HOLT CAPITAL
PARTNERS, L.P.

FIRST QUARTER FINANCIAL MARKET COMMENTARY

"NINETY DAYS IN NINETY SECONDS"

MARCH 31, 2012

THE "SUB PAR" RECOVERY BEGINS TO BLOSSOM

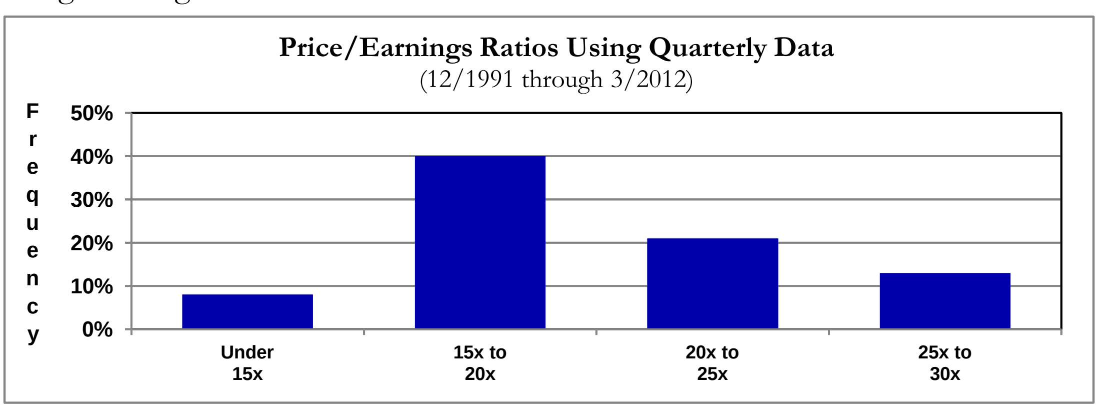
- Could it be that the pundits were wrong? In spite of all the gloomy predictions, signs of economic growth are sprouting across a broad range of sectors and geographies. Employment data has improved and consumer spending continues to surprise on the upside. The housing market appears to be stabilizing, if not embarking on its long-awaited recovery. Disaster has been avoided in Europe and the global equity markets have climbed steadily higher.

THREE ECONOMIES

- We have written about the strength of the *corporate* economy for a number of quarters. Capitalism rewards productivity and profitability. Corporate America has generated record earnings along with rock solid balance sheets during this economic recovery. The *consumer* economy has begun to improve as a result of faster job growth, better confidence readings and less financial leverage. However, the *government* economy is still in turmoil. This is not only true about our federal government, but also many state and local budgets. The austerity programs in many European countries also illustrate the fragility of foreign government finances. Corporate management is judged on the performance of both the top line and the bottom line. Unfortunately, that same discipline does not typically have a very effective constituency at the government level. The good news is that weakness in the *government* economy does not have to be an impediment to growth in the *corporate* and *consumer* economies.

HISTORICAL VALUATION COMPARISONS

- Earnings drive stocks and valuations matter most at extremes. That statement is one of our firm's core beliefs. Earnings estimates are approximately unchanged over the past six months and yet stocks have rallied sharply. Should investors be concerned? While a short term price decline could occur at any time, long term investors should focus on the following chart. It examines P/E ratios for the period beginning in 1991 and includes 82 quarterly data points. The S&P 500 Index currently is valued at a historically modest P/E of 13.4x 2012 estimated earnings. As shown in the chart below, the index has been valued below 15x less than ten percent of the time over the past two decades. The combination of earnings growth and P/E multiple expansion should be rewarding for long term investors.



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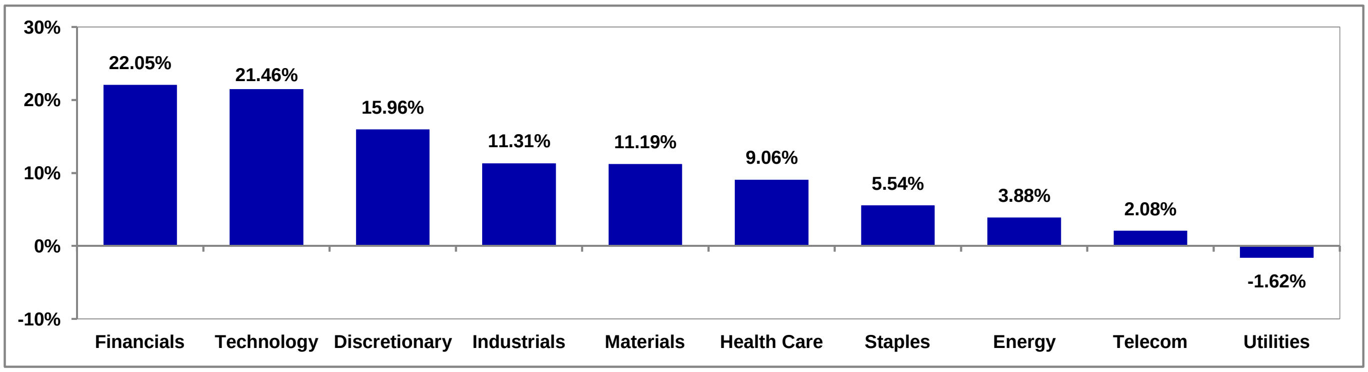
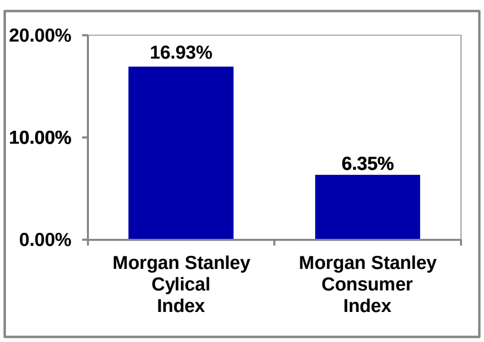
First Quarter Investment Performance (including income)

