



## Quarterly Market Update – Q3 2011

Metropolitan Capital Strategies is pleased to report that with a 14.4% annualized gross return, our Tactical Growth strategy is in the top 1% of ALL managers reporting to PSN/Informa Database for the past 5 years ending March 2011 (out of 7400 strategies). This database is commonly used by investment professionals such as brokers and Financial Advisors.

**Our outlook:** We are pleased to report that we expect to have at least one more opportunity to invest tactically for a double digit reward later this year. We believe a summertime correction followed by good corporate earnings will set up the opportunity for a significant market rebound, which feeds our 10%+ opportunistic upside. Why?

**Economy:** Although QE2 officially ends June 30, we do not believe QE3 is imminent. The economy will not be operating on its own as the Fed will continue to reinvest maturing securities--still artificial economic stimulation. The Federal Reserve Balance Sheet has increased to \$2.8 trillion since the global meltdown, so when they start reducing the balance sheet -- or tightening -- the economy will be affected. Continued high fuel and food prices weigh heavily on the market and are a negative for consumer spending as 75% of US GDP is comprised of consumer spending. We see little change here over the summer. What is accepted is that the US must raise the debt ceiling to avoid a credit downgrade. If the Republicans insist on TRUE spending cuts tied to raising the debt ceiling, this will be negative for the US economy and could be perceived very negatively by the market. The potential for slow growth in the two largest world economies (US and China) will also be a drag on the US stock market in the future, and additionally, continued weakness in the US Dollar is of great concern.

**Earnings:** Despite this negativity, earnings on the S&P500 for the full year should come in between \$98 and \$100 a share for 2011, suggesting that the S&P500 should range between 1340 and 1430 between now and the end of 2011.

**Opportunity:** From where we stand today, we see a potential downside this summer of the S&P between 1190 and 1280 before rebounding. The market is currently at the higher end of this range. This scenario (correction, then good relative earnings) should allow another entry point into the market that meets MCS' criteria of a double digit increase that we are very confident will occur. Tactical Growth and Tactical Moderate will participate in the upswing when it occurs and Tactical Growth will continue to write options to enhance the returns. We will capture gains and move to protection mode when our confidence in the market no longer meets our criteria.

It is our personal goal of growing your assets and then protecting your portfolio--no giving back the gains -- that is of utmost importance to our firm. We wish you a relaxing and refreshing summer and look forward to protecting your principal and growing your assets without riding the rollercoaster!

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