From right to left:

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We reduced exposure to broad Europe and Japan in our two more conservative portfolios, lowering the volatility of the portfolios relative to their benchmarks.

In our more aggressive, longer-term portfolios we sold Germany and reduced exposure to developed international while keeping overall portfolio risk approximately unchanged by deploying the proceeds into US equity assets.

Implementing Some Risk Management

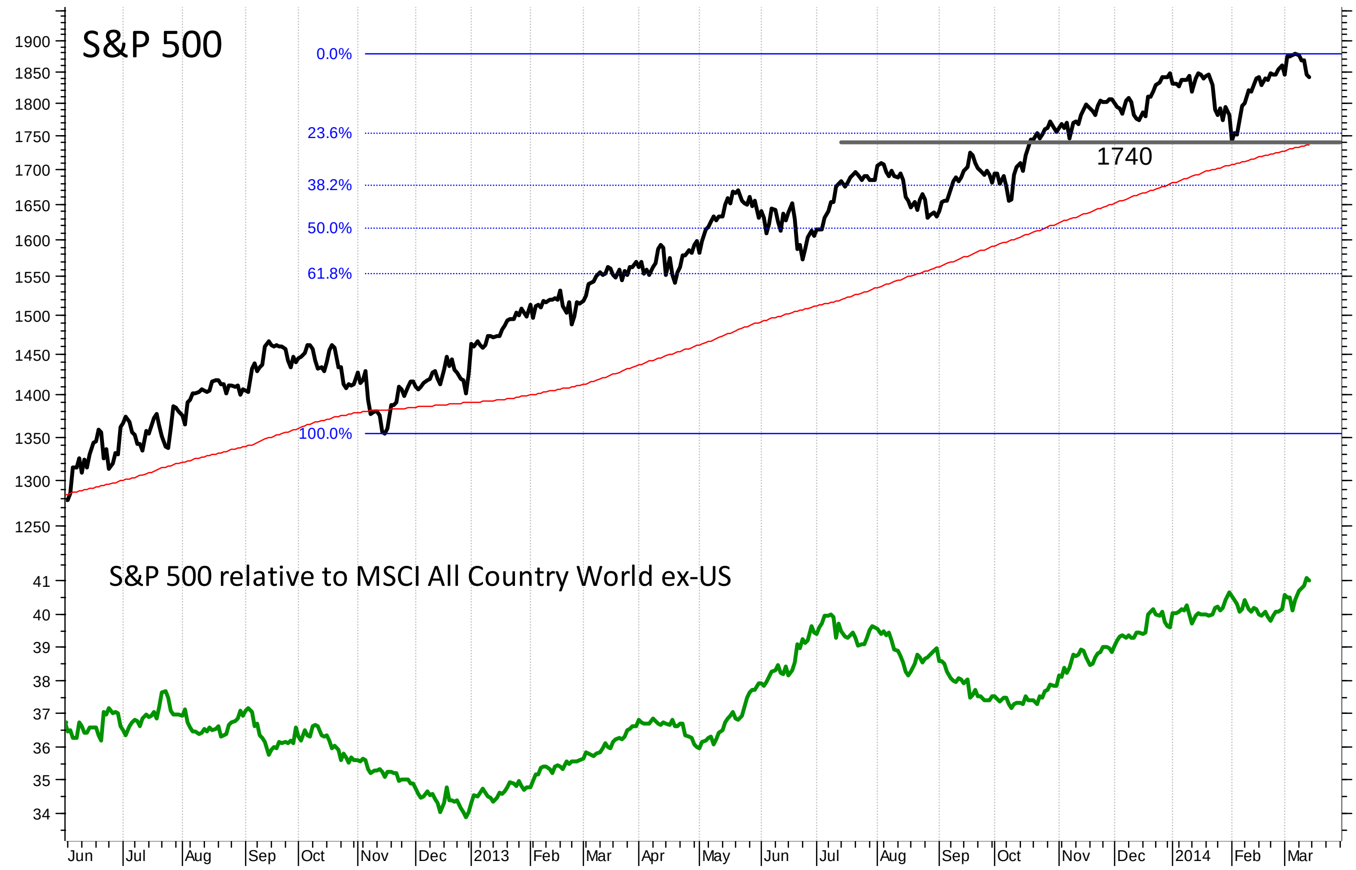
Two weeks ago, we developed a risk management plan regarding Ukraine. We believe that non-US markets are most vulnerable to an escalation of economic sanctions against Russia. On Friday, with escalation occurring, we reduced exposure to broad Europe and Japan in our two more conservative portfolios, lowering the volatility of the portfolios relative to their benchmarks. Following Friday's trades, these portfolios are now broadly in line with our 2014 strategic targets, which have a lower risk profile than they had in 2013. We sold Germany and reduced exposure to developed international in our more aggressive, longer-term portfolios, while keeping overall portfolio risk approximately unchanged by deploying the proceeds into US equity assets. We think Germany is at risk from rising energy costs, since it imports a significant amount of oil and natural gas from Russia, as well as from slowing Chinese economic growth (see below) since China is one of Germany's major export markets. We continue to like the prospects for US stocks as the winter-related slowdown abates.

