
THE STAHL REPORT COMPENDIUM

May 2012

Featured Companies

Archer Daniels Midland (ADM)
Tiffany & Co. (TIF)
American International Group, Inc. (AIG)
TE Connectivity Ltd. (TEL)



*Exclusive Marketers of
The Stahl Report*

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Murray's Musings

MARGIN POTENTIAL WITHIN THE S&P 500

The subject for the *Musings* section is the table below, which lists the largest companies in the S&P 500, excluding the financials.¹ The purpose of this examination is to compare the net profit margins of these companies as they existed in 2002 with those from the end of 2011. The idea is to compare a weak economy with another weak economy, separated by almost a decade. Aspects of economic weakness notwithstanding, the margins as we found them in 2011 were far higher than they were in 2002.

Table 1: Net Margin Comparisons: 2002 and 2011

<u>Ticker</u>		<u>Percent of S&P 500</u>	<u>2002 Net Margin</u>	<u>2011 Net Margin</u>
AAPL	Apple	4.47%	1.1%	23.9%
XOM	Exxon	3.20%	5.4%	8.4%
MSFT	Microsoft	1.89%	18.9%	33.1%
IBM	IBM	1.88%	6.6%	14.8%
CVX	Chevron	1.86%	1.1%	10.6%
GE	General Electric	1.64%	11.5%	8.8%
PG	Procter & Gamble	1.45%	10.5%	14.0%
T	AT&T	1.52%	17.2%	3.1%
JNJ	Johnson & Johnson	1.40%	18.2%	14.9%
PFE	Pfizer	1.37%	28.4%	12.9%
KO	Coca-Cola	1.35%	20.3%	18.4%
GOOG	Google	1.23%	22.7%	25.7%
PM	Philip Morris International	1.20%	11.9%	11.2%
INTC	Intel	1.11%	11.6%	24.0%
MRK	Merck	0.92%	31.7%	13.0%
VZ	Verizon	0.90%	6.8%	2.2%
ORCL	Oracle	0.90%	23.0%	24.0%
QCOM	Qualcomm	0.85%	18.0%	30.6%
CSCO	Cisco	0.83%	10.0%	15.0%
PEP	PepsiCo	0.82%	11.6%	9.7%
WMT	Wal-Mart	0.81%	3.4%	3.5%
SLB	Schlumberger	0.78%	5.0%	12.0%

Source: <https://www.spdrs.com/product/fund.seam?ticker=spy>, as of April 27, and company reports

¹ As of April 27, 2012.

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The obvious example is Apple, whose profit margin was 1.1% in 2002 and rose to 23.9% in 2011, an increase that explains much of the stock price performance. Even a company like Microsoft, which in 2002 had an 18.9% net profit margin, increased its net profit margin to 33.1%. In the same period, Proctor and Gamble went from 10.5% to 14.0%, Chevron from 1.1% to 10.6%, and IBM from 6.6% to 14.8%.

The 22 companies on the list, irrespective of their margins, comprise about one-third of the market value of the S&P 500. To a large extent, they determine the profit margin of the S&P 500 and, to a very large extent, what the performance of the S&P 500 will be.

Although most of the companies on the list had higher margins in 2011 than in 2002, eight were lower: General Electric, AT&T, Johnson & Johnson, Pfizer, Coca-Cola, Merck, Verizon and PepsiCo. Of these eight companies, three—Merck, Pfizer, and Johnson & Johnson—are in the health care field, where it's very difficult to imagine margins increasing in any material manner given current cost containment pressures. It's also hard to imagine the 14 companies that generally show higher—and in some cases very much higher—profit margins increasing those margins beyond the current level. So, that's a total of 17 of the 22 companies for which it's hard to imagine profit margins increasing.

Of the eight companies with lower margins, Coca-Cola had a modest decline in profit margin, from 20.3% to 18.4%, between 2002 and 2011. On an absolute level, however, that's still very high, so it's hard to imagine Coca-Cola meaningfully increasing its profit margins. That brings us to 18 out of 22 companies with little prospect of increasing their profit margins.

Another of the companies, PepsiCo, has been trying for a decade to increase its profit margins with a notable lack of success. In 2002, its profit margin was 11.6%, and in 2011 it was 9.7%. All sorts of remedies have been proposed, one of which is a spin-off of the Frito-Lay snack food business. It's not entirely clear that the Pepsi management is very enthusiastic about that option, nor is it clear that it would achieve the desired result. In any event, that spin-off seems to be the consensus wisdom of what needs to be done to make Pepsi's margins higher. PepsiCo only represents 0.82% of the S&P, so whatever happens to the company in a positive sense will not radically influence the S&P 500.

General Electric also experienced a decline in its profit margins. In the current climate, it must run GE Capital with much less leverage than it did historically for reasons that are self-evident. It is no surprise, therefore, that General Electric's profit margins in 2011 were lower than in 2002. GE Capital plays a tremendous role in the revenues of the non-financial services businesses, because it provides financing for them. It contains tremendous leasing businesses that benefit when the company is able to acquire capital at a very low cost basis and in a very aggressive manner, because it can then offer favorable financing terms. However, since GE must run GE Capital with a significantly lower

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leverage ratio that in the past, it is difficult to imagine much higher margins for the company.

Two companies that offer potential for margin improvement are AT&T and Verizon. AT&T had a net profit margin in 2002 of 17.2% and Verizon had a profit margin of 6.8%. In 2011, they were 3.1% and 2.2%, respectively, which are very slender margins. The obvious way that the AT&T and Verizon margins could be improved would be if they could achieve some sort of economy in the wireless space, since the wire line business is gradually declining. In the fullness of time, and that might be a quarter century, the wire line business might eventually erode to zero.

What sorts of economy might those telephone companies achieve in the wireless business? The obvious one is to lessen, or possibly even cease, the subsidy to smartphone makers like Apple. That action may or may not be possible. No prediction is being made here; however, if that scenario were to occur with the result that AT&T and Verizon produce higher profit margins, it would be at the expense of lower profit margins for Apple. In other words, the index as a whole wouldn't advance, only certain components within the index would advance.

The basic problem, therefore, is that liquidity-based indices that are dependent upon the largest market capitalization companies for performance may look diversified but, in reality, they are powerfully dependent upon a single variable: margin. Since the margins all appear to be moving in the same direction, one is tempted to submit for the readers' consideration that the S&P 500 is far less diversified than might appear at first glance.

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Industry Thoughts

PRIVATE EQUITY VALUATIONS

The private equity business was never involved in the realm of public equity until the last couple of years when Blackstone, KKR and Apollo Global Management came public. One of the ironies of private equity is that it is run via publicly traded companies. One of the problems is that it's very difficult—and some would assert impossible—to know what the earnings actually are. If one doesn't know the earnings, it's very difficult to evaluate. The reason it's difficult to know what the earnings really are is because there are various ways of computing them.

The standard way, using Generally Accepted Accounting Principles (“GAAP”), is a problem. Private equity firms control private companies, in large part, through the funds of their clients. The private equity companies themselves have equity investments in those companies and therefore, in most instances, they're required under GAAP to consolidate. Since the companies in question are highly leveraged and, in many instances, are highly cyclical as well, the consolidation creates an appearance of losses in the private equity business that really don't exist.

To remedy that situation, the private equity companies release another accounting measure, a non-GAAP measure known as economic net income. The market has yet to be very impressed with economic net income. However, the following table displays the truly astonishing difference between GAAP and economic net income.

Table 2: 2011 Economic Net Income vs GAAP Income

<u>Ticker</u>		<u>Economic Net Income</u> <i>(\$ in millions)</i>	<u>GAAP Net Income</u> <i>(\$ in millions)</i>
BX	Blackstone	\$1,400.0	\$(269.0)
KKR	KKR	750.9	1.9
APO	Apollo Global Mgmt.	(300.5)	(469.0)

Source: Company reports

According to GAAP, Blackstone, the company lost \$269 million, but according to economic net income as tabulated by Blackstone, the company made \$1.4 billion. That's a big difference.

