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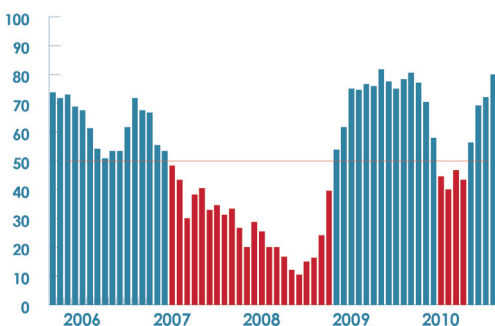
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## Tactical Asset Allocation Issues Second Quarter 2011

### Recovery on Track

Most of the data we monitor is in a trend that suggests economic recovery. In fact, about 90% of the data we regularly review on the U.S. economy is in what we would define as an “uptrend” measured over several months of observation. This 90% level is abnormally positive and suggests a broad-based recovery is underway. This is in sharp contrast to the very poor trends that preceded the Federal Reserve’s second round of asset purchases announced late last summer.

WCA Composite Conditions Index™  
Last 5 Years



### Tragedy in Japan

The shock of the tragedy in Japan dominated much of the news in recent weeks. These events carry an enormous human toll and will undoubtedly disrupt for a time the supply of goods and services both in Japan and across borders. Thus far, we have not seen a sustained or widespread spillover impact on the global markets’ risk appetite, direct investment trends, or foreign trade and production outside of Japan. This was the primary reason for maintaining tactical portfolio allocations throughout the unfolding crisis.

### Middle East Questions

As with Japan, political upheaval in Egypt, Libya, and Tunisia have the potential to produce uncertainty. Notable markets affected are oil and gold markets. Both commodities are higher partly as the result of unsettled Middle East politics, but also as the result of still unsettled government finances prompting unprecedented monetary easing. Energy stocks remains well represented in portfolios on ongoing inflation trends. Addition of uncertainty over supplies is a potential risk to recovery, but lack of notable disruption to Saudi Arabian supplies is a positive sign. Gold continues to play a role as a hedge against inflation and geopolitical risk.



## Squaring Record Profits With Record Deficits

Analysts are now expecting \$104 in S&P 500 earnings over the coming 12 months. A little over a year ago, profits for the S&P 500 amounted to less than \$50. Just where did all these profits come from?

The usual answer is that companies, in response to the downturn in the economy, became very lean. Over 7 million Americans lost their jobs, and real weekly earnings continue to contract. Beyond that, there are large share repurchase programs which helps earnings per share figures, and interest costs have been slashed courtesy of easy money policies adopted by the Federal Reserve. A return to rising final demand, inventory restocking, and generally positive growth in output also contributes to top-line growth.

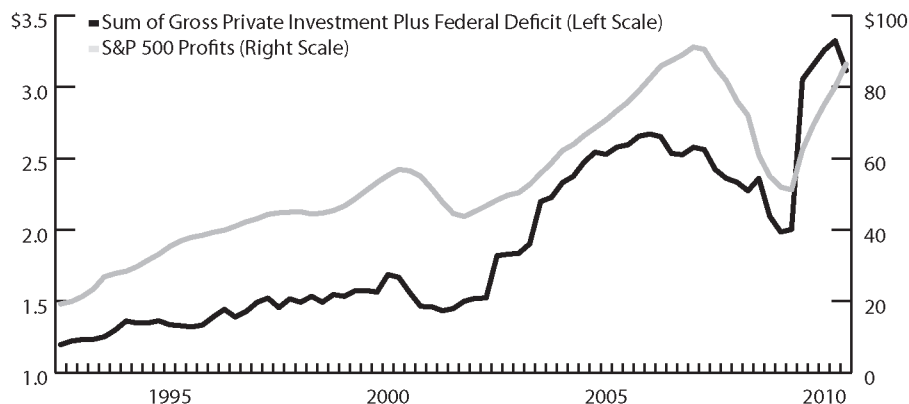
It is well known that a strong link exists between profitability, perceived prosperity, and the rate of investment. In terms of profits, it follows that gains derived in business tend to reflect the willingness of those same businesses to take risk and make investments. It is not an accident that profits are higher when investment is strong, and vice versa. This was the case in the 1990s and during the housing boom, where private investment coincided with surging profits. If profits were linked only to private investment, then profits today would be below the last peak, not back to peak levels, because private investment has not fully recovered (private investment is now \$1.8 trillion vs. \$2.3 trillion at the last peak). So if profit gains are in excess of what would be implied by recycled private investment dollars, then the only other place to look is government.

