



COMSTOCK[®]

Market Overview

July 2011

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Index Performance

As of June 30, 2011

As of June 30, 2011 (not annualized if less than 1 year)

	1 month	YTD	1 Year	3 years	5 years	10 years
Russell 3000	-1.80%	6.35%	32.37%	4.00%	3.35%	3.44%
Russell 3000 Growth	-1.50%	6.98%	35.68%	5.28%	5.36%	2.43%
Russell 3000 Value	-2.08%	5.74%	29.13%	2.66%	1.23%	4.25%
S&P 500	-1.67%	6.02%	30.69%	3.34%	2.94%	2.72%
Russell 1000	-1.75%	6.37%	31.93%	3.68%	3.30%	3.21%
Russell 1000 Growth	-1.43%	6.83%	35.01%	5.01%	5.33%	2.24%
Russell 1000 Value	-2.05%	5.92%	28.94%	2.28%	1.15%	3.98%
Russell Midcap	-2.09%	8.08%	38.47%	6.46%	5.30%	7.59%
Russell Midcap Growth	-1.60%	9.59%	43.25%	6.58%	6.28%	5.52%
Russell Midcap Value	-2.57%	6.69%	34.28%	6.35%	4.01%	8.42%
Russell 2000	-2.31%	6.21%	37.41%	7.77%	4.08%	6.27%
Russell 2000 Growth	-2.14%	8.59%	43.50%	8.35%	5.79%	4.63%
Russell 2000 Value	-2.46%	3.77%	31.35%	7.09%	2.24%	7.53%
MSCI EAFE Index	-1.23%	5.35%	30.93%	-1.30%	1.96%	6.12%
MSCI World Index	-1.58%	5.29%	30.51%	0.47%	2.28%	3.99%
MSCI EM (EMERGING MARKETS)	-1.54%	0.88%	27.80%	4.22%	11.42%	16.20%
Barclays US Municipal Bond	0.35%	4.42%	3.48%	5.58%	4.93%	4.99%
Barclays US Aggregate Bond Index	-0.29%	2.72%	3.90%	6.46%	6.52%	5.74%

