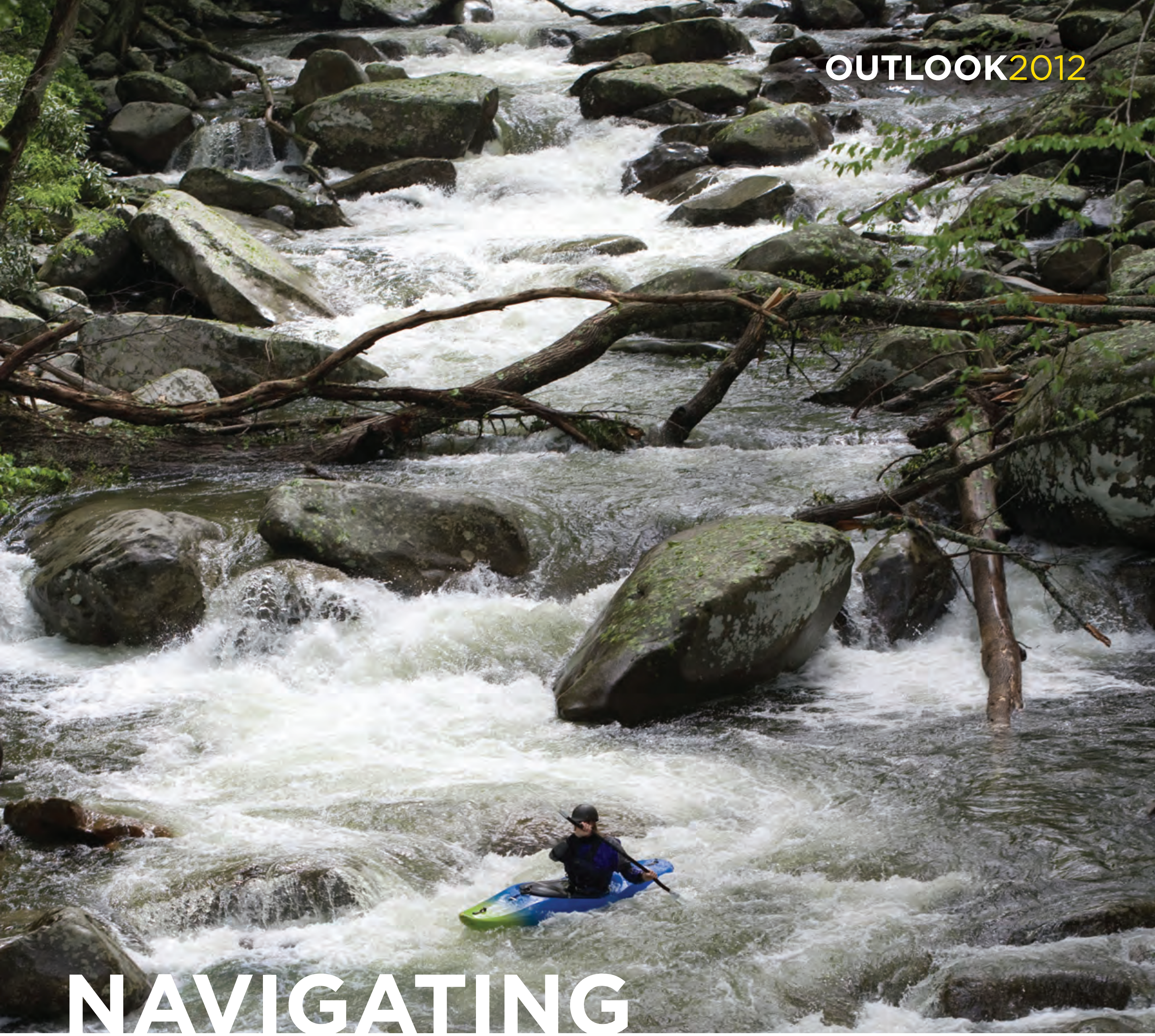
OUTLOOK2012



NAVIGATING POLICY PURGATORY

RIVERFRONT
INVESTMENT GROUP

POLICY PURGATORY

HIGHLIGHTS

THE ECONOMY: Policy Purgatory. Policymakers of the world's major economies have largely failed to address long-term global imbalances, opting instead to continue 'buying time' through short-term measures. Thus our 2012 outlook remains dependent upon the political maneuvering and resulting policies in Europe, China and the US. Overall economic growth is likely to decline due to renewed recession in Europe, but improving conditions in the US and developing economies should help avoid global recession.

FIXED INCOME: Continued High Volatility and Financial Repression.
We believe that the high fixed income market volatility during the second half of 2011 will continue into 2012 because of unresolved problems and concerns. European countries and banks must roll over large amounts of maturing debt during 2012, which will likely pose serious challenges. Furthermore, the Federal Reserve has announced its intention to hold rates near 0% until at least mid-2013. This means that shorter-term CD and Treasury holdings will continue to suffer meaningful losses in purchasing power.

In this environment we will focus on fixed income sectors with the ability to deliver positive inflation-adjusted returns; favor corporate (primarily below investment-grade) and emerging market credit risk over developed sovereign risk; provide a measure of portfolio price stability while avoiding undo interest rate risk.

GLOBAL STOCKS: Earnings growth will slow but global policy easing may allow stocks to rise. We believe 2012 will be a year of concurrent global monetary easing, the first since 2009/10. We believe China avoids a hard landing but does not avoid a painful property and bad debt cycle and is forced to use substantial government resources to restructure the debt. We see a relatively strong US dollar rising against the Euro during the year. We think commodity prices, especially oil, agriculture and gold, will respond positively to both monetary easing and the anticipation of stronger growth in the developing world in the second half of 2012 and into 2013.

We see a wide trading range again for the S&P 500 of 1140 to 1440. We think the US market continues to lead in the first half of 2012, but at some point, emerging markets will have discounted the growth slowdown and will start to anticipate a revival. Europe becomes attractive to us if the euro falls enough to improve the competitiveness of stronger Northern European countries like Germany, but during that process the Eurozone will likely underperform. Within Europe, we like the UK because of the market's composition of high-quality global franchise businesses, above-average dividends and below average price-to-earnings ratios (PEs). We begin 2012 heavily underweight continental Europe and, while the year will likely offer trading opportunities, we are currently somewhat defensive overall.

Our favorite equity sectors include Healthcare and Technology, which we think have better growth prospects, superior relative strength and better valuations than the broad market; and Consumer Discretionary, which is valued in line with the broad market but has better growth prospects and relative strength. Although the growth prospects for our universe of dividend paying stocks are somewhat less than the broad market, we think their attractive valuation and superior relative strength will help them outperform in an environment of high market volatility and below-trend global economic growth.

THE ECONOMY:

Policy Purgatory

Policymakers of the world's major economies have largely failed to address long-term global imbalances, opting instead to continue 'buying time' through short-term measures. Thus our 2012 outlook remains dependent upon the political maneuvering and resulting policies in Europe, China and the US. Market volatility could remain high as investors lurch between optimism and pessimism regarding ultimate policy outcomes. Overall economic growth is likely to decline due to renewed recession in Europe, but improving conditions in the US and developing economies should help avoid global recession.

The Eurozone and the European Central Bank (ECB) have bought another nine to twelve months of funding for Europe's troubled economies and banking system. While reducing the risk of a short-term funding crisis, policymakers failed to devise a funding mechanism big enough for Italian and Spanish debt maturing in the second half of 2012 and early 2013. These new policies also come with conditions — only Greece will receive debt forgiveness — and funding mechanisms (IMF loans) that fall far short of the relief provided by quantitative easing (QE, i.e., printing money) to US and UK borrowers and lenders. Thus Europe's fiscal austerity measures will continue to inflict economic pain with minimal monetary policy offset. Europe may already be in a recession that will likely deepen in 2012.