If we include the government deficit in the mix, the picture makes more sense. The sum of business investment plus the government deficit hit a record \$3.3 trillion recently. This very closely corresponds with the near record profits now seen in the S&P 500 companies. The chart below shows how these factors approximately correlate over time.

If it is true that deficits actually do get recycled as profits, then it leads to a very important question to contemplate as the budgeting process unfolds in Washington. It would imply that there are potentially three paths that we can go down from here. One path involves high levels of deficits plus rising private investment leading to a continued surge in profits (plus potentially higher inflation). Another path starts with shrinking deficits more than offset by rising private investment and higher profits but slower growth. Lastly, deficits are reduced, private investment falters, and profits contract.

Without knowing how legislation over the budget will evolve, and without knowing how the private sector will respond to changing public policy (if at all), it is impossible to identify which outcome is most likely. We anticipate the debt ceiling will be raised, spending and deficits will continue, and the forecast rate of government spending will remain on an upward trajectory. Most critical is the response by markets and private businesses operating in the real economy. For now, we continue to sense that deficits will remain high, despite political division over budgetary issues, and that private entrepreneurs will continue to be willing to loosen the purse strings and make investments, given generally improving readings on the economy coupled with very low costs of financing new investment.

Profits Linked to Investment Plus Government Deficits  
\$Trillions



Source: Bureau of Economic Analysis, Bloomberg

One explanation for the profit cycle involves comparing pre-tax profits on the one hand with the sum total of private investment made by owners of capital plus government deficits (investments made by government) on the other.

Viewed in this context, the record federal government deficits, coupled with still recovering investment spending, is consistent with record levels of S&P 500 profits.



## Update on Fundamental Conditions

We update our investors quarterly about the status of our various indicators. These indices are designed to identify what percentage of the indicators under examination are improving or deteriorating.

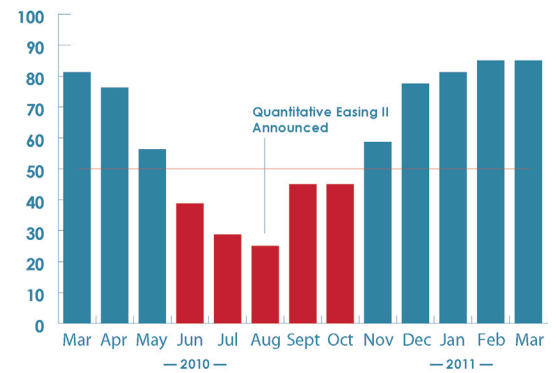
The credit, U.S. economic, and foreign indices (right) each summarize the performance of ten separate indicators that we view as especially relevant to the choice between owning stocks or bonds.

The composite index (below) is the average of the indices seen on the right. Readings above 50 generally indicate expansion (which tends to favor higher risk and equity exposure), while readings below 50 generally indicate contraction (which tends to favor bonds and lower risk exposure). During the last quarter the:

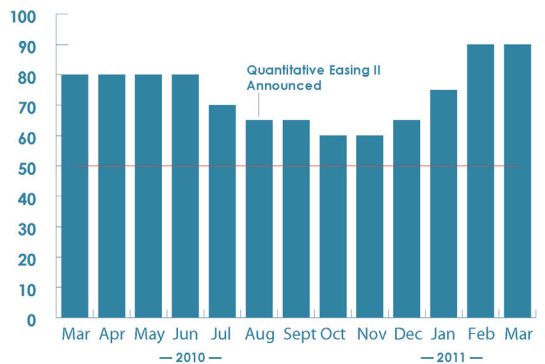
- ◇ WCA Credit and Capital Market Conditions Index™ rose to 85
- ◇ WCA U.S. Economic Conditions Index™ rose to 90
- ◇ WCA Foreign Conditions Index™ remained at 65
- =====
- ◇ WCA Composite Index™ rose to 80

Given the level and trend in our WCA Composite Index™, we have adopted a more aggressive portfolio posture. Improvement is evident across a wide range of different types of data and has persisted for a few months.