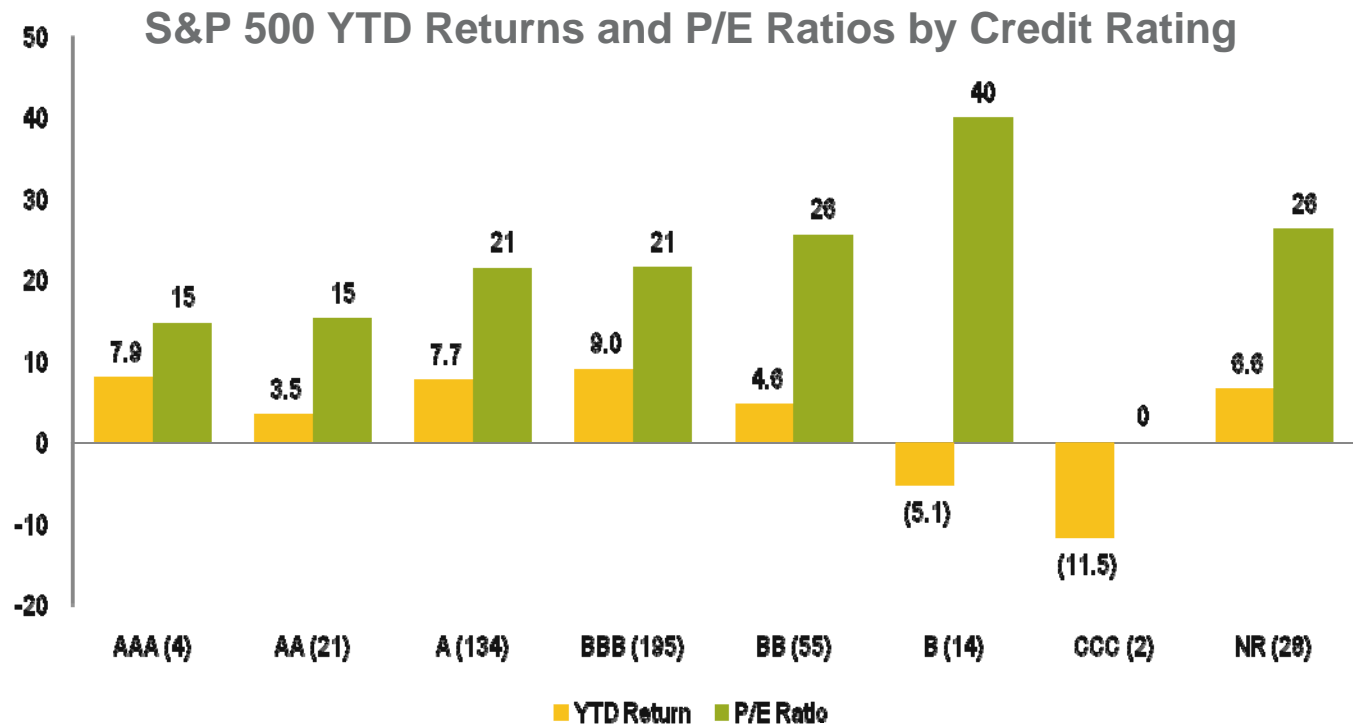


Systemic Risks are Increasing

- The global economy and financial markets have largely recovered from the 2008-2009 financial crisis
 - The economy has entered a modest expansion phase which is threatened by the risk of “hard landings” in Europe and China
- The probability of a breakup of the EU has increased with the recent rise in Spanish and Italian borrowing costs
- China and Brazil are struggling with inflation and overvalued currencies
 - Additionally, China faces a potential real estate bubble
- Gridlock in Washington over the budget and debt ceiling is leading to increased market volatility
 - No impact as yet on Treasury bonds, which indicates the market believes the situation will get resolved
- Best case is that these issues represent a mid-cycle slowdown and higher economic growth will resume toward the end of the year
 - Worst case is that the US and Europe will slip back into recession
- Owning productive, quality assets remains the best way to protect against inflation
 - The stock of high quality companies remains the most attractive investment opportunity



Higher Quality Stocks Generally Performed Well



- High quality stocks trade at a discount to the market
- The dividend yields of these stocks are in many cases higher than that of Treasury bonds
 - Companies also have the potential to grow dividends at or above the rate of inflation



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Risks are Concentrated on the Periphery of Europe

Table 1.1. Indebtedness and Leverage in Selected Advanced Economies¹

(Percent of 2010 GDP, unless noted otherwise)

	United States	Japan	United Kingdom	Canada	Euro area	Belgium	France	Germany	Greece	Ireland	Italy	Portugal	Spain
Government gross debt, 2011 ²	100	229	83	84	87	97	88	80	152	114	120	91	64
Government net debt, 2011 ^{2,3}	72	128	75	35	67	82	78	55	n.a.	95	101	86	53
Primary balance, 2011 ²	-9.0	-8.6	-5.5	-4.1	-1.7	-0.5	-3.5	-0.3	-0.9	-7.5	0.2	-1.6	-4.6
Households' gross debt ⁴	91	74	107	93	72	55	69	62	68	129	50	103	90
Households' net debt ^{4,5}	-230	-231	-184	n.a.	-129	-204	-131	-130	-56	-60	-178	-126	-74
Nonfinancial corporates' gross debt ⁴	76	138	128	n.a.	142	161	157	69	71	278	119	154	205
Nonfinancial corporates' debt over equity (percent)	105	176	89	72	106	43	76	105	218	113	135	145	152
Financial institutions' gross debt ⁴	97	188	735	n.a.	148	139	148	95	21	664	99	65	113
Bank leverage ⁶	13	23	24	18	26	30	26	32	17	18	20	17	19
Bank claims on public sector ⁴	8	76	7	20	n.a.	22	19	25	27	28	32	16	22
Total economy gross external liabilities ^{4,7}	144	64	696	91	174	417	254	181	194	1,598	153	293	215
Total economy net external liabilities ^{4,7}	19	-52	14	7	13	-43	11	-39	99	102	20	106	90
Government debt held abroad ⁸	32	7	27	20	29	68	64	53	61	59	47	57	50

Sources: Bank for International Settlements (BIS); Bloomberg, L.P.; EU Consolidated Banking Data; U.S. Federal Deposit Insurance Corporation; Haver Analytics; IMF, International Financial Statistics, Monetary and Financial Statistics, and World Economic Outlook databases; BIS-IMF-OECD-World Bank Joint External Debt Hub; and IMF staff estimates.

¹Cells shaded in red indicate a value in the top 25 percent of a pooled sample of all countries shown in table from 1990 through 2009 (or longest sample available). Green shading indicates values in the bottom 50 percent, yellow in the 50th to 75th percentile. The sample for bank leverage data starts in 2008 only.

²World Economic Outlook projections for 2011.

³Net general government debt is calculated as gross debt minus financial assets corresponding to debt instruments.

⁴Most recent data divided by 2010 GDP.

⁵Household net debt is calculated using financial assets and liabilities from a country's flow of funds.

