HOLT CAPITAL
PARTNERS, L.P.

FOURTH QUARTER FINANCIAL MARKET COMMENTARY

"NINETY DAYS IN NINETY SECONDS"

DECEMBER 31, 2011

THE RETURN OF OPTIMISM

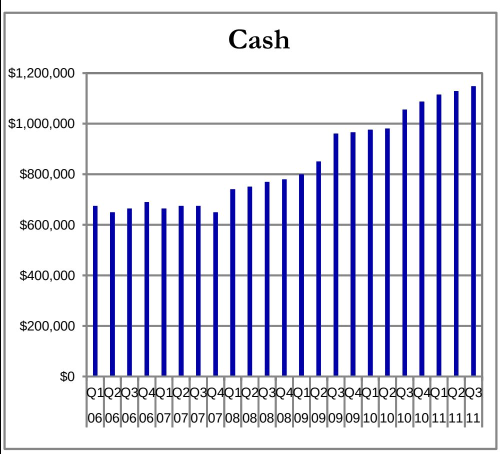
- The fourth quarter provided a positive finish to a volatile year. During 2011 the economic recovery in the U.S. was disrupted, but not derailed, by the European debt crisis that is now almost two years old. Investor psychology improved measurably during the fourth quarter as the European Central Bank provided a new source of funding for European banks, while on the domestic front private sector job creation accelerated and corporate profits continued to exceed expectations.

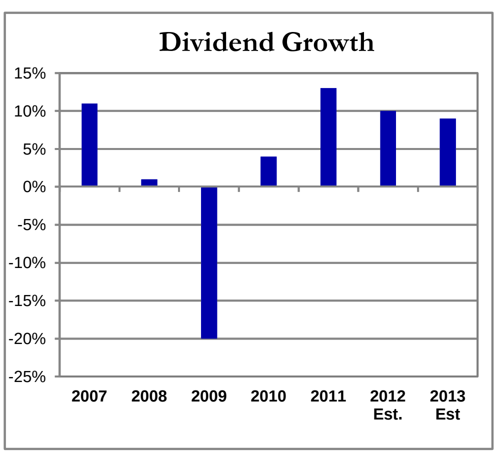
WHAT COULD GO WRONG?

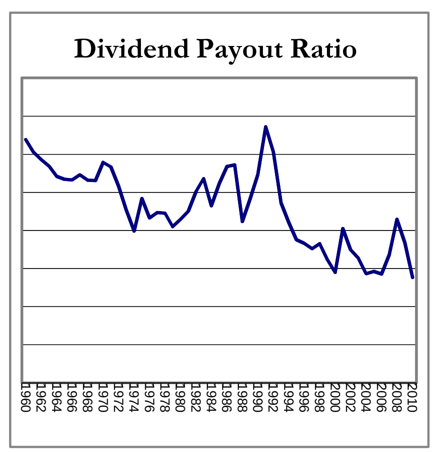
- Europe's economic troubles and our domestic budget deficit have been building for many years and will take a decade or more to fully resolve. The biggest short term fears for most investors revolve around Europe's sovereign debt crisis and the risk that its economy has already fallen into a recession. Europe's rocky road will continue to affect our domestic economy and financial markets, but that uncertainty appears to be well discounted by prices in the global debt and equity markets. Congress is likely to remain dysfunctional until after the election. The lack of leadership and the inability to compromise on major issues hinders the ability of the private sector to plan, invest and grow.

THE EMERGING STORY OF DIVIDEND GROWTH

- While debt at the federal level has recently grown at an unhealthy and unsustainable pace, the opposite has been true throughout much of corporate America. Corporate cash levels are at all-time highs, and dividend growth has accelerated. More importantly, the capacity of companies to continue to increase dividends is very encouraging. Given that the dividend payout ratio (dividends divided by earnings) is at a record low, I expect that the trend of strong dividend growth will continue for several years. High quality dividend paying stocks are likely to become the preferred source of income for yield-seeking investors.