Similarly, according to GAAP, KKR earned \$1.9 million in 2011, operating essentially at break even. In accordance with the principles, such as they are, of economic net income, KKR made \$750.9 million. Given that KKR has a \$9.8 billion market capitalization, it is trading at either an astronomical multiple or at 12x earnings. It's not obvious which it is.

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In the case of Apollo Global Management, the distinctions are less severe. According to GAAP, the company lost \$469 million in fiscal 2011, but according to economic net income, it only lost \$300.5 million, so the two measures are in relative agreement. Nevertheless, the market disregards it and perhaps rightly so. Apollo Global Management, not surprisingly, has a market capitalization of \$5 billion.

Is the market correct to disregard those numbers? It may well be correct. Consider the next table, which shows the market capitalization and the assets under management (“AUM”) of the companies in question.

Table 3: Private Equity Companies

	<u>Market Cap</u> (\$ in billions)	<u>AUM</u> (\$ in billions)
Blackstone	\$15.1	\$190.0
KKR	9.8	62.3
Apollo Global Mgmt.	5.0	75.0

Source: Company reports and Bloomberg

Not one of these private equity companies is in the S&P 500. It's reasonable to assert that private equity has become, and probably will remain, an important part of the financial services industry in the U.S.; nevertheless, it is completely unrepresented in the S&P 500. It's not even included in the Financial Select Sector SPDR ETF (XLF), even though Berkshire Hathaway and Leucadia National are included in that fund.

An important distinction about the private equity business, as opposed to standard asset management, is that having \$190 billion of assets under management doesn't necessarily mean that the company has actually invested \$190 billion, nor does it mean that it has a lot of money in cash; it just means that the clients are committed to provide that cash when the company calls for it, and it is entitled to charge a fee on the amount of committed capital.

With that in mind, let's use Blackstone as an example. Let us presume that the \$190 billion of AUM is committed capital. Let us further presume a much more robust IPO market so that when the private companies in which Blackstone has invested come public, their market value rises by at least 20%, which would be \$38 billion (20% of the \$190 billion AUM). Ignoring the management fees but not the incentive fees, which are usually about 25%, means that Blackstone would realize roughly a \$9.5 billion incentive fee on the \$38 billion increase in value.

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The valuation problem arises because Blackstone, KKR and Apollo Global are potential white swans.² With very little stretch of imagination it's possible to imagine Blackstone earning \$9.5 billion for incentive fees (ignoring any other fees). Those earnings would be for a company with a \$15 billion market capitalization, and assuming a 20% increase in the value of the investments. What if the value increased by 40%, which is readily conceivable?

At the moment the IPO market is not strong, and many of the companies in question are cyclically depressed, so they probably couldn't come public at this time. Also, these companies are generally highly leveraged and the market has very little taste for highly leveraged companies. However, tastes do change and one day these companies may exhibit some very unusual performance attributes.

Nevertheless, no matter how unusual and alluring the performance attributes are, they will not affect the S&P 500, because these private equity companies are not included in that index. Neither will they affect the financial indices, because they're not included in those indices either. It's also worthy of note that these companies pay dividends and trade on a yield basis. Blackstone yields 6.6%, KKR 5.1% and Apollo 2.1%.

The market will debate how these companies should be valued and during the debate there's no representation in the index. The major indices apparently don't have the diversification that one would expect.

² To understand the white swan in this context, one must first understand the notion of the black swan. The theory of the black swan is derived from an analogy that swans are usually white, which makes black swans rare, or even seem impossible. In principle, the black swan refers to all seemingly unforecastable events, whether good or bad. However, since language corrupts thought, in modern journalistic parlance a black swan has come to mean only bad events, creating the need for a term for seemingly unforecastable *good* events. Using the term "white swan" in this context is actually incorrect. Nevertheless, it's being employed as a metonym, because the black swan has come to have a pejorative connotation, although in theory it should not.

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Facts & Figures

THE DECLINE IN FUNDAMENTAL RESEARCH

The unifying theme of this section is the cause of the decline in fundamental research, which is the mirror image of the rise of indexation. The table below shows equity mutual fund expense ratios, which have been going down for almost a decade. Fees are going down, which contributes to the decline, and fees are used to pay the analysts. Assets under management are going down, too. Declines in fees and assets under management are not healthy from the point of view of fundamental research.

Table 4: Average Equity Mutual Fund Expense Ratios, 1990-2011

1990	0.99%	2001	0.99%
1991	1.01%	2002	1.00%
1992	1.02%	2003	1.00%
1993	1.07%	2004	0.95%
1994	1.08%	2005	0.91%
1995	1.06%	2006	0.88%
1996	1.04%	2007	0.86%
1997	0.99%	2008	0.83%
1998	0.95%	2009	0.87%
1999	0.98%	2010	0.83%
2000	0.99%	2011	0.79%

Source: Investment Company Institute <http://www.ici.org/pdf/per18-02.pdf>

According to the Investment Company Institute, in 2002, the average equity mutual fund expense ratio was 100 basis points. In 2011, it was 79 basis points. Another feature of this situation is ETFs but, since ETFs have been dealt with in prior issues of this publication, we won't spend any time on them. Instead, we'll consider the rise in another emerging segment of mutual funds: equity and hybrid-equity funds of funds. The hybrid variety has clearly become very popular, as the following table shows.

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Table 5: Number of Equity & Hybrid Funds of Funds

	<u>Equity</u>	<u>Hybrid</u>		<u>Equity</u>	<u>Hybrid</u>
1997	41	48	2005	100	367
1998	75	91	2006	131	469
1999	83	115	2007	137	577
2000	75	131	2008	139	711
2001	73	137	2009	123	797
2002	84	180	2010	132	813
2003	89	207	2011	137	890
2004	88	288			

Source: Investment Company Institute <http://www.ici.org/pdf/per18-02.pdf>

In 1997, there were 41 equity funds of funds and 48 hybrid-equity funds of funds. In 2011, there were 137 equity funds of funds and 890 of the hybrid variety. Since funds of funds, by definition, incorporate other funds, the client is charged two fees and the market will provide whatever return it provides. That's another way of saying that there's fee pressure on the ultimate managers even if they're included in the funds of funds.

You can see the same trend in net assets under management.

Table 6: Net Assets of Equity & Hybrid Funds of Funds

<i>(\$ in billions)</i>	<u>Equity</u>	<u>Hybrid</u>	<i>(\$ in billions)</i>	<u>Equity</u>	<u>Hybrid</u>
1997	\$7.6	\$13.8	2005	\$49.6	\$255.5
1998	12.2	22.9	2006	83.5	384.6
1999	18.6	29.4	2007	103.7	531.4
2000	14.4	42.2	2008	66.4	417.8
2001	13.3	49.7	2009	53.6	616
2002	12.3	55.9	2010	97.8	816.8
2003	23.7	98.3	2011	97.6	929.9
2004	34.7	163.5			

Source: Investment Company Institute <http://www.ici.org/pdf/per18-02.pdf>

In 1997, equity funds of funds had \$7.6 billion of assets under management, and \$13.8 billion in the hybrid category. In 2011, those numbers rose to \$97.6 billion for equity funds of funds, almost a 13-fold expansion. In the hybrid category, they rose to \$929.9 billion, which is over a 67-fold expansion.

The funds of funds have not been exempt from fee pressure, as one can see in the next table. In 2005, when these numbers began to be reckoned, the average expense ratio for funds of funds was 1.01%, which declined to 0.83% in 2011.