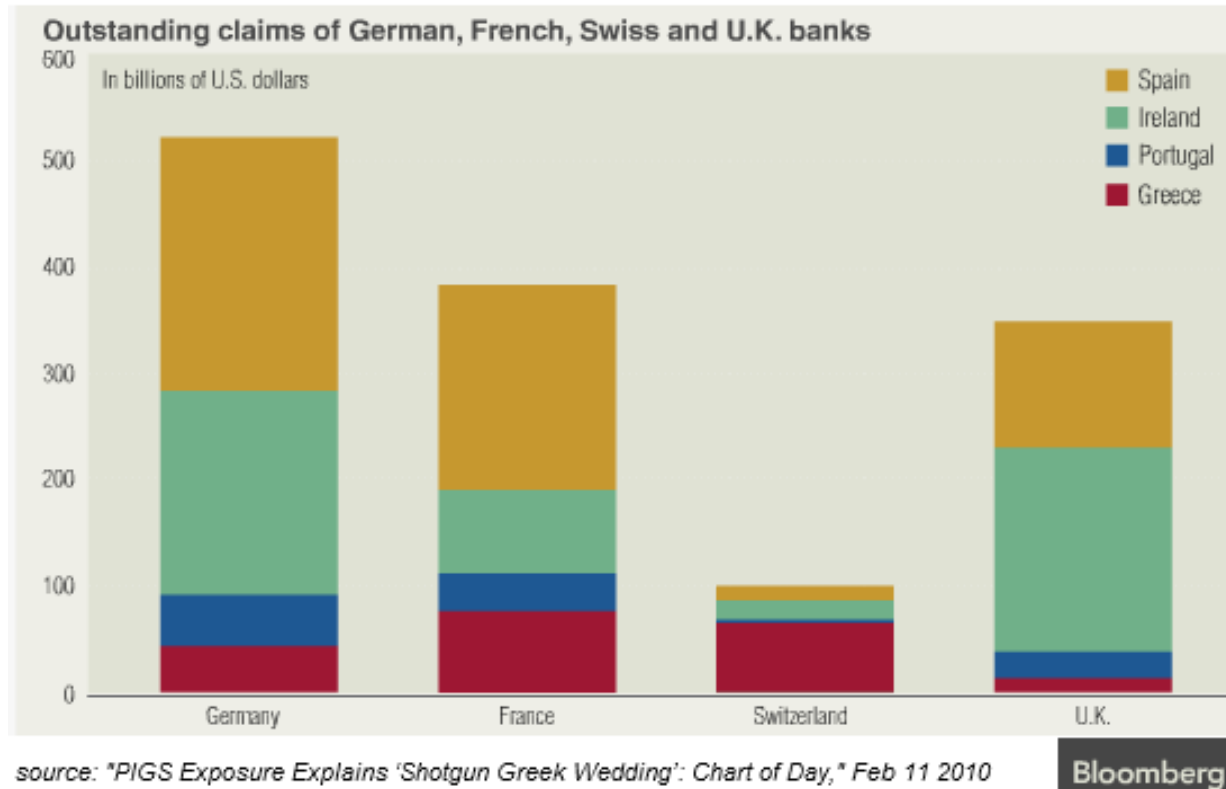
⁶Leverage is defined as tangible assets to tangible common equity for domestic banks.

⁷Calculated from assets and liabilities reported in a country's international investment position.

⁸Most recent data for externally held general government debt (from Joint External Debt Hub) divided by 2010 gross general government debt.