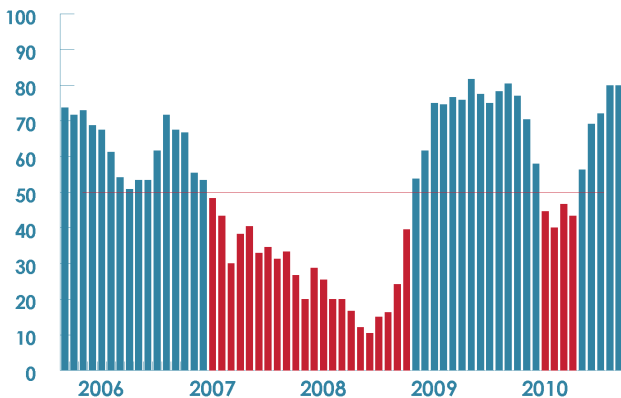
**WCA Credit Conditions Index™**  
Last 12-month readings



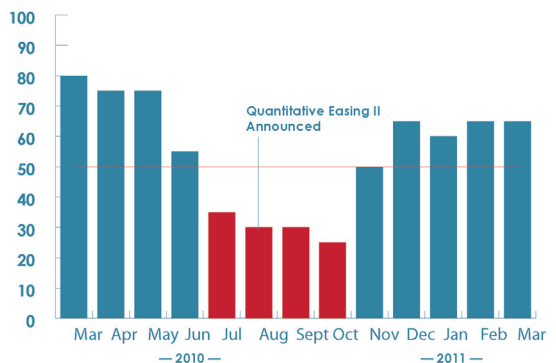
**WCA U.S. Economic Conditions Index™**  
Last 12-month readings



**WCA Composite Conditions Index™**  
Last 5 Years



**WCA Foreign Conditions Index™**  
Last 12-month readings





## CONSERVATIVE PORTFOLIO

Common Stock Policy Range:	0-50%	Currently 28%
Bond & Cash Policy Range:	50-100%	Currently 58%
Alternative Asset Policy Range:	0-20%	Currently 14%

This portfolio has a heavy bond emphasis to provide stability with income. Principal growth is desirable, but a secondary objective. We currently have a higher allocation to stocks than normal because our read on fundamental trends is positive.

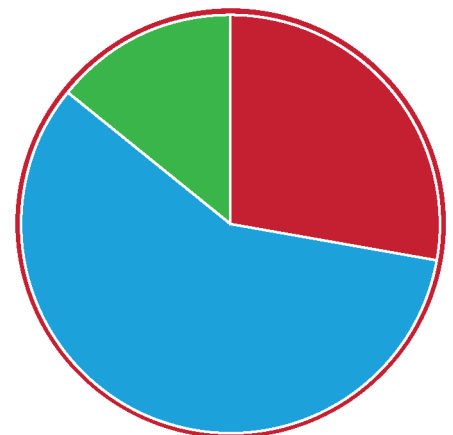
Within the bond portion of the portfolio, corporate issues are favored over government bonds and foreign government bonds are not represented at the present time due to ongoing concerns about Eurozone finances.

The common stock and alternative asset portion of the portfolio is biased toward large cap, with an emphasis on growth over value. Emerging markets, real estate investment trusts, and gold each provide some exposure to commodity trends and potentially offer somewhat of a hedge against geopolitical risks and inflation.