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Table 7: Funds of Funds Asset-Weighted
Average Expense Ratio

2005	1.01%
2006	0.96%
2007	0.94%
2008	0.89%
2009	0.91%
2010	0.87%
2011	0.83%

Source: Investment Company Institute
<http://www.ici.org/pdf/per18-02.pdf>

If a fund of funds charges 0.83%, how many basis points can it possibly allow a fund that is being included in that fund of funds? The answer is not very many.

From the point of view of those who base their investments upon fundamental analysis, it's clearly becoming more and more difficult to afford fundamental analysis.

Featured Companies

ARCHER DANIELS MIDLAND (ADM)

Archer Daniels Midland (ADM) is a very simple business to understand. It merely processes commodity products, including corn, wheat, cocoa, and oilseeds. It essentially grinds them up and makes them into intermediate products like lecithin, margarine, flour, shortening, protein meal, and even bio diesel, in some instances.

Table 8: Diversification of Business

Corn Processing	26%
Oilseeds Processing	38%
Ag Services	23%
Other	13%

Source: Company reports

One of the company's problems is that it faces the mirror image of the high margins now being taken by the food companies. As food companies have consolidated their positions and increased their margins, they've gradually put pricing pressure on ADM. Not inexorable pressure, not enormous pressure, but pressure nevertheless.

As can be seen in the table below, ADM was never a high margin business. In 2011, it was 2.5% after having been as high as 4.9% in 2007. When a company is in the 2% margin range, a margin rise of 100 basis points represents a 50% increase in earnings. The ability of a company like this to increase its margins even modestly involves a more than concomitant increase in earnings per share.

Table 9: ADM Net Profit Margins

(June fiscal year)

2011	2.5%
2010	3.1%
2009	2.4%
2008	2.5%
2007	4.9%
2006	3.6%
2005	2.9%
2004	1.4%
2003	1.5%
2002	2.3%

Source: Company Reports

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ADM has a market capitalization of a little over \$20 billion. Its shareholders' equity is \$18 billion. It trades at 1.14x book value. It has \$1.8 billion of cash, equal to 10% of shareholders' equity, and debt that is equal to 50% of shareholders' equity. By any stretch of the imagination, it's difficult to suggest that ADM has other than a good balance sheet. The company has been active in trying to counteract the margin pressures of food companies by gradually buying up small companies in its industry. There has been enormous consolidation among companies of this type and it's continuing.

In 2007, ADM's return on equity was 20% and now it's 11%. A return on equity of 100 basis points is \$180 million, or \$0.28 per share, and 100 basis points of margin is \$1.24. Either ADM can increase its margins or it cannot. If it cannot, then chances are its return on equity will remain at 11%. If it remains at 11%, the company pays out 20% of its profit to shareholders in the form of dividends, and it has a dividend yield of 2.25%, then by the DuPont model, merely by reinvesting its capital at the current rate will give it a double-digit rate of return. In other words, it will return 11% even if it can't achieve its objective.

This business, however, is really about scale and ADM has been increasing its scale. In 2006, the company was half the size of its primary competitor, Cargill; now it's two-thirds the size. Both companies have grown. Cargill, which is privately owned, made five sizable acquisitions in other processing companies during the last 18 months. Since the industry is consolidating around these two major players, it is not unlikely that they will begin to exert some margin pressure on the food companies, although not by prior agreement. The food companies can't exist without companies like ADM and Cargill. They perform a vital function and, if they didn't exist, the food companies would have to invent them.

One should watch for changes in margins. ADM is a very small part of the S&P 500 and the food companies are orders of magnitude larger in aggregate. Since Cargill is a private company, it's not part of the S&P 500. As the margin pressures cyclically abate in the processors and cyclically assert themselves in the food companies, as they do from time to time, the S&P 500 will feel it disproportionately, because of the relative market capitalization size of the branded food companies as opposed to the processing companies.

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TIFFANY & CO. (TIF)

This company requires no introduction, because everyone knows what it does. Tiffany is a fairly large company with an \$8.8 billion market capitalization. In principle, it is expanding in Asia, but in reality its Asian expansion has been very timid since 2007, largely because of the recession. The company now has 58 stores in Asia, excluding Japan, and it has 55 stores in Japan. Looking at the population of the Asia Pacific region independent of and relative to Japan's, and given the growth in those economies relative to the growth in the Japanese economy, it seems obvious that more Tiffany stores can be supported in the Asia Pacific Region, so that number will probably increase.

In the last couple of years, Tiffany has added stores in Asia at the rate of three to seven a year. However, that rate doesn't tell us the entire story. To understand what is about to happen at Tiffany, one should understand the following statistics: Tiffany's New York City flagship store has 45,500 square feet, the Bond Street London store has 22,400 feet and the Tokyo Ginza store has 12,000 square feet. By itself, the New York store generates 8% of all the company's revenue, or \$291.4 million, which is equivalent to sales per square foot of \$6,404—an incredible sum.

Let's compare and contrast those figures with the average Asian store, which is 2,600 square feet. You can judge the Tiffany Asian effort by looking at it from a square footage perspective. At the end of 2011, Tiffany it had 58 stores in the region. Multiplying those 58 stores times the average of 2,600 square feet results in 150,800 square feet. It means that the Tiffany business in the Asia Pacific Region operates at a multiple of only 3x the New York City flagship store's 45,500 square footage. Properly speaking, Tiffany has yet to begin its Asian expansion.

Table 10: Tiffany Stores

	Asia Pacific (excluding Japan)	Japan	Total Stores
2011	58	55	247
2010	52	56	233
2009	45	57	220
2008	39	57	206
2007	34	53	184
2006	28	52	167
2005	25	50	154
2004	24	53	151
2003	22	50	141
2002	20	48	131
2001	20	47	126

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Tiffany can continue its expansion, because annual capital expenditures for this type of business only equal about 50% of net income. It's a high ROE business that returns 19.4% on equity. In addition, the company has been buying back its shares recently.

Table 11: Tiffany Share Repurchases

Nov. 1-Nov. 30, 2011	112,844 shares
Dec. 1-Dec. 31, 2011	351,626 shares
Jan. 1-Jan. 31, 2012	60,422 shares

Source: Company Reports

The Asia Pacific region generates about 20% of the company's revenues, or 2.5x the 8% generated by the New York City flagship store. On a square footage basis the Asian stores earn \$4,851 per square foot compared to the flagship store's earnings of \$6,404 per square foot. In Asia, people have much less income on average, and wealth is only just being created. One can only imagine what might happen several years from now as the footprint of Tiffany stores expands and more wealth is created in Asia. This is a key enterprise that deserves to be in most portfolios of a large capitalization nature.

To understand the power of the brand, consider the Tiffany brand in Japan.

Table 12: Tiffany Retail Sales in Japan

	<i>(\$ in millions)</i>
2011	\$616.5
2010	\$546.5
2009	\$512.9
2008	\$533.5

Source: Company Reports

Since the recession began in 2008, two stores have closed in Japan and no new stores have opened. In 2008, Tiffany generated revenue in Japan of \$533 million (USD). Then Tiffany closed two stores. In 2011, the revenue was \$616.5 million, so revenue rose even as the company closed stores in the middle of the worst recession Japan has experienced in the post-war era. Obviously, I like the company.

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AMERICAN INTERNATIONAL GROUP, INC. (AIG)

AIG has a market capitalization of \$61.8 billion. Despite its size, it is a much reduced business with four parts remaining that are meaningful: Chartis, SunAmerica Financial, Aircraft Leasing, and various financial products. Chartis is the basic standard commercial insurance business that represents about 66% of the company. AIG still owns SunAmerica Financial in its entirety, which is about 25% of the company. International Lease Finance, the aircraft leasing company, represents about 7% of its business. Since AIG dismantled its derivatives business for the most part, what's left in financial products is basically the mortgage guarantee business, although it's not entirely clear how long the company will continue to engage in that activity.