Source: IMF Global Financial Stability Report April 2011

European Banks are Exposed to PIGS Debt

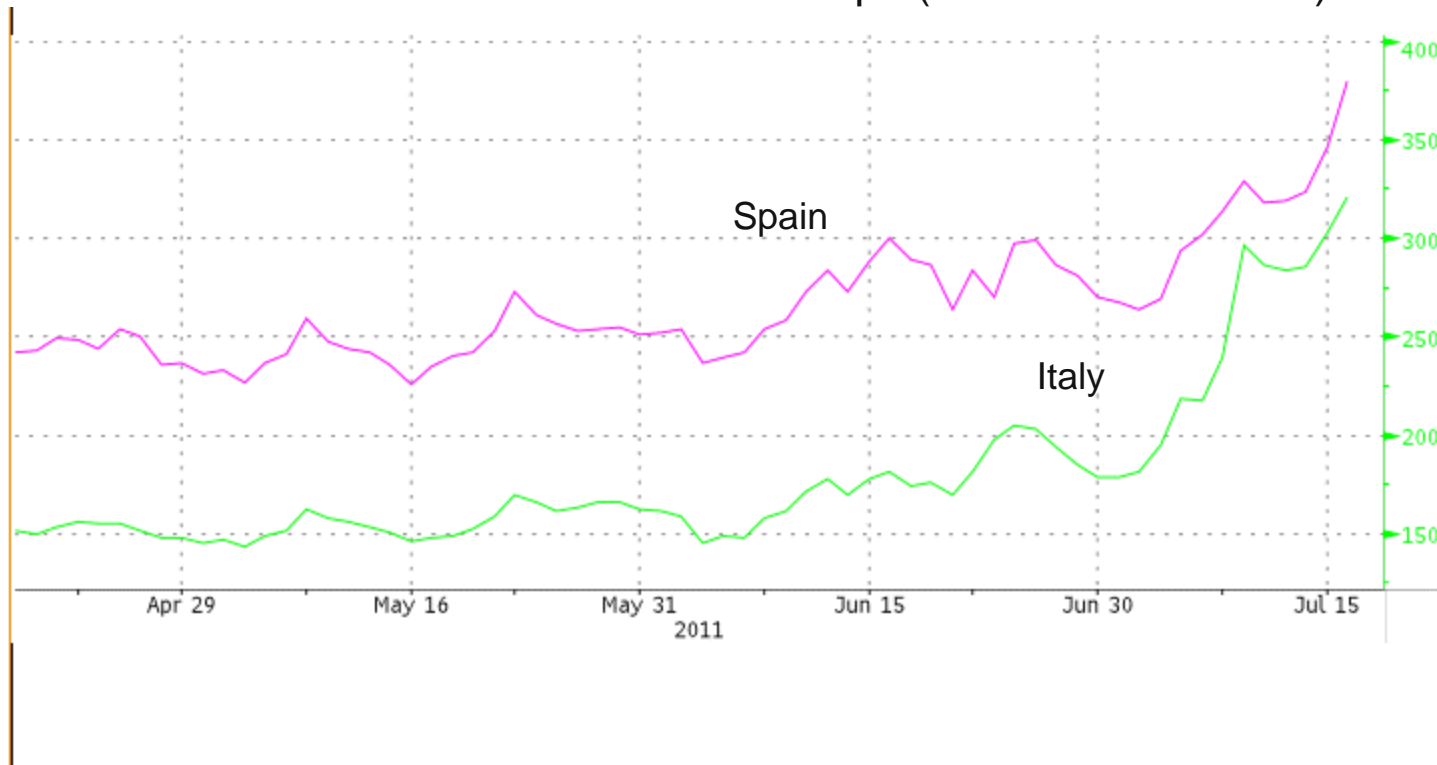


- Greek debt restructuring is inevitable, but contagion to Spain and Italy must be prevented in order to maintain the Euro



Spain and Italy Pose the Greatest Threat to the Euro

Cost of 5 Year Credit Default Swaps (Basis Points / Year)