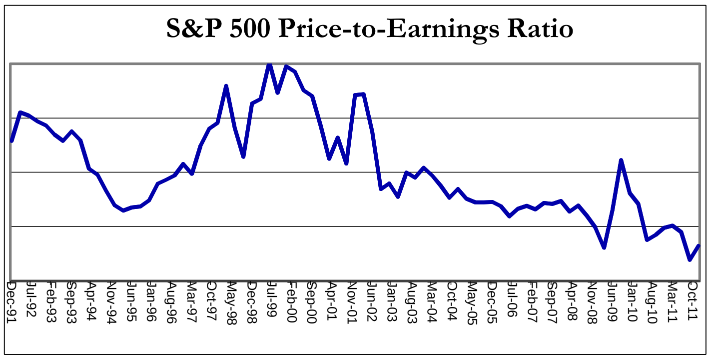






TODAY'S LOW VALUATION WILL DRIVE FUTURE RETURNS

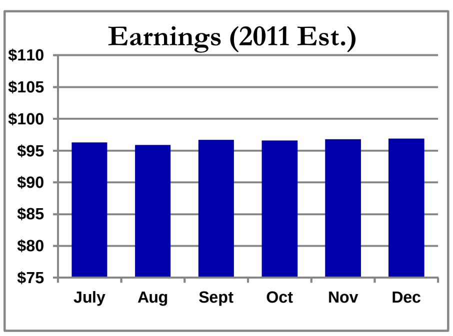
- Since the internet bubble era of the late 1990's, P/E ratios have fallen from 30x to about 12x. The biggest determinant of future returns is the valuation level at the beginning of the period being measured. Today's low P/E ratios set the stage for the next decade to produce much higher returns from the stock market than was the case over the so called "lost decade" of the past ten years.



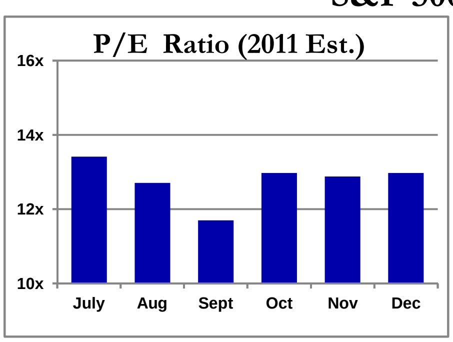
EARNINGS AND VALUATIONS

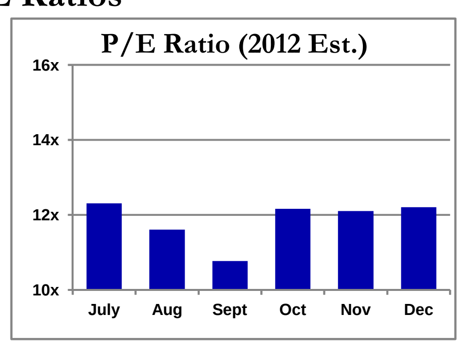
- Corporate profit projections have softened slightly over the past quarter. However, this reduced level of earnings estimates did not derail the stock market's fourth quarter rally. This is indicative of modest investor expectations for earnings in the midst of fears about Europe, as well as the valuation support that is present as a result of low price-to-earnings ratios.

