



The Cohen Investment Plan

Monthly Report and Portfolio

12
2011

The Dangerous Negative Feedback Loop Global Balance Sheet Recessions



Welcome to the December issue of the Cohen Investment Plan. All of us at Cohen Investment Strategies wish you and your family a joyous holiday season and a healthy and prosperous new year.

Unfortunately, we view 2012 as having the potential to be the most volatile and dangerous market environment since 2008. Unhealthy global government balance sheets and structural economic problems as a result of years of excess and financial

engineering have created a dangerous negative feedback loop which we expect to cause recessions around the globe in 2012.

This December issue outlines this negative feedback loop and explains why we expect a difficult market environment in 2012. We expect much of the market volatility to emanate from the severe recessionary conditions in the periphery of Europe and the growth slowdown in China which will have a substantial impact on global markets. Our biggest concern is that if the United States and the core of Europe go into recession, we will be doing so at a time when government balance sheets are in disarray and the Federal Reserve has already expanded its balance sheet to historic levels. This will exacerbate the problem as there will be little or no fiscal or monetary firepower to combat the slowdown.

Also, in this issue we begin a very important discussion about the new breed of alternative investments which we advocate should be an important part of our model portfolio in 2012. The key elements of this new breed of publicly available (mutual funds) alternative investments is that they are not correlated with overall market performance and are designed to profit regardless of market direction. Many of these mutual funds package alternative style money managers who have demonstrated good track records in their respective areas of expertise. We will make our case for these important investments. Currently, we are in the process of the detailed review and analysis of all the funds in this category and over the coming months will be informing you of which funds rate high enough to belong in our model portfolio.

We are proud to report that since mid-July when our proprietary global risk index moved above 4, we have been primarily out of the markets and focused on wealth preservation. On November 17th we received our signals to exit the gold markets and have avoided a move in gold from 1740- 1575. We view this move in gold as a correction during an ongoing bull market and will look to reestablish our gold positions when our indicators line up. While we are very concerned about the markets in 2012 our current forecast is that the real trouble may not begin until sometime in Q1. In the short term it would not surprise us if the Bulls would attempt to push US markets higher in order to bring investors back into the market prior to get a more meaningful decline. The caveats to our forecast are as always the actions of the Federal Reserve and ECB. We are confident at some point the Federal Reserve will again expand its balance sheet as economic conditions decline. Money printing will have a reflationary effect on most asset classes. However, a further expansion of the federal balance sheet may not lift stocks again as much as most think, and gold and select commodities should outperform stocks during further periods of QE.

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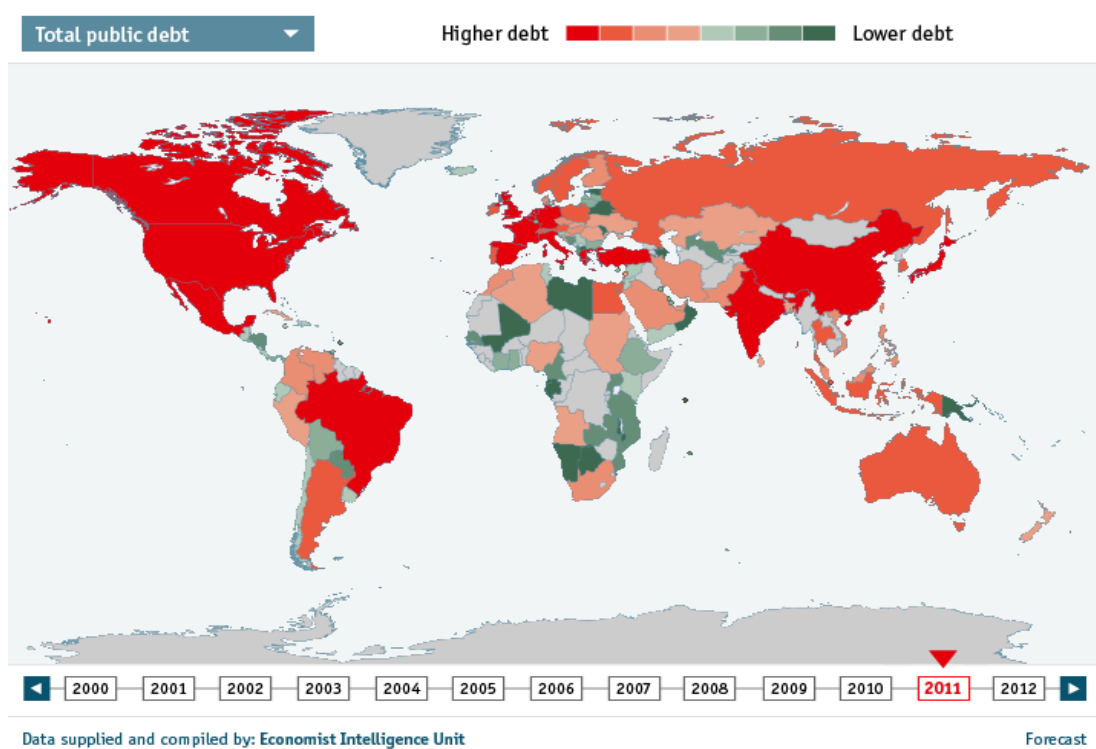
The Dangerous Negative Feedback Loop

Global Balance Sheet Recessions

Global governments are carrying more debt than ever and raising question as to whether or not a second — and perhaps even more dangerous credit crisis — is inevitable. The clock is ticking and every second, the world takes on more debt. In 2001, global government debt totaled \$18.2 trillion. Fast-forward a decade, and the figure now totals nearly \$44 trillion, an increase of 140 percent (more than 9.0% a year). The chart below depicts the countries with the highest and lowest debt levels.

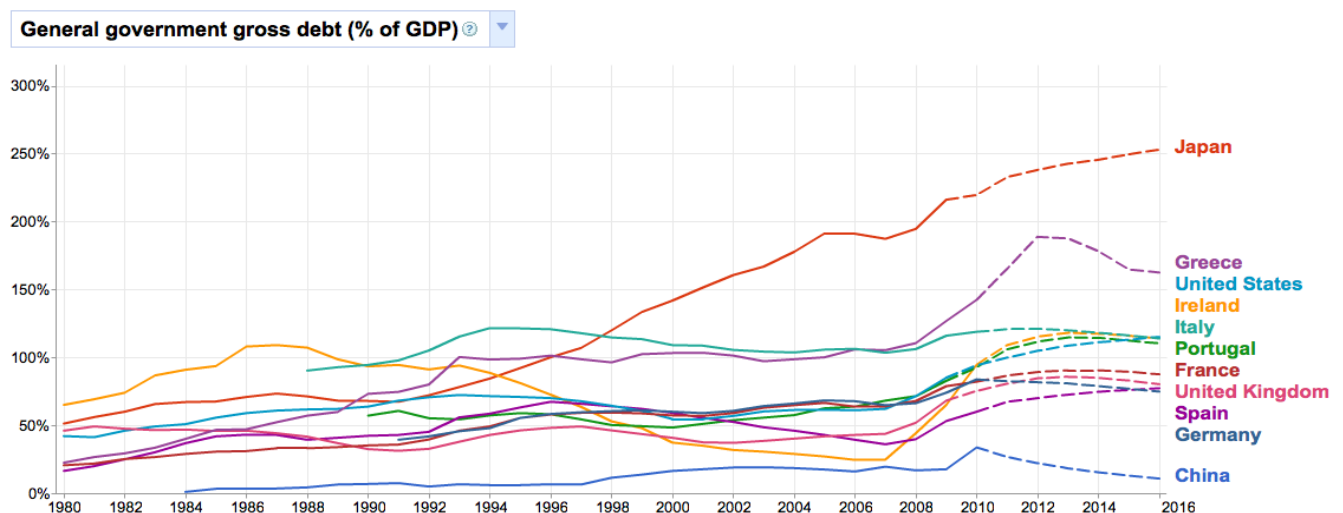
World Debt Comparison

\$ 043,894,227,418,652
CURRENT GLOBAL PUBLIC DEBT



According to *The Economist*, global sovereign debt is forecasted to grow an additional 7% in 2012 reaching a historical high of \$47 trillion. Measuring debt against gross domestic product (GDP), the global debt-to-GDP ratio at the end of 2010 reached approximately 80%. While the heaviest balance sheet offenders include troubled European countries like Italy, Greece and Portugal (See Figure 1 below), the United States isn't far behind with \$15 trillion in debt and a debt-to GDP ratio topping 100%. And tipping the scale at over 200% at the end of 2010 was Japan. The result of this rising debt means more government interference, a further slowdown in the already debilitated economic environment and the possibility of further citizen uprisings.