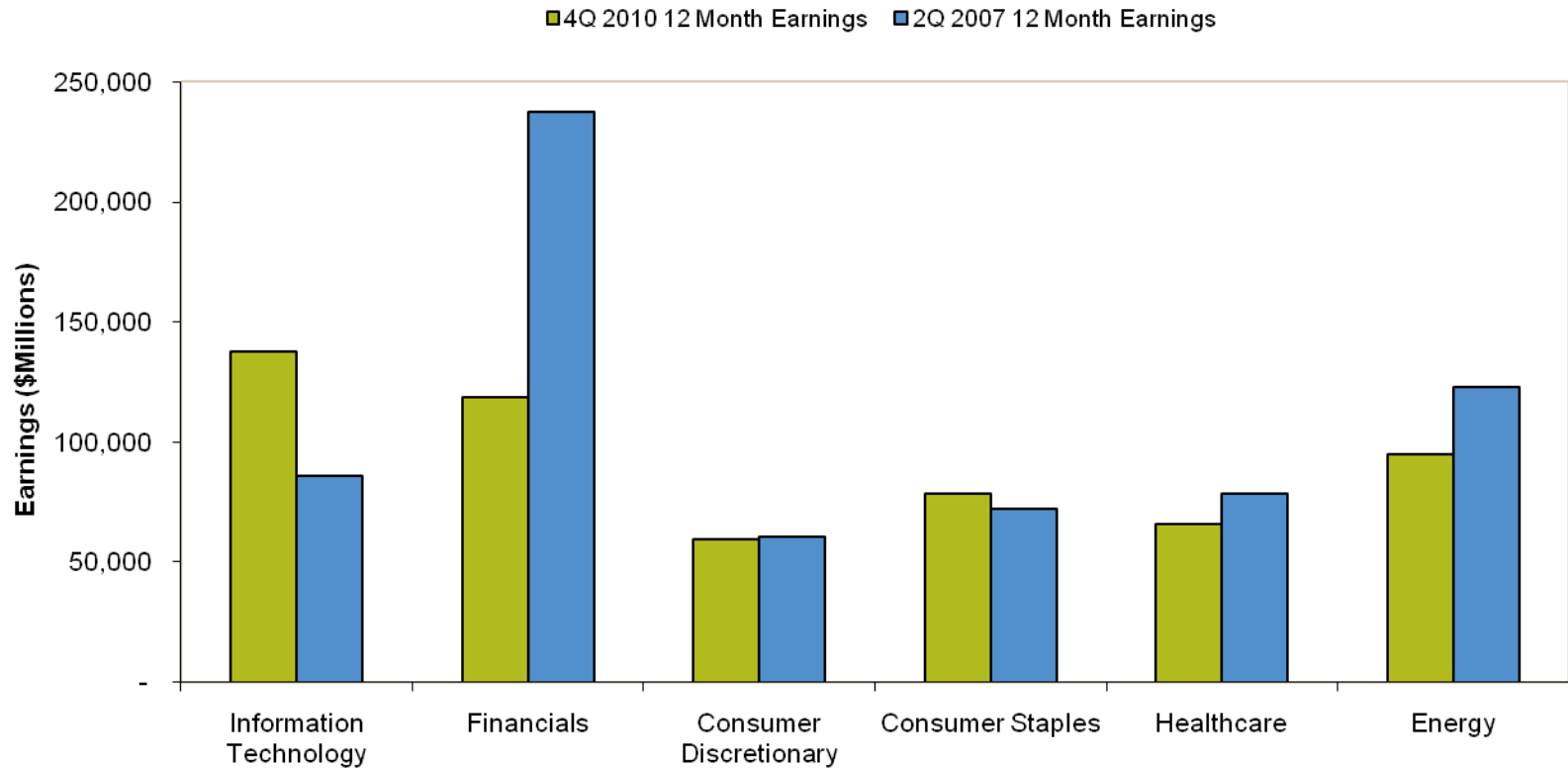


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- The probability of a breakup of the EU has increased with the recent rise in Spanish and Italian borrowing costs
- Italy and Spain represent 28% of the EU's GDP while Greece, Ireland and Portugal represent approximately 6%
- Italy has to refinance \$1.1 trillion in debt over the next five years while Spain needs to refinance \$534 billion over the same period