S&P 500 Earnings Estimates



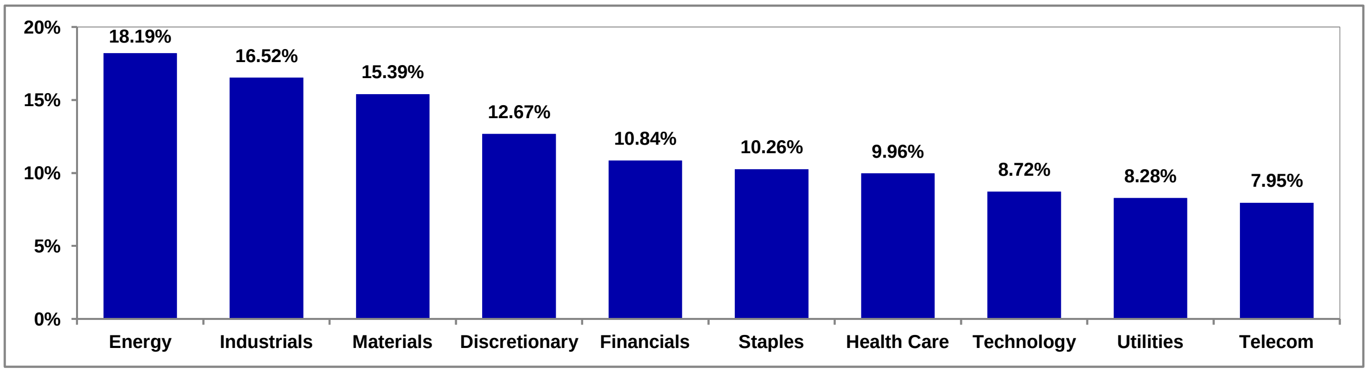
S&P 500 P/E Ratios



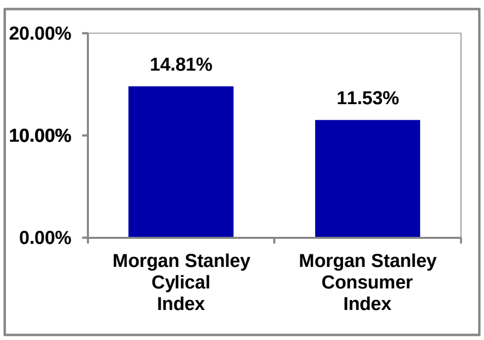


Fourth Quarter Investment Performance (including income)

