

## March 2012 - Market Outlook

Our first quarter performance was up 10.5% compared to an increase of 12.6% in the S&P 500 Total Return and a 21.5% increase in the financial index (XLF). The core portfolio of insurance stocks performed better than the overall market and insurance stocks generally. At the same time, our quarterly performance was helped by exposure to securities brokers and asset managers.

Our improved results in the first quarter reflected strength in most of our core insurance holdings. In addition, core holdings showed materially less volatility related to overall market fluctuations. Many of the issues that weighed on financial services stocks in 2011 appear, at least for the short term, to have moved away from headline concerns being voiced by market viewers. Therefore we are cautiously optimistic insurance stock performance will continue to reflect underlying fundamentals. In this period of relative stability we made few significant changes to the portfolios. Some of the changes we made to take advantage of the beginning of an industry wide upswing in property casualty insurance rates benefited first quarter performance.

### Outlook and Strategy

Specialty property casualty insurers now account for 1/3<sup>rd</sup> of our holdings. We still believe that specialty insurers in the portfolios are well placed to take advantage of what appears to be a market upturn that is gaining momentum.

The property casualty market appears to be in the initial stages of a market upturn. In such a market, the highest quality companies with real competitive advantages can gain market share with less risk than in a deteriorating market. At the same time, we believe the holdings in the portfolio are undervalued relative to intrinsic value. Many property casualty stocks, for example, currently sell for tangible book value or less. These valuations give us continued optimism. We expect insurance stocks will continue to remain less volatile relative to the recent past and be in a position to take advantage of the potentially improving economy.

If you have questions regarding the financial services sector, or would like to discuss our investment approach, please contact us at the phone number below, or visit our website. ([www.PhiloSmith.com](http://www.PhiloSmith.com))

## Performance through March, 2012