Table 13: AIG Divisions

Chartis	66%
SunAmerica Financial	25%
Aircraft Leasing	7%
Other (Financial Products)	2%

Source: Company reports

AIG is really a worldwide company. As can be seen in the table below, only 50% of the Chartis revenue comes from the United States.

Table 14: Chartis, Worldwide

US	50%
Europe	17%
Far East	24%
Growth Economies	9%

Source: Company reports

The International Lease Finance segment is properly named, since 94% of its revenue comes from non-U.S. carriers. AIG still owns 18.6% of AIA (1299 HK), the large Asian insurer it spun off in 2010, although it will likely sell that remaining stake after the lock-up period expires in the fall of this year.

The big problem with AIG is that the United States government still owns 70% of the stock, and it's not entirely clear what the government will do. The government's investment in Maiden Lane III—the last of the special purpose vehicles established by the New York Federal Reserve to rescue AIG—was about \$9 billion. That stake is in the process of being eliminated, because Deutsche Bank and Barclays appear to be very interested in buying the Maiden Lane III assets.

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On the New York Federal Reserve's own website, it calculates the fair value of the assets of Maiden Lane III to be \$17.8 billion. Since the government's investment is only \$9 billion, in theory, AIG can share in the so-called waterfall effect and repatriate not a small amount of capital. Nevertheless, AIG trades at 56% of book value. It is a buyer of its own shares and it's fairly obvious that AIG is exiting its period of stress. It's equally obvious that the government is exiting its involvement in AIG, albeit gradually. Even if it takes several years, there is every reason to believe that AIG will trade at least at book value, which is growing. This company's share price could double, theoretically, and perhaps more than double. Therefore, it's recommended.

TE CONNECTIVITY LTD. (TEL)

TE Connectivity is one of the many pieces of what once was Tyco. TE Connectivity is a large company in its own right, with a market capitalization of \$15.6 billion. It's important to note that it has a fiscal year ending in September. On paper it trades at very low valuations, at least as far as analysts' earnings estimates are concerned. Based on the year ending September 2012, it trades at 12.5x the consensus forecast. Next year's forecasts are far more robust; therefore, it trades at 8.6x those forecasts. It's not entirely clear whether or not one should believe the forecasts, but more about that in due course.

This company manufactures all sorts of standard electrical products, including circuit protectors, fiber optic cable, filters, relay switches, and sensors. The company divides itself into three parts: Transportation, Communications & Industrial Solutions, and Network Solutions.

Table 15: TE Connectivity Segments

	<u>% of Revenue</u>
Transportation	40.9%
Communications & Industrial Solutions	30.2%
Network Solutions	20.8%

Source: Company reports

The Transportation segment, which the company defines as automotive and aerospace, comprises about 40.9% of revenue, because a lot of electronic goods go into cars and planes. The Communications and Industrial Solutions segment, which provides 30.2% of revenue, is problematic, at least for the moment, because it includes a lot of weak businesses. Telecomm companies, at least in their wireline businesses, are clearly reducing spending. That segment also serves the personal computer market, where there's growing weakness as well. It also serves the conventional construction market, in which electronics are increasingly used in commercial construction; however, commercial construction has

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cyclically declined in the last couple of years. Those factors are all problematic for this company.

The Transportation segment (automobiles and aerospace), is not declining, at least at the moment, but circumstances are far from robust. As a matter of fact, only the company's Network Solutions business is growing. In the recent quarter, earnings were down by almost 15%. Nevertheless, a company of this size has many possibilities to raise margins by changing the sales mix. In other words, it could sell lower margin businesses in which it would never achieve economies of scale and use the capital repatriated to buy other businesses in which it might actually achieve some efficiency. For instance, it was recently announced that the so-called Touch Solutions business will be sold to the Gores Group for \$380 million. TE Connectivity is buying the Deutsch Group, which makes connectors for very harsh environment applications. The company appears to have some edge in that area.

At the moment, TE Connectivity has a GAAP-calculated net profit margin of 7.9%. It has enough free cash flow to perhaps purchase \$75 million worth of stock each quarter. That's not a huge number in relation to its \$15 billion market capitalization, but it does help. Let us presume that the company can modestly improve its profit margins to the 9.7% range, which would only involve a 180 basis point increase and seems achievable. Let us also presume that irrespective of what the economic environment might be, by changing the business mix the company might be able to grow its revenues at 4.5% per annum. Those are very unheroic assumptions.

Given those assumptions, what might the company look like 36 months from now? It would have bought back enough shares to have only 400 million shares outstanding. It would have \$16.3 billion of revenue, with a presumed 9.7% net profit margin, and \$1.58 billion of net income, or \$3.95 per share. If a 12.5x P/E ratio were applied, the stock would trade at nearly \$50.00 a share, or \$49.38. In relation to the current stock price, that equals a 23.7% compound annual rate of return, exclusive of roughly a 2% dividend. It's not inconceivable, with very unheroic assumptions, that this company might appreciate by 25% per annum.

Post-Musings

EFFECTS OF THE INDEXATION TREND

Despite the diversity of their businesses, Archer Daniels Midland, Tiffany, AIG and TE Connectivity have one fascinating common denominator: all four companies are insignificant components of the S&P 500. As of this writing, Tiffany is 7 basis points in the S&P, Archer Daniels Midland is 16 basis points, AIG is 14 basis points and TE Connectivity is 12 basis points.³ The four together don't even equal half of 1%. Interestingly, they all have fairly robust return potential, but only marginal exposure to the S&P.

In the last decade, with the creation of liquidity-based indices to serve the indexation trend, all of the interesting companies, at least in terms of margin expansion, have been marginalized. That situation does not result from intent, but simply from the S&P weighting mechanism based on market capitalization and adjusted for float. The cyclically depressed companies have lower market capitalizations.

An interesting aspect of the S&P is that the companies featured in this report are sufficiently large that one couldn't capture their returns by standard asset allocation methods. In other words, one couldn't switch to small cap investing to try to capture these companies. Historically, the bottom reaches of the S&P were small cap companies. If it were believed by asset allocators that the smaller cap companies were undervalued, one might switch from a large capitalization to a small capitalization allocation to capture that group. Now, however, no small cap index will include a company like AIG with its \$60 billion market capitalization. It's in the S&P for better or worse, but it isn't in it enough to really influence the result.

At the same time, there are large companies in the S&P that are experiencing record profit margins that may actually diminish as they experience regression to the mean. A feature of the indexation trend is that the returns of some fascinating companies included in the S&P 500 are captured in principle, but not in practice, because they are overwhelmed by the largest companies in the index.

³ April 27, 2012.

WEALTH INDEX (Ticker: RCH Index)

