Washington Crossing Advisors

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About Washington Crossing Advisors
WCA strategies are offered through the Stifel Score Program (Research-Driven Portfolios). The management team has worked together for the past 20 years as market strategists and portfolio managers.

About Stifel
Founded in 1890, Stifel is one of the leading financial services firms in the U.S., providing full-service brokerage and investment banking services. Stifel is a leading underwriter and advisor for companies and a top provider of trade execution and securities distribution with nationally recognized research and a suite of asset management strategies.

STIFEL

TACTICAL ASSET ALLOCATION QUARTERLY

Executive Summary

There are signs that the economy is seeing some lift as we write this outlook for 2014. Not only has most of the economic data been behaving nicely of late, but private credit growth is picking up, fiscal drag is running off, and signs of a pickup in global growth are emerging.

Here in the United States, for example, there was a pickup in mortgage borrowing to accompany the recent rise in home prices. This increase in borrowing marks the first time in seventeen quarters that Americans have collectively been willing to borrow slightly more than what they have paid off in terms of mortgages and other forms of borrowing. The process of deleveraging has been interrupted.

Additionally, there has been less emphasis placed on “stimulus” to spur growth. Deficits have shrunk, most employment gains are coming from private businesses instead of government payrolls, and the Fed has initiated