From right to left:

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We are beginning to see extremely optimistic sentiment and overbought signs from shorter term market indicators, which, while not historically negative for stocks on a three-month to one-year basis, suggest shorter-term caution. Thus, while we see no reason to reduce stock exposure, we think new money may have a better entry point in the next several weeks.

January's Stock Gains Encouraging but Pace Unsustainable

The S&P 500 has started the year up 5.4% and closed last Friday above 1500 for the first time in over five years. It is among the best global performers so far in 2013, as many of the world's other stock markets pause after outperforming the US in the fourth quarter. We do not think this pace is sustainable; extrapolating a 5% monthly performance for 12 months would result in gains of 80%, which we view as highly unlikely in our baseline expectation for 1.6% US GDP growth in 2013. Furthermore, we are beginning to see extremely optimistic sentiment and overbought signs from shorter term market indicators, which, while not historically negative for stocks on a three-month to one-year basis, suggest shorter-term caution. Thus, while we see no reason to reduce stock exposure, we think new money may have a better entry point in the next several weeks.

We started this year bullish on stocks and suggested that the S&P 500 could return up to 10% in our baseline scenario or 15% in our optimistic scenario. However, if our baseline scenario is correct, half of the year's gains have already occurred. Therefore, RiverFront's tactical portfolio allocation is broadly in line with our strategic allocation, and we have recently reduced US exposure. Our strategic allocation is based on our long-term Price Matters® framework and is generally overweight risk assets relative to safe assets.

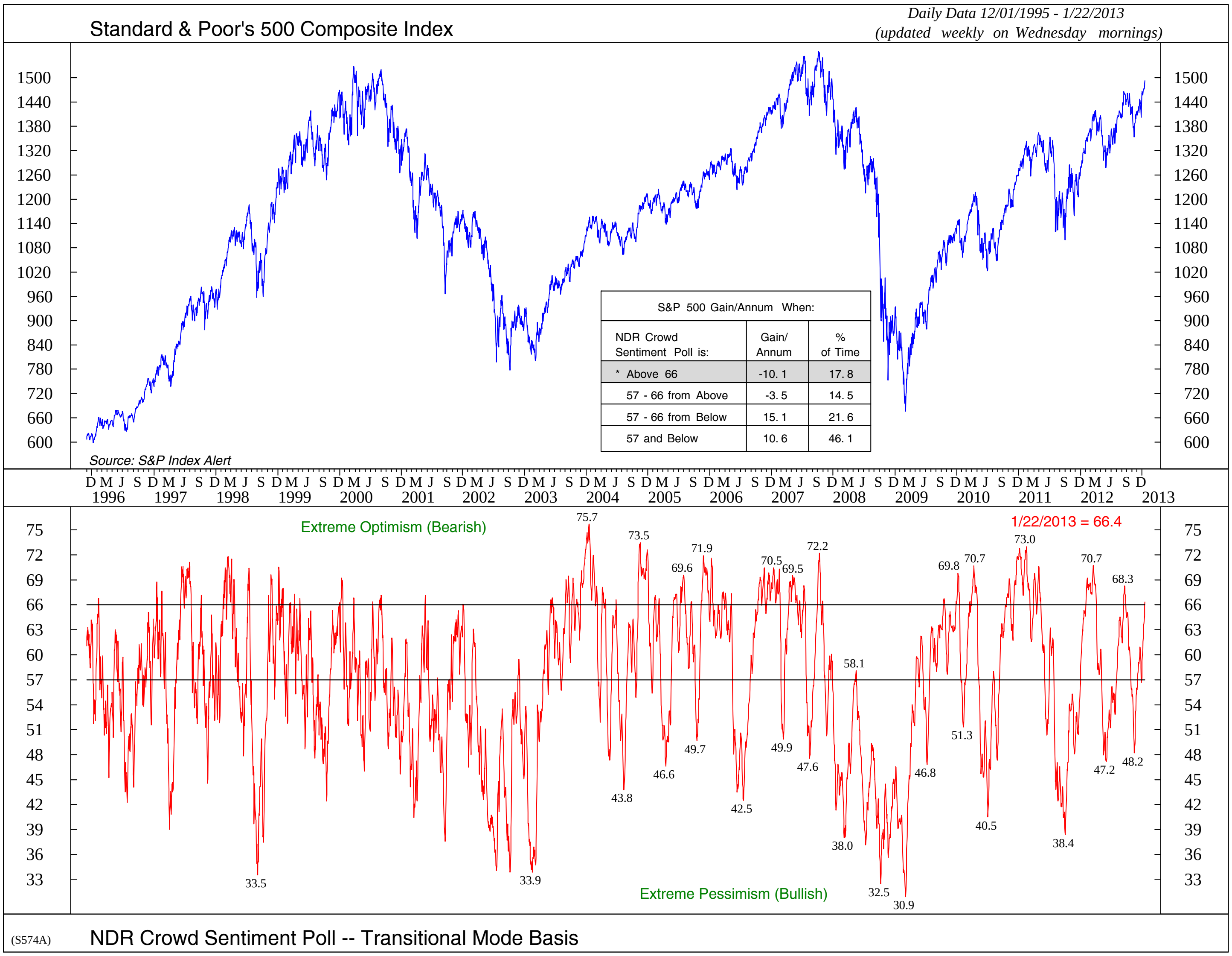
While one of our three investment rules for stocks — *beware the crowd at extremes* — has begun to flash a caution sign (see Weekly Chart), the other two rules — *don't fight the Fed* and *don't fight the trend* — remain bullish. Central banks around the world are almost unanimously accomodative. The Fed continues its quantitative easing program of creating money to purchase $85 billion of Treasuries and mortgage backed securities a month. Additionally, Japan's central bank last week endorsed open-ended support for a 2% inflation target (although they currently say they won't start QE until next year). Historically, when money supply is growing faster than the economy — US M2 money supply is up 10.6% (3-month annualized basis) versus estimated 2012 GDP growth of 2% — the excess tends to spill over into financial assets.

The trend — we use the 200-day moving average — is rising at a 5.6% monthly annualized rate after flattening a bit in the fourth quarter, as illustrated in the chart on the right. With both the 50 and 200-day moving averages rising and the 50-day having remained above the 200-day for about a year, we see the trend indicators as clearly positive. One note of

Source: FactSet Research Systems; Past performance is no guarantee of future results.

caution is that the S&P 500 is now stretched 7% above the primary trend. Additionally, we have observed over the years that round number landmarks for stock indexes, like 1500 for the S&P 500, seem to have a psychological impact on investors and often act as resistance when approached from below or support as the index falls. Thus we are alert for a correction that would bring the market closer to its trend, which we would view as a healthy sign.

THE WEEKLY CHART: SENTIMENT RISES INTO LOWER RANGE OF EXTREME OPTIMISM



Past performance is no guarantee of future results.

Echoing the somewhat stretched nature of the S&P 500 above its trend, sentiment for US stocks has reached extreme optimism based on the Ned Davis Research Crowd Sentiment Poll. The table in the chart shows the S&P 500 has had negative returns during the time the sentiment poll was above 66% bullish. Our analysis of the poll suggests potential for small declines over the next month or so, but over six months to a year, the odds of positive performance improve to roughly normal. We do not view the entry into the extreme optimism zone as a sell signal; rather, we look for extremes above 71% bullish before considering any defensive tactical portfolio adjustments.