China (and consequently most emerging markets) endured substantial inflation during 2011 due to reckless credit expansion, an undervalued currency pegged to the US dollar, and aggressive US quantitative easing. Rather than combating this inflation (and helping rebalance the global economy) with significant currency appreciation, emerging markets responded primarily through restrictions on bank lending and higher interest rates. By late 2011, several emerging economies (including China) started cautiously reversing some of these measures as inflationary pressures eased and European growth prospects deteriorated. We expect this shift from restrictive to accommodative policy to accelerate in 2012, cushioning but not completely offsetting the impact of recession in Europe.

US political leaders' failure to produce a long-term deficit reduction plan extends the uncertainty over future tax and spending measures beyond the 2012 elections. This uncertainty will continue to impede US job creation. On a brighter note, US consumers are spending and US banks are beginning to lend after four years of relative frugality. Additionally, rising US productivity, a weak dollar and the relative strength of US banks versus their European counterparts have positioned US companies to benefit as emerging market economies shift to more stimulative policies. These conflicting US economic pressures suggest that 2012 will be a difficult year for the unemployed (only 100 to 150 thousand new jobs per month) but economic growth will be sufficient to keep corporate earnings rising, albeit at a slower pace.

EUROPE: RUNNING OUT OF TIME

We believe that tight fiscal policy without offsetting monetary accommodation will drive Europe into recession in 2012. Weaker European economies could experience outright depression. Policymakers have secured financing for the next several months, but available funding mechanisms fall well short of the €1.5 to €2.0 trillion ($2.0 to $2.7 trillion) that many analysts believe will ultimately be required.

We believe that recession will force Europe to make fundamental policy changes in 2012. The most likely outcome, in our view, is for the ECB to reward movement toward fiscal integration by engaging in 'stealth' quantitative easing, i.e. funding increased bond purchases through money printing. This would ease pressure on both European sovereign borrowers and banks. By not formally announcing this policy shift, the ECB could maintain pressure on governments to reduce deficits and minimize political backlash in Germany.

Without some form of QE, escalating funding pressures could eventually force a breakup of the euro. Any euro breakup scenario would be extremely disruptive to the global economy and financial markets. However, if the Eurozone were to break into low-productivity/high-debt countries remaining with the euro (e.g. France, Italy, Spain) and high-productivity/lower-debt countries (e.g. Germany, Finland) forming a new currency union, it could actually improve growth prospects and reduce default risks across Europe.

RESPONSIBILITY WITHOUT AUTHORITY OR MEANS

Eurozone members have implicitly assumed responsibility for each other's debts without corresponding fiscal controls or funding ability

If Greece had been allowed to default on its debt in early 2010, policymakers would have affirmed the euro as a currency union, not a fiscal union. Instead, Greece's bailout established a precedent that Eurozone members will provide fiscal support to one another. This precedent was confirmed with bailouts of Ireland and Portugal.

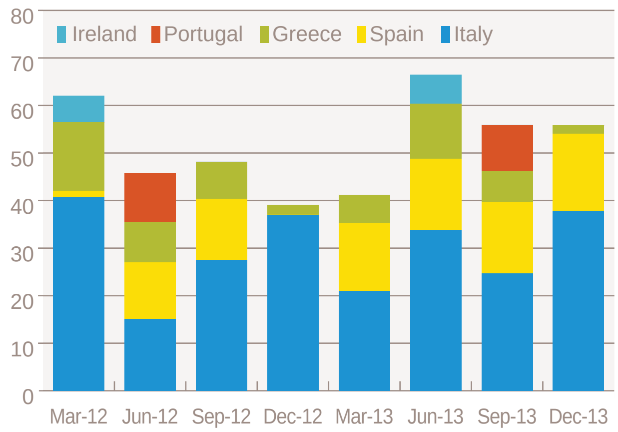
This strategy provides significant control over members' budgets if they need a bailout (additional funding can be denied if deficit targets are not met) but does not provide the budget control that might prevent the overspending that would precipitate a bailout. Worse still, Germany has vetoed any joint funding mechanisms (e.g. Eurobonds or QE) that could ensure sufficient bailout funds are available should a larger country have trouble rolling over its debt. Thus Eurozone members have implicitly assumed responsibility for each other's debts without corresponding fiscal controls or funding ability.

TROUBLED SOVEREIGN BORROWERS = TROUBLED BANKS = TROUBLED SOVEREIGN BORROWERS

In early 2009, US banks were forced to raise significant capital in response to the US housing crisis. European regulators, by contrast, ignored rising risks in European banks' government bond portfolios, pretending that even Greek bonds would be paid in full. Greek bonds have since fallen at least 50% in value, and the possibility of default by bigger issuers such as Italy has increased. Thus institutional depositors are moving funds from undercapitalized euro banks to safer institutions in the US, Switzerland, and Japan.

European banks have survived this bank run because central banks around the world are lending their own currencies to the ECB, and the ECB is in turn lending over €1.2 trillion to European banks. The terms of these loans have been extended to as much as three years, interest rates lowered to 1%, and the collateral requirements eased. These arrangements ensure that European banks can continue to meet depositor demands for repayment and have reassured financial markets for the time being, but funding pressures will continue to escalate in 2012 as the depositor outflow is joined by an estimated €1 trillion in bank bond maturities. This intense funding pressure exacerbates the challenge of rolling over the debt of troubled sovereign borrowers, since European banks have historically been the predominant buyers of this debt.

DESPERATELY SEEKING FUNDING



ONGOING FUNDING NEEDS FOR PORTUGAL, IRELAND, ITALY, GREECE AND SPAIN (PIIGS)

PIIGS Maturing Debt Schedules (euros in billions)

Source: Bloomberg

Financial markets want assurance that Europe's major economies will have access to low-cost funding no matter how much pressure is applied to European banks and troubled sovereign borrowers. Investors had hoped that the ECB would commit to funding a €1.5 to €2.0 trillion war chest to backstop any European borrowers in exchange for the tighter fiscal control mechanisms recently agreed to by Eurozone members. Indeed, investors have supported the US and UK bond markets because the Fed and the Bank of England have been willing to monetize their debt with printed money (QE) and thus, by ensuring ample access to low-cost funding, are preventing the crippling credit strains of Europe.

Germany remains adamantly opposed to a European QE plan and ECB President Mario Draghi has so far adopted the German position. The ECB has therefore maintained a €20 billion limit on weekly sovereign debt purchases, suggesting it will provide only limited assistance in rolling over sovereign debt coming due early in 2012. The ECB's late-December three-year loan program has ignited hopes that European banks will use the new loans to buy more sovereign bonds, essentially allowing the ECB to provide indirect QE support to Europe's troubled sovereign borrowers. We suspect that these banks will need most of the ECB's funds to meet deposit outflow and maturing bond obligations. In light of these funding pressures and high existing exposure to these problem borrowers, we are skeptical that the new three-year loan program will motivate sufficient bank purchases to substitute for QE. Although not a permanent solution, individual Eurozone countries' central banks have lent the International Monetary Fund (IMF) about €200 billion, which when combined with existing bailout funds (especially the €250 billion remaining in the European Financial Stabilization Fund), should provide enough funding to meet the next nine to twelve months of financing needs. However, IMF loans will likely be senior to existing sovereign bonds and may therefore lower bond prices, further weakening the European banking system.

