Emerging markets have their own unique set of risks. Investors in natural resource companies in emerging markets have discovered that local governments can usurp their rights. Emerging markets also confront a higher inflation risk than developed markets. There is an important place for emerging markets in the portfolios but they are not a panacea for the lack of growth in developing markets.

Currently, we are cautious in our investment strategy because it is clear to us that government intervention has been a major factor in propping up the markets. As government support ends, we are likely to experience some turbulence. We believe our grounding in fundamental valuation combined with our skill in using the bandwagon to our advantage will help us navigate our way.

Investment Returns

The returns of our main products are summarized below and a discussion of our investment strategy follows in the next section

High Pointe Capital Management
Investment Performance (Net of Fees)[1]

For Periods Ending March 31, 2011

	1st Quarter	One Year	Three Years	Ten Years	Since Inception[2]
Small Cap	**8.5%**	**20.6%**	**12.8%**	**10.9%**	**9.5%**
Russell 2000 Index	7.9%	25.8%	8.6%	7.9%	6.4%
Large Cap Value	**5.8%**	**14.4%**	**6.0%**	**5.2%**	**9.1%**
Russell 1000 Value Index	6.5%	15.2%	0.6%	4.5%	5.2%
Large Cap Growth	**6.1%**	**10.2%**	**4.5%**	**4.3%**	**7.0%**
Russell 1000 Growth Index	6.0%	18.3%	5.2%	3.0%	0.2%
International Equity	**4.5%**	**11.0%**	**3.5%**	**N/A**	**1.1%**
MSCI All Country World ex US Index[3]	3.4%	13.2%	-0.5%	N/A	1.1%

[1]Performance for the latest quarter is preliminary and subject to change.
[2]Inception Dates: Small Cap – January 1, 1998; Large Cap Value - January 1, 1998; Large Cap Growth – August 1, 1999; International Equity – December 31, 2006.
[3]Gross total return index from December 31, 2006 – December 31, 2009; Net total return index from January 1, 2010.

High Pointe Capital Management, LLC (the "Firm" or "High Pointe") is a registered investment adviser with the Securities and Exchange Commission (SEC) under the Advisers Acts of 1940 and its amendments. High Pointe is an independent investment management firm that is not affiliated with any parent organization.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Performance results are shown in U.S. dollars, net of management fee, and are based on composites of all fee-paying, fully-discretionary accounts. Returns for the periods presented are time-weighted. Results shown include all accrued dividends and interest, realized and unrealized gains and losses. Gross dividends were used to calculate the performance prior to January 1, 2010. As of January 1, 2010, accrued dividends used are net of non-reclaimable withholding taxes. Leverage has not been used in the composite. High Pointe's fee schedules are disclosed in Part II of the firm's Form ADV. All fully discretionary, fee-paying accounts are included in at least one composite. The composite results portrayed during the period are compared to the performance of their respective indices because the securities purchased for each of the composites are most closely aligned with the securities comprising these indices.

The ***Small Cap Equity*** *composite is comprised of portfolios invested primarily in stocks of companies with market capitalization of less than $4 billion. The* ***Large Cap Value*** *composite is comprised of portfolios invested primarily in stocks of companies with market capitalization in excess of $2 billion that offer good "value" relative to other companies in a similar business, their growth potential, or their historical valuation levels. The* ***Large Cap Growth*** *composite is comprised of portfolios invested primarily in growth stocks of companies with market capitalization in excess of $1.5 billion that exhibit high expected earnings growth to maximize capital appreciation. The* ***International Equity*** *composite invests in stocks that are primarily domiciled in a country other than the U.S., including emerging markets, without any constraints regarding capitalization or style. A complete list of firm composites and performance results is available upon request. Returns represent past performance and are not indicative of future results. Investment may result in the loss of principal.*

The unmanaged ***Russell 2000 Index*** *measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index is comprised of the 3,000 largest U.S. companies based on total market capitalization. The unmanaged* ***Russell 1000 Value Index*** *measures the performance of those securities in the Russell 1000 Index having lower price-to-book ratios and lower forecasted growth values. The unmanaged* ***Russell 1000 Growth Index*** *measures the performance of those securities in the Russell 1000 Index having higher price-to-book ratios and higher forecasted growth values. The unmanaged Russell 1000 Index is comprised of 1,000 of the largest capitalized companies that are traded in the United States. The* ***MSCI All Country World ex-U.S. Index*** *measures the equity market performance of world's developed and emerging markets. Currently the index consisted of 45 countries (24 developed and 21 emerging countries). A net total return index reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treats. These indices do not reflect fees and expenses associated with the active management of separate account portfolios.*

Investment Strategy

Small Cap

High Pointe's Small Cap strategy produced a return of 8.5% during the quarter, outperforming the Russell 2000 Index by 0.6%. During the quarter, security selection in the consumer discretionary and energy sectors added value but was partially offset by adverse security selection in the health care sector.

In the consumer discretionary sector, a funeral service provider and a consumer goods rental company outperformed because of strong revenue growth. Also, our oil refining industry investment benefited from restructuring, efficiency improvements and collateral benefit from the Japanese earthquake.

During the quarter we reduced our holdings in the health care and industrial sectors and increased our investments in the consumer and financial sectors. We realized profits from a construction and engineering company and an investment management firm that had reached our price targets. We trimmed our biotechnology industry investments by selling companies where execution has been subpar. The proceeds from these sales were invested in retail, food products, regional banks and financial advisers. We also repositioned our investments in technology by reducing our exposure to the communications equipment industry and increasing our investment in the semiconductor industry.

Large Cap Value

High Pointe's Large Cap Value strategy produced a return of 5.8%, which lagged its benchmark, the Russell 1000 Value Index by 0.7%. Security selection in the energy sector added value but was more than offset by weak security selection in the health care and financial sectors.

Our exposure to energy services companies was beneficial as demand for their services increased driven by higher oil prices. However, our technology sector holdings underperformed because of competitive concerns. Since these companies continue to be significantly undervalued according to our assessment, we are maintaining our positions.

We increased our investments in the consumer discretionary and utility sectors with proceeds from the technology and energy sectors. We took profits in an oil and gas service company and cable programmer that had reached our price targets. We also sold a computer company where performance had been lackluster. The proceeds were reinvested in for-profit education, media and utilities. In addition, financial sector investments were reallocated away from banks and into property and casualty insurance.

Large Cap Growth

High Pointe's Large Cap Growth strategy produced a return of 6.1%, outperforming its benchmark, the Russell 1000 Growth Index by 0.1% for the quarter. Stock selection in the energy sector and telecommunication sectors added value during the quarter. However, stock selection in the health care sector detracted some value.

In the energy sector, an oil services company outperformed because of cost cutting and successful integration of a recent acquisition. In addition, other oil and gas industry investments benefited from increases in the price of oil and rig orders. Also, our investment in the tobacco industry performed well as price increases offset volume declines.

During the quarter we increased our investments in the consumer staples, industrial and material sectors and reduced our allocation to the health care and financial sectors. We sold a pharmaceutical company that had struggled with pipeline development and a biotechnology company in favor of more stable investments. We also trimmed our holdings to diversify our portfolio. The proceeds were reinvested in the consumer products, soft drinks, defense, industrials, mining, IT consulting and semiconductor industries.

* * * * *

Overall, we are pleased with our start in 2011 and look forward to communicating our second quarter results to you in July. As always, thank you for asking us to be stewards of your hard-earned assets. Let us know if you have questions about our investment strategy.