We Remain Dollar Bulls

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The dollar's strength has driven several investment themes over the last nine months:

1. Commodity price weakness — mainly oil but also industrial metals
2. Outperformance by Europe and Japan in local currency terms, especially this year
3. Emerging Markets' underperformance, particularly Latin America
4. Pressure on US earnings and a sluggish first quarter for the S&P 500

We believe the dollar has begun a multi-year uptrend. The dollar index (a measure of the US dollar's value relative to the euro, yen, British pound, Canadian dollar, Swiss franc, and Swedish krona) has risen 25% in nine months. Prior to that, the index had traded around 80 plus or minus 10% for five years – a consolidating pattern (see chart below). The momentum of the last nine months is comparable to the last two periods of dollar strength, both of which lasted several years, but were not without setbacks. Following such a period of strength, counter trend reversals in dollar strength should be expected. RiverFront's portfolios have been positioned to benefit from a strong dollar since last summer and remain that way through our overweight to Europe and Japan on a currency hedged basis. *Past performance is no guarantee of future results.*

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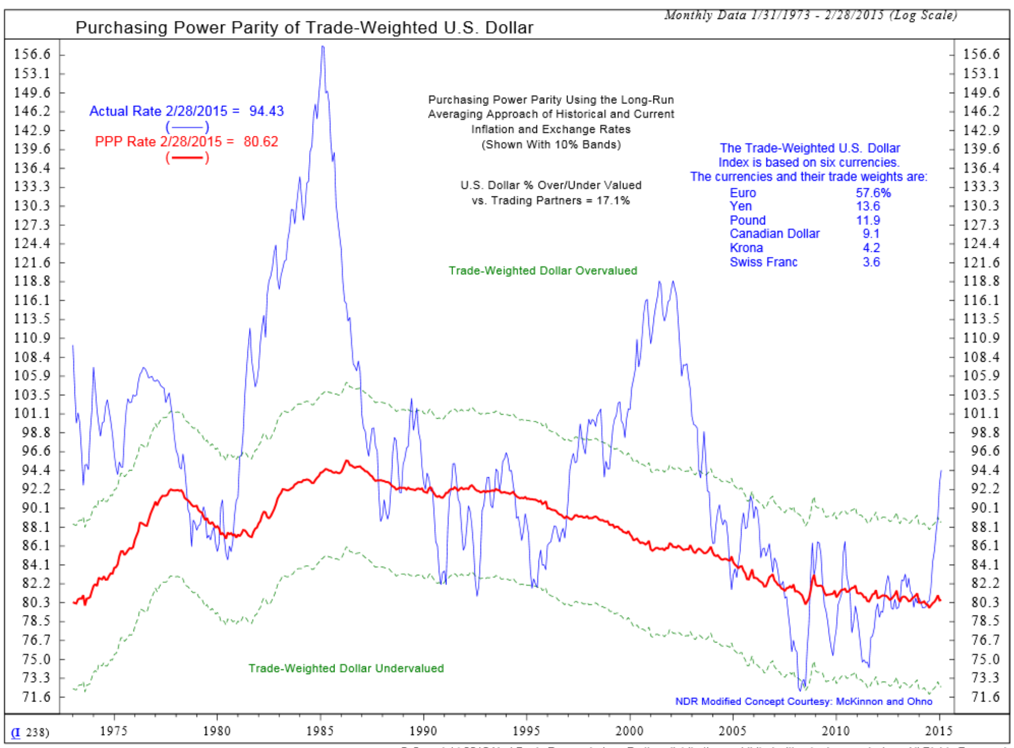
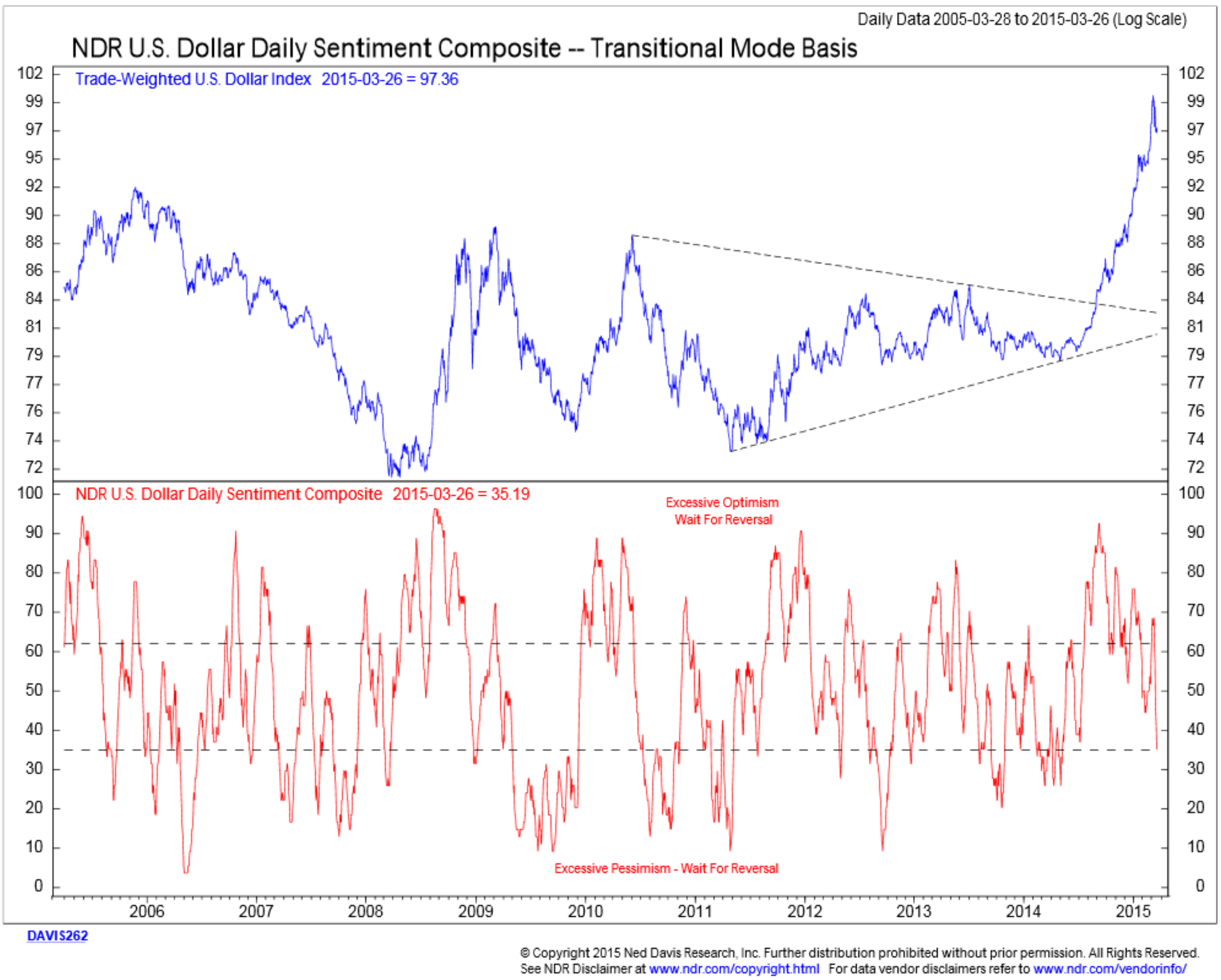