Figure 1:



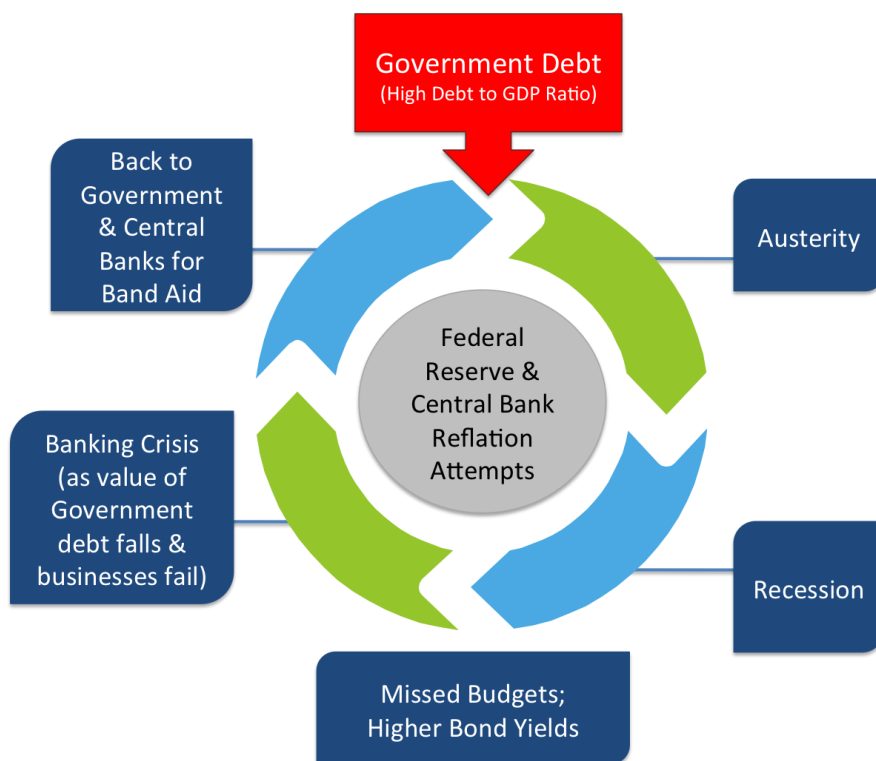
Source: International Monetary Fund, September 2011 World Economic Outlook

One of the problems with economic crises is that mainstream economists and financial advisors either don't see them coming or simply won't admit to them. That's exactly what happened in the fall of 2008, when the financial crisis kicked off in the United States. Since that time, governments have continued to spend, all while production has slowed and unemployment has skyrocketed. As we enter the fourth year of the post-crisis environment, there is no sign of growth that is impressive enough to get us out of the negative feedback loop in which governments have continued to operate. A negative feedback loop takes hold when massive government debt loads, a weakening financial system and a slowing economy feed off each other, interrupted by Federal Reserve and other central bank reflationary attempts. As shown in the chart below, rising debts become unsustainable and trigger austerity measures designed to reduce spending and/or increase taxes or other revenue sources to try

and reduce debt. In significantly depressed economies, the drag continues and a recession or even depression like conditions hit. The more production and employment falter, the more lending contracts, causing further harm to the economy, missed budgets and higher bond yields. The result is a downward spiral of business and financial activity and a banking crisis usually ensues. Under pressure to stimulate the market, the Federal Reserve and other central banks carryout band aid fixes by printing money and governments implement additional austerity measures which starts the vicious cycle of the feedback loop all over again.

Dangerous Negative Feedback Loop

Figure 2:



Source: Cohen Investment Strategies

In the center of the feedback loop is what we call Euphoric Mania. This is when the Federal Reserve and central banks step in to help with their band-aids whether it's printing money, lowering rates, coordinating central bank action, or expanding the balance sheet by trillions. But, like any high,

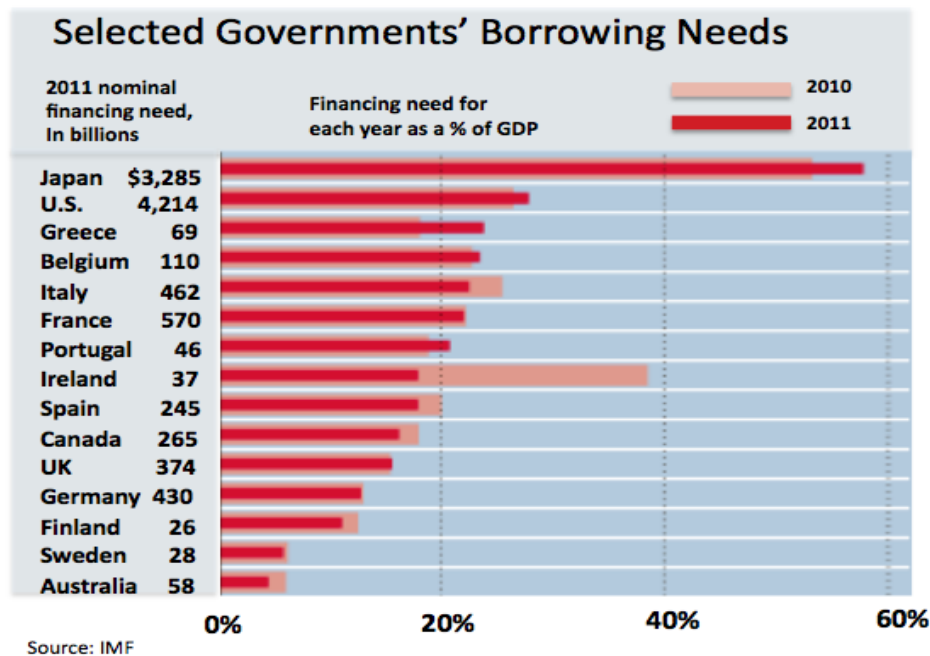
the lift is temporary and doesn't take hold. In no time at all, we are back to where we were at the top of the loop, because without sustainable economic growth, the band aids don't solve the problem.

Roger Nightingale, well-known European economist and strategist at RDN Associates, believes a 2012 global recession is a 65 to 75 percent probability and that further deterioration into a lengthy depression is possible. So what does this mean in terms of a growth outlook? Nightingale offered this forecast:

"The peak rate of growth for the world's economy occurred more than 12 months ago. We are probably going into negative territory around spring of next year; it is not for certain, but that is the most likely scenario... should recession kick in; the global economy might be too weak to generate any GDP growth for years, or even decades. When the downturn ends, and when the upturn begins, will it be powerful enough to take us into some sort of growth again? Or are we going to find ourselves in a protracted depression-type scenario?"