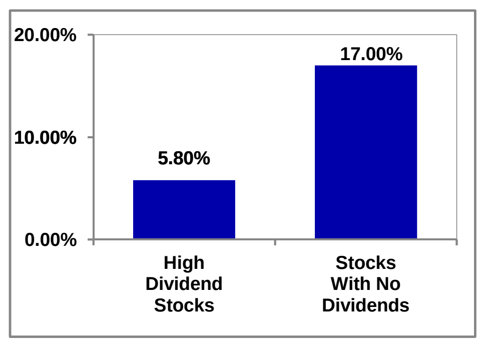
By Economic Sector



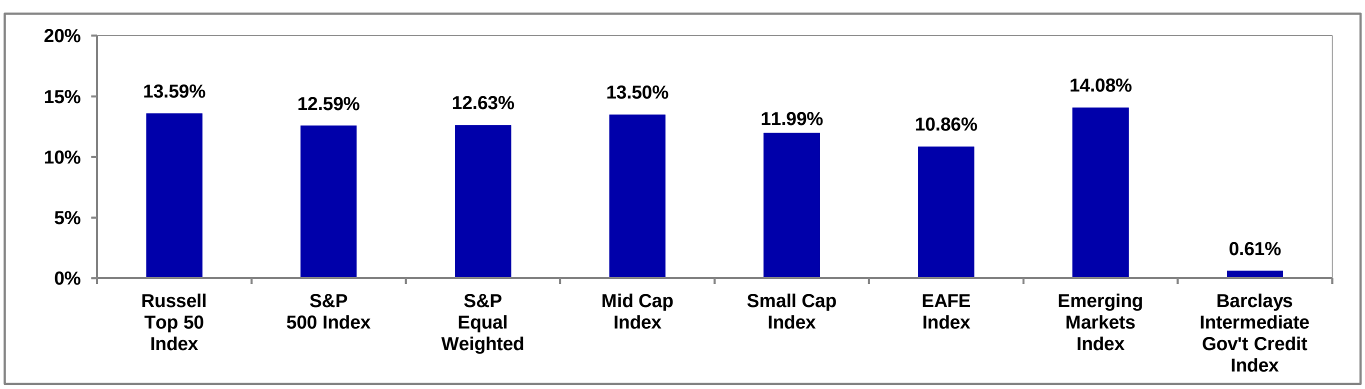
By Economic Sensitivity



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- For the second consecutive quarter, more economically sensitive sectors outperformed sectors that are associated with more defensive areas of the economy.
- The breadth of the stock market rally can be seen in the bottom panel, as all market capitalizations and geographies generated low double digit returns. The bond market produced modestly positive returns during the quarter.

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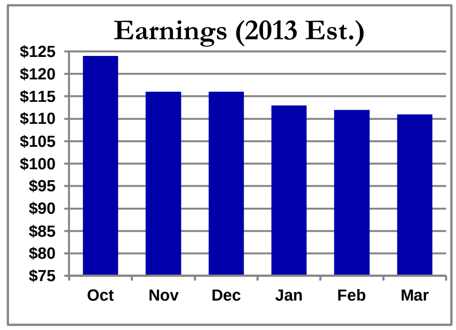
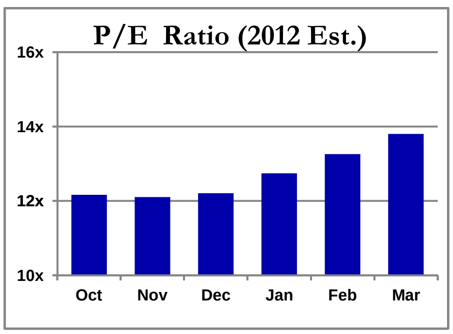
EARNINGS AND VALUATIONS

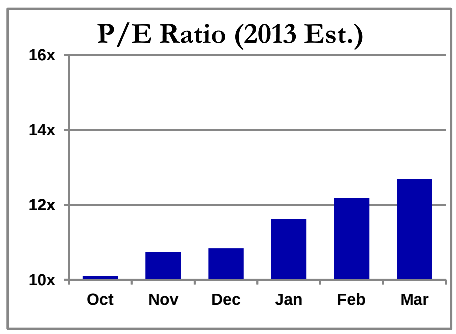
- Earnings estimates for 2012 have been fairly stable for the past six months. The rally in stock prices over that time period has been almost completely driven by rising valuations and that trend can be observed in the P/E Ratio graphs in the bottom of this chart.

S&P 500 Earnings Estimates



S&P 500 P/E Ratios





AMID THE GOOD NEWS, THERE ARE STILL TROUBLING ISSUES

- Diminishing uncertainty regarding Greece and the release of the Federal Reserve's bank stress test results have been positively received by the stock market. However, a deeper than expected European recession, further slowing in China's growth rate or an escalation of the rhetoric around Iran's weapons program could have negative global repercussions. Domestically, the highly partisan environment in Washington has created a decision making stalemate at a time when action is needed to rescind the sharp hike in tax rates that is scheduled to occur in January, 2013.

CONCLUSION

- A short term decline in stock prices would not be unusual in the context of a bull market. However, from a longer term perspective, stocks should continue to be viewed as the asset of choice for both income and growth oriented investors. Corporations are increasingly returning cash to shareholders through higher dividends and stock buy backs. As a result of shifts in asset allocations over the past several years, domestic common stocks are broadly under-owned by institutional, as well as individual investors. The fact that the dividend yield on the S&P 500 exceeds the yield on ten year government bonds is a multi-generational anomaly that will benefit long term equity investors.