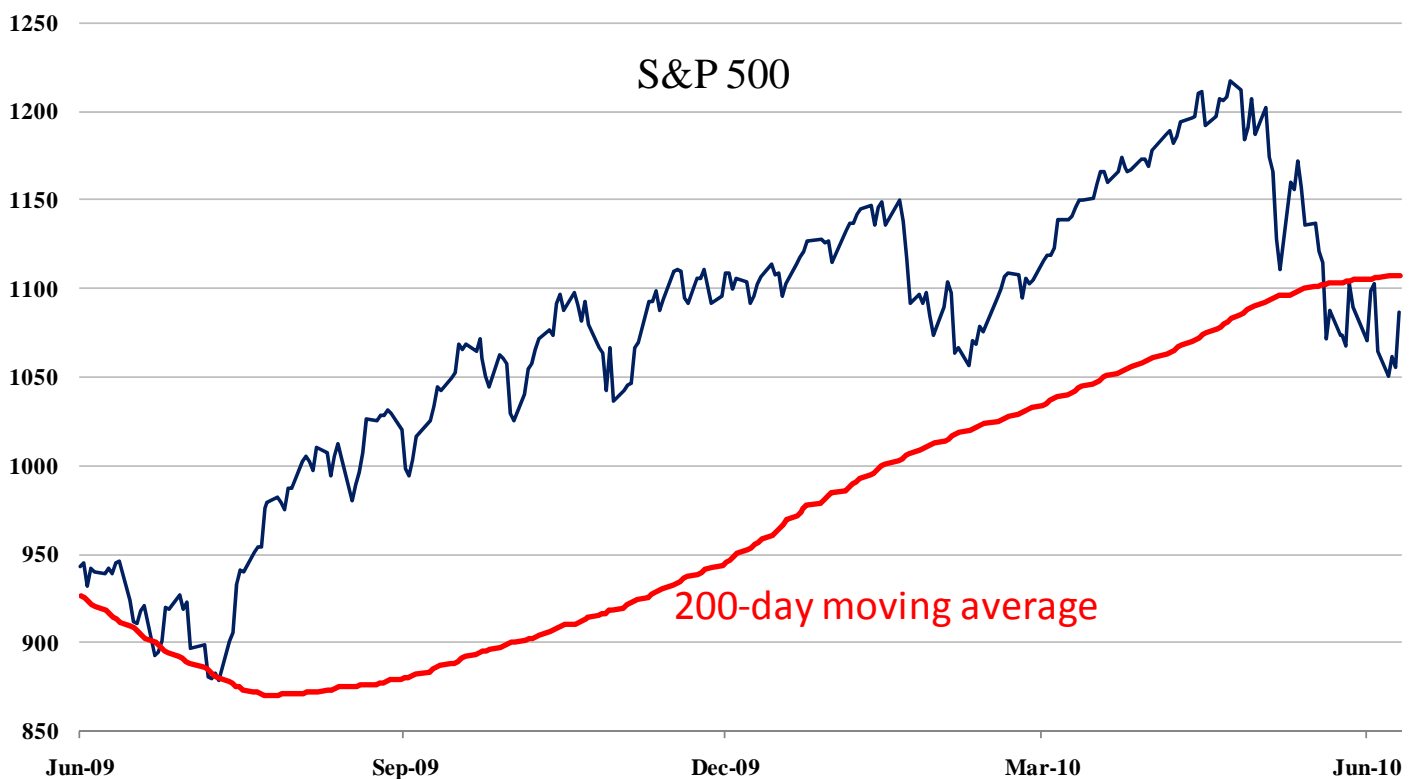


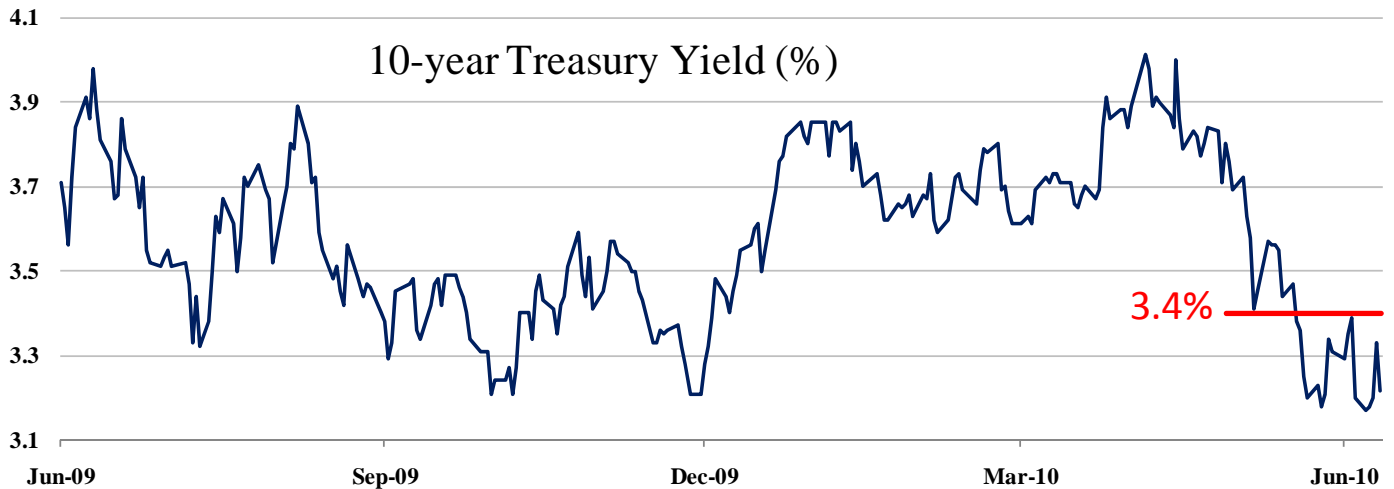


Awaiting an 'All Clear'

- Following the strategic rebalancing we implemented last Monday, we executed tactical risk reduction trades to further lower exposure to risk assets by selling domestic stocks and are now holding significant levels of cash in all our portfolios. Despite extreme levels of pessimism — which we recognize is a contrary, bullish signal — we became worried as the S&P 500 broke down decisively below its 200-day moving average or 'primary trend' (see chart below) and subsequently failed to break above it. Fundamentally, we think this is because of the European Central Bank's reluctance to take more aggressive measures to allay sovereign debt fears in the Eurozone, combined with evidence of a slowdown in US growth momentum. We believe our caution has been validated by the flight to safety into Treasuries and the US dollar.
- We continue to expect that technical support for the S&P 500 at 1000 to 1050 — the bottom of our 'decision box' — will hold, since we believe global growth will be maintained into 2011. However, we respect trends and must acknowledge the risk that the trend is reversing. Thus we view tactical risk reduction as an insurance policy; we will reduce risk assets even further if the decision box is resolved to the downside. Conversely, if support holds as we expect (and as outstanding market concerns are eased, e.g. growth and sovereign debt issues) we plan to expeditiously redeploy cash on a tactical basis in anticipation of moving back towards the top of the decision box at 1220.
- Specifically, we are looking for three criteria to be met in order to sound the 'all clear':
 - 1) The S&P 500 makes a decisive push above its 200-day moving average currently at 1108 (it closed Friday at 1092). One of our three rules for tactical allocation is 'don't fight the trend'. As can be seen below, the 200-day moving average is beginning to flatten out, with the S&P 500 breaking below trend in late May. Unless the S&P 500 is able to break back above its 200-day moving average (two attempts have already failed), the trend will eventually turn down and, respecting the trend, our tactical discipline will be to stay cautious and remain defensive.