The fix needs to come from a unified front, not just a single country or continent. When we look at the three global pillars of the world economy — the United States, Europe and China — sure, each has its own problems, but each one's fiscal choices impact the globe as a whole. And really, it's four pillars when we add the Federal Reserve. We are a four-legged intertwined economic and financial system that relies heavily on each other for banking resources, government debt issuance, investments and exports. The feedback loops are never ending. And when economic growth stalls, debt accumulation increases. Without taking tough, systemic and coordinated economic measures including fiscal consolidation and a commitment by governments to cut rising deficits and reduce what are, in some cases, dangerous levels of national indebtedness, a second crisis may indeed be inevitable. The world is trying to recover from the worst financial crisis in 70-years and is suffering from debts levels not seen in decades and the crisis continues to intensify. And, as the graph below shows, with the exception of Ireland, countries need just as much, if not more, financing to cover debts in 2011 compared to 2010. Nothing has changed.

Figure 3:

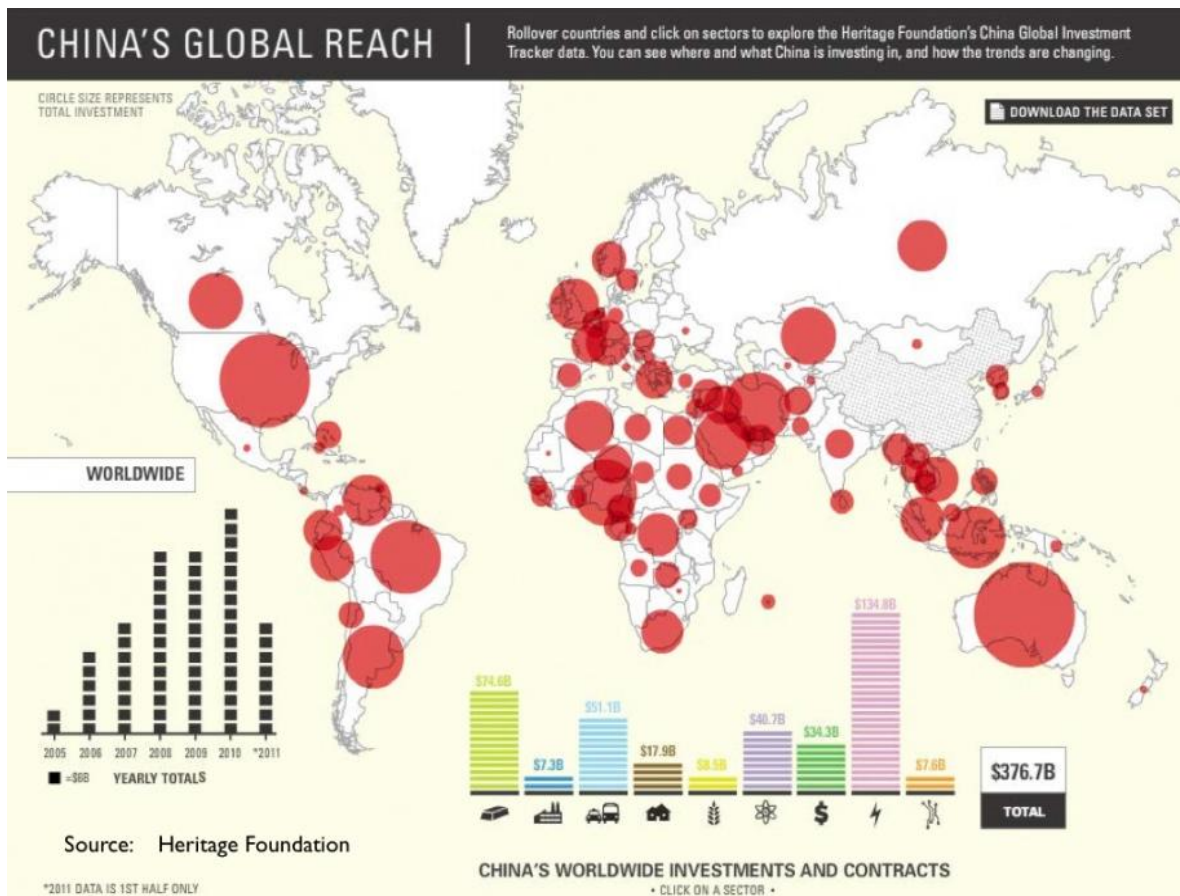


Global credit ratings agencies appear to be taking notice and are slashing ratings or announcing negative outlooks for a number of countries, but it's usually too late in the game for their warnings to mean much of anything. The United States was recently downgraded by the S&P to AA+ from AAA in August of this year, and just a few weeks ago, Fitch Ratings revised its outlook for the United States to negative from stable. The agency noted: "The negative outlook reflects Fitch's declining confidence that timely fiscal measures necessary to place U.S. public finances on a sustainable path and secure the U.S. AAA sovereign rating will be forthcoming." (See "Europe: the Epicenter of Risk" for the European ratings discussion).

Turning to China, Jim Chanos and other smart investors and strategists believe China is in the early stages of a housing bubble and banking crisis. Also, when developed countries enter recession, China's growth will slow further, and this will ripple throughout the world economy. Figure 4 depicts the tremendous level of investment and the extent of China's reach into countries around the globe. The repercussions would be disastrous. Looking at recent economic data, there are definitely reasons to heed caution with China. The country's export and import growth rates both decelerated in November — a sign of the broad global slowdown — putting pressure on China to do more to stimulate growth.

According to a report in *The Financial Times*, Chinese exports were up 13.8% in November from a year earlier, down from a 15.9% pace in October. Imports rose 22.1%, down from 28.7%. As the world's most important trading nation currently, China's trade data has become a key gauge of global economic health. Weighed down by the financial crisis in the euro zone, Chinese exports to Europe continued to slow, rising only 5% in November on a year-over-year basis. Exports to the United States have remained healthy, but shipments to Japan have slowed. In addition, a deceleration in China's imports is indicative of the downturn in the domestic economy, a concern for commodity producers, which depend greatly on Chinese demand. Also raising a red flag was China's November industrial output which grew at the slowest pace since August of 2009. According to China economists, the data "confirm our view that downside risks in the Chinese economy are rising."

Figure 4:



Source: Woodsford Capital Management

Europe: The Epicenter of Risk

Europe is at the epicenter of risk because of problems with massive government debt loads, heavy entitlements, and the structural uncompetitiveness of peripheral economies. Political uncertainty and the absence of a more pro-active approach from policymakers to address the crisis have depressed confidence and risk-taking. Lower global growth forecasts from major investment firms like UBS and Morgan Stanley are just another indication of the mounting problems. In the last two weeks, the world has finally seen some movement from policymakers in Europe. Will it be enough?

On the 5th of December, in an unprecedented decision, Standard & Poor's warned 15 euro zone countries that they may get downgraded, reflecting the deep frustration in the way European policymakers have acted. "After a good two years of trying to manage the crisis, the political efforts have not been able to arrest matters," said Moritz Kraemer, head of European sovereign ratings at S&P. "It is our view that this is a systemic stress, a confidence crisis that affects the euro zone as a whole." In addition to the ongoing disagreement among the policymakers about how to deal with the crisis, the key issues that concern the S&P include tightening credit conditions, large debt burdens and higher interest rate premiums – even in some AAA countries, such as France, Germany and the Netherlands.

On December 8th Europe's two-day summit kicked off. At the end of day one, the governing council of the European Central Bank held a press conference to discuss measures aimed at supporting the region's ailing banks that have been locked out of traditional funding in recent months. In addition to lowering the funding rate a quarter point to one percent, the ECB widened the range of acceptable collateral to now include loans to small-and medium sized businesses, a first in the euro zone.