Without ECB quantitative easing and with banks limited in their ability to buy sovereign bonds, weak European governments must offer higher interest rates to attract investors. Higher interest costs increase budget deficits, further weakening these countries' finances. Greece, Ireland and Portugal had to be bailed out with lower cost loans from other Eurozone members and the IMF when their interest rates passed 7%, which made it almost impossible for these governments to control their budget deficits. Ominously, Italian bonds are approaching that critical 7% level. Unlike printing money (which is theoretically limitless) current European funding sources are finite and could be quickly exhausted if market confidence is not restored.

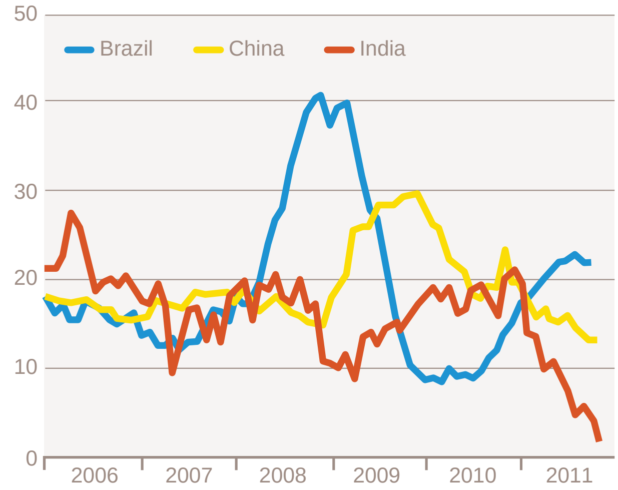
CHINA AND EMERGING MARKETS — TAKING THE FOOT OFF THE BRAKE

China was particularly vulnerable to collapsing US and European demand in the Great Recession of 2008/2009. Western economies' debt-driven consumption binge had swelled China's trade surplus to more than 8% of its total economy by early 2008. The Lehman Brother's bankruptcy, the deepening global recession, and near collapse of the global banking system caused China's trade surplus to drop by 50% in less than 12 months. The government's response to this collapse in

CREDIT RESTRICTIONS WORKING — MONEY GROWTH CONTRACTING

M2 Money Supply year-over-year % change

Source: Thompson Reuters Datastream



export demand has been described as 'panic stricken.' Ten years of banking reforms were overturned and bank officials were once again mere bureaucrats carrying out government policy demands, rather than credit and risk managers acting on behalf of shareholders. Government policy demands required loan growth and stimulus spending, and total loans outstanding grew by more than 60% in less than two years. Loan proceeds were devoted to all manner of activities, from local infrastructure projects to providing entrepreneurs with startup capital (as if bank loans were a prudent substitute for venture capital). Most of the lending, however, appears to have gone to real estate construction.

The surge in Chinese money supply from stimulus policies was augmented by the money printing required to maintain the yuan's value relative to the dollar. As this credit flooded China's economy in 2009 and 2010, property prices and overall inflation surged. These inflationary pressures spilled into other emerging markets, as they enjoyed the boom in commodity demand from China while attempting to restrain the appreciation of their currencies by expanding money supply.

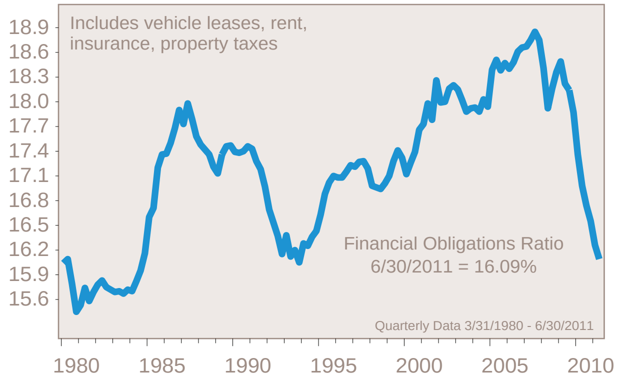
Having lived through previous credit-fueled inflationary bubbles, emerging market policymakers recognized their mistake and began reversing policy aggressively in late 2010 and early 2011. For example, Chinese banks' reserve requirements were doubled to about 23%, compared to less than 10% for US and European banks. This made nearly a quarter of bank deposits unavailable to fund loans, severely restricting Chinese banks' ability to extend credit. Emerging markets with more open financial systems used more traditional methods of restricting credit: they raised interest rates. Both methods were effective in restricting credit – money supply growth plummeted across all the major emerging markets (see chart above).

This sharp credit contraction created formidable headwinds for emerging market growth and thereby emerging market equities in 2011. However, this proactive policy response is easing inflationary pressures in emerging economies. Thus policymakers have reacted to deteriorating European growth prospects by moving towards more accommodative policy. Brazil, Indonesia and Russia have all lowered interest rates in late 2011, while China modestly reduced its reserve requirements. China is signaling that as it moves to a more stimulative policy stance, it will retain current restrictions on real estate lending. This makes long-term sense, in our view, given China's 2009/2010 overinvestment in real estate, but such restrictions combined with an apparent end to yuan appreciation will likely lessen the global impact of Chinese stimulus in 2012 compared to the 2009/2010 stimulus program. Thus renewed stimulus in emerging markets is unlikely to completely offset the impact of renewed recession in Europe.

THE US — THE GOOD NEWS OUTWEIGHS THE BAD (BARELY)

Financial markets and the US economy have been let down by the political leadership in Washington, in our view. By failing to agree on a long-term deficit reduction plan, the President and Congress have extended the uncertainty over future tax and spending measures beyond the 2012 elections. With the budget deficit approaching 10% of the overall economy, US corporations expect major spending cuts and tax increases. Until Washington provides some visibility as to who will bear the burden of these deficit reduction efforts, businesses cannot project their earnings with confidence and therefore are likely to remain cautious in their hiring.

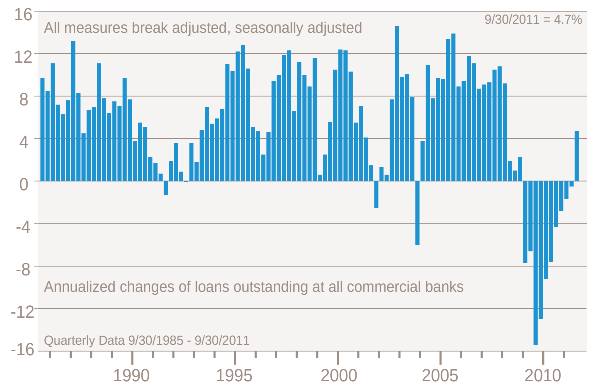
Fortunately for the American economy, while politicians have accomplished little, the private sector and the Federal Reserve have been fairly effective in helping certain aspects of the US economy. Corporations have aggressively restructured their costs and have returned to record profitability despite the relatively weak economic recovery. US productivity growth has improved the US competitive position relative to more highly regulated European companies, and has even restored competitiveness (in some industries) against low-wage emerging markets. Thus as these emerging economies move toward more economic stimulus in 2012, US companies should be a prime beneficiary.



CONSUMERS' DEBT BURDEN EASING

Financial Obligations Ratio

Source: Ned Davis Research



THIRD-QUARTER BANK LOAN GROWTH OF 4%—FIRST INCREASE SINCE 2008

Total Bank Loan Growth, annualized quarterly % change

Source: Ned Davis Research

Fed policy has also been supportive of healing in the US economy. QE programs have lowered long-term interest rates and allowed those US homeowners with equity who can afford their homes to refinance into lower cost mortgages. This reduced interest burden has been augmented by nearly four years of subdued consumer borrowing — car loans from 2006 and 2007 are being paid off, thereby reducing consumers' payment burden (see top chart above). Thanks to the Fed's bank stress test and recapitalization program, US consumers' increasing capacity to borrow is matched by US banks' increasing capacity to lend. US banks grew overall loan volumes by 4% in third quarter of 2011, the first increase in overall lending since 2008.