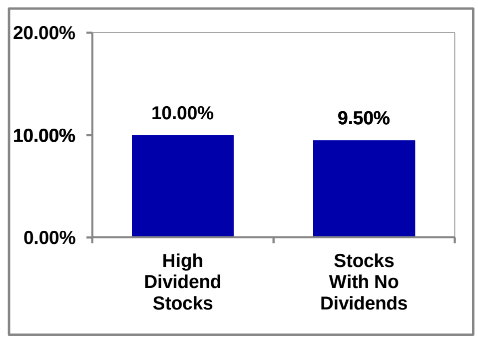
By Economic Sector



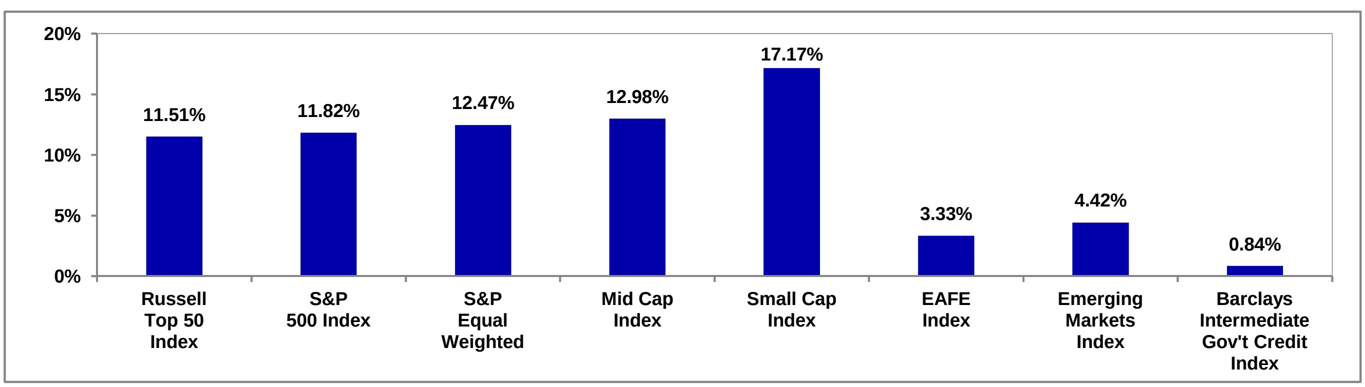
By Economic Sensitivity



By Dividend Yield



By Market Capitalization, Geography and Asset Class

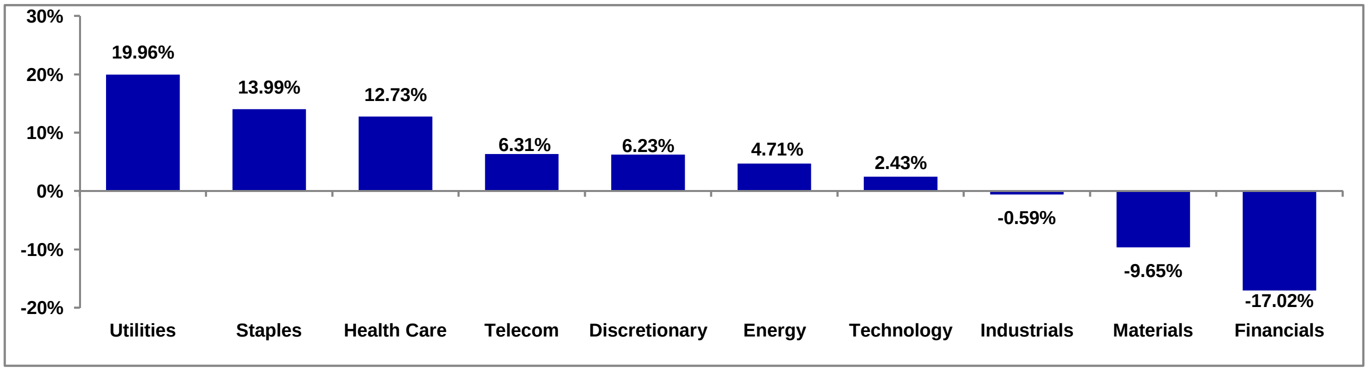


- Following the difficult third quarter, investment performance during the fourth quarter was concentrated in economic sectors that are more sensitive to economic activity.

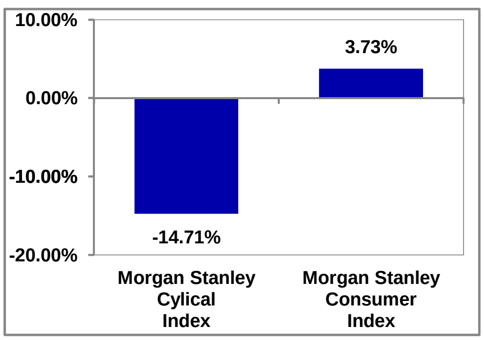
- An improving domestic economy helped drive small cap stocks higher, while international and fixed income markets lagged.

