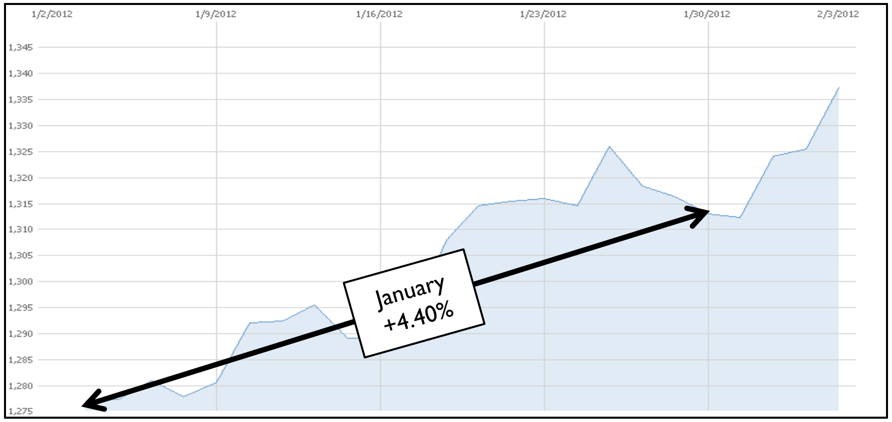
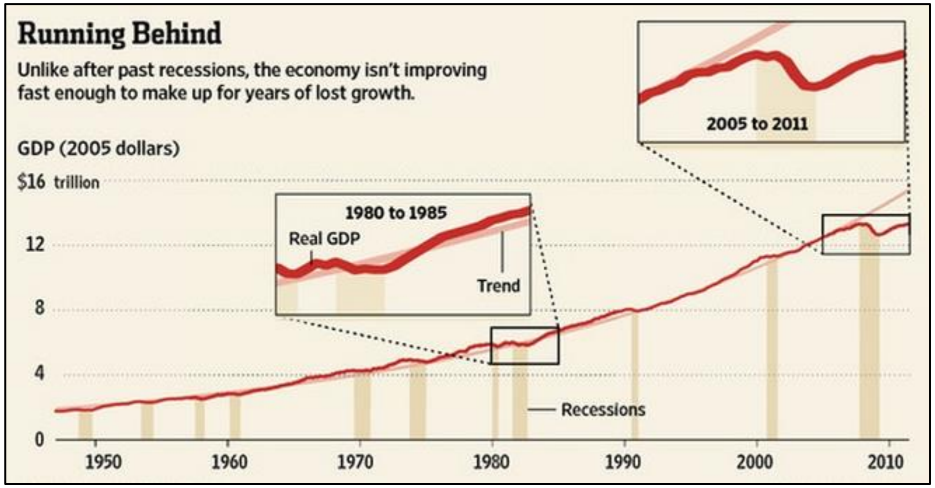
Market Recap

S&P 500 YTD



Source: MSN Money

U.S. GDP Growth Following Recessions



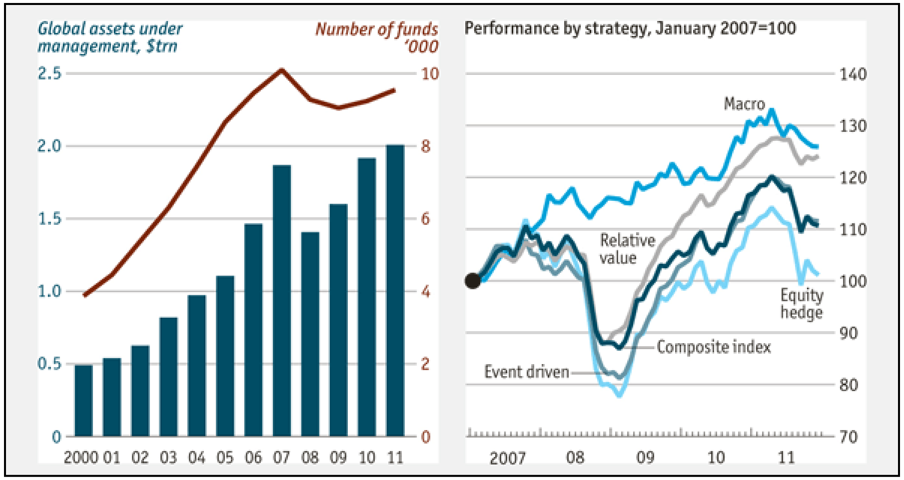
Source: Commerce Department; Wall Street Journal