We must balance these positive developments for US consumers and banks against the risks of recession and even financial crises in Europe. S&P 500 companies get about 14% of their revenue from Europe. Thus the US is not immune to Europe's problems. Stimulative emerging market policies provide a potential source of growth to help offset reduced European demand, but so far Europe's slowing is occurring faster than emerging market policy reversals. Consequently, we believe that international markets' net impact on the US economy will be negative, but not enough to tip the US back into recession.

There are two wildcards in our US forecast. The first and most obvious wildcard is the potential for fiscal crises in Europe. The aftermath of the Lehman collapse educated policy makers about the dangers of allowing ideology to trump practicality, so we would expect a true funding crisis to overcome ideological objections to QE. If so, ECB funding would resolve the European fiscal crisis and likely ignite a rally in global equity markets. By contrast, continued German ideological resistance to QE could cause a breakup of the euro. Domestically, we are more concerned about the ongoing debate regarding expiring social security tax cuts and extended unemployment benefits. We believe that social security tax cuts will be continued, but opposition in the House will curtail the extended unemployment benefits program. Those assumptions are built into our base case projections. However, the dysfunctional nature of the current political environment makes policy predictions difficult. Should social security taxes be raised in 2012, US growth will be further impaired and the odds of recession will rise.

RiverFront's 12-month US GDP Growth Projections

Expected Baseline Case: 'Good Outweighs the Bad (Barely) — 60% Probability. The ECB engages in 'stealth' quantitative easing (QE) but the reduced pressure on European sovereign borrowers and banks arrives too late to avoid recession. The impact of European problems on the US is partially offset by improving conditions for consumer spending, bank lending and additional policy stimulus from emerging markets.

Optimistic Case: 'ECB Prints, EM Eases' — 20% Probability. Funding mechanisms of €1.5 to €2.0 trillion ($2.0 to $2.7 trillion) are implemented to backstop Eurozone debt, either through an explicit bailout fund or QE. Increased liquidity and stabilizing sovereign finances allows Europe to avoid deep recession, and Europe's renewed growth combined with improving conditions in the US and emerging markets allows global growth to accelerate toward the top of new normal levels (approximately 3% for the US).

Pessimistic Case: 'Euro Meltdown' — 20% Probability. The combination of tight fiscal policy without offsetting monetary accommodation drives Europe deeper into recession. Without QE, escalating funding crises and political pressures force a breakup of the euro, resulting in severe disruption to the global economy and financial markets.

	OPTIMISTIC *ECB Prints, EM Eases*	**BASELINE** *Good Outweighs the Bad (Barely)*	**PESSIMISTIC** *Euro Meltdown*
REAL GROSS DOMESTIC PRODUCT Year over year % change	**2.9**	**1.8**	**-0.3**
Contributions to Percent Change in Real Gross Domestic Product:			
Personal consumption expenditures	1.7	1.7	1.0
Investment spending	1.0	0.2	-1.0
Government expenditures	-0.3	-0.3	-0.3
Exports of goods and services	1.0	0.3	-0.5
Imports of goods and services	-0.5	-0.1	0.5

Source for projections: RiverFront Investment Group, LLC

FIXED INCOME:

Continued High Volatility and Financial Repression

We believe that the high fixed-income market volatility during the second half of 2011 will continue into 2012 because of unresolved problems and concerns. With bailout packages already in place for Greece/Ireland/Portugal, market concerns have spread to the larger Italy and Spain. Italy's 10-year bond yield rose above 7% during November 2011 and Spain's came close to 7%, a level that prompted the previous bailout packages. European countries and banks must roll over large amounts of maturing debt during 2012, which will likely pose serious challenges. The prospects for a pickup in global growth, which could help ease debt burdens, is dependent on developments in three major regions: Europe, China/emerging markets, and the US as detailed in the previous economic section.

We see continued purchasing power erosion, i.e. financial repression. Short-term interest rates are now entering their fourth consecutive year at well below the rate of inflation, as the Federal Reserve has kept short-term rates pegged near 0% since December 2008. Furthermore, the Fed has announced its intention to hold rates near 0% until at least mid-2013. This means that shorter-term CD and Treasury holdings will continue to suffer meaningful losses in purchasing power. The entire Treasury yield curve is currently below headline inflation of 3.4%, as the Fed's 'operation twist' — purchasing $400 billion of longer-term Treasuries and selling a like amount of shorter-term securities (by June 2012) — contributed to a sharp drop in longer-term yields during the second half of 2011. By keeping interest rates at historically low levels, the Fed is helping to ease the US government's interest burden on its huge debt outstanding ($14.3 trillion). The chart (financial repression) on the next page shows the 3-month Treasury bill rate and the 10-year Treasury bond yield, after inflation.

FIXED INCOME STRATEGIES FOR 2012

1. Focus on fixed income sectors with the ability to deliver positive inflation-adjusted returns
2. Favor corporate and emerging market credit risk over developed sovereign risk
3. Provide a measure of portfolio price stability while avoiding undo interest rate risk

While these strategies have not changed from our 2011 mid-year outlook, our implementation has changed slightly. The following sectors will enable fixed-income investors to earn a positive real return and provide some portfolio stability with a relatively low level of interest rate risk, in our view.

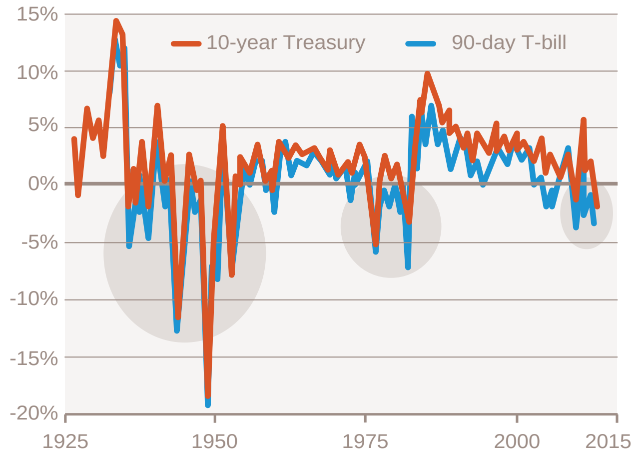
High-Yield Bonds (8.5% yield): 'Junk' bond yields backed up more than one percentage point during the second half of 2011 due to concerns about European debt and global economic growth. We think that high-yield bonds remain the most attractive fixed income asset class, with an appealing risk/reward profile. Risk premiums are now about 750 basis points ("bps" = 1/100th of 1%), which is well above their longer-term average of around 500 bps. In addition, this sector's current yield (8.4%) is now significantly above its all-time low of about 6%, and is compelling when compared to 0% short rates and historically low Treasury yields. Record high-yield issuance in 2009 ($180 billion), 2010 ($300 billion), and year-to-date 2011 ($218 billion) has allowed high-yield issuers to refinance debt on attractive terms and extend their scheduled maturities. Thus, high-

FINANCIAL REPRESSION: POLICYMAKERS KEEP INTEREST RATES BELOW THE RATE OF INFLATION

Inflation-adjusted interest rates

The Fed has resorted to financial repression during past periods of excessive US government indebtedness (shaded areas of chart).