As of March 31, 2012

No.	Ticker	Security Name	Individual Name	Position	Market Capitalization
1	AHGP	Alliance Holdings GP LP	Joseph W. Craft III	Chairman/President/Chief Executive Officer	2,607
2	AL	Air Lease Corp	Steven F. Udvar-Hazy	Chairman/Chief Executive Officer/Co-Founder	2,424
3	ALX	Alexander's Inc	Steven Roth	Chairman	2,011
4	AMCX	AMC Networks Inc	Charles Francis Dolan	Chairman	3,207
5	AMKR	Amkor Technology Inc	James J. Kim	Chairman	1,035
6	AMZN	Amazon.com Inc	Jeffrey P. Bezos	Chairman/President/Chief Executive Officer	92,156
7	APO	Apollo Global Management LLC	Leon D. Black	Chairman/Chief Executive Officer	5,231
8	APOL	Apollo Group Inc	John G. Sperling	Executive Chairman	4,662
9	ARIL	American Railcar Industries Inc	Carl C. Icahn	Chairman	502
10	ARLP	Alliance Resource Partners LP	Joseph W. Craft III	President/Chief Executive Officer	2,216
11	AXE	Anixter International Inc	Samuel Zell	Chairman	2,398
12	BBY	Best Buy Co Inc	Richard M. Schulze	Chairman	8,295
13	BEN	Franklin Resources Inc.	Charles B. Johnson	Chairman	26,783
14	BFS	Saul Centers Inc	B. Francis Saul II	Chairman/Chief Executive Officer	776
15	BOKF	BOK Financial Corp	George B. Kaiser	Chairman	3,923
16	BRK/B	Berkshire Hathaway Inc	Warren E. Buffett	Chairman/Chief Executive Officer	201,135
17	BX	Blackstone Group LP	Stephen A. Schwarzman	Chairman/Chief Executive Officer/Founder	17,970
18	BXP	Boston Properties Inc	Mortimer B. Zuckerman	Chairman/Chief Executive Officer	15,568
19	CBS	CBS Corp	Sumner M. Redstone	Chairman	22,026
20	CCL	Carnival Corp	Micky Meir Arison	Chairman/Chief Executive Officer	26,001
21	CFX	Colfax Corp	Mitchell P. Rales	Chairman/Co-Founder	3,269
22	CHK	Chesapeake Energy Corp	Aubrey K. McClendon	Chairman/Chief Executive Officer/Co-Founder	15,350
23	CLNY	Colony Financial Inc	Thomas J. Barrack	Chairman	542
24	CLR	Continental Resources Inc./OK	Harold G. Hamm	Chairman/Chief Executive Officer	15,522
25	CRM	Salesforce.com Inc	Marc R. Benioff	Chairman/Chief Executive Officer	21,168
26	CVA	Covanta Holding Corp	Samuel Zell	Chairman	2,200
27	CVC	Cablevision Systems Corp	Charles Francis Dolan	Chairman	4,102
28	DELL	Dell Inc	Michael S. Dell	Chairman/Chief Executive Officer	29,241
29	DHR	Danaher Corp	Steven M. Rales	Chairman	38,601
30	DISH	DISH Network Corp	Charles William Ergen	Chairman	14,723
31	DOLE	Dole Food Co Inc	David H. Murdock	Chairman	888
32	DRC	Dresser-Rand Group, Inc.	William E. Macaulay	Chairman	3,505
33	EBAY	eBay Inc	Pierre M. Omidyar	Chairman/Founder	47,487
34	ELS	Equity Lifestyle Properties Inc	Samuel Zell	Chairman	2,880
35	EQR	Equity Residential	Samuel Zell	Chairman	18,801
36	ETE	Energy Transfer Equity LP	Kelcy L. Warren	Chairman/Chief Executive Officer	8,986
37	ETP	Energy Transfer Partners LP	Kelcy L. Warren	Chairman/Chief Executive Officer	11,032
38	EXPE	Expedia Inc	Barry Diller	Chairman	4,469
39	FDX	Federal-Mogul Corp	Carl C. Icahn	Chairman	1,702
40	FDX	FedEx Corp	Fredrick Wallace Smith	Chairman/President/Chief Executive Officer	29,001
41	GMCR	Green Mountain Coffee Roasters Inc.	Robert P. Stiller	Chairman/Founder	7,253
42	GOOG	Google Inc	Lawrence E. Page	Chief Executive Officer/Co-Founder	207,690
43	GRMN	Garmin Ltd	Min H. Kao	Chairman/Chief Executive Officer	9,775
44	GRPN	Groupm Inc.	Eric P. LeRafsky	Chairman/Co-Founder	11,819
45	H	Hyatt Hotels Corp	Thomas J. Pritzker	Chairman	7,056
46	HST	Host Hotels & Resorts Inc	Richard E. Marriott	Chairman	11,618
47	HIT	Hilltop Holdings Inc	Gerald J. Ford	Chairman	474
48	IACI	IAC/InterActiveCorp	Barry Diller	Chairman	3,990
49	IBKR	Interactive Brokers Group Inc	Thomas Peterffy	Chairman/President/Chief Executive Officer	775
50	IVAN	Ivanhoe Energy Inc	Robert M. Friedland	Chairman/Co-Founder	361
51	IVN	Ivanhoe Mines Ltd/CA	Robert M. Friedland	Chief Executive Officer/Founder	11,658
52	JNY	Jones Group Inc/The	Sidney Kimmel	Chairman	1,034
53	KKR	KKR & Co LP	Henry R. Kravis	Co-Chairman/Co-Chief Executive Officer	10,259
54	KMI	Kinder Morgan Inc/Delaware	Richard D. Kinder	Chairman/Chief Executive Officer	31,286
55	KMP	Kinder Morgan Energy Partners LP	Richard D. Kinder	Chairman/Chief Executive Officer	27,417
56	KMR	Kinder Morgan Management LLC	Richard D. Kinder	Chairman/Chief Executive Officer	7,352
57	KRO	Kronos Worldwide Inc	Harold C. Simmons	Chairman	2,891
58	L	Loews Corp	Andrew H. Tisch	Co-Chairman	15,820
59	LBTYA	Liberty Global Inc	John C. Malone	Chairman	13,400
60	LINTA	Liberty Media Corp - Interactive	John C. Malone	Chairman	10,972
61	LMCA	Liberty Media Corp - Capital	John C. Malone	Chairman	10,771
62	LNKD	LinkedIn Corporation	Reid G. Hoffman	Chairman/Co-Founder	10,084
63	LTD	Ltd Brands Inc	Leslie Herbert Wexner	Chairman/Chief Executive Officer	13,891
64	LVT	Level 3 Communications Inc	Walter Scott Jr.	Chairman	5,358
65	LVS	Las Vegas Sands Corp	Sheldon Gary Adelson	Chairman/Chief Executive Officer/Treasurer	42,260
66	MAR	Marriott International Inc/DE	John W. Marriott Jr.	Chairman/Chief Executive Officer	12,637
67	MCY	Mercury General Corp	George Joseph	Chairman/Founder	2,400
68	MNKD	MannKind Corp	Alfred E. Mann	Chairman/Chief Executive Officer	414
69	MORN	Morningstar Inc	Joseph D. Mansueto	Chairman/Chief Executive Officer/Founder	3,161
70	MSFT	Microsoft Corp	William Henry Gates III	Chairman	270,644
71	MSG	Madison Square Garden Co/The	James L. Dolan	Chairman	2,588
72	NG	NovaGold Resources Inc.	Thomas S. Kaplan	Chairman	1,996
73	NKE	NIKE Inc	Philip H. Knight	Chairman	49,767
74	NWSA	News Corp	Keith Rupert Murdoch	Chairman/Chief Executive Officer	49,889
75	OPK	Opko Health Inc	Phillip Frost	Chairman/Chief Executive Officer	1,396
76	ORCL	Oracle Corp	Lawrence Joseph Ellison	Chief Executive Officer	145,074
77	OZM	Och-Ziff Capital Management Group LLC	Daniel S. Och	Chairman/Chief Executive Officer/Founder	3,794
78	PAG	Penske Automotive Group Inc	Roger S. Penske	Chairman/Chief Executive Officer	2,224
79	PAYX	Paychex Inc	Blasé Thomas Golisano	Chairman/Founder	11,235
80	PCBC	Pacific Capital Bancorp NA	Gerald J. Ford	Chairman	1,502
81	PGR	Progressive Corp/The	Peter Benjamin Lewis	Chairman	14,175
82	QCOM	QUALCOMM Inc.	Paul Eric Jacobs	Chairman/Chief Executive Officer	115,118
83	REV	Revlon Inc	Ronald O. Perelman	Chairman	900
84	RL	Ralph Lauren Corp	Ralph Lauren	Chairman/Chief Executive Officer/Founder	16,098
85	SATS	EchoStar Corp	Charles William Ergen	Chairman	2,439
86	SBUX	Starbucks Corporation	Howard D. Schultz	Chairman/President/Chief Executive Officer	42,108
87	SCHW	Charles Schwab Corp/The	Charles R. Schwab	Chairman	18,269
88	SHLD	Sears Holdings Corp	Edward S. Lampert	Chairman	7,049
89	SPG	Simon Property Group Inc.	Herbert Simon	Chairman Emeritus	44,708
90	SWSH	Swisher Hygiene Inc	H. Wayne Huizenga Jr.	Chairman	400
91	SYNT	Syntel Inc	Bhrat Desai	Chairman/Co-Founder	2,342
92	TAT	TransAtlantic Petroleum Ltd	N. Malone Mitchell III	Chairman/Chief Executive Officer	476
93	TEVA	Teva Pharmaceutical Industries Ltd	Phillip Frost	Chairman	42,457
94	TIE	Titanium Metals Corp	Harold C. Simmons	Chairman	2,375
95	TRIP	TripAdvisor Inc.	Barry Diller	Chairman	4,761
96	URBN	Urban Outfitters Inc	Richard A. Hayne	Chairman/President	4,198
97	VHI	Valhi Inc	Harold C. Simmons	Chairman	5,997
98	VIAB	Viacom Inc	Sumner M. Redstone	Chairman/Founder	25,867
99	VNO	Vornado Realty Trust	Steven Roth	Chairman	15,584
100	WEN	Wendy's Co/The	Nelson Peltz	Chairman	1,954
101	WMT	Wal-Mart Stores Inc	Samuel Robson Walton	Chairman	208,358
102	WYNN	Wynn Resorts Ltd	Stephen A. Wynn	Chairman/Chief Executive Officer/Founder	12,554
103	ZNGA	Zynga Inc	Mark J. Pincus	Chief Executive Officer/Founder	9,489