The history of floating currencies since the early 1970s suggests that once a dollar advance begins, it can remain in the overvalued zone for several years, but it also suggests to us a reversal in the dollar's strength when the cyclical factors turn.

The fundamental case for dollar strength is mostly cyclical: the US economy is growing more strongly than its developed counterparts, has higher long-term interest rates, and its central bank is no longer engaged in quantitative easing (QE) purchases of bonds. By contrast, the Bank of Japan is still aggressively pursuing QE and the European Central Bank has started a program that they say will last at least 18 months. Based on the concept of purchasing power, which compares relative inflation rates, the dollar's rise over the last nine months has taken it from fair value to somewhat overvalued (see chart on previous page). The history of floating currencies since the early 1970s suggests that once a dollar advance begins, it can remain overvalued for several years, but it also suggests to us a reversal in the dollar's strength when the cyclical factors turn.

The technical case for continued dollar strength is compelling. Following a five-year consolidation, which saw rising lows, but also falling highs (dashed lines in the chart below), a new up-trend has begun. We see technical support between 90 and 92.5 (the one-half and one-third retracements of the rally from 80 to 100). A break below these levels would require a re-evaluation of our view. We do not expect a breakdown below these levels, especially since sentiment (bottom panel) is at the low end of the neutral zone.

THE WEEKLY CHART: POWERFUL NEW UPTREND, NO EXCESSIVE OPTIMISM



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