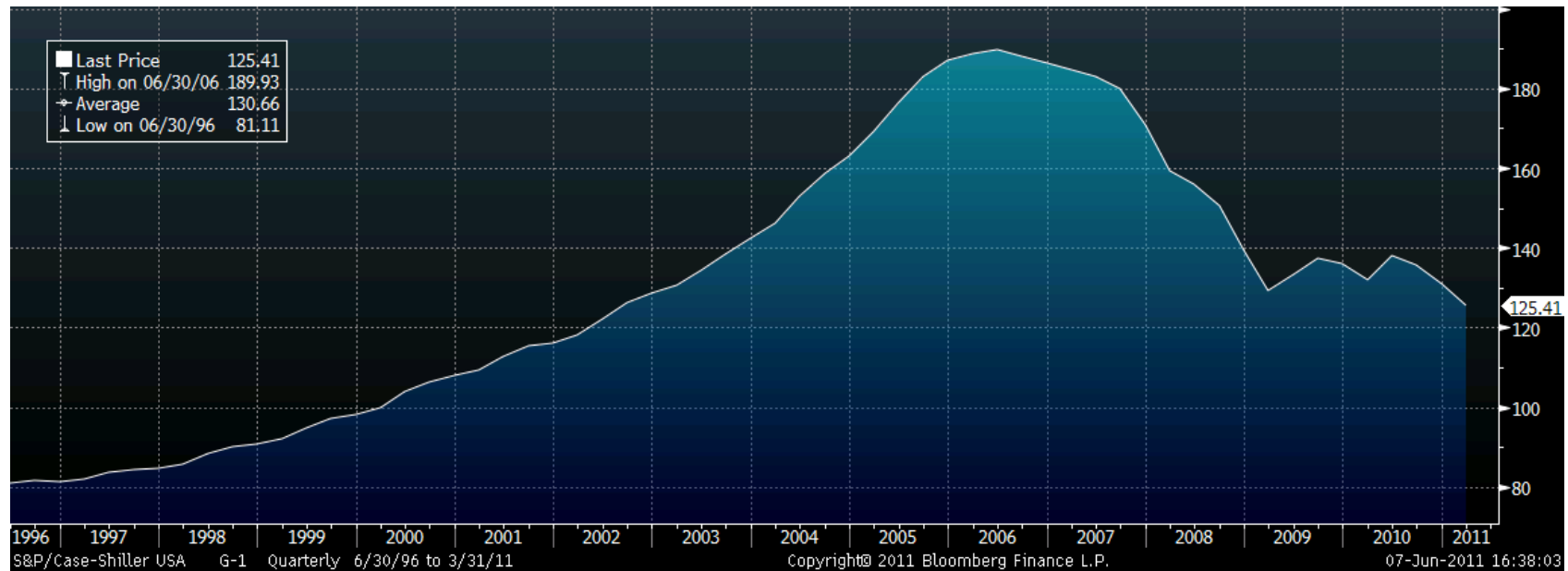
Corporate Earnings have Recovered





Housing Remains Depressed

S&P / Case-Shiller US Home Price Index

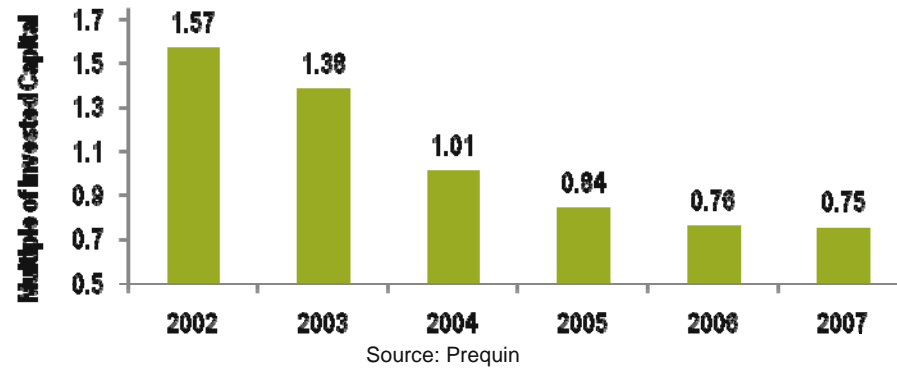


- Homebuilding was responsible for a disproportionate amount of the job creation in the recovery after the 2001-2002 recession
- Employment will likely not recover until homebuilding and commercial real estate begin expanding again

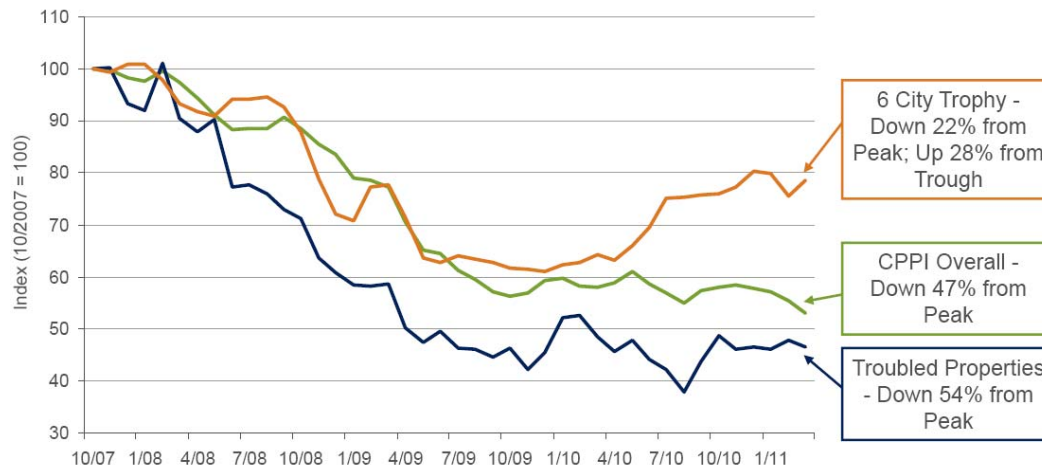


Commercial Real Estate Values Have not Recovered

- Leverage and refinancing risk has muted a broad recovery of 2005-2007 vintage year real estate private equity funds