Source: RiverFront, Federal Reserve



yield maturities appear manageable through at least 2015, which should keep defaults low for at least the next couple of years. The high-yield default rate was around 2% in late 2011 according to Moody's, and they expect it to remain low through 2012. We believe that high-yield investors should at a minimum enjoy coupon returns during 2012, with a potential for capital gains if market volatility subsides and allows risk premiums to contract.

Emerging Market Debt (5% - 6% Yields): Emerging market bonds are another source of above-inflation yield, in our view. In general, fiscal conditions in developing countries remain strong, in contrast to conditions in the developed world. Over the past several years, developing countries have benefited from stronger economic growth, a sharp run up in commodity prices, and have not been burdened with the legacy costs of bailing out their financial systems.

Short-Term Corporate Bonds and Mortgage-Backed Securities (2% - 3% Yields): Shorter-term corporate bonds can provide an element of safety to portfolios, since their prices should be relatively stable in our base-case economic outlook. Additionally, they offer a significant level of incremental yield above Treasuries to help offset the impact of inflation. If risk premiums widen and/or rates rise, shorter-term corporate bond prices should suffer less than longer-dated corporate returns. Still, their yields only compare favorably with other sectors of the investment-grade market; the 1-5 year corporate bond index yields about 2.8%, which is less than the current year-over-year inflation rate of 3.4%. However, because the yield curve remains very steep, investors can benefit by 'rolling down the yield curve.' In other words, if the yield curve remains unchanged, as a bond moves closer to maturity its yield will fall and its price will increase (all else being equal). Thus it is possible to earn a total return (coupon income plus price change) that will keep up with inflation. Within this sector, we prefer the higher yielding subgroups such as high quality financials and BBB-rated corporates. From a risk/reward standpoint, a short-term corporate bond can yield as much as the 30-year Treasury, with incremental credit risk but with much less interest rate risk. Mortgage Backed Securities (MBS) can also provide incremental yield to offset the impact of inflation. With the Fed likely on hold until mid-2013 and rates already at historical lows, prepayment levels could be less volatile.

POTENTIAL RISK MANAGEMENT IF WE ARE WRONG

Long-Term Treasuries. With yields pinned near 0%, shorter-term Treasuries offer little opportunity for price appreciation in 'flight-to-quality' market environments. Longer-term Treasuries, especially 30-year maturities, remain significantly above their 2008 lows (2.5%); their prices could rise about 12% if are those lows are retested. In contrast, the 10-year Treasury yield is below its 2008 low of 2.05% and only slightly above its record low of 1.72% made in September 2011. If the 10-year yield were to retest its record low, its price gain would only be about 3%. Longer-term Treasuries have generally been one of the few reliable hedges to risk assets (equities, high-yield) with their prices rising as risk sells off and vice versa. With operation twist expected to last through mid-2012, we see little risk of longer-term yields backing up sharply before then. In addition, the Fed will likely act to restrain longer-term rates if they started rising sharply while the economy is still under pressure, unemployment remains elevated, and budget deficits high. However, Treasury yields are likely to rise (and prices fall) as economic growth improves and European stress subsides, so investors must be prepared to remove the hedge to longer-term bonds quickly.

GLOBAL STOCKS:

Earnings growth will slow, even decline but global policy easing may allow stocks to rise.

In our base case, Europe is in recession, US growth is slightly positive and developing world growth at 5% or less is the lowest since 2008. In response, developing countries reverse monetary tightening and ease policy steadily, but ECB accommodation is tempered by its deeply rooted, anti-inflation bias. Thus we believe 2012 will be a year of concurrent global monetary easing, the first since 2009/10. We believe China avoids a hard landing but does not avoid a painful property and bad-debt cycle and is forced to use substantial government resources to restructure the debt. We see a relatively strong US dollar rising against the euro during the year. We think commodity prices, especially oil, agriculture and gold, respond positively to both monetary easing and the anticipation of stronger growth in the developing world in the second half of 2012 and into 2013.

In this environment, global earnings growth slows; European earnings may fall and S&P 500 earnings may be no better than flat, at around $100. We see a wide trading range again for the S&P 500 of 1140 to 1440 (see table on next page) levels under different scenarios, with the upper end most likely if the European recession is paired with a controlled management of Europe's sovereign debt challenge. We think the US market continues to lead in the first half of 2012, but that at some point, emerging markets will have discounted the growth slowdown and will start to anticipate a revival. Europe become attractive to us if the euro falls enough to improve the competitiveness of stronger Northern European countries like Germany, but during that process the Eurozone will likely underperform. Within Europe, we like the UK because of the market's composition of high-quality global franchise businesses, above-average dividends and below average PEs. We begin 2012 heavily underweight continental Europe and, while the year will likely offer trading opportunities, we are currently somewhat defensive overall.

EMERGING MARKETS: ECONOMIC SLOWDOWN UNDERWAY, MONETARY EASING JUST BEGINNING — NEUTRAL

Led by rapid development in China and India, developing economies' share of global output is already as big as that of the US or Europe, and they are the largest contributor to growth. However, this is a delicate time in developing countries' economic cycles as overseas demand falls and (in China's case especially), property developers have to deal with oversupply and tight credit. Substantial monetary easing may be required to offset these headwinds, and these markets may remain under pressure until these policy adjustments are made.

EUROPE AND JAPAN: STOCKS CHEAP BUT ECONOMIES A MESS — UNDERWEIGHT

In our Economic section, we argue that European policymakers failed to resolve the most critical issue for markets: how Italy and Spain will shrink their deficits without economic growth and a mechanism to lower their long-term cost of funding sufficiently to make inroads into their deficits. We continue to believe that only the ECB has the wherewithal to end this crisis. Since they remain stubborn in their view that it is not their role to do so, we are underweight.

We are more hopeful about the longer-term outlook for the UK. With the freedom to set its own monetary policy and a recently elected right-of-center coalition, we think the UK can regain competitiveness and outperform. Japan only interests us as a play on global growth; with global growth slowing, we are underweight Japan.

TACTICAL POSITIONING OF OUR PORTFOLIOS

Since we see stocks trading within a volatile, but rising channel; our tactical strategy will be to lean against sentiment, reducing exposure on optimism and adding when investors become excessively pessimistic. We think the channel's annualized growth rate will be around 6.5%, in line with long-term earnings growth. In the exceptionally volatile economic cycle of 2008 and 2009, forecasting earnings was difficult. Now, earnings are well established and about 20% above trend. Absent global recession, we believe earnings will remain above trend as high unemployment gives companies substantial power to keep labor costs below average. Thus the risk is that a global recession causes a 20% decline in earnings — an outcome that we do not think is priced into stocks. The opportunity is that from high levels of investor pessimism, stocks could potentially rise in a 'muddle-through' scenario and remain extremely cheap versus cash and bonds. The challenge is forecasting a PE that investors will be willing to pay. Our fair value PE on 2012 earnings is 14, with an upside range to 15 if risks recede and downside to 12 when investors get worried. In the table below, we include figures for a PE of 10 in the event of a global recession.