Newly appointed ECB President Mario Draghi noted that many banks remain unable to sell their debt into the market and face a large refinancing hump next year as government-guaranteed bank bonds mature. The worry is that banks may shrink their balance sheets and cut lending to the real economy, as one way of dealing with the funding freeze. "We are observing a deleveraging process by the banks," Mr. Draghi said, and "the announced measures are meant to address the funding pressure." Initially, European stocks rallied in that Euphoric Mania referred to earlier, but risk assets dropped back after the market appeared to be expecting Draghi to be more aggressive in bond buying and monetary easing.

In the days leading up to the December 8th ECB meetings and December 8-9th EU Summit, markets and strategists were expecting, among other things the following important actions to take place:

- 1) EU countries would agree to treaty changes to create meaningful EU fiscal oversight on EU member countries.
- 2) Policy makers would provide more clarity on firepower from the EU bailout funds (EFSF, ESM).
- 3) The ECB would telegraph that if fiscal union was agreed to that they would be willing to buy EU government debt in the open markets.

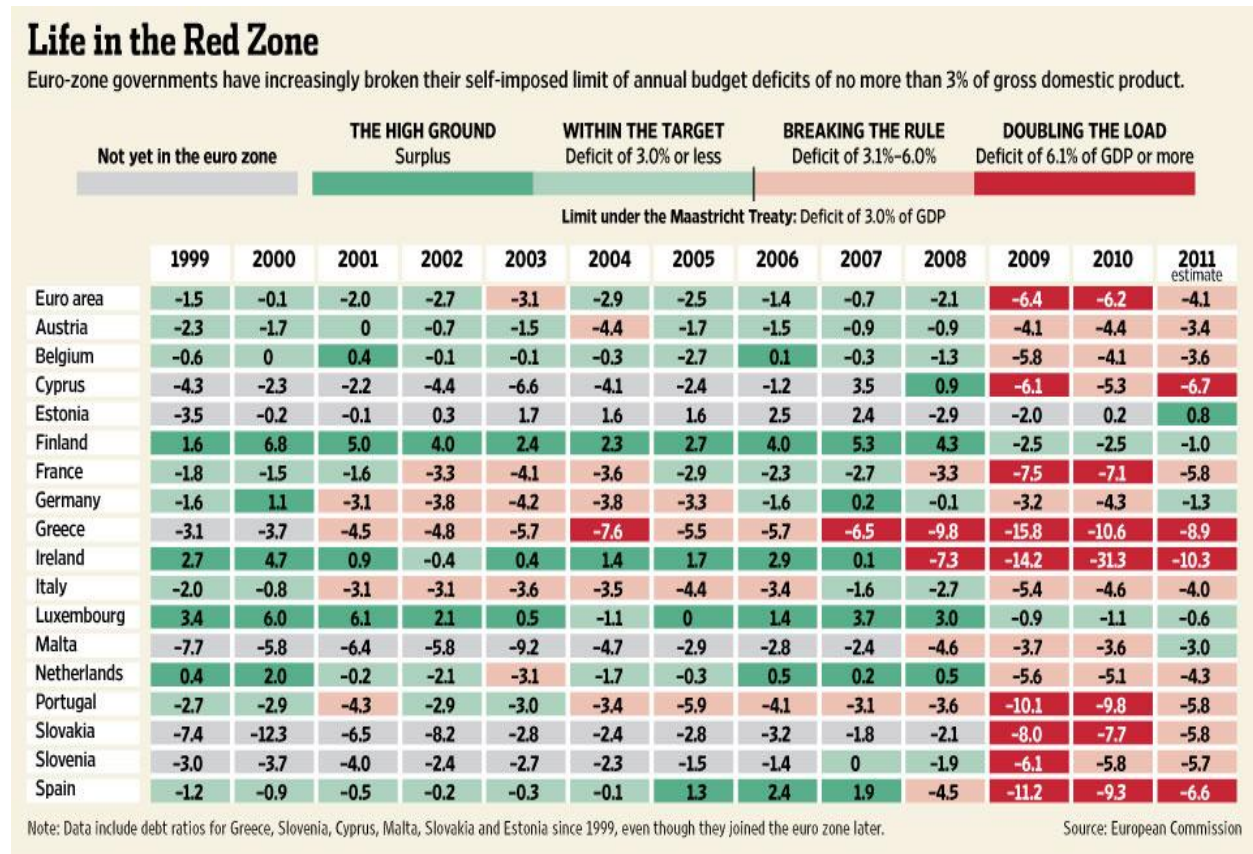
What we instead received was a “fiscal compact” without substantive definitions, a cap of 500 billion Euros on the combined bailout funds, and an ECB that lowered rates and guaranteed liquidity for EU regional banks for up to 36 months. However, there was no commitment to purchase more EU bonds and no mention of the ECB “bridging” the gap (until a clearer fiscal union could be implemented) with purchases of higher yielding European sovereign debt.

From a more positive perspective, IMF Managing Director Christine Lagarde had this to say, “What’s really encouraging today is to see that the members that will be party to the agreement have decided on three key components. Number one, they want to consolidate their fiscal union, number two, they have decided to accelerate the European Stability Mechanism (ESM) and number three, they have decided to add to the resources of the IMF which is to be confirmed within 10 days.”

While these maybe lofty goals, nothing is firmly in place yet and it won’t be as easy as it sounds to implement and govern. Borrowing a headline from *ZeroHedge.com*, the EU essentially is trying to “Put Some Lipstick on This Pig and Sell It.” Zerohedge.com focuses its criticism on the lack of defined terms, the loop holes, the need for ratification and implementation and the bad history EU countries have of disobeying existing treaty rules. (See Figure 5)

Figure 5:

EU Countries History of Rule Breaking



Additional thoughts about the EU Summit outcome from Wall Street included the following:

Trevor Greetham, Asset Allocation Director at Fidelity Investments in the UK, said: “The agreement misses the point; the crisis is not about government profligacy, it is a balance of payments crisis, like the one in Asia in the 1990’s. Policy response has focused on liquidity, but has not gone far enough; Enforcing austerity is unlikely to succeed...volatility is here to stay.”

Bank of New York Mellon's Chief Currency Strategist, Simon Derrick, noted, “Failure to win agreement of all 27 members raises question of how rules will be administered; New funding to the IMF is smaller than discussed earlier in the week...Given the compromised nature of political response it is

difficult to see investors (or rating agencies) giving the Euro-zone authorities the benefit of the doubt for much longer.”

Once we get past the lipstick, will it be enough to take countries off watch by the rating agencies and will the bond yields in countries like Italy ease enough? Remember, what is “agreed to” still requires ratification, implementation and enforcement, something the EU has failed at miserably in the past.