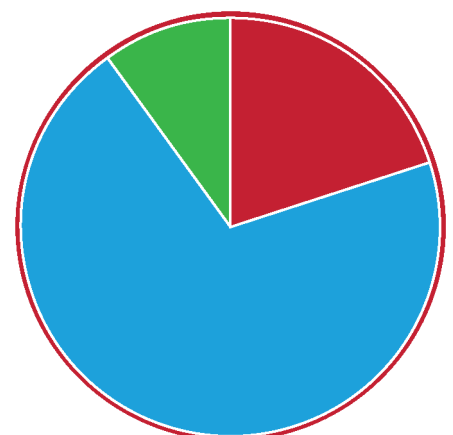
### Asset Allocation

	Current	Neutral	Variation
<b>Common Stock</b>			
U.S. Large Cap Growth	18%	6%	+12%
U.S. Large Cap Value	0%	6%	-6%
U.S. Small Cap	6%	4%	+2%
Developed Foreign Markets	0%	4%	-4%
Emerging Markets	4%	0%	+4%
<b>Subtotal Stocks:</b>	<b>28%</b>	<b>20%</b>	<b>+8%</b>
<b>Bonds</b>			
Short-Term Treasuries (1-3 Yrs)	22%	20%	+2%
Intermediate Treasuries (5-7 Yrs)	0%	17%	-17%
Long-Term Treasuries (10+ Yrs)	0%	12%	-12%
High-Grade Corporate Bonds	18%	12%	+6%
High-Yield Corporate Bonds	18%	5%	+13%
Foreign Government Bonds	0%	4%	-4%
<b>Subtotal Bonds:</b>	<b>58%</b>	<b>70%</b>	<b>-12%</b>
<b>Alternative Assets</b>			
Gold	10%	5%	+5%
Real Estate Investment Trusts	4%	5%	-1%
<b>Subtotal Alternative Assets:</b>	<b>14%</b>	<b>10%</b>	<b>+4%</b>
<b>Total Portfolio:</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

### Current "Tactical" Allocation



### Neutral "Strategic" Allocation





## BALANCED PORTFOLIO

Common Stock Policy Range:	25-75%	Currently 50%
Bond & Cash Policy Range:	25-75%	Currently 40%
Alternative Asset Policy Range:	0-20%	Currently 10%

As its name implies, this portfolio provides a mix of equity and fixed income investments. Alternative assets, such as gold and real estate, are also included and may provide diversification benefits. We currently have a higher allocation to stocks than normal because our read on fundamental trends is positive.

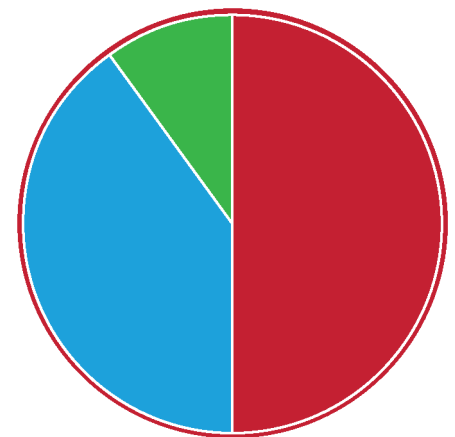
The common stock and alternative asset portion of the portfolio is biased toward large cap, with an emphasis on growth over value. Emerging markets, real estate investment trusts, and gold each provide some exposure to commodity trends and potentially offer somewhat of a hedge against geopolitical risks and inflation.

Corporate bonds are currently favored over government bonds, and foreign government bonds are not represented at the present time due to ongoing concerns about Eurozone finances.