S&P 500 LEVELS UNDER DIFFERENT SCENARIOS (most likely scenarios highlighted in blue)

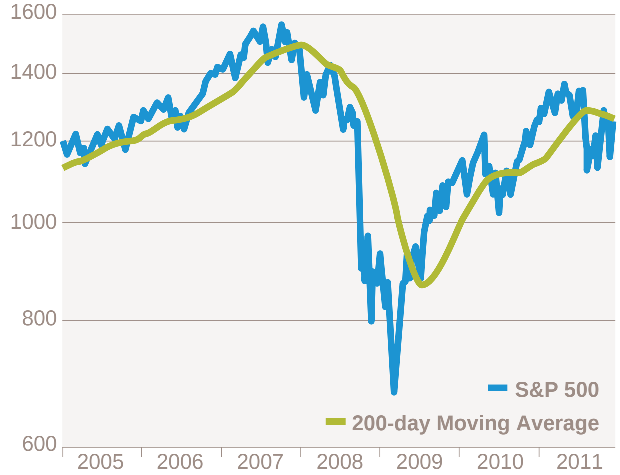
Earnings Yield (earnings / price)	10%	8.3%	7.1%	6.7%
PE Ratio (price / earnings)	10	12	14	15
Pessimistic				
2011: Earnings Per Share $100	1000	1200	1400	1500
2012: Earnings Per Share $85	850	1020	1190	1275
Baseline				
2011: Earnings Per Share $100	1000	1200	1400	1500
2012: Earnings Per Share $95	950	1140	1330	1425
Optimistic				
2011: Earnings Per Share $100	1000	1200	1400	1500
2012: Earnings Per Share $110	1100	1320	1540	1650

S&P 500 Levels = PE Ratio multiplied by Earnings per Share (RiverFront estimates)

THE THREE RULES THAT HELP GUIDE OUR TACTICAL DECISIONS ARE SENDING MIXED SIGNALS.

1. Don't fight the trend: The primary trend (our proxy is the 200-day moving average) for nearly all risk assets has been falling since September, albeit slowly. Almost all global stock markets are trading below their respective primary trends. For us, this suggests being underweight relative to our strategic benchmarks in stocks unless we have a high level of fundamental conviction that economic and earnings momentum will surprise to the upside. This is not currently the case.

2. Don't fight the Fed: The Fed continues to buy Treasury bonds, thus expanding its balance sheet, to prevent yields from rising. Equally it has suggested short-term rates will remain near zero for several years so long as growth is tepid. Unlike in Europe, it has put no pressure on US politicians to deliver a fiscal plan despite the US' already massive debt and annual deficits currently running at 10% of GDP. Without the pressure of higher interest rates, US politicians have not been forced to tackle the issue and so have continued bickering. In the short run, the Fed's actions will likely continue to support stocks and commodities and will probably also help the bond market. However, since the Fed's stated goal is stronger growth and increased bank lending, higher long-term interest rates and higher inflation seem ultimately inevitable. The only issue is when. Our view is that the scale of US deficits will force the Fed to continue to finance them for years, thus locking bond investors into a decade of below-inflation returns.

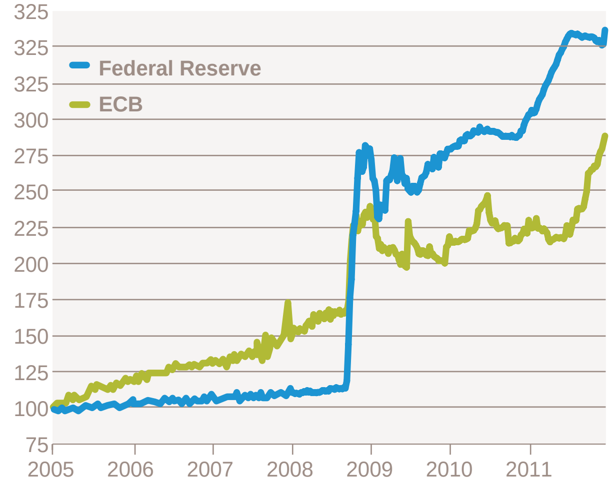


CAUTION: THE TREND IS FALLING

S&P 500: Index and 200-day Moving Average

Source: RiverFront

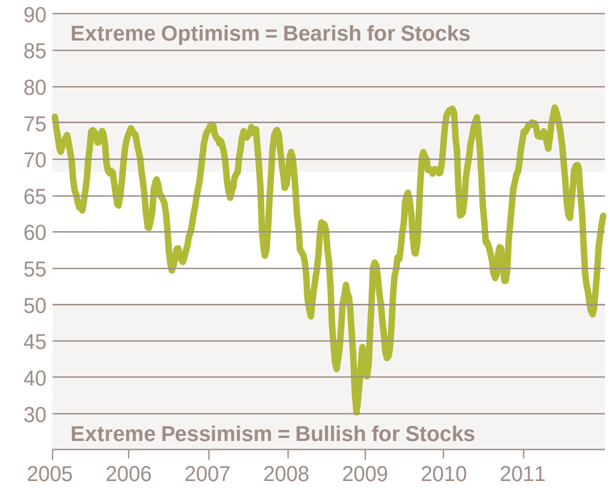
Past performance is no guarantee of future results.



US POLICY IS SUPPORTIVE, EUROPE LESS SO (WHILE DEVELOPING ECONOMIES' MONEY SUPPLY IS STILL FALLING)

Central Bank Balance Sheets Indexed to 100, January 2005

Source: RiverFront, Federal Reserve, European Central Bank



SENTIMENT IS NEUTRAL

Bullish Advisors as a Percent of Bulls + Bears

Source: Ned Davis Research

Past performance is no guarantee of future results.

3. Beware the crowd at extremes. Longer-term measures of sentiment show that investors remain skeptical and consumer confidence is low. We regard this as a positive. However, our favorite measures of shorter-term sentiment have recovered to a neutral level following extreme pessimism in October.

STOCKS VERSUS BONDS:

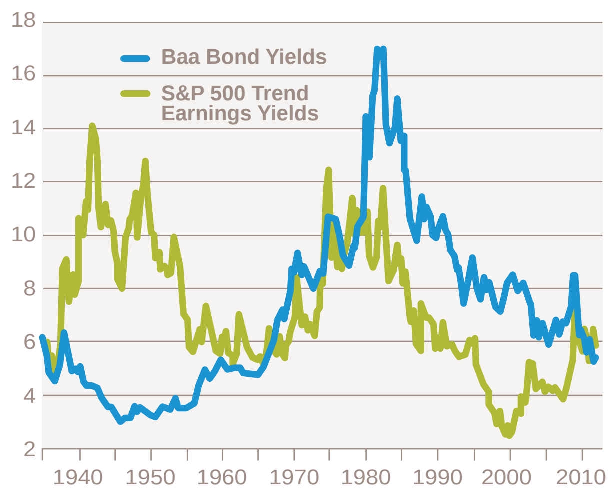
Valuation: We regard valuation as a blunt instrument. History shows that valuation ratios go through regimes. During the 1930s and 1940s, investors shunned stocks and valuations reached historic lows. At the lowest, the S&P 500 traded at seven times trend earnings for an earnings yield (the inverse of the PE) of 14% even as Baa corporate bond yields were under 4% (see top chart below). In the 1960s and 1970s, earnings yields and Baa yields were similar, with both rising as inflation started to climb. The relationship reversed during the 1980s and 1990s and earnings yields were typically two to three percentage points less with the exception of the 1996 to 2000 bubble. Now, both yields have converged as they did in the 1960s and 1970s. We believe earnings yields should not be more than Baa yields since the investor benefits from the growth of earnings, and when investor confidence returns earnings yields will be lower. In our baseline scenario, we see Baa yields stabilizing around 5% and so believe PEs of 14 to 16 represents fair value (see table on previous page).

STOCKS APPEAR ATTRACTIVE RELATIVE TO CORPORATE BONDS

Corporate Yield vs. S&P 500 Trend Earnings Yield

Source: RiverFront Investment Group, Standard & Poor's, Ned Davis Research

Past performance is no guarantee of future results.