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg

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<u>Annualized Total Return</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
Wealth Index	11.09%	40.61%	8.43%	10.92%	10.89%	10.90%	11.70%
S&P 500	8.54%	23.42%	2.01%	4.71%	4.12%	6.10%	8.59%
S&P 500 Eq. Wgt.	4.89%	30.48%	3.61%	6.67%	7.09%	8.95%	10.61%
Russell 3000	7.18%	24.26%	2.18%	5.10%	4.67%	6.47%	8.72%
Russell 2000	-0.18%	26.90%	2.13%	5.77%	6.45%	7.46%	8.77%

Excess Return vs. S&P 500	2.55%	17.19%	6.41%	6.20%	6.77%	4.80%	3.11%
Excess Return vs. S&P 500 Eq. Wgt.	6.20%	10.13%	4.81%	4.25%	3.80%	1.95%	1.09%
Excess Return vs. Russell 3000	3.90%	16.35%	6.25%	5.82%	6.21%	4.43%	2.98%
Excess Return vs. Russell 2000	11.27%	13.70%	6.29%	5.15%	4.44%	3.44%	2.93%

*Note: Calculated Using Total Returns

<u>Risk Adjusted Return</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
Wealth Index	0.54	1.72	0.32	0.48	0.50	0.45	0.54
S&P 500	0.51	1.44	0.11	0.29	0.26	0.37	0.57
S&P 500 Eq. Wgt.	0.24	1.49	0.16	0.33	0.37	0.48	0.63
Russell 3000	0.40	1.42	0.11	0.30	0.28	0.38	0.57
Russell 2000	(0.01)	1.19	0.09	0.26	0.31	0.35	0.45

*Note: Calculated As Annualized Total Return Divided By Annualized Total Return Volatility (Uses Monthly Total Returns)

<u>Information Ratio</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
Wealth Index vs. S&P 500	0.41	1.53	0.60	0.63	0.72	0.41	0.29
Wealth Index vs. S&P 500 Eq. Wgt.	1.48	1.63	0.75	0.69	0.62	0.18	0.11
Wealth Index vs. Russell 3000	0.74	1.58	0.64	0.65	0.72	0.41	0.30
Wealth Index vs. Russell 2000	1.91	1.52	0.70	0.64	0.51	0.28	0.26

*Note: Calculated As Annualized Excess Total Return Divided By Annualized Excess Total Return Volatility (Uses Monthly Excess Total Returns)

<u>Wealth Index Batting Average</u>	<u>Roll 1 Year</u>	<u>Roll 3 Year</u>	<u>Roll 5 Year</u>
vs. S&P 500	62.70%	65.91%	66.84%
vs. S&P 500 Eq. Wgt.	59.84%	60.00%	54.08%
vs. Russell 3000	65.16%	66.36%	73.47%
vs. Russell 2000	62.30%	62.73%	70.41%

*Note: Calculated Using Total Returns

<u>Annualized Volatility</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
Wealth Index	20.71%	23.67%	25.99%	22.85%	21.85%	24.31%	21.78%
S&P 500	16.79%	16.23%	19.08%	16.47%	15.99%	16.56%	15.06%
S&P 500 Eq. Wgt.	20.06%	20.39%	23.03%	19.91%	19.28%	18.64%	16.77%
Russell 3000	17.94%	17.03%	19.82%	17.15%	16.46%	16.91%	15.34%
Russell 2000	23.85%	22.58%	24.68%	21.96%	21.04%	21.61%	19.62%

*Note: Calculated Using Total Returns

<u>Annualized Tracking Error</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
vs. S&P 500	6.20%	11.26%	10.69%	9.86%	9.38%	11.66%	10.69%
vs. S&P 500 Eq. Wgt.	4.18%	6.19%	6.37%	6.14%	6.13%	11.01%	9.97%
vs. Russell 3000	5.28%	10.34%	9.75%	8.95%	8.60%	10.80%	9.87%
vs. Russell 2000	5.92%	9.02%	8.97%	8.06%	8.66%	12.32%	11.23%

*Note: Calculated Using Total Returns

<u>Wealth Index Beta</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>
vs. S&P 500	1.20	1.32	1.27	1.28	1.26	1.33	1.29
vs. S&P 500 Eq. Wgt.	1.01	1.13	1.10	1.11	1.09	1.17	1.17
vs. Russell 3000	1.13	1.28	1.24	1.25	1.24	1.33	1.30
vs. Russell 2000	0.85	0.97	0.99	0.97	0.95	0.97	0.95