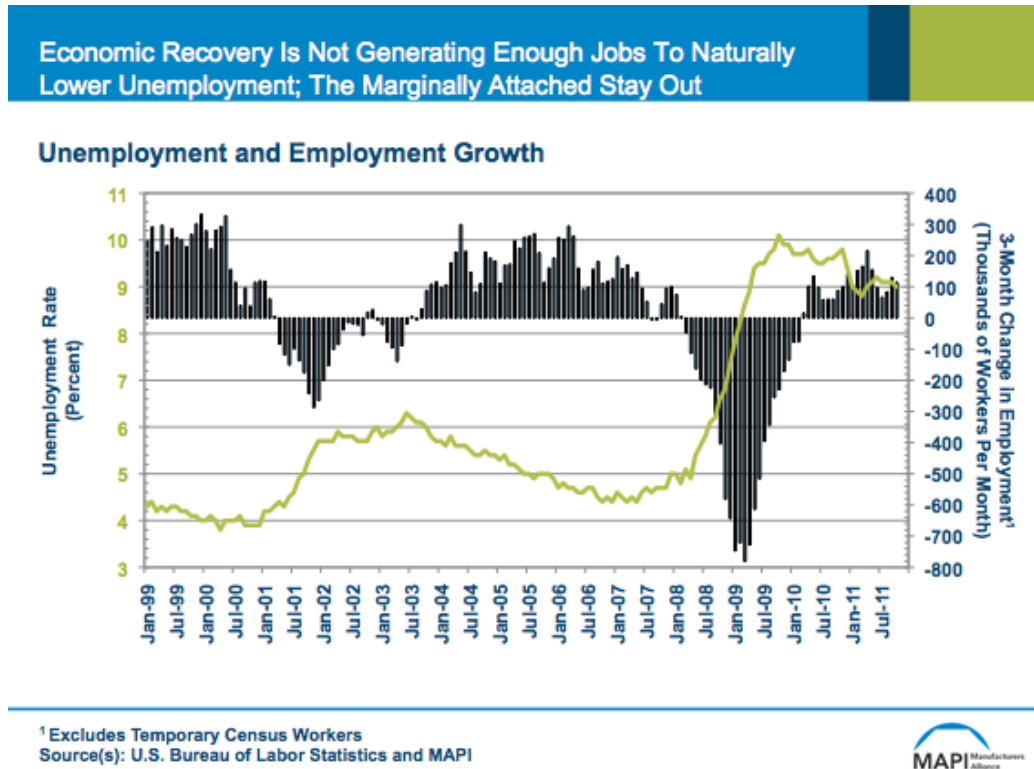
What can be said for Europe is that for all the problems they face they’ve chosen not to engage in the behavior of Bernanke’s potentially dangerous expansion of the central bank’s balance sheet. Kudos to Europe for not printing money and complicating the financial future of their children. However, the Euro zone isn’t moving swiftly enough to come up with targeted growth solutions to fix its dismal growth outlook. They can’t continue to fall back on only austerity measures. More importantly the actions taken at the EU Summit are not enough to stop the forces that continue to push the dangerous negative feedback loop which we believe will result in global balance sheet recessions.

A Look Inside Debt and Demographics

There are select economists that continue to remain upbeat for the United States, citing anticipated GDP growth driven by declines in food and gas prices, pent-up demand for durable goods like motor vehicles, and relatively strong export growth. While this all sounds great and fingers are crossed that tax revenues go up and debt goes down, we believe this rosy outlook is short-term in nature and that, the hard reality of a second recession might very well blindside us in 2012. What do we need to see for a long-term lift?

The answer is simple: significant job growth. How can economists support their positive outlooks when we aren’t even generating enough jobs to naturally lower unemployment and stimulate the economy? Yes, the unemployment rate fell by 0.4 percentage point to 8.6 percent in November, and nonfarm payroll employment rose by 120,000, but did we add real jobs? No. The reason the unemployment rate fell was because job seekers dropped out of the workforce. Many U.S. workers are giving up on finding employment. The following chart details the unemployment changes dating back to 1999. (See figure 6)

Figure 6:



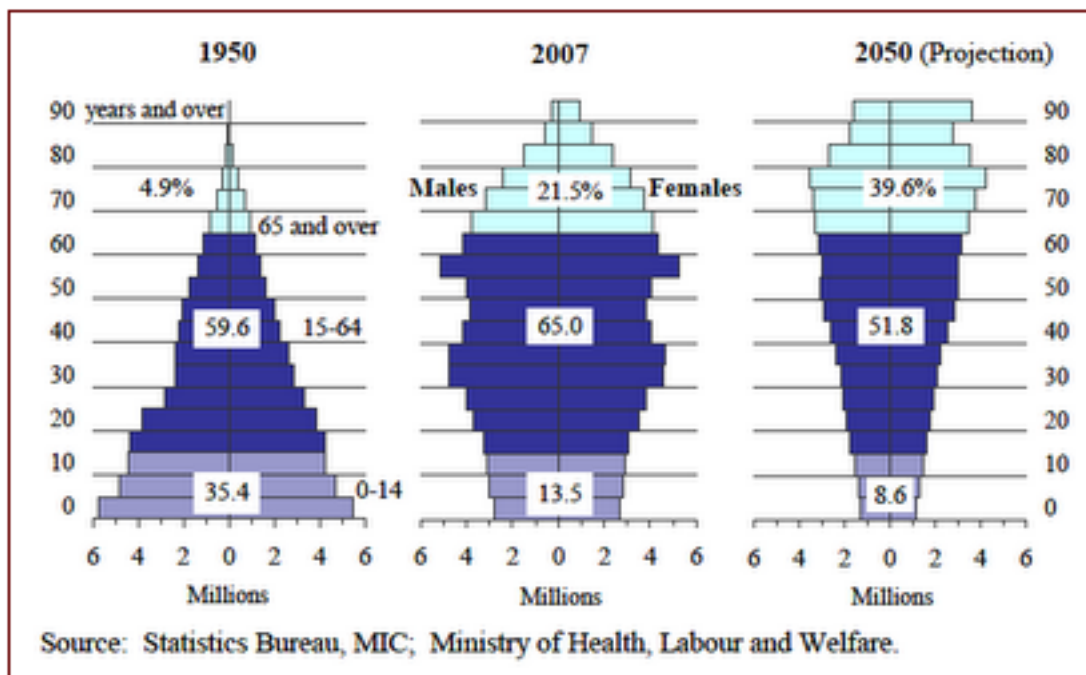
At the end of the day, an erosion of confidence, lower asset prices and tighter credit conditions are further damaging the prospects for economic activity. This will affect the ability of companies, households and governments to repay their debts. That in turn will weaken banks depressed balance sheets further. This spiral is characteristic of a systematic crisis, particularly in developed markets like Europe, the United States, and Japan that have aging populations which are relying on the government to pay for their retirements with money the system doesn't have.

Early in the report we noted that certain financial experts have warned about Japan's future and how one of the world's economic powerhouses could spiral out of control. Aside from the natural disasters they've faced, one fact can't be denied, Japan's government debt is soaring far above that of other leading industrialized nations. Japan's gross debt is approaching 200% of its annual economic output, a percentage way above those in the United States, the United Kingdom, and Germany. How can

Japan afford to borrow so much? The answer and the challenge lies within the country's demographics. Traditionally, the Japanese government has had no trouble selling its debt to domestic investors. Risk-averse small savers, pension funds and institutions have been content to hold Japanese government bonds (known as JGBs).

Like the United States, however, Japan has an aging population. The total population has been declining in recent years while the number of people in Japan over the age of 65 is rising.

Figure 7:



As Japan looks to the future, pension and care costs will continue to rise. Mizuho Research Institute estimates that by the year 2025 around 70% of government spending will be eaten up by debt service and social security spending. The sense that Japan is close to a tipping point is voiced by leading academics and some politicians even if not by the wider population. Akira Kojima, senior fellow at the Japan Centre for Economic Research put it like this: "We are going into very dangerous territory. Post war baby boomers are retiring. We have less than 10 years left to fix the imbalance problem."

"As the population ages, the household savings rate will turn increasingly negative as pensioners spend the savings they have built up," said Grant Lewis, head of economic research at Daiwa Capital. "A

JGB market that is not able to rely on the steady domestic saving inflows that it has in the past, is likely to be much more volatile than that seen over recent years." Policymakers and voters **cannot** ignore the looming problem for much longer.

At the end of the day, debt instruments are crucial to all economies, but balancing the risk with the opportunities of debt is a challenge, one that policymakers must never forget. Today, governments worldwide are carrying more debt than ever and we are on track to grow that debt to \$47 trillion by 2012. Debt yields are very high in Europe's periphery. Debt-to-GDP ratios are high with some countries posting triple digits. It is clear that government intervention through austerity measures has done little to curb the growing balance sheets, particularly in Europe. We find ourselves in this perpetual negative feedback loop that inevitably continues to expand the world's debt.