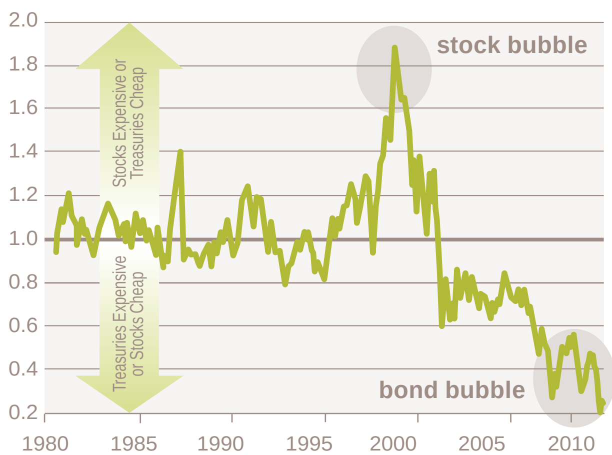


TREASURY BONDS ARE EXPENSIVE

Fed Valuation Model: 10-year Treasury Yield Divided by S&P 500 Forward Earnings Yield

Source: RiverFront Investment Group, Ned Davis Research

Past performance is no guarantee of future results.



By the standards of the last thirty years, stocks are very cheap relative to government bonds. Indeed, the valuation case for stocks over bonds is as overwhelming at the end of 2011 as it was for bonds in 2000. The so called Fed Model compares 10-year Treasury yields to the earnings yield on stocks (see lower chart at left) and assumes that they should be roughly equivalent. The Fed Model was a favorite tool of former Fed Chairman Alan Greenspan and it worked well as a relative valuation gauge in the 1980s and early 1990s. However, the relationship has not worked since the late 1990s. In 2000, bonds were yielding about 6.5%, about twice as much as stocks, implying that stocks were overvalued. At the end of 2011 the situation has reversed — 10-year Treasury bonds yield 2.0% and the S&P 500's reported earnings yield is about 7.1%. We think the message is that Treasury bonds are expensive and stocks are cheap. While less useful as a tactical guide, we believe the Fed Model is still useful at extremes and thus supports RiverFront's defensive bond portfolio and ongoing belief that stocks and other risk assets will outperform longer dated bonds in the coming years.

US STOCKS: A COMPELLING LONG-TERM STORY

Return expectations and risk are the two primary drivers of an investment in our view. An investment's return can be estimated by forecasting and discounting its future cash flows, i.e. earnings for equities or interest payments for bonds. Risk concerns the likelihood that the counterparty will deliver the expected cash flows. Therefore, investment decisions should be driven by answering two questions. Which asset offers the most attractive future cash flows? Which asset's counterparty is most likely to deliver the cash flow?

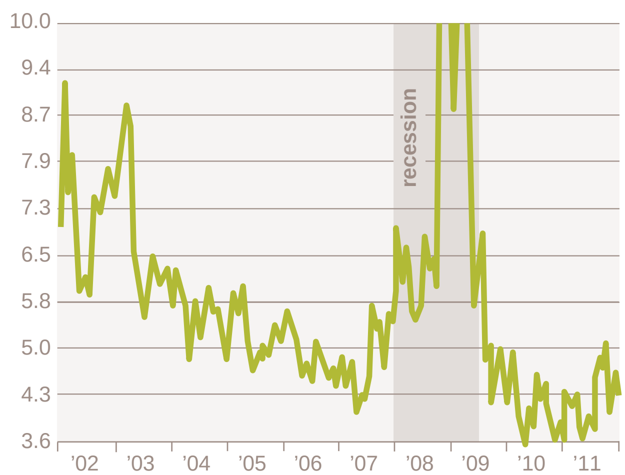
STOCKS OFFER THE MOST ATTRACTIVE CASH FLOW

Bond coupons generally do not change, thus bonds' future cash flows are currently easy to predict at around 2%, which is the current yield of the 10-year US Treasury. Real estate cash flows are more difficult to estimate since the probabilities for capital gains or losses must be combined with the more predictable rent/mortgage payment stream. However, ignoring the prospects of capital losses or gains (an optimistic assumption, in our view, given the continued stress in the housing market) we use the 4% dividend yield of a diversified basket of REITs as a proxy for real estate cashflows.

For stocks, we use the earnings yield (earnings per share divided by the stock price) as a proxy for cash flow. The earnings yield for an equally-weighted portfolio of non-financial S&P 500 companies is currently well over 7%. (We exclude financials because banks and insurance companies have unique accounting conventions that make comparisons with non-financial companies difficult and potentially misleading.)

HISTORICALLY HIGH EARNINGS YIELDS A FUNCTION OF EXTREME PESSIMISM

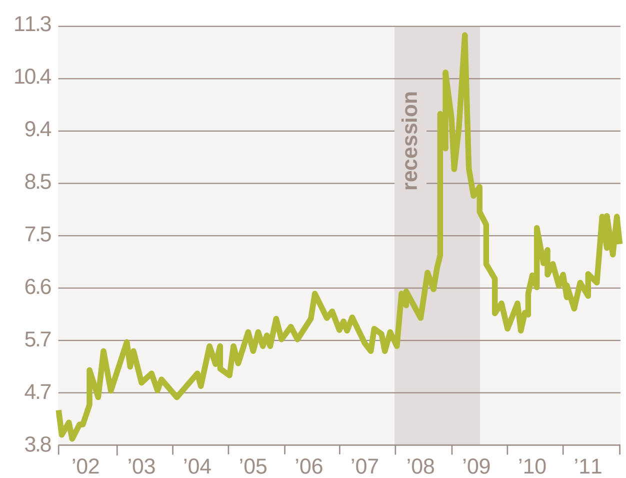
In aggregate, US public companies are doing well. The revenues and earnings per share for the country's largest companies, as represented by the S&P 500, have not only recovered from the 2007-2009 recession but have surpassed the levels they reached during height of the last bull market (2007). However, the average S&P 500 company's share price remains well below the 2007 peak, reflecting investor skepticism regarding corporations' health and earnings prospects.



REIT DIVIDEND YIELD AROUND 4%

Dividend Yield Forward %

Source: Intrinsic Research



S&P 500 (EX-FINANCIALS) EARNINGS YIELD OVER 7%

Source: Intrinsic Research

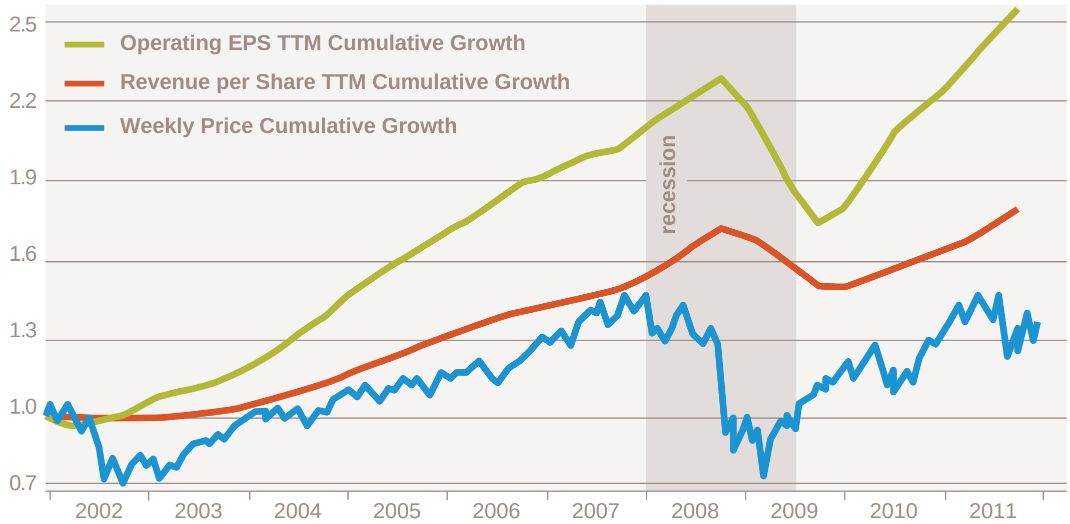
EARNINGS LIKELY TO GROW, BOLSTERED BY RESILIENT PROFIT MARGINS AND SHARE BUYBACKS

While current revenues and earnings are at highs, we think the prospect for profit margins remaining resilient looks good and that this, combined with steady share buybacks, will support earnings and help to offset revenue pressures from weak global economic activity. Net profit margins for large US companies are almost 9%, a 20-year high. With key cost drivers like labor, financing and raw materials all falling due to continued global excess capacity, only global recession could threaten these record-high margins, in our view.