- The 10-year Treasury yield closes, and stays, above 3.4% (currently at 3.2%). Treasuries have been the primary beneficiary of the flight-to-safety trade, which has caused yields to drop by 0.8 percentage points since early April. Until the 10-year Treasury yield can rise above levels last seen in late 2009 when the Federal Reserve was aggressively buying, we believe it will be premature to say that the flight to safety in markets has ended.



- The high yield credit default swap (CDS) spread falls below 625 basis points (it's at 666). Credit derivatives are designed to allow buyers to reduce, or sellers to take on, the default risk on a bond. As can be seen below, the cost of insuring high yield bonds has been rising since April — in part reflecting the flight to safety — but remains well below its peak during the credit crisis. However, if CDS spreads keep rising, then the likelihood of both the market correction continuing and of a double-dip recession increases, in our view, given the economic sensitivity of credit.



- Our hope is that all three conditions will soon be fulfilled. In our view, that would substantially increase the probability that the S&P 500's recent low at 1050 has defined the bottom of the decision box. In addition, given that our fundamental outlook remains bullish, we are uncomfortable being underweight our new strategic benchmarks. We intend to use these 'all clear' signals to raise risk asset levels back to neutral.

Rod Smyth, Bill Ryder, CFA, CMT & Ken Liu • 804-549-4800 • www.riverfrontig.com
Riverfront Investment Group, 9011 Arboretum Parkway, Suite 110, Richmond, VA 23236

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 S&P 500 is an unmanaged, weighted index of 500 stocks providing a broad indicator of price movement. Individual investors cannot directly purchase an index. Investors must make their own decisions based on their specific investment objectives and financial circumstances. 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. Investments in international and emerging markets securities include exposure to risks including currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. High-yield securities are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.