CONCLUSION

With Europe at the epicenter of the financial risk, the efforts of the EU and ECB to make systematic and disciplined actions are critical. With the close of the EU Summit, we are seeing more solutions which lack clarity, bailout funds that are not sufficient, a lack of targeted growth initiatives, and an ECB reluctant to take drastic action. We view the very real potential for serious European recessions in 2012 as the thing likely to derail all of these EU policy initiatives. Negative growth particularly in EU debtor countries will blow huge holes in their plans and budgets, and this would further aggravate the negative feedback loop. One crucial thing the developed countries are lacking involve creative target growth plans to boost GDP. In Europe, Germany is so focused on fiscal discipline and austerity that growth is likely to decline substantially. A clear pattern has now emerged in Europe according to well known global strategist Felix Zulauf: Merkel has now made it clear that she will not cave in by allowing the ECB to print and has stuck to the traditional German belief that monetary policy is not to be used to manage the economy short term, but should create a stable economy, high savings rate, investment rate, and competitiveness.

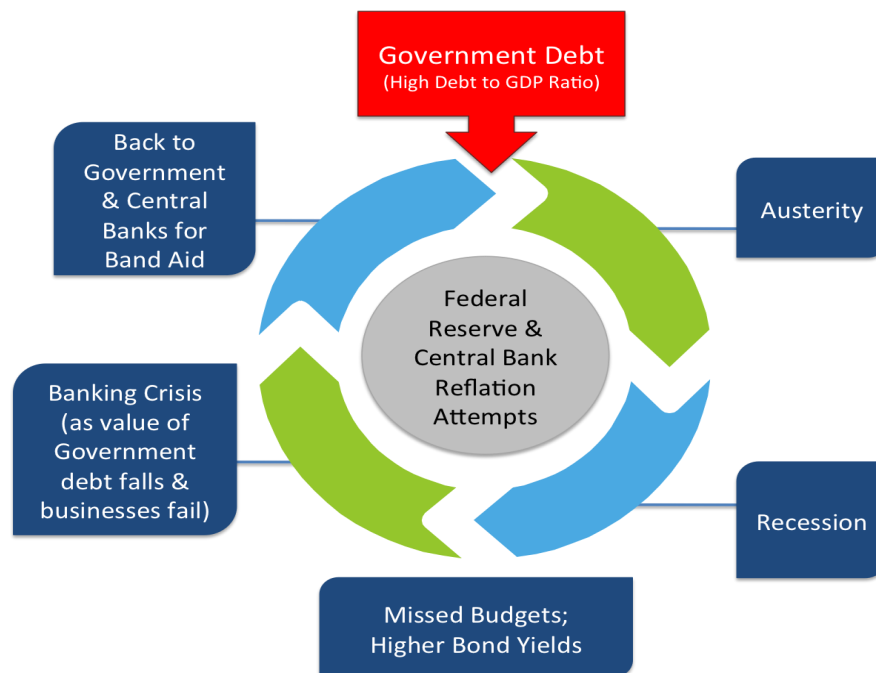
Zulauf also noted that this is in stark contrast to the US, where we use whatever tools we have to manage the economy in the short term and allow the long run to take care of itself. This results in the debasement of the US dollar, low savings rates, low investment rate, and a less competitive economy. Also, in the United States, one of our biggest problems is the terrible gridlock between Democrats and Republicans. During times of solid economic growth it was common wisdom that

gridlock was good to keep things status quo. Now, we are facing a potential crisis, and so political unity is necessary to help create solutions to target growth and give private businesses the confidence to invest and spend. One small example of a targeted growth measure that has little or no cost is Chuck Schumer's proposal to allow a foreigner to receive a visa when purchasing a home in the United States for \$500,000 or more. This would almost certainly help the beleaguered housing industry and stimulate the economy. Clearly, this is one small creative solution and we need 25 more like this one. Also, we need to create private- public funding of needed infrastructure. Gridlock will curtail any creative solutions as the situation in Washington has become so dysfunctional that it is now dangerous.

This is not a traditional, cyclical recession. It's a debt crisis that continues to grow. There was a saying used during financial crises of decades past, when the problems weren't nearly as large and government monetary policy was simple. "Let there be gridlock and everything will eventually be fine." Today, that couldn't be further from the truth. The problems are global. They are huge and they aren't going away without real answers for targeted growth strategies, a reduction in entitlements and fiscal discipline. Without it, we will be forever caught in the negative feedback loop.

Dangerous Negative Feedback Loop

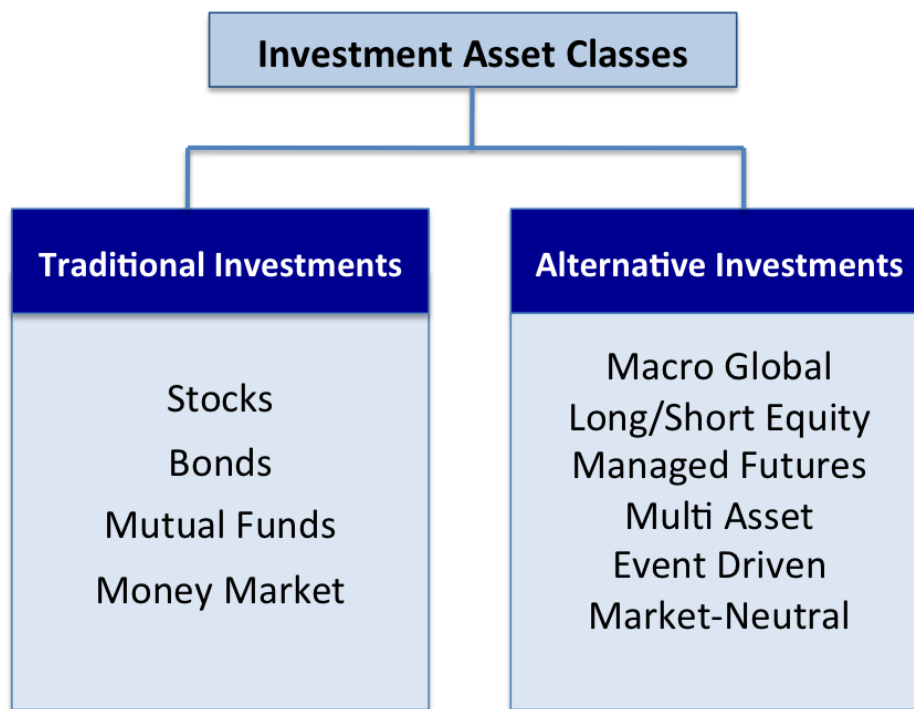
Figure 8:



