WASHINGTON CROSSING ADVISORS

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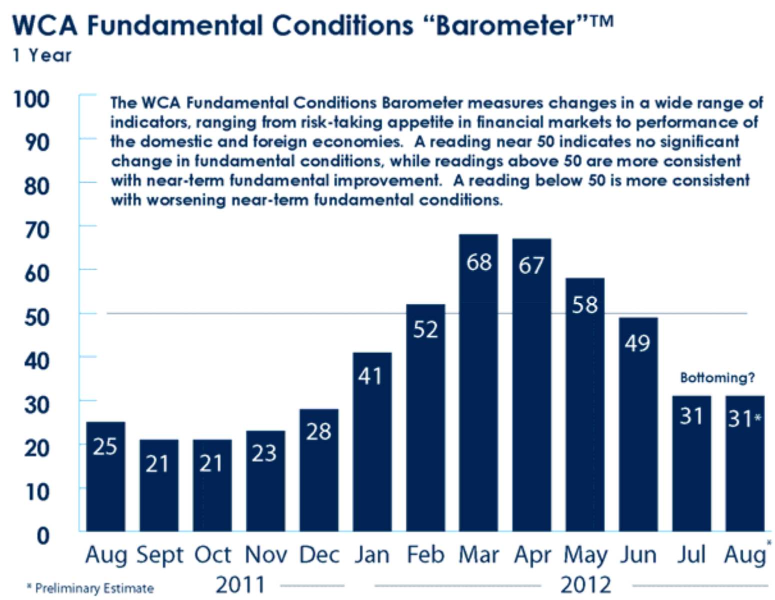
Upgrading Outlook

Bottoming Process Underway

With August now in the history books, we note that the downtrend in fundamental data appears to have been arrested and that a bottoming process is likely underway. Specifically, we saw encouraging signs in August that the U.S. consumer continues to spend in the face of higher gasoline prices. Automobile sales, for example, rose to a 14.46 million annualized rate last month, and chain store sales accelerated to a 2.6% year-over-year growth rate. Global manufacturing surveys also showed some modest improvement during the month, despite remaining near depressed levels.

Nowhere in the data were there signs of a strong rebound, however. That must remain a story for another day. Given elevated debts, recovery remains uneven and growth remains well below historic norms. Households are still rebuilding savings and retiring debts as confidence remains fragile. Thus, our recent decision to increase equity exposure in model portfolios reflects a move to a more balanced outlook from a negative one given the leveling off of our barometer (seen below). We still prefer United States assets over foreign given remaining execution risks and relatively better growth prospects in the United States compared to Europe.

Our WCA Fundamental Conditions Barometer (shown here) appears to be bottoming, in part, due to decent U.S.-led demand through August and some very modest improvement in foreign manufacturing surveys.



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To be clear, the European Central Bank's recent actions do not solve Europe's problems or directly stimulate growth.

These actions significantly lessen the risk of a spreading systemic crisis in the short-run and encourage an environment where growth might eventually be achieved.

Draghi's Delivers on His Pledge

Although happenings on the other side of the Atlantic may seem worlds away from Main Street, USA, our financial markets are clearly linked to those of Europe. Most recently, markets have been encouraged by the European Central Bank's (ECB) pledge to fight to save the Euro and maintain a united monetary union. Just last week, ECB President Mario Draghi followed through on a recent pledge to do "whatever it takes" to save the Euro by pledging unlimited purchases of shorter-term bonds of troubled countries. The borrowing costs of countries including Portugal, Spain, and Italy were immediately lowered. Italy's borrowing cost for 2-year money is fast approaching 2%, compared to a high of nearly 5% earlier this summer. Similar claims can be made for Spain and Portugal, whose 2-year cost of money has fallen to 2.5% and 3.5% from 6.5% and 7.9%, respectively. Even though no bonds have yet been purchased by the ECB, the pledge to do so has had a material beneficial impact on the region's finances.

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Emerging Markets: Priming the Pump

Elsewhere around the world governments remain actively involved in economic pump-priming. Results, both intended and unintended, usually follow with a lag. Several emerging market economies are attempting to stimulate growth through a combination of lower interest rates and government spending programs. Brazil, the largest economy and most populous nation in Latin America, reduced their base lending rate to 7.5% from 12.5% over the past year. Australia, Indonesia, the Philippines, and Thailand have made similar moves.

