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Special Update

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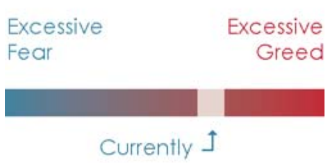
WCA Fundamentals Index™

WCA Fear-Greed Index™



Current Asset Allocation Bias

Two Key Questions

There are two questions that must be asked when making the tactical choice between owning stocks or bonds.

These are:

First Question: Are fundamental trends in the economy improving or deteriorating?

Answer: Our WCA Fundamental Conditions Index™ sees improvement in conditions.

Although the level of some of the data, such as employment, housing, and automobile sales, remains poor, most observations on credit and capital market performance, the U.S. economic scene, or foreign conditions seem to be moving in a direction that should favor stocks over bonds.

Second Question: Have markets fully incorporated these fundamental trends into expectations?

Answer: Our new WCA Fear-Greed Index™ indicates that markets are pricing in a fundamentally improving economy, but we do not sense that a speculative extreme has been reached.

To help us arrive at this answer, we have put together an index, which we will call the WCA Fear-Greed Index™. The index looks at relative movements in stocks — "the greed asset" — compared to Treasury bonds — "the fear asset." The trend in recent months has been favoring stocks — "the risk asset." However, this indicator of excess speculation has not reached levels that would constitute a level of speculative excess at this point.

With fundamental conditions generally improving, and with stock and bond markets pricing in a fairly reasonable expectation for the economy, we continue to emphasize equities over bonds in CONQUEST portfolios.

Why a Fear-Greed Index?

Most of the time, markets do a fair job in incorporating expectations into prices, and investors are well served by participating in these rational, fundamentally driven markets. In our view, more than three quarters of the time over the past ten years financial markets have been engaged in this kind of behavior. The fact that markets usually respond in a rational way to fundamental changes is why the first of our two questions deals with the issue of changes in economic fundamentals.

At other times, however, market valuations move well beyond levels justified by fundamentals. During these times of excess, emotion overcomes reason. Overextended bull markets will engender greed as the dominant emotion, while overextended bear markets will foster fear. These market conditions suggest a more neutral posture than what may be implied by fundamental factors.

Consider legendary value investor Ben Graham, who knew that markets would tend to move to extremes dominated by fear and greed. In his book, The Intelligent Investor, he suggested that active investors consider an investment strategy that he called *"formula investing."* This strategy advocated that investors define a range of stock market exposure of, say, 25 to 75% of holdings, and then vary their stock exposure in an *"inverse way" to the "action of the market."*

The idea was simple in theory, but difficult in practice, because it required investors to act in a way contrary to prevailing trends and their own instincts. It demanded investors eschew "herd mentality", and part way with investments that served them well, and potentially even incur a tax bill. For these and other reasons, putting contrarian thinking into practice is very hard to do, and it is made even harder when there is no "warning system" to alert an investor that markets have wandered into the realm of overvaluation.

Of course, none of this is new. Way back in 1852, Charles MacKay authored a famous book titled Extraordinary Popular Delusions and the Madness of Crowds. In it, he stated:

"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one."

He went on to say:

"Confidence, like mistrust, could be increased almost ad infinitum."

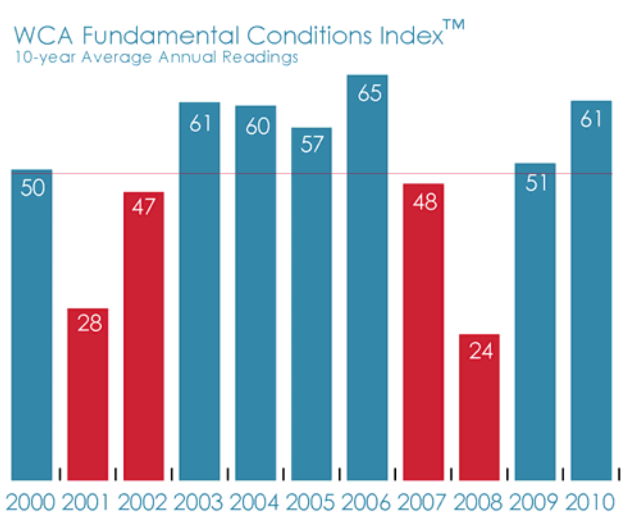
The first of MacKay's quotes explain why markets, which are normally efficient, can and will be led astray. The second quote reminds us that markets not only tend toward extremes of bullishness and confidence, but also toward bearishness and mistrust. The basic idea that markets are not always rational and efficient, that extended bull markets will always increase confidence and hope ad-infinitum and that bear markets will tend to increase mistrust and fear ad-infinitum, is as good an explanation as any we've found to explain why markets sometimes go well beyond levels justified by fundamentals.

We intend to borrow from Ben Graham and Charles MacKay in implementing our WCA Fear-Greed Index™ to aid as a "warning system" in identifying overextended market conditions. At these extremes, a more neutral portfolio posture than that suggested by fundamental conditions may be warranted.

Answering the First Question
The WCA Fundamental Conditions Index™

Our WCA Fundamental Conditions Index™ seeks to measure changes in fundamental market and economic conditions. It boils down some 30 different observations relating to financial markets, U.S. economic data, and foreign financial conditions into a single index. We interpret readings in the index above 50 as generally indicative of economic expansion, which tends to favor stocks over bonds. Readings below 50 tend to indicate contraction, which tends to favor bonds. Although no index is a perfect measure of changes in the economy, we feel that this approach gives us a measurable guidepost for making portfolio decisions. In most circumstances, the degree of stock market exposure in our CONQUEST portfolios adjusts up and down based on the level of the WCA Fundamental Conditions Index™.