S&P 500 (EX-FINANCIALS): REVENUES, EARNINGS AND PRICE

Indexed to 1.0, January 2002

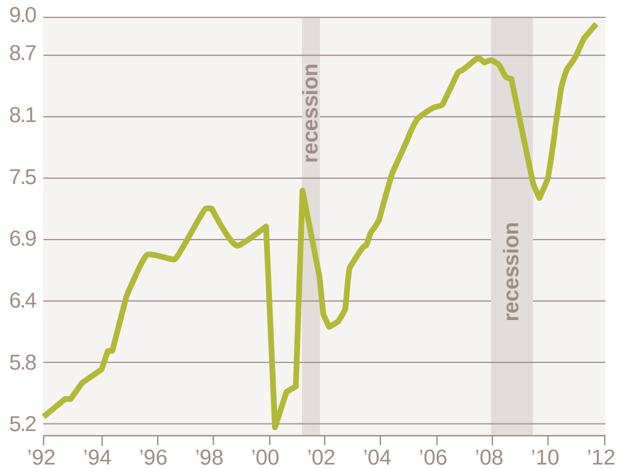
Source: Intrinsic Research



PROFIT MARGINS AT 20-YEAR HIGHS

S&P 500 (Ex-Financials) Net Profit Margin %

Source: Intrinsic Research



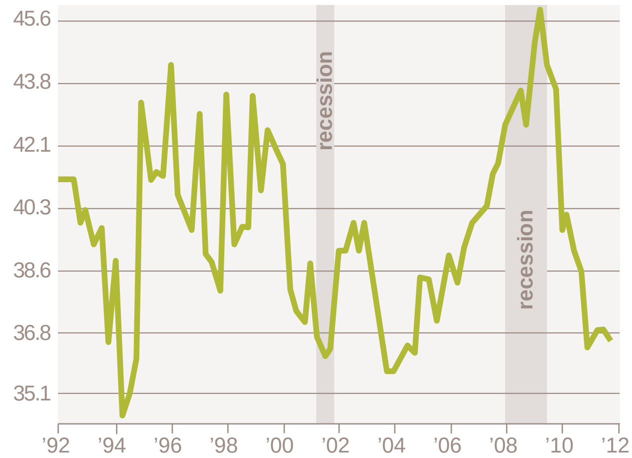
The familiar value investors' philosophy of evaluating the purchase of a stock as if you were buying the whole company is reflected in recent buyback activity. The pace of share buybacks has accelerated in 2011, the third largest share buyback year in recent history, with over $450 billion of shares retired by early November 2011, according to Birinyi Associates. Even Warren Buffett, historically a staunch critic of share buybacks, announced last September that Berkshire Hathaway's board authorized an unprecedented share buyback program. Share buybacks enhance earnings growth because future earnings are distributed across fewer shareholders.

CORPORATE AMERICA MAY PRESENT THE FEWEST RISKS TO CASHFLOWS

We believe there are two primary risks to future cash flow: counterparty and valuation.

Investors rely on some entity — the counterparty — to produce an anticipated cash flow for every security they purchase. Bond investors rely on the issuer for payment; for many bonds that issuer is the Federal, State or Municipal government. Real estate investors rely on consistent payments from renters or mortgagees. Stock investors expect corporations to deliver earnings and dividends. Among these three types of counterparties, we think corporations are the healthiest.

Governments and consumers continue to be challenged by high debt levels and little hope for higher wages or tax receipts. In contrast, US corporations have drastically reduced debt levels since 2009 and have near-record levels of cash.



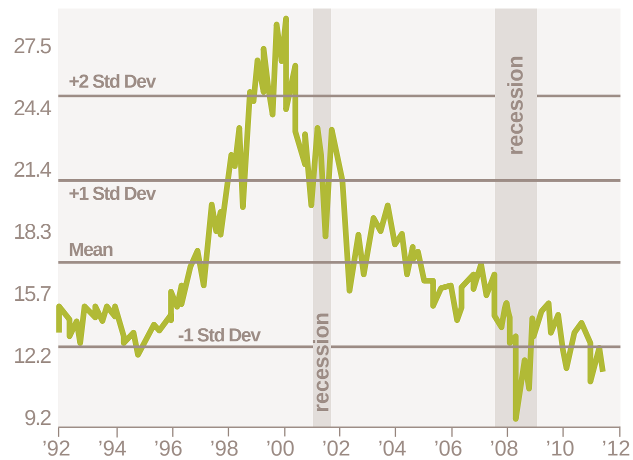
US CORPORATE DEBT LEVELS LOW

S&P 500 (Ex-Financials) Total Debt Divided by Assets

Source: Intrinsic Research

CORPORATE AMERICA IS VALUED ATTRACTIVELY

We believe the entry price is the most important determinant of a stock's long-term returns, i.e. Price Matters. If a stock is bought too high, there is a low likelihood that the stock will generate the desired returns over the investment horizon. Currently, we believe corporate America is 'on sale,' underscored by forward PE ratios that are as low as in the early 1990s, one full standard deviation below the average of the past 20 years, despite record-low interest rates.



CORPORATE AMERICA IS ON SALE

S&P 500 (Ex-Financials) Forward PE Ratio

Source: Intrinsic Research

EQUITY SECTOR STRATEGY

We believe the market's most compelling sectors share at least two of the following characteristics: growth that is faster than the broad market; valuation that does not yet reflect a company's above-average growth prospects and still trades at a market discount; and relative strength that is positive, an important confirmation signal, in our view, that the market recognizes the sector is on the right track.

In the US, we are most attracted to large-cap stocks with either attractive dividend or growth characteristics. Our favorite sectors include Healthcare and Technology, which we think have better growth prospects, superior relative strength and better valuations than the broad market; and Consumer Discretionary, which is valued in line with the broad market but has better growth prospects and relative strength. Although the growth prospects for our universe of dividend paying stocks are somewhat less than the broad market, we think their attractive valuation and superior relative strength will help them outperform in an environment of high market volatility and below-trend economic growth.

IMPORTANT DISCLOSURES

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.

Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

Dividends are not guaranteed and are subject to change or elimination.

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.

In a rising interest rate environment, the value of fixed-income securities generally declines.

High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add this asset class to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any commodity purchase represents a transaction in a non-income-producing asset and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.

Obligations rated Baa by Moody's are subject to moderate credit risk. They are considered medium-grade and as such could possess certain speculative characteristics.

An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread-apart the data is, the higher the deviation.

RiverFront Investment Group, LLC is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. RiverFront Investment Group, LLC manages a variety of asset allocation portfolios utilizing stocks, bonds, and Exchange-Traded Funds.

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The art & science of dynamic investing.

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