2011 Investment Performance (including income)

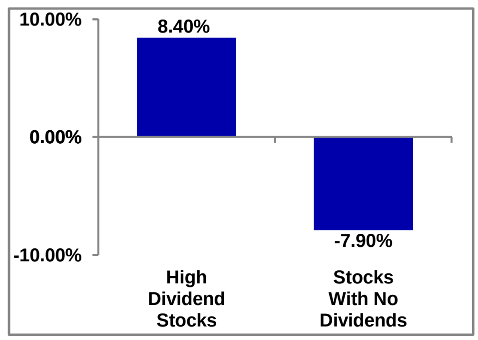
By Economic Sector



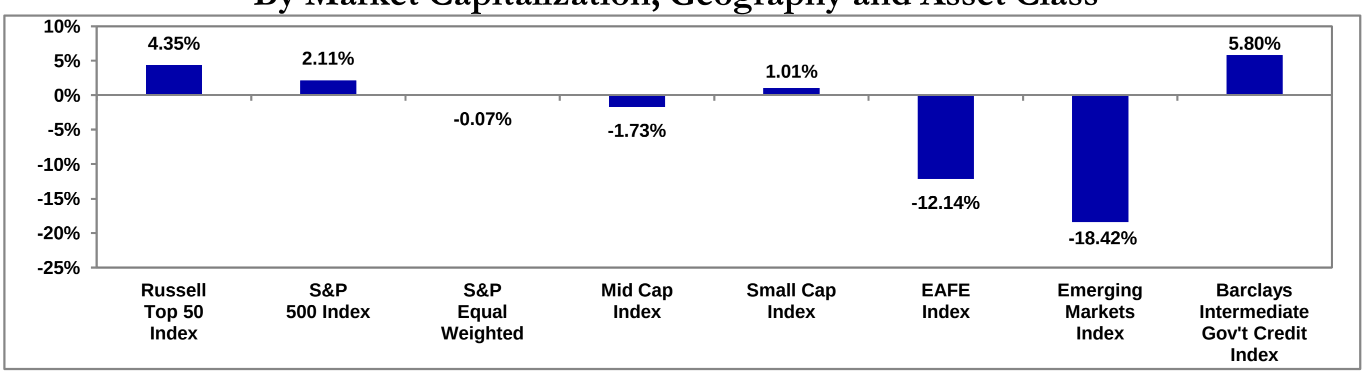
By Economic Sensitivity



By Dividend Yield



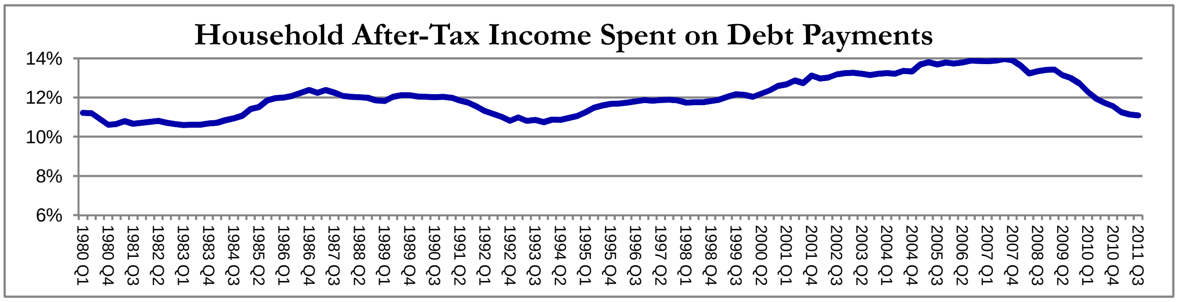
By Market Capitalization, Geography and Asset Class



- The past year appears deceptively dull and quiet when viewed through the lens of year end statistics. A deeper look reveals a year in which predictable, but slow growing sectors outperformed more economically sensitive and growth-oriented industries.
- The S&P 500 Index outperformed every stock market in the developed world, except Ireland.
- As the current lack of visibility regarding economic growth subsides, cyclical stocks should be the leaders of the next rally.

DON'T WRITE-OFF THE HOUSING INDUSTRY

- Based upon data as varied as unconfirmed reports of a new federal program to refinance underwater mortgages to rising sales at Home Depot, evidence points to the beginning of a modest rebound in the housing industry. Pent-up demand is at a high level, apartment rents are rising and affordability is at a generational high. Although much has been written about the weak condition of consumer finances, the share of household income devoted to debt payments has recently fallen to levels last seen in the 1980's and 1990's.



CONCLUSION

- The European debt crisis is currently acting as a roadblock to higher valuations in the U.S. As we move through 2012, the muddle through strategy of Europe's leaders should generate news reports that are incrementally less negative and disruptive. The Great Recession in the U.S. should provide some historical framework for what investors can expect in this environment. After the federal rescue package was drafted, the domestic financial sector began to stabilize and then emerge from the depths of the crisis. This stabilization provided the catalyst for the equity market to stage a major recovery. If a path to fiscal stability in Europe can be formulated, then a significant upward valuation in global equity prices over the next several years is likely to be achieved. The biggest risk in the stock market appears to be time, not price. Conversely, the prospect for further price appreciation in bonds appears limited.