China has joined the pump-priming bandwagon, too. China, which is the world's second largest and fastest growing economy, reduced its base lending rate to 6% from over 6.5% and announced an infrastructure spending program equal to 2% of their economy's gross domestic product (a $130 billion program). We expect such stimulus measures to add to growth next year.

Bernanke's Next Move

While Europe and the rest of the world are pushing to enliven growth, the odds are also rising that the Federal Reserve will take additional action soon. Federal Reserve Chairman Ben Bernanke again confirmed his commitment to prevent deflation and recession during his recent speech at Jackson Hole, Wyoming but stopped short of specific commitments. Markets expect to hear those specifics at the upcoming Federal Open Market Committee meeting this Thursday.

In our view, it is likely that the Federal Reserve will extend the time over which they intend to keep interest rates near 0% in conjunction with a sober assessment of the economy (especially given the recent weak August employment report). We are less certain about the timing of additional asset purchases ("QE") largely because inflation expectations are rising sharply toward 2.5% and commodity prices are similarly strong, suggesting rising inflation. Whether it comes in this meeting or in December, odds are still rising that the Fed will soon deliver more easing ("QE") given unemployment over 8%.

Summing Up

It appears that the slump in global business activity that began to take hold last spring may be bottoming out in light of recent data. Additional policy actions taken around the world from Europe, to Latin America, Asia, and (likely) the United States should provide a boost to fundamental conditions over the next 6-9 months.

Portfolios have been shifted to a more balanced posture from a slightly negative growth bias as the result of these facts.

Our current asset allocation models are presented on the following page.

Tactial Asset Allocation

Monday, September 10, 2012

	================= CORE ===================							====== SECTOR-ENHANCED =====				
	======= TAXABLE ========				==== MUNICIPAL ====			==== TAXABLE ====			= MUNICIPAL =	
Asset Class	**Aggressive**	**Moderate Growth**	**Balanced**	**Conservative**	**Moderate Growth**	**Balanced**	**Conservative**	**Aggressive**	**Moderate Growth**	**Balanced**	**Moderate Growth**	**Balanced**
Fixed Income	**10%**	**25%**	**50%**	**72%**	**25%**	**50%**	**72%**	**10%**	**25%**	**50%**	**25%**	**50%**
CASH	10%	2%	2%	2%	2%	2%	2%	10%	2%	2%	2%	2%
DOMESTIC BONDS		23%	48%	70%	23%	48%	70%		23%	48%	23%	48%
Short-Term Treasuries			3%	8%						3%		
Core Bonds		6%	11%	19%					6%	11%		
Long-Term Treasuries (7-10 Yr)			9%	11%						9%		
Investment-Grade Corp Bonds		4%	10%	18%					4%	10%		
High-Yield Corporate Bonds		13%	12%	9%					13%	12%		
International Treasury Bonds			3%	5%						3%		
Short-Term Municipals					13%	28%	38%				13%	28%
Long-Term Municipals					10%	20%	32%				10%	20%
Equity & Other	**90%**	**75%**	**50%**	**28%**	**75%**	**50%**	**28%**	**90%**	**75%**	**50%**	**75%**	**50%**
DOMESTIC	66%	56%	35%	19%	56%	35%	19%	66%	56%	35%	56%	35%
All Cap Domestic	20%	15%	6%	6%	15%	6%	6%	20%	15%	6%	15%	6%
Large Cap Growth	15%	13%	10%	5%	13%	10%	5%					
Large Cap Value	15%	13%	10%	5%	13%	10%	5%					
Small Cap	16%	15%	9%	3%	15%	9%	3%	16%	15%	9%	15%	9%
FOREIGN												
Developed Markets												
Emerging Markets												
OTHER	24%	19%	15%	9%	19%	15%	9%	24%	19%	15%	19%	15%
Gold	12%	10%	8%	6%	10%	8%	6%	12%	10%	8%	10%	8%
REITs	12%	9%	7%	3%	9%	7%	3%	12%	9%	7%	9%	7%
LARGE CAP U.S. SECTORS								30%	26%	20%	26%	20%
Energy								5%	4%	3%	4%	3%
Technology								7%	6%	3%	6%	3%
Materials												
Industrials												
Consumer Discretionary								3%	3%	3%	3%	3%
Cyclical:								15%	13%	9%	13%	9%
Health Care								4%	3%	2%	3%	2%
Utilities								4%	3%	3%	3%	3%
Consumer Staples								5%	5%	4%	5%	4%
Telecommunications												
Financials								2%	2%	2%	2%	2%
Non-Cyclical:								15%	13%	11%	13%	11%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

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 NARIET. 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."