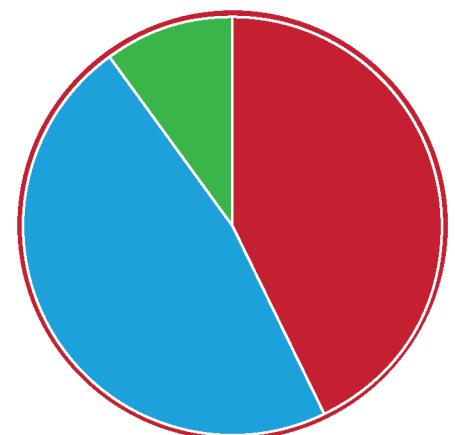
### Asset Allocation

	Current	Neutral	Variation
<b>Common Stock</b>			
U.S. Large Cap Growth	30%	12%	+18%
U.S. Large Cap Value	0%	13%	-13%
U.S. Small Cap	12%	9%	+3%
Developed Foreign Markets	0%	7%	-7%
Emerging Markets	8%	2%	+6%
<b>Subtotal Stocks:</b>	<b>50%</b>	<b>43%</b>	<b>+7%</b>
<b>Bonds</b>			
Short-Term Treasuries (1-3 Yrs)	20%	11%	+9%
Intermediate Treasuries (5-7 Yrs)	0%	9%	-9%
Long-Term Treasuries (10+ Yrs)	0%	6%	-6%
High-Grade Corporate Bonds	10%	11%	-1%
High-Yield Corporate Bonds	10%	7%	+3%
Foreign Government Bonds	0%	3%	-3%
<b>Subtotal Bonds:</b>	<b>40%</b>	<b>47%</b>	<b>-7%</b>
<b>Alternative Assets</b>			
Gold	6%	3%	+3%
Real Estate Investment Trusts	4%	7%	-3%
<b>Subtotal Alternative Assets:</b>	<b>10%</b>	<b>10%</b>	<b>+0%</b>
<b>Total Portfolio:</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

### Current "Tactical" Allocation



### Neutral "Strategic" Allocation





## MODERATE GROWTH PORTFOLIO

Common Stock Policy Range:	50-100%	Currently 71%
Bond & Cash Policy Range:	0-50%	Currently 22%
Alternative Asset Policy Range:	0-20%	Currently 7%

This portfolio invests primarily in common stocks, but has the ability to own bonds up to about half the portfolio's value at certain times. Because equities comprise more than half the portfolio's value, principal growth is the primary consideration, and income is a secondary objective. We currently have a higher allocation to stocks than our neutral allocation because our read on market and economic fundamentals is positive.

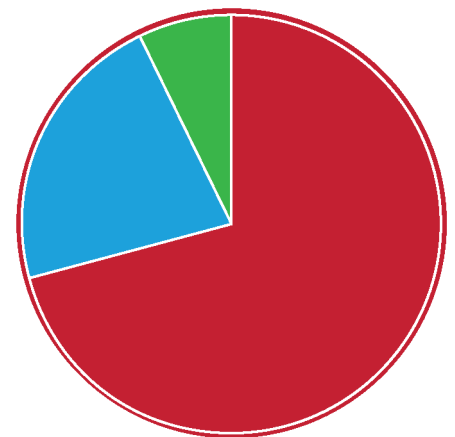
The common stock and alternative asset portion of the portfolio is biased toward large cap, with an emphasis on growth over value. Emerging markets, real estate investment trusts, and gold each provide some exposure to commodity trends and potentially offer something of a hedge against geopolitical risks and inflation.

The bond portion of the portfolio is focused on high-yield and high-grade corporates, along with short-term Treasuries.

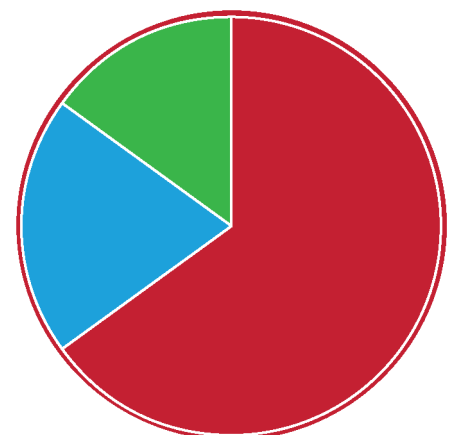
### Asset Allocation

	Current	Neutral	Variation
<b>Common Stock</b>			
U.S. Large Cap Growth	42%	18%	+24%
U.S. Large Cap Value	0%	20%	-20%
U.S. Small Cap	15%	13%	+2%
Developed Foreign Markets	0%	10%	-10%
Emerging Markets	14%	4%	+10%
<b>Subtotal Stocks:</b>	<b>71%</b>	<b>65%</b>	<b>+6%</b>
<b>Bonds</b>			
Short-Term Treasuries (1-3 Yrs)	14%	2%	+12%
Intermediate Treasuries (5-7 Yrs)	0%	0%	0%
Long-Term Treasuries (10+ Yrs)	0%	0%	0%
High-Grade Corporate Bonds	4%	6%	-2%
High-Yield Corporate Bonds	4%	12%	-8%
Foreign Government Bonds	0%	0%	0%
<b>Subtotal Bonds:</b>	<b>22%</b>	<b>20%</b>	<b>+2%</b>
<b>Alternative Assets</b>			
Gold	2%	5%	-3%
Real Estate Investment Trusts	5%	10%	-5%
<b>Subtotal Alternative Assets:</b>	<b>7%</b>	<b>15%</b>	<b>-8%</b>
<b>Total Portfolio:</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