As you can see, fundamental conditions have improved over the past couple of years. At present, the index is well above 50, and trending higher.



Answering the Second Question
The WCA Fear-Greed Index™

To help us with this second question, we are introducing our WCA Fear-Greed Index™ below. It signals extreme overreaction in valuation to fundamental changes by looking at excessive divergences between stock and bond prices. Stocks are considered the "risk asset" and generally respond well to improving economic fundamentals, while bonds are considered the "fear asset" and tend to respond better during times of economic weakness or uncertainty. However, since there is some tendency for these two markets to overshoot in both directions, we are introducing a quantitative gauge to identify such extremes where it may be prudent to adopt a more "neutral" allocation.

Today, the stock market has been exhibiting positive momentum relative to bonds, but that momentum has not reached the point of extremes seen in 2000 or 2007. Accordingly, tactical asset allocation decisions regarding stock / bond allocations remain a function of changing fundamentals seen in the WCA Fundamental Conditions Index™.

A Summing Up

Judging by what we see in the data, and after looking at the relative valuation between stocks and bonds, we believe portfolio exposure should be tilted in favor of equities over bonds because fundamental conditions are generally improving, and we believe markets are pricing in a generally reasonable set of expectations for the economy.

WCA Fundamental Conditions™ Index Technical Note:

Formerly called the WCA Composite Conditions™ index, this indicator seeks to measure changes in various measures of fundamental conditions in three broad categories. Changes are generally measured over several months and fit into three broad categories of data. These categories include:

1) Indicators of market liquidity;
2) Indicators of U.S. economic health;
3) Indicators of overseas conditions.

Each category of analysis is represented by a separate "sub-index". Credit and capital market liquidity is represented by the WCA Credit and Capital Markets Index™. U.S. economic conditions are represented by the WCA U.S Economic Conditions Index™. Foreign conditions are represented by the WCA Foreign Conditions Index™. These three indices are combined as a simple average into our WCA Fundamental Conditions Index™.

Each of the three sub-indices are designed as a "diffusion style" index. A diffusion index is a method of summarizing the common tendency of a group of statistical series. They are intended to provide a quantitative interpretation of trend in underlying data. If a greater number of the series are rising than are declining, the index will be above 50,and vice-versa.

Data used in sub-indices:

US Trade Weighted Major Dollar Index - Federal Reserve
US Personal Consumption Expenditures - Bureau of Economic Analysis
US ICSC Chain Store Sales - Goldman Sachs
US Employment Population Ratio - Bureau of Labor Statistics
US Continuing Jobless Claims - Department of Labor
US Breakeven 30 Year TIPS Inflation - Market Based
US Auto Sales
Total Composite Leading Index - OECD
Russia Composite Leading Index - OECD
Japan Composite Leading Index - OECD
India Composite Leading Index - OECD
World Equity Prices - MSCI
U.S. Demand for Money Balances (M2/Weekly Income) - Federal Reserve
Bank Funding (LIBOR-OIS Spread) - Market Based
Stock vs. LT Bond Performance (Japan) - Market Based
ISM New Orders to Inventories - Institute for Supply Mgmt
ISM Imports - Institute for Supply Mgmt
Global Equity Premium - Market Based
Germany Equity Premium - Market Based
France Equity Premium - Market Based
European Business Confidence - INSEE National Statistics Office
Ex-Ante Real Short-Term U.S. Rates- Market Based
Weekly Leading Index - ECRI
U.S. Advance Decline - NYSE/NASDAQ/AMEX
US Leading Indicators - Conference Board
Commercial Paper Outstanding - Federal Reserve
China Monthly Money Supply - The People's Bank of China
Capital Goods New Orders (Non-defense less aircraft) - U.S. Census Bureau
Moody's Baa Index - LT Treasury Spread - Moody's
U.S. Treasury Term Spread - Market Based

WCA Fear-Greed Index™ Technical Note:

This index is based on a ratio of the S&P 500 total return index (the "greed" element) divided by a 10+ year U.S. Treasury total return index (the "fear" element). That ratio is then expressed graphically as a 52-week relative strength chart, commonly referred to as an "RSI" chart. The use of RSI has been around for a long time. It is typically used as a 14-day technical indicator to identify short-term overreactions in stock price movements. We intend to use the same basic technique, but rather than looking at individual securities, we will look at the ratio of the S&P 500 index to a LT Treasury bond index to spot overreactions to fundamentals which can create unsustainable valuations. Moreover, we will be looking at this ratio over a much longer, 52-week timeframe.

Momentum is the rate of the rise or fall in the index. The RSI computes momentum as the ratio of higher closes to lower closes. When the underlying security, in this case the ratio of the S&P 500 to the LT Treasury, has had a disproportionately large percentage of upward weekly movements than downward movements over the measurement period, then the index rises toward the upper band, and vice versa. For our purposes, the upper band equates to RSI readings above 60. The lower band equates to readings below 40.

We find that in greater than 75% of the time, the indicator is between these two extremes. Extreme readings are typically correlated with elevated sentiment levels, a low reading on the VIX, and a low stock market put-call ratio.

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There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

The Washington Crossing Advisors Stifel CONQUEST Portfolio requires a $50,000 minimum investment. Strategies in the Stifel Score Program are proprietary products developed by Stifel Nicolaus. More information on the Score Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Score Program is appropriate for their needs.