So long as Germany maintained its initial position on not imposing sanctions, we thought the Crimean crisis posed only marginal near-term risks to financial markets. Over the past week, German Chancellor Angela Merkel has taken an increasingly hard line toward Russian sanctions, overriding her more cautious Social Democrat coalition partners. Since Germany is the key to an effective sanctions policy, Merkel's stiffening resolve increases the chance of an escalating sanctions war. If we are right, Putin will likely offer a last minute face-saving compromise (similar to his Syrian strategy) that will be acceptable to the West; therefore, we maintained our overall risk posture in our longer time-frame portfolios, but the increasing risk of a more adverse outcome required that our two more conservative portfolios adopt a less aggressive risk posture.

If it weren't for geopolitical tension with Russia, we think China's financial reforms would be grabbing more headlines. As China's 'great rebalancing' – from an investment to a consumption model – ensues, we expect it to have a more permanent effect on the global economy this year. Last Tuesday, China's central bank governor Zhou Xiaochuan said "deposit-rate liberalization is... very likely to be realized in a year or two" with the introduction of deposit insurance likely this year. Moreover, there has already been *de facto* interest rate liberalization in China with the rapid adoption of money market funds introduced by Chinese Internet companies that are seeking to become banks. Chinese authorities allowing greater market competition in capital resource allocation should be a positive for China's economy over the long run, but shorter term we think it is having a dampening effect on growth, which heretofore has relied on easy credit and subsidized lending to politically favored entities. As a result, deposit competition, rising costs of funding, increased non-performing loans, and corporate defaults are likely to pressure China's financial system, since state-owned banks make up a large part of China's stock market. We believe financial liberalization and economic rebalancing will ultimately benefit Chinese consumers, but business sectors and countries heavily dependent upon infrastructure spending within China are likely to see demand for their services and commodities dwindle.

In the US, we believe economic weakness from a hard winter is temporary, and we expect to see a rebound. With spring approaching, we see initial signs of renewed economic activity: retail sales rose 0.3% in February, the first increase since November, and initial jobless claims fell to 315,000 last week, the lowest since November, which suggests real GDP growth around 3%. Given an improving US economy, we expect earnings to grow around 10% this year, supporting our outlook for the S&P 500 to reach 2000 by year end. Thus, despite near-term risks, we continue to be bullish on stocks, especially relative to bonds, with 10-year Treasury yields likely to hold above 2.5% and strong technical support around 1740 for the S&P 500.

THE WEEKLY CHART: S&P 500 LEADING GLOBAL MARKETS



Source: RiverFront Investment Group, Standard & Poors, MSCI; Past performance is no guarantee of future results.

We remain bullish on US stocks, even though we expect a slower pace of price appreciation compared to last year. The S&P 500 continues to trend higher and was less than 2% below its March 7th record high as of last week's close. US stocks continue to outperform our international benchmark; the S&P 500 has been outperforming the MSCI All Country World ex-US Index since last October and is beating it by almost 4% year to date. While we believe there is better long-term value in non-US markets, we recognize that the trend still favors the US. We see strong initial support for the S&P 500 at 1740 for three primary reasons: (1) it was support in the early-February decline, (2) it is the current level of the long-term trend (we use the 200-day moving average, the thin red line in the top panel), and (3) it is just below the 23% retracement of the rally that started in November 2012.

Past performance is no guarantee of future results. Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice. The investment or strategy discussed may not be suitable for all investors. The Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 75% of the total US equities market. MSCI All Country World Index (ACWI) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. It is not possible to invest directly in an index. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. Technical analysis is based on the study of historical price movements and past trend patterns. There are also no assurances that movements or trends can or will be duplicated in the future.