### Current "Tactical" Allocation



### Neutral "Strategic" Allocation





## AGGRESSIVE GROWTH PORTFOLIO

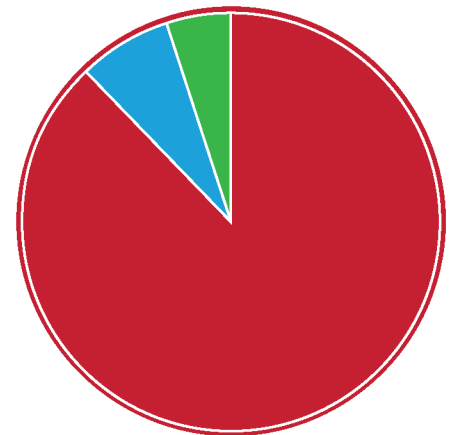
Common Stock Policy Range:	80-100%	Currently 88%
Bond & Cash Policy Range:	0-20%	Currently 7%
Alternative Asset Policy Range:	0-20%	Currently 5%

This portfolio has a heavy equity emphasis for aggressive investors with a high tolerance for risk and a long investment horizon. Principal growth is the primary objective. The portfolio is fully invested in common stocks and real estate investment trust ETFs because our read on fundamental trends is positive.

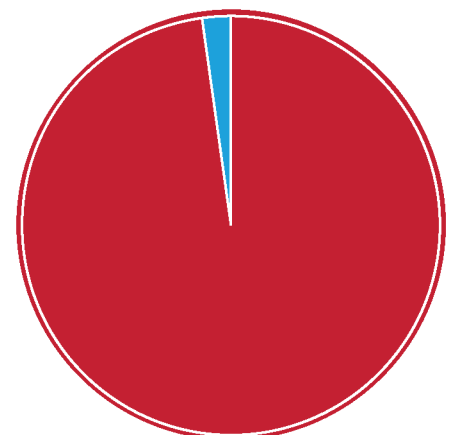
### Asset Allocation

	Current	Neutral	Variation
<b>Common Stock</b>			
U.S. Large Cap Growth	56%	20%	+36%
U.S. Large Cap Value	0%	20%	-20%
U.S. Small Cap	16%	20%	-4%
Developed Foreign Markets	0%	20%	-20%
Emerging Markets	16%	18%	-2%
<b>Subtotal Stocks:</b>	<b>88%</b>	<b>98%</b>	<b>-10%</b>
<b>Bonds</b>			
Short-Term Treasuries (1-3 Yrs)	7%	2%	+5%
Intermediate Treasuries (5-7 Yrs)	0%	0%	0%
Long-Term Treasuries (10+ Yrs)	0%	0%	0%
High-Grade Corporate Bonds	0%	0%	0%
High-Yield Corporate Bonds	0%	0%	0%
Foreign Government Bonds	0%	0%	0%
<b>Subtotal Bonds:</b>	<b>7%</b>	<b>2%</b>	<b>+5%</b>
<b>Alternative Assets</b>			
Gold	0%	0%	0%
Real Estate Investment Trusts	5%	0%	+5%
<b>Subtotal Alternative Assets:</b>	<b>5%</b>	<b>0%</b>	<b>+5%</b>
<b>Total Portfolio:</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

### Current "Tactical" Allocation



### Neutral "Strategic" Allocation





## SECTOR ALLOCATION

Sector exposure plays a role in “sector enhanced” model portfolios. In those portfolios, the large cap U.S. equity allocation is divided among the 10 major GICS sectors instead of being invested in the two style categories — growth and value.

