BANTA
ASSET MANAGEMENT

> ***"Strategy must have continuity.***
> ***It can't be constantly reinvented."***
> ***Michael Porter***

THINKING LONG TERM IN 2012:
Why *Staying the Course* is More Important than Ever

We have often said; ignore the headlines and stay connected with Banta. Why? Headlines are snapshots aimed at sensationalizing yesterday's news. More directly, they *sell* old news. At Banta Asset Management, on the other hand, we study companies and their future, not news. Companies are the lifeblood of the worldwide economy, not politics, not policies, and not politicians. Indeed, policy makers influence economics; but in the end, as always, **the corporation** and all of its stakeholders ***are*** the economy upon which **true value** is created and protected. Ultimately, **value** is maximized when it is managed for the **long term**; because assets, like great brands, are stories never fully told.

The Banta Investment Strategy for 2012

The decision to stay focused on creating wealth over the long term is not without internal discussion and debate. We are constantly evaluating whether staying the course makes sense for our clients at any particular moment. Here is why we still believe it does:

- **One: Stay Focused on the Long Term**

Investors need to lengthen their time horizon, and Banta is designing portfolios for the long term – not today's headlines. Like the largest portfolio managers in the world, including Warren Buffet, our portfolios are designed for the long term and to benefit from global trends; such as growth of emerging markets, dollar devaluing, and inflation. We will continue to capitalize on these emerging markets; like Brazil, Russia, India, and China; which are forecasted to grow on average of at least 6% in 2012; 50% of worldwide GDP is coming from these emerging markets.

A recent *Journal of Financial Planning* article suggested that macroeconomic volatility and investing horizons should influence inflation-hedging decisions. For investors seeking real return above inflation and assuming longer horizons, the authors suggest volatility calls for greater allocations to commodities and equities, exactly what Banta is doing. The authors suggest that flocking to so-called safe investments in response to random and unexpected events will destroy a long-term investing strategy.

Two: Looking to Data, Not Drama

Banta has always focused on data, and we ignore the drama from the headlines. With all of the volatility in the market, it's hard not to get caught up in the drama of the Eurozone crisis, the volatility of the Dow, rising gas prices, or the American presidential campaign. We look for the **facts** beyond the headlines, and here is what they tell us:

1. Price/Earnings (PE) ratios are less than 12, well below the ten-year and 15-year averages of 14.9 and 17.0, and indicative of ten-year annualized returns of high single digits.
2. Earnings and profits are at record highs with the most recent Earnings Per Share (EPS) at $24.86, the highest in over ten years, while adjusted after-tax corporate profits are 10.1% of GDP, higher than the 50-year average of 6.1% and higher than at any point since before 1960.
3. Corporations hold $2 trillion in cash on their balance sheets, which is the greatest amount since 1959; and this cash is ready to be deployed by way of mergers and acquisitions, capital expenditures, increased dividend payments, and share buybacks, which we are already starting to see.
4. Dividend yields of 2.2% are greater than the ten-year Treasury, which has only happened 20 times since 1953; and the average return over the following 12 months was 20%.
5. Ten years of flat returns (and we saw more of the same in 2011) indicate a decade of high-single-digit annual returns according to historical data, not headlines.

Three: Stay Strong and Invested

We stay strong and invested when sentiment is weak. After ten years of flat returns, evidenced most recently by 2011's returns, it is no wonder that many advisors and their clients are looking to try something new. **But now more than ever, change should be avoided**. History shows that patient investors are rewarded precisely at this stage of the cycle where consumer sentiment is weak, returns are flat, and volatility is high. For example, according to the University of Michigan's Consumer Sentiment Survey, the current recording is below 60, its worse rating since 1980.

The last ten times the survey fell below 60, the S&P 500 was higher by an average of 21 % in the following 12 months. It rose in eight of ten observations. Indeed, the market is currently priced as if we were in a recession, and our consumer sentiment numbers are the same as those from the recessions of 1973-1974, 1980, and November 2008. The historical headlines associated with these recessions included the Vietnam War, the end of the Carter presidency with rampant inflation and high unemployment, and the credit crisis in the fall of 2008 with the Lehman bankruptcy. **However** in each of these three instances, **despite incredibly weak consumer sentiment** and many economic challenges, **the market was up 25%, 13.6%, and 21.6% 12 months later**. At Banta we believe that during these times of weak sentiment, valuations get depressed, investors sell stocks anyway, and the market becomes cheap enough that a rebound is inevitable.

Our Credo — Staying Strong and Carrying On

At Banta Asset Management we are in the business of managing wealth for the long term, because that is how wealth is **created and protected**. We believe that our steady strategy of owning companies whose strategy is also long term is not only prudent investing but strategic investing. Protecting wealth from the headlines is made easier when the strategy is fortified by data and strengthened by **staying the course**.

With continued confidence,

Banta Asset Management