Source: Cohen Investment Strategies

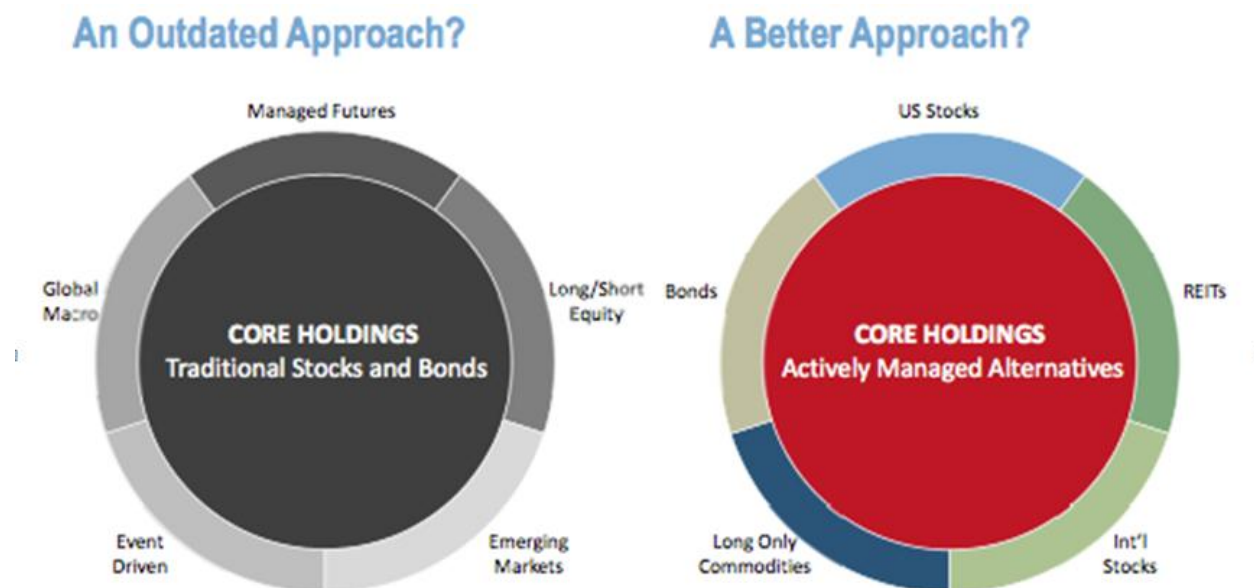
The Future of Investing: Alternative Funds

Alternative investments cover a wide range of asset types including a range of new mutual funds (see chart below) as well as real estate, private equity, commodities and infrastructure. Historically, an investment was considered “alternative” if it had a limited investment history, it wasn’t publicly traded and it was relatively illiquid, not to mention expensive to get into for the everyday investor. Things have changed. This new wave of alternative investments is available to everyone. They are publicly traded liquid assets that are non-correlated to traditional equity markets and only require nominal investments.



Source: Cohen Investment Strategies

Driving the change and demand for accessible alternative investments was the 2008 market crash and the three years of ensuing volatility. It became obvious that relying solely on the wait-for-growth approach, also known as a long-only approach, was a mistake. Even with a well-rounded stock portfolio, analysts realized long-only investing placed investors' wealth at too much risk. Nadia Papagianni, Director of Alternative Fund Research at Morningstar, Inc., said, "We found out in 2008 that every single asset class except for government bonds went down at the same time. It's not enough to diversify into long-only assets in order to protect your wealth." Today, while the market volatility is not near the levels of 2008/2009, returns remain depressed and alternative investments provide a new vehicle for higher returns not tied to traditional equity markets.

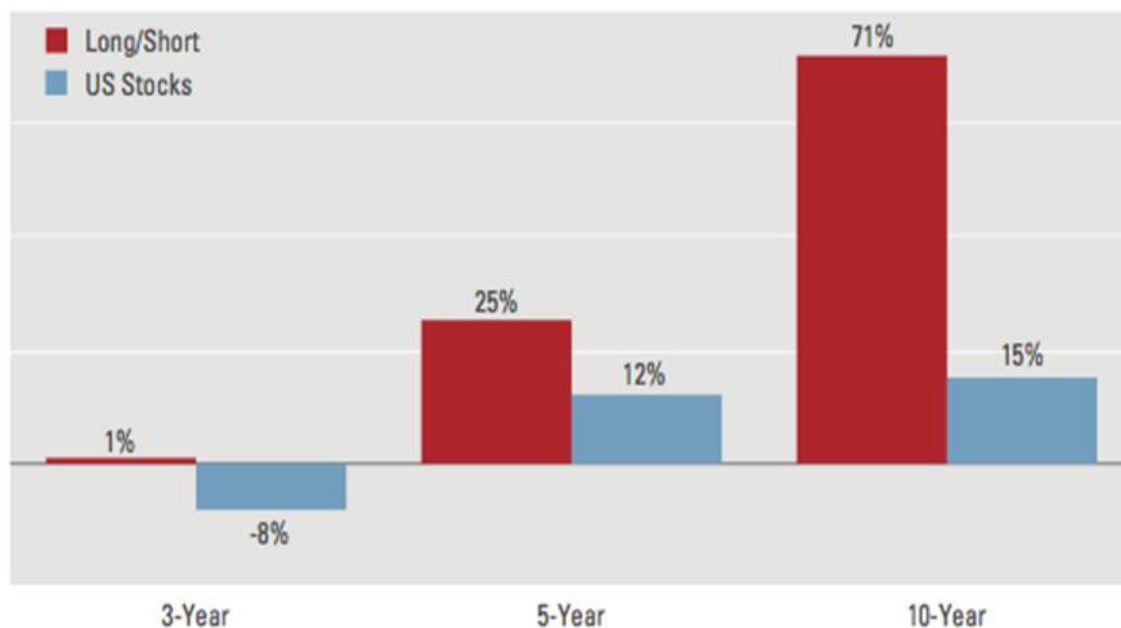


*These charts are for illustrative purposes only.
 Source: Altegris Investments, Inc.*

If a portfolio was designed like the outdated approach with core holdings in traditional stocks (above left circle), returns over the last year would resemble the S&P 500 which is up only 1.76% since December of last year or Goldman Sachs' Global Technology Index Fund (IGM) which has grown less than 1% this year. These are just a few examples, but the numbers are the same across the board. Now let's compare the S&P's performance over the last three, five and ten years to the returns of an alternative equity hedge index and macro global index (data collected by Hedge Fund Research, Inc., the industry's most comprehensive source of hedge fund information and performance data).

TOTAL RETURNS: LONG/SHORT EQUITY VS. US STOCKS

HFRI Equity Hedge Index vs. S&P 500 Total Return Index | 3-Year, 5-Year and 10-Year
Through December 2010



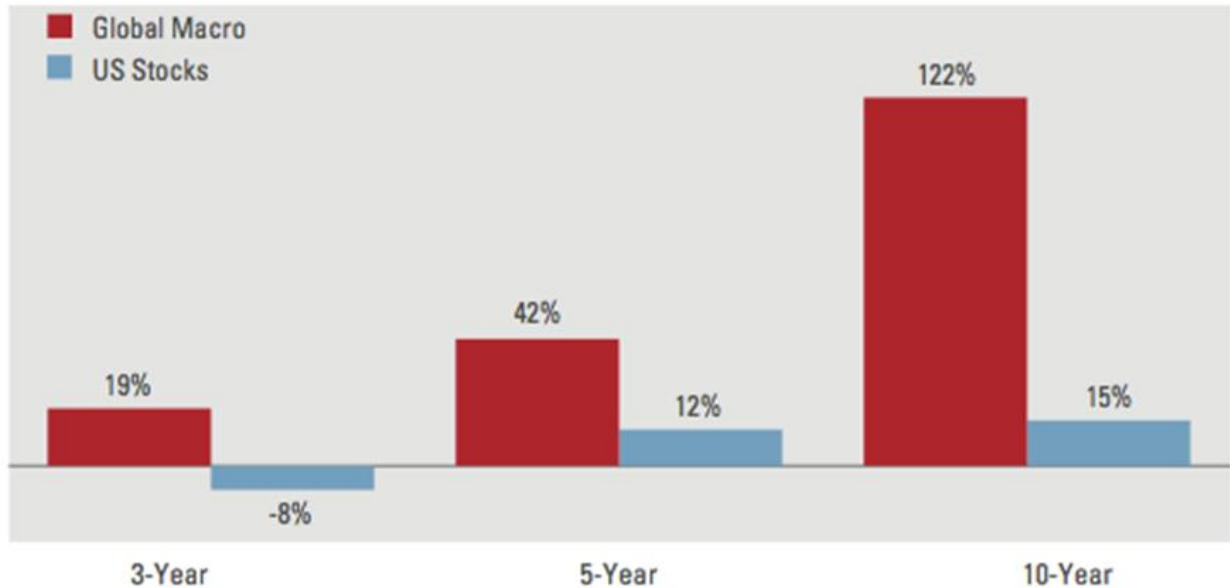
*These charts are for illustrative purposes only.
Source: Altegris Investments, Inc.*

The difference in returns are glaring. Hedge fund managers that employ both long and short strategies have been able to successfully captured gains on the upside, as well as provided some protection on the downside.