*Note: Calculated Using Total Returns

<u>Calendar Year Total Returns</u>	<u>Wealth Index</u>	<u>S&P 500</u>	<u>S&P 500 Eq. Wgt.</u>	<u>Russell 3000</u>	<u>Russell 2000</u>	<u>ER v. SP500</u>	<u>ER v. SP500 EW</u>	<u>ER v. R3000</u>	<u>ER v. R2000</u>
1991	44.25%	30.47%	35.51%	33.68%	46.04%	13.78%	8.73%	10.57%	-1.80%
1992	20.20%	7.62%	15.63%	9.59%	18.41%	12.58%	4.56%	10.61%	1.79%
1993	3.38%	10.08%	15.12%	10.88%	18.88%	-6.70%	-11.75%	-7.50%	-15.50%
1994	0.33%	1.32%	0.95%	0.19%	-1.82%	-0.99%	-0.62%	0.14%	2.15%
1995	31.31%	37.58%	32.03%	36.80%	28.45%	-6.27%	-0.72%	-5.49%	2.86%
1996	23.09%	22.96%	19.02%	21.82%	16.49%	0.13%	4.06%	1.27%	6.59%
1997	27.31%	33.36%	29.05%	31.78%	22.36%	-6.06%	-1.74%	-4.48%	4.94%
1998	24.95%	28.58%	12.19%	24.14%	-2.55%	-3.63%	12.76%	0.81%	27.49%
1999	44.68%	21.04%	12.03%	20.90%	21.26%	23.64%	32.66%	23.78%	23.43%
2000	-19.16%	-9.10%	9.64%	-7.46%	-3.02%	-10.06%	-28.80%	-11.70%	-16.14%
2001	-10.80%	-11.89%	-0.39%	-11.46%	2.49%	1.08%	-10.41%	0.65%	-13.29%
2002	-15.49%	-22.10%	-18.18%	-21.54%	-20.48%	6.61%	2.69%	6.05%	4.99%
2003	45.41%	28.68%	40.97%	31.06%	47.25%	16.72%	4.44%	14.35%	-1.85%
2004	17.97%	10.88%	16.95%	11.95%	18.33%	7.09%	1.02%	6.02%	-0.36%
2005	3.30%	4.91%	8.06%	6.12%	4.55%	-1.61%	-4.76%	-2.82%	-1.25%
2006	22.61%	15.79%	15.80%	15.71%	18.37%	6.81%	6.81%	6.89%	4.24%
2007	1.73%	5.49%	1.53%	5.14%	-1.57%	-3.76%	0.20%	-3.41%	3.30%
2008	-43.67%	-37.00%	-39.72%	-37.31%	-33.79%	-6.68%	-3.95%	-6.37%	-9.89%
2009	72.80%	26.46%	46.31%	28.34%	27.17%	46.33%	26.49%	44.46%	45.62%
2010	31.51%	15.06%	21.91%	16.93%	26.85%	16.45%	9.60%	14.58%	4.65%
2011	5.11%	2.11%	-0.11%	1.03%	-4.18%	3.00%	5.22%	4.09%	9.29%
YTD 2012	12.78%	12.59%	12.63%	12.87%	12.44%	0.20%	0.15%	-0.08%	0.35%

*Note: Calculated Using Total Returns

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg

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Important Disclosures

Horizon Kinetics ISE Wealth Index (the "Index") was created in conjunction with the International Securities Exchange, LLC ("ISE"), which operates a leading U.S. options exchange and offers option trading on over 2,000 underlying equity, EFT, index, and FX products.

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This presentation may show the performance of the Index for a period of time prior to when the Index was officially launched. Such information may reflect hypothetical historical performance and as such may be back-tested. Horizon Kinetics generally employs the same methodology in its back-test calculations as it does when the actual index was officially launched. Anyone interested in better understanding the methodology for the Index, including details on the manner in which the Index is rebalanced, the timing of such rebalancing, the criteria used in determining additions and deletions to the Index as well as other Index calculations may contact Horizon Kinetics at info@horizonkinetics.com or (646) 495-7333.

In situations where back-tested performance of data has been employed, prospective application of the methodology used to construct the information of such index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index.

A limitation associated with the hypothetical information of the Index is that generally the Index calculations are being prepared with the benefit of hindsight. Back-tested data reflects the application of the Index methodology and selection of Index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities markets in general which cannot be, and have not been accounted for in the preparation of the Index information, all of which can affect actual performance. Historical calculations may change from month to month based on revisions to the underlying economic data that was used in the calculation of the Index.

Furthermore, the Index returns shown do not represent the results of actual trading of investor assets. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back-tested performance to be lower than the performance shown.

THE STAHL REPORT COMPENDIUM

Money Manager Index

From Jan 1983 to April 2012

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return
																(since inception)
1983								1.00	0.81	0.76	0.87	0.75	1983	0.75	(60.5)%	(50.2)%
1984	0.75	0.71	0.70	0.66	0.67	0.67	0.61	0.83	0.79	0.76	0.67	0.65	1984	0.65	(13.5)%	(26.5)%
1985	0.92	0.93	0.99	0.95	1.20	1.30	1.32	1.38	1.28	1.50	1.86	2.02	1985	2.02	211.8%	33.7%
1986	2.46	2.78	2.47	2.31	2.36	2.33	2.03	2.23	1.98	2.37	2.34	2.34	1986	2.34	15.9%	28.2%
1987	3.21	3.27	3.16	2.55	2.37	2.30	2.39	2.47	2.22	1.56	1.44	1.52	1987	1.52	(35.0)%	9.9%
1988	1.80	1.87	1.78	1.79	1.69	1.94	1.92	1.96	2.01	1.97	1.95	2.07	1988	2.07	36.0%	14.3%
1989	2.42	2.37	2.54	2.63	2.64	2.64	2.93	3.12	3.07	3.05	3.23	3.26	1989	3.26	57.8%	20.2%
1990	3.12	3.15	3.53	3.06	3.47	3.45	3.30	2.70	2.68	2.40	2.52	3.02	1990	3.02	(7.3)%	16.1%
1991	3.08	3.49	3.70	3.68	3.71	3.61	3.86	4.05	4.07	4.69	4.47	5.72	1991	5.72	89.4%	23.0%
1992	5.76	5.61	5.30	5.12	4.98	4.99	5.93	6.06	6.19	6.56	7.25	7.36	1992	7.36	28.6%	23.6%
1993	8.06	8.04	8.20	7.94	8.15	8.57	9.05	10.00	9.99	9.31	8.97	8.90	1993	8.90	21.0%	23.4%
1994	9.52	8.73	8.05	7.85	7.81	7.53	7.66	8.31	8.15	8.52	7.88	7.95	1994	7.95	(10.6)%	19.9%
1995	7.74	8.38	8.72	8.77	9.20	9.35	9.93	10.78	11.22	10.53	10.89	10.40	1995	10.40	30.8%	20.8%
1996	11.12	11.50	11.33	11.62	11.86	12.53	11.91	12.36	13.32	14.03	14.42	15.02	1996	15.02	44.4%	22.4%
1997	16.04	16.81	15.32	17.27	18.42	20.29	22.28	21.39	25.31	24.95	24.95	25.50	1997	25.50	69.8%	25.2%
1998	25.67	29.00	29.89	30.60	28.90	30.44	27.67	21.33	21.74	25.16	27.27	25.41	1998	25.41	(0.4)%	23.3%
1999	26.00	23.71	23.92	26.77	28.94	29.74	28.78	26.74	25.89	27.73	28.54	30.55	1999	30.55	20.2%	23.2%
2000	31.07	31.19	36.01	35.60	35.20	40.32	43.58	45.75	45.62	48.69	44.05	49.84	2000	49.84	63.1%	25.2%
2001	50.23	46.41	44.27	46.96	48.90	49.98	50.67	49.70	46.47	44.81	48.04	51.91	2001	51.91	4.2%	23.9%
2002	53.62	53.74	55.11	52.52	52.83	50.48	42.58	44.92	41.54	42.66	45.78	43.17	2002	43.17	(16.8)%	21.4%
2003	42.72	41.18	42.36	45.98	49.02	50.71	53.47	53.97	53.46	56.12	55.83	58.49	2003	58.49	35.5%	22.1%
2004	64.38	65.08	64.63	61.68	60.86	62.30	58.71	64.08	65.73	68.86	73.53	78.16	2004	78.16	33.6%	22.6%
2005	76.46	77.94	74.06	72.83	77.02	80.25	83.59	83.07	86.03	89.19	96.58	97.35	2005	97.35	24.6%	22.7%
2006	107.62	111.44	110.75	111.88	101.89	100.61	100.62	104.98	114.61	116.64	113.78	118.05	2006	118.05	21.3%	22.6%
2007	125.73	123.77	122.62	127.58	133.57	134.68	126.61	124.07	133.57	148.09	135.13	135.56	2007	135.56	14.8%	22.3%
2008	127.53	115.76	115.94	121.58	130.51	115.68	119.94	120.55	109.69	72.70	62.95	67.91	2008	67.91	(49.9)%	18.1%
2009	57.51	51.76	65.63	79.49	85.67	90.79	99.97	101.69	107.32	107.36	110.94	115.01	2009	115.01	69.4%	19.7%
2010	106.84	110.32	118.13	114.91	100.18	88.17	97.65	89.64	103.59	108.29	108.64	119.58	2010	119.58	4.0%	19.1%
2011	122.80	128.28	127.94	127.97	126.06	121.03	115.49	104.25	91.32	102.44	103.79	103.98	2011	103.98	(13.1)%	17.8%
2012	109.46	120.12	125.37	121.64									2012	121.64	17.0%	18.2%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	AMG us equity	Affiliated Manager	\$22,947	1377	11/30/1997	156,433
2	ALNC us equity	Alliance	\$7,633	491	4/30/1994	14,971
3	BLK us equity	BlackRock	\$23,205	1658	9/30/1999	317,547
4	WDR us equity	Waddell & Reed	\$27,513	1587	3/31/1998	51,158
5	EV us equity	Eaton Vance	\$2,641	3998	1/31/1986	105,917
6	TROW us equity	T. Rowe Price	\$2,423	2014	4/30/1986	127,104
7	BEN us equity	Franklin Resources	\$908	1263	4/30/1985	158,536
8	LM us equity	Legg Mason	\$1,000	462	8/31/1983	12,049
9	FII us equity	Federated Inv	\$26,381	2206	5/31/1998	48,710
10	FIG us equity	Fortress Investment Group	\$102,249	3389	2/28/2007	12,133
11	PZN us equity	Pzena Investment Management	\$122,426	6317	10/31/2007	37,208