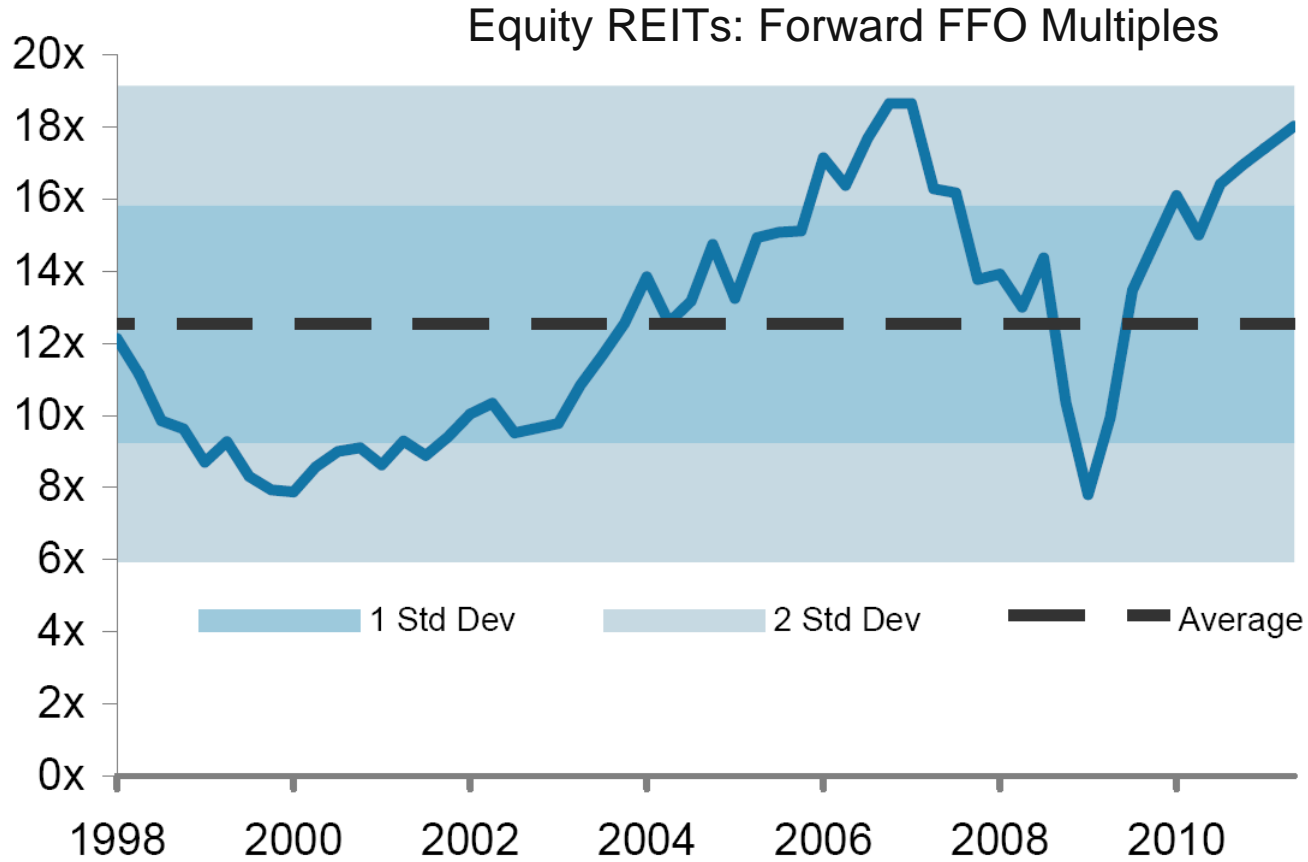
- Only the highest quality properties have experienced a recovery in price



Source: LaSalle, RCA Data & Geltner Associates



Equity REIT Valuations are at Pre-Crisis Levels



Source: Morgan Stanley *Weekly REIT Insights*, July 18, 2011



5-6% Real Stock Returns are the Historic Norm

Global Real Market Returns 1900 to 2009 (in US dollars)

	Stocks	Bonds
World (19 Countries)	5.4%	1.7%
World ex-US	5.0%	1.2%
United States	6.2%	1.9%
Australia	7.5%	1.4%
Belgium	2.5%	-0.1%
Canada	5.8%	2.0%
Denmark	4.9%	3.0%
Finland	5.1%	-0.3%
France	3.1%	-0.2%
Germany	3.0%	-2.0%
Ireland	3.8%	1.1%
Italy	2.1%	-1.6%
Japan	3.8%	-1.2%
Netherlands	4.9%	1.4%
New Zealand	5.9%	2.0%
Norway	4.1%	1.7%
South Africa	7.2%	1.7%
Spain	3.8%	1.4%
Sweden	6.2%	2.5%
Switzerland	4.3%	2.1%
United Kingdom	5.3%	1.3%

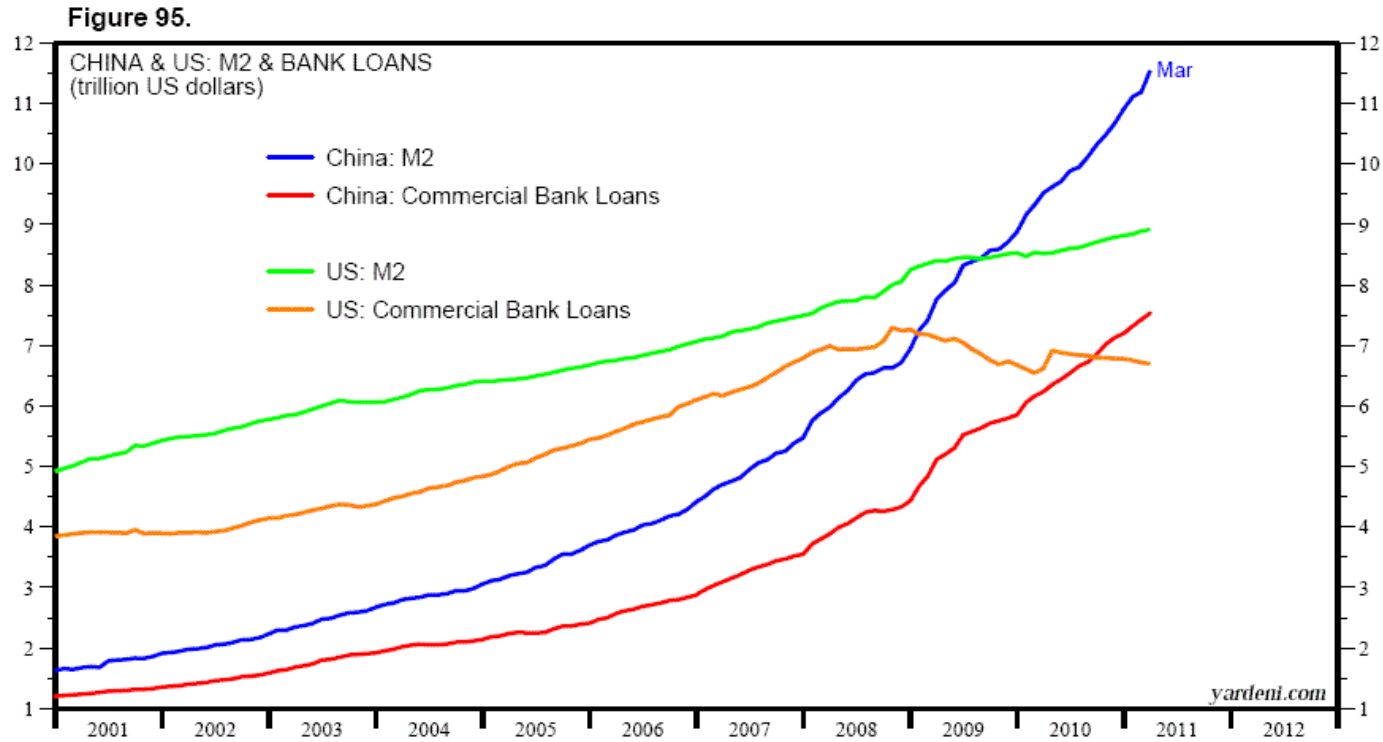
Source: Dimson, Marsh & Staunton

- Negative real bond returns due to periods of inflation are relatively common
- In no case were long term bond returns higher than stocks
 - Catastrophic political situations such as the communist takeovers in Russia or China result in total losses for both the stock and bond markets



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Is China's Growth Sustainable?



Source: People's Bank of China.

Source: Ed Yardini

- China has discovered that building fixed assets with borrowed is an easy way to grow GDP
 - Investments in fixed assets account for 50% of GDP
 - Pressure on local municipalities to meet GDP growth targets
 - Lending controlled by the state
 - High local savings rate with very few investment options other than bank deposits or real estate



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Comstock Investment Themes

- Focus on quality
 - High quality stocks have delivered excess returns without commiserate risk
 - While quality is a generally recognized concept, it resists simple quantification
 - Relative valuations today are attractive
 - Financial strength matters in the “New Normal”
- Emerging markets have the highest growth potential
 - Already discounted into valuations in many cases
 - Markets are mature enough to warrant multiple investment strategies
 - Avoid closet indexing
- “Rifle-shot” approaches to low-grade credit
 - An alternative to stocks, not investment grade bonds
 - Higher default rates and lower recoveries will likely be the new norm
- Hedge Fund Beta
 - Research shows most hedge fund returns represent “beta” (fair returns for risk taken) vs. “alpha” (unique skill of money manager)
 - Does not justify 2% management fees + 20% performance fees
 - Lower cost alternative to many hedge fund strategies are available in mutual funds
 - Strategies such as convertible and merger arbitrage have attractive risk / return characteristics at the lower fee levels and without the operational risk of limited partnerships or LLCs
- Quality Real Assets
 - A diversified portfolio of MLPs can yield 6%+ with 3-5% dividend growth
 - Core energy infrastructure with limited exposure to commodity prices
 - Timber & Core Real Estate represent other opportunities



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