The global macro index comparison below shows a similar gap in returns. As a note, global macro investments are typically based on forecasts and analysis about interest rates trends, movements in the general flow of funds, political changes, government policies, and other broad systemic factors.

TOTAL RETURNS: GLOBAL MACRO VS. US STOCKS

HFRI Macro (Total) Index vs. S&P 500 Total Return Index | 3-Year, 5-Year and 10-Year
Through December 2010



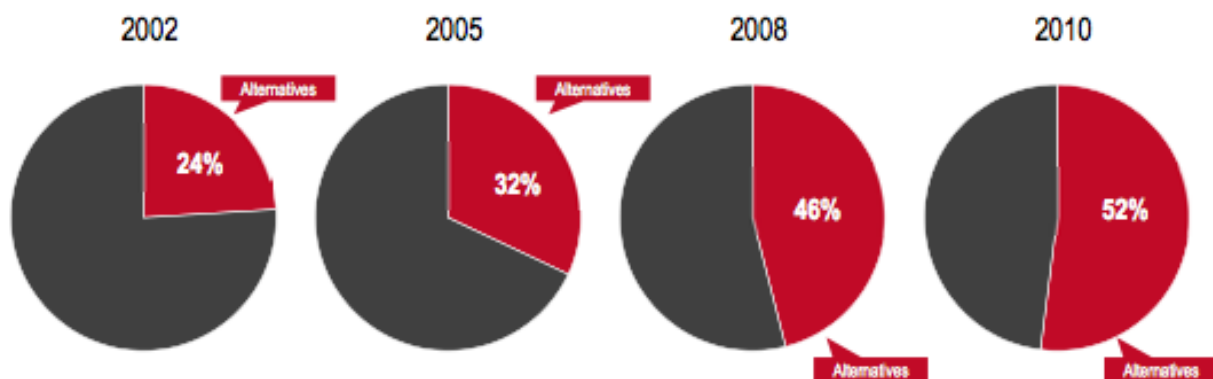
*These charts are for illustrative purposes only.
Source: Altegris Investments, Inc.*

For some investors, hedge funds have a reputation that they are only for the rich willing to take huge risks in hopes of earning draw-dropping returns. That's just not the case anymore, particularly with new vehicles like long-short funds and market-neutral funds. Today, such alternative investments are used by more conservative, mainstream investors, including universities and foundations, in order to limit risk and earn above market returns. "It's a misnomer that hedge funds are supposed to shoot the lights out," says Adam Patti, CEO of IndexIQ, the company behind the Alpha Hedge Strategy long-short fund. "Hedge funds are designed so that you **make more by losing less.**"

Endowment Funds: A Classic Alternative Investment Model

University endowments provide an interesting case study for alternative investments and have been increasing holdings in such assets for years (see chart below). By rule, endowments can only spend their real returns (earnings in excess of inflation) so that the endowment will continue to grow for future generations. Because of these mandates, the number one rule in endowment investing is not to lose any money. In order to comply, endowments look to mitigate risk and preserve capital first and look to build wealth second. They do this by large investments in hedge funds and private equity. Although the volatile markets of 2008 and 2009 caused the need for an asset rebalance by many universities, college endowments, especially the larger ones, continue to invest in alternative assets and have been able to successfully produce returns above traditional markets over time, with less risk.

A Growing Trend



Source: Altegris Investments, Inc.

These charts are for illustrative purposes only. Everyone cannot invest like an institution. Institutions are professional money managers who have unique access and the ability to perform extensive due diligence on managers. Many investors' experience, financial means, objectives, risk tolerance, and time frame will differ from that of institutions, and they may not be able to access the same investment opportunities as institutions. These factors should be taken into consideration when creating an allocation to alternatives. The above should not be construed as investment advice. *Domestic and international equities combined as "equity" through 2008. Alternatives categorized in the NCSE as follows: private equity (LBOs, mezzanine, M&A funds, international private equity); marketable alternative strategies (hedge funds, absolute return, market neutral, long/short, 130/30, and event driven and derivatives); venture capital; private equity real estate (non-campus); energy and natural resources (oil, gas, timber, commodities, and managed futures); and distressed debt.* Source: NACUBO-Commonfund annual studies of endowments.

The Yale endowment model developed by Yale University Chief Investment Officer David Swensen invests heavily in alternatives such as private equity and hedge funds, and the model stands as a benchmark for many larger universities throughout the United States. Despite a few years of *extreme* volatility, which impacted the fund's performance, the decision to diversify with alternative investments has delivered an absolute return of 21% over the long-run.

This has been just a brief introduction into the new wave of liquid alternative investments and the opportunities to improve portfolio diversification and returns. The Altegris Global Strategy Fund (MCRNX), a global macro long-short strategy managed by four investment teams with a notable track records, is included in our portfolio and we intend to focus a great amount of our research on additional alternative investments in our upcoming reports. A portfolio manager's traditional approach of a mix of long only stocks and bonds is no longer suitable for today's economy. We can't sit on the sidelines and hope things will continue to get better with the same old investment blend that continues to drag down portfolios. In addition, if the volatility of years past returns, even with a well-rounded stock portfolio, long-only investing will put investors' wealth at risk. It's never been a better time to evaluate and incorporate alternative investments with better risk-return payoffs into your portfolio. Our team at Cohen Investment Strategies is currently analyzing each alternative mutual fund investment and will likely be adding select funds to our model portfolio as our core holdings.

Model Portfolio

It is important that subscribers understand that the investment philosophy behind the Cohen Investment Plan is centered on the idea of preserving capital during dangerous market conditions. We use our proprietary global risk index to forecast likely market rallies and look to participate in a conservative fashion. If our indicators work as planned, we expect that our model portfolio will preserve capital during market declines and will generate reasonable returns during market rallies. We do not expect or attempt to call bottoms or to fully participate in the entire market rally.

We are very proud to report that our global risk index is doing exactly what it was designed to do. On November 17th, we exited our gold and equity positions at a combined break even. Since then gold and gold miners have corrected substantially with gold closing today at 1575. The equity markets have been on a roller coaster ride and are down 4% from the levels of mid November. As we noted

earlier in the report, we view the long term bull market in gold as intact and will be looking to add to our model portfolio when our index and technical signals align. Also, we would not be surprised to see an equity rally into yearend or Q1 from these depressed levels if US data maintains and Europe can stabilize somewhat. We have added a small short term allocation to equities and will keep you updated. As noted, we are very bearish about market prospects for 2012 and we will be adding more non correlated alternative investments to our portfolio.

Model Portfolio

Symbol	Position	Purchase date	Purchase price	Current price	Gain/Loss %	Portfolio Allocation
MCRN X	Altegris Macro Strategy Fund	9/1/2011	\$9.81	\$9.93	1.2%	10%
DIA	SPDR Dow Jones Industrial Average	12/15/2011	\$119.02			5%
SPY	SPDR S&P 500 ETF Trust	12/15/2011	\$122.75			5%
IWM	Russell 2000 Index Fund	12/15/2011	\$71.70			2.5%
	Invested Capital					22.5%
	Cash					77.5%
	Total					100%

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