The markets have staged a strong advance to begin the new year with U.S. markets hitting new three-and-a-half-year intraday highs. According to the "January Effect," the gains during the first month of the year bode well for the overall year. Since WWII, 90% of the years in which January posted positive market results have ended the year with a gain. The January Effect is one of several time-worn investor axioms based on the calendar, several of which held true last year. "Sell in May and go away," which suggests investors sell stock and avoid the summer months, worked, with stocks peaking for the year on April 29. October, the "bear killer" month when stock market declines end and reverse, ended the 19% peak-to-trough stock market decline with stocks bottoming for the year on October 3rd. The "Santa Claus rally" produced stock market gains between Christmas and New Years. Finally, stocks were able to narrowly avoid their first decline in the "third year of a presidential term" since 1939.

U.S. GDP has now reached pre-financial crisis levels. However, the economy historically has experienced spikes in growth following periods of recession, allowing the economy to match and then surpass its previous peak. After the early 1980s recession, we had five quarters of 7+% growth, quickly putting the economy back on its previous expansion path. We haven't experienced any such snap-back this time. The Commerce Department reported growth in the fourth quarter at an annual rate of 2.8%. In order to make up for growth lost during the recession, the economy must shift into a much higher gear. Economists note that current output falls short of pre-recession levels if adjusted for population growth and inflation. So while we can cheer the market and economic recovery, it appears that, for the time being, the economic slump has not necessarily ended. It has just stopped getting worse.

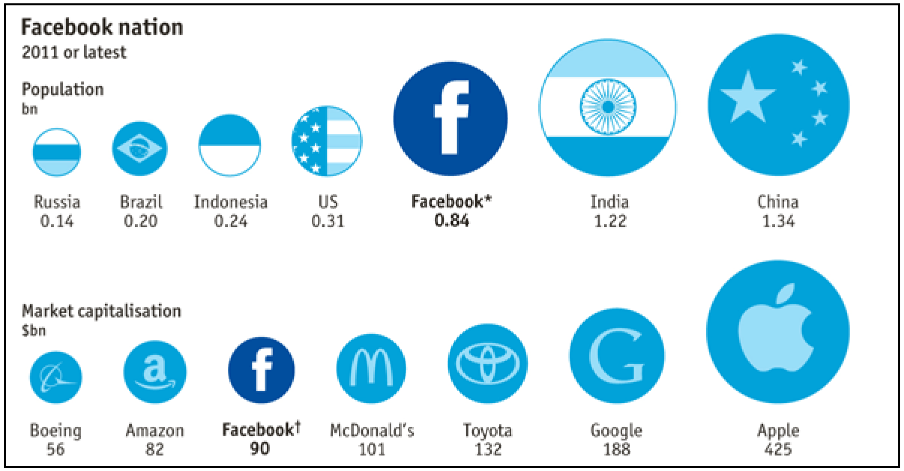
Market Recap

Hedge Fund Trends



Source: Hedge Fund Research

Facebook Data Points



Source: Bloomberg, The Economist

Based on Hedge Fund Research's annual analysis of the hedge fund industry, total hedge-fund assets under management ended 2011 at $2 trillion. Net capital inflows were over $70 billion, half of which were allocated to relative-value strategies (primarily fixed-income) as the difficult economic climate prompted investors to seek quality and risk-averse assets. Total returns in the Hedge Fund composite index fell 5% in 2011, the second-worst year since records began in 1990. A recent survey by SEI found that 38% of institutional investors expect to increase their allocations to hedge funds this year, down from 54% in 2010. However, redemption notifications in January were at their lowest level since 2008. This could be a reflection that investors believe that they cannot get better returns elsewhere or that they have learned a lesson from 2008 and have decided not to liquidate at what might be a trough before a rebound. Alternatively, it may simply be a calm before the storm. Redemptions might not be reflected in asset flows for another few months as investors have an opportunity to reflect on their hedge fund performance.

This week, the much-anticipated Facebook initial public offering was announced. They seek to raise $5 billion from the offering, which would give Facebook a total market capitalization of ~$80-100 billion (similar in size to McDonalds). Facebook employs only around 3,000 workers (1/550 the number of employees as McDonalds), giving it an average revenue of $1.2m per employee. Analysts suggest the site's users (estimated at over 800 million) effectively act as content providers, thereby reducing the need for a massive staff. Employees and private investors stand to make a sizable profit from the offering. Mark Zuckerberg, the company's founder and CEO, holds 28% of the company, which will be worth about $28 billion.

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