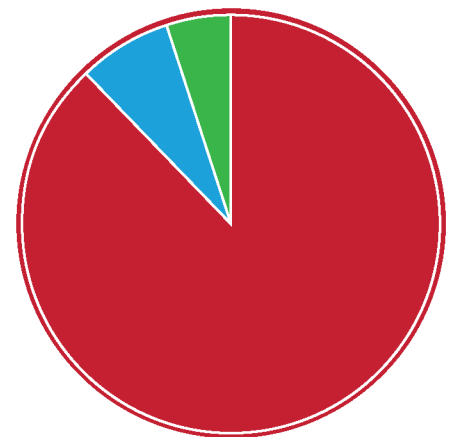
Sector allocation is strongly influenced by the degree of earnings sensitivity compared to economic trends. For example, energy and material companies earnings tend to be most closely linked to changes in global economic growth, while the earnings of consumer staples and health care companies tend to be less closely linked to changes in global growth.

Currently, portfolios are tilted more toward cyclical sectors given positive readings on the WCA Composite Conditions Index™.

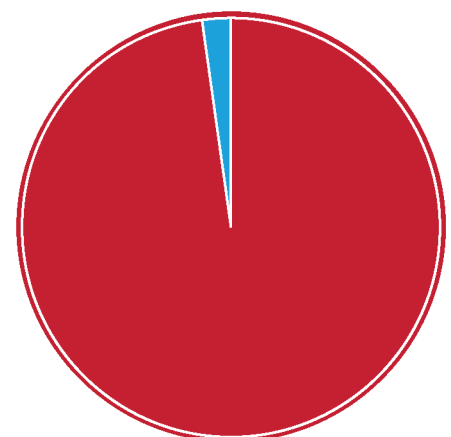
### Asset Allocation

	Current	Neutral	Variation
<b>Cyclical Sectors</b>			
Energy	10%	13%	-3%
Technology	13%	18%	-5%
Materials	10%	4%	+6%
Industrials	13%	11%	+2%
Consumer Discretionary	17%	10%	+7%
<b>Subtotal Cyclical:</b>	<b>63%</b>	<b>56%</b>	<b>+7%</b>
<b>Defensive Sectors</b>			
Health Care	11%	11%	0%
Utilities	0%	3%	-3%
Consumer Staples	0%	10%	-10%
Telecommunications	13%	4%	+9%
Financials	13%	16%	-3%
<b>Subtotal Defensive:</b>	<b>37%</b>	<b>44%</b>	<b>-7%</b>
<b>Total Portfolio:</b>	<b>100%</b>	<b>100%</b>	<b>0%</b>

Current “Tactical” Allocation



Neutral “Strategic” Allocation



## Index Definitions

Barclays U.S. Government Inflation-Linked Bond Index measures the performance of the U.S. Treasury Inflation-Protected Securities ("TIPS") market. Used as a proxy for "inflation-protected bonds."

Bloomberg/EFFAS Bond Indices U.S. Government 1-3 Year Total Return Index is a transparent benchmark for government bond markets. Indices are grouped by country and maturity sectors. Bloomberg computes daily returns and index characteristics for each sector. Used as a proxy for "short-term Treasuries."

Bloomberg/EFFAS Bond U.S. Government 10+Year Total Return Index is a transparent benchmark for the total return of the 10+ year U.S. Government bond market. Used as a proxy for "long-term Treasuries."

FINRA-Bloomberg Active Investment Grade U.S. Corporate Bond Index and FINRA-Bloomberg Active High Yield U.S. Corporate Bond Index are comprised of the most frequently traded investment-grade and high yield U.S. corporate fixed coupon bonds represented by the Financial Industry Regulatory Authority (FINRA) transaction reporting facility. Used as proxy for "high-yield bonds."

FTSE NAREIT Equity REIT Total Return Index is a total return performance index of all equity REITs tracked by NAREIT. Used as a proxy for REITs.

MSCI EAFE International Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets excluding the U.S. and Canada. As of June 2007, the MSCI EAFE Index consisted of 21 developed market country indices. Used as a proxy for "developed foreign."

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Used as a proxy for "emerging markets."

Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 index. The Russell 3000 Index measures the performance of the 3,000 largest US Companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. Used as proxy for domestic "large cap stocks."

Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 index. Used as proxy for "small cap domestic stocks."

Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Used as proxy for "domestic growth stocks."

Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios. Used as proxy for "domestic value stocks."

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Asset allocation and diversification do not ensure a profit and may not protect against loss. 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.

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