RIVERFRONT INVESTMENT GROUP

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THE WEEKLY VIEW

Stocks Rally as Payrolls Rebound

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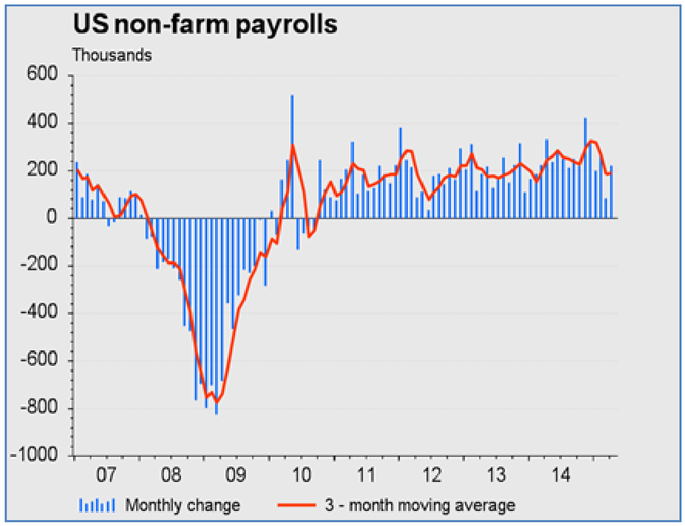
Both stock and bond prices rose sharply on Friday following payroll data that bounced back following last month's surprising weakness. Although the employment numbers were close to consensus forecasts, there was likely some apprehension, which caused the relief rally in markets across the world. International markets rose even more sharply with the United Kingdom bolstered by the surprise win on Thursday by David Cameron's conservative party.



Source: Thomson Reuters Datastream/Fathom Consulting

As long as the US continues creating an average of around 200,000 new jobs per month, gradual economic growth will likely continue, in our view.

The monthly numbers can be very volatile, so we find it useful to track the 3-month moving average, which puts both the strength in the second half of last year and the recent weakness in context. As long as the US continues creating an average of around 200,000 new jobs per month, gradual economic growth will likely continue, in our view. We therefore expect only a modest rise in short-term rates in the second half of 2015 and a trading range for 10-year Treasuries between 1.6% and 2.4%. Currently 10-year yields are 2.15%, roughly where they started the year.

At RiverFront, we believe asset allocation is by far the most important decision an investor makes. Since there is no 'index' that is customized for an investor's risk tolerance and retirement needs, some active decision regarding asset allocation is necessary, in our view.

Active Or Passive Investing? The Answer Is Yes!

At RiverFront, we believe asset allocation (the choice between asset classes, such as stocks versus bonds/cash, or US stocks versus international stocks) is by far the most important decision an investor makes. Since there is no 'index' that is customized for an investor's risk tolerance and retirement needs, some active decision regarding asset allocation is necessary, in our view. In recent years, 'target date' products that are marketed to meet a retirement date have become extremely popular because the concept is simple. We are alarmed by the high percentage allocation to bonds, as the retirement date approaches, within many target date products. In the current interest rate environment and with life expectancy expanding, we think bonds are much less appropriate than they used to be when rates were higher, especially relative to inflation. Once the asset allocation decision has been made, in our case by our Price Matters® discipline, then implementation can be done through either an index or a more active approach. We use both.

Some observations about the active/passive debate:

1. Indexes have no cash component. They are hard to beat in strong bull markets and are easier to outperform during declines. History shows active managers often lag in up markets and gain during declines. We think managers should be judged over at least a full cycle, preferably more than one cycle.

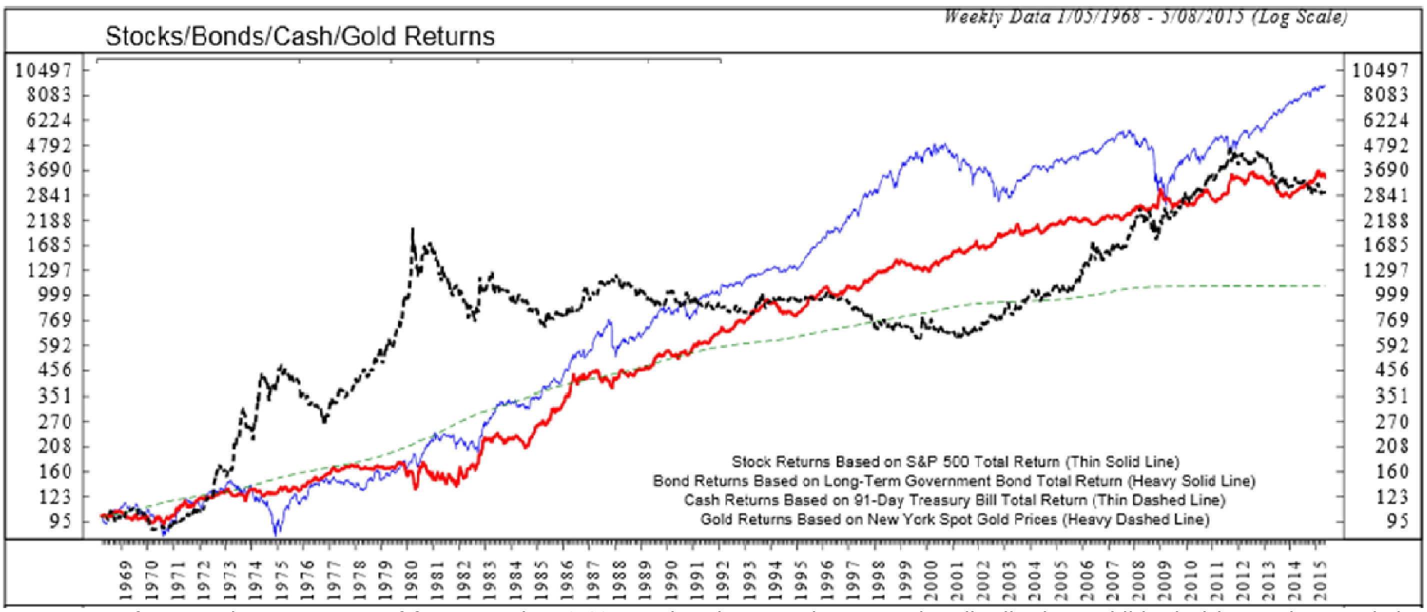
2. An index that is weighted by the size of its constituents is a momentum vehicle for which successful components become a greater and greater proportion of the index. Active managers tend to reduce positions that become excessively large.

3. While low, there is a cost to index investing. The simpler the index, the lower the cost.

4. Indexes have biases that need to be understood (for example, the high weighting of technology in the late 1990s and financials in the mid-2000s).

5. We like to combine low-cost simple indexes with active stock, sector, country, currency, credit, and maturity decisions.

THE WEEKLY CHART: ASSET ALLOCATION MATTERS



The chart above shows the total returns of four asset classes during the last four and a half decades, indexed to 100 in 1968. It shows the significant difference between asset classes over time: the outperformance by cash and gold in the 1970s; the steady returns from bonds since the early ’80s; and the long-term success of stocks; it also illustrates the volatility of their returns. Finally, the cash line shows the opportunity cost in recent years of holding cash when rates are so low, something we feel will be increasingly true of bonds in the future. Our Price Matters® process seeks to identify opportunities to over- and underweight asset classes based on their current valuation and our expected return and risk profile. We believe these active choices will continue to have a significant impact on portfolio returns.