THE STAHL REPORT COMPENDIUM

Index Constituent Changes : 1. Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. The divisor has been adjusted accordingly. 2. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. The divisor has been adjusted accordingly.

International Money Manager Index

From Jan 1983 to Apr 2012

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return
																(since inception)
1986											1.00	1.02	1986	1.02	10.0%	10.0%
1987	1.25	1.37	1.48	1.48	1.37	1.33	1.39	1.40	1.33	0.81	0.76	0.73	1987	0.73	(27.7)%	(23.3)%
1988	0.75	0.92	1.02	0.95	0.80	0.89	0.88	0.82	0.86	0.88	0.89	0.93	1988	0.93	26.4%	(3.4)%
1989	1.03	1.02	1.06	1.17	1.19	1.18	1.25	1.16	1.17	1.20	1.21	1.28	1989	1.28	37.8%	8.1%
1990	1.24	1.24	1.18	1.19	1.22	1.24	1.26	1.26	1.23	1.24	1.25	1.33	1990	1.33	3.7%	7.0%
1991	1.34	1.52	1.56	1.58	1.57	1.47	1.52	1.64	1.81	1.89	1.94	1.92	1991	1.92	44.8%	13.5%
1992	2.01	1.93	1.88	2.14	2.19	2.13	2.08	1.99	1.95	1.77	1.76	1.96	1992	1.96	1.9%	11.5%
1993	1.98	2.03	2.20	2.39	2.42	2.45	2.54	3.05	3.01	3.07	3.01	3.30	1993	3.30	68.7%	18.1%
1994	3.72	3.39	3.17	3.04	2.99	2.89	3.01	3.14	3.13	3.19	3.15	3.15	1994	3.15	(4.7)%	15.1%
1995	3.07	3.12	3.28	3.41	3.56	3.59	3.87	3.76	3.76	3.77	3.70	3.73	1995	3.73	18.6%	15.4%
1996	3.76	3.85	3.70	3.79	3.96	3.90	3.75	3.96	4.16	4.47	4.90	4.86	1996	4.86	30.3%	16.8%
1997	5.11	5.37	4.99	4.96	5.43	5.94	6.57	6.32	7.45	7.24	6.80	7.19	1997	7.19	47.9%	19.3%
1998	7.12	8.05	8.78	9.25	8.95	8.74	8.91	6.67	6.08	7.01	7.51	7.71	1998	7.71	7.3%	18.3%
1999	7.99	8.21	8.68	9.07	8.71	8.61	8.63	8.43	8.47	8.79	9.80	10.79	1999	10.79	39.9%	19.8%
2000	11.23	12.27	13.95	13.50	13.73	15.39	15.85	16.82	17.07	16.31	14.43	16.76	2000	16.76	55.4%	20.7%
2001	17.42	15.88	13.46	15.14	15.84	15.15	14.21	13.61	10.77	11.43	13.90	14.12	2001	14.12	(15.8)%	19.1%
2002	14.74	13.78	15.09	15.11	16.38	14.14	12.92	12.10	11.23	11.06	11.33	10.50	2002	10.50	(25.6)%	15.7%
2003	10.18	9.52	9.69	10.62	12.17	13.04	13.98	15.38	16.67	17.88	18.16	18.07	2003	18.07	72.1%	18.4%
2004	20.00	22.41	29.98	35.46	26.68	30.80	25.37	25.20	23.67	23.34	27.56	31.48	2004	31.48	74.2%	20.9%
2005	32.19	32.57	31.88	27.79	27.36	29.05	30.38	31.49	33.39	32.24	32.95	37.18	2005	37.18	18.1%	20.8%
2006	41.01	40.97	43.69	46.45	42.39	41.58	40.60	43.32	43.55	43.70	44.58	49.38	2006	49.38	32.8%	21.3%
2007	50.95	51.18	53.59	56.09	58.16	56.37	53.90	48.65	50.96	57.03	48.21	45.75	2007	45.75	(7.3)%	19.8%
2008	38.71	39.71	38.59	40.18	39.25	35.10	34.59	33.33	26.09	18.72	14.50	15.79	2008	15.79	(65.5)%	13.3%
2009	14.62	13.24	14.96	19.63	22.82	23.73	26.14	27.05	28.41	28.53	28.69	29.83	2009	29.83	89.0%	15.8%
2010	28.50	27.58	29.90	29.58	25.53	24.72	27.82	26.74	30.36	33.68	31.85	34.52	2010	34.52	15.7%	15.8%
2011	34.91	36.17	36.51	39.63	37.86	35.31	35.83	32.76	29.28	32.04	31.23	30.59	2011	30.59	(11.4)%	14.7%
2012	32.12	34.36	35.67	35.08									2012	35.08	14.7%	15.0%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	IGM CN Equity	IGM Financial Inc	\$1,000	73	31/11/1986	3,447
2	FCAM LN Equity	F&C Asset Management Plc	\$1,203	485	5/31/1989	530
3	IVZ US Equity	Invesco Plc (Previously Amvescap)	\$1,357	1,153	1/31/1991	14,314
4	SDR LN Equity	Schroders Plc	\$1,208	505	3/31/1991	11,623
5	RAT LN Equity	Rathbone Brothers Plc	\$1,208	736	3/31/1991	16,183
6	ADN LN Equity	Aberdeen Asset Mgmt Plc	\$1,208	1,827	3/31/1991	8,410
7	CIX CN Equity	CI Financial Corp.	\$2,585	3,224	6/30/1994	77,462
8	EMG LN Equity	Man Group Plc	\$2,862	6,344	10/31/1994	8,482
9	AGF/B CN Equity	AGF Management Ltd-CI B	\$3,343	1,346	1/31/1996	18,966
10	8739 JP Equity	Sparx Group Co Ltd	\$11,762	108	12/31/2001	8,630
11	HGG LN Equity	Henderson Group Plc	\$14,447	8,666	12/31/2003	13,641
13	AZM IM Equity	Azimut Holding Spa	\$21,908	4,977	7/31/2004	48,856
15	CCAP LN Equity	Charlemagne Capital Ltd	\$36,848	22,300	3/31/2006	3,892
16	PGHN SW Equity	Partners Group-Reg	\$36,848	578	3/31/2006	109,970
17	INRE LN Equity	Invista Real Estate Inv Mngt	\$36,589	21,540	9/30/2006	3,063
18	ASHM LN Equity	Ashmore Group Plc.	\$36,688	9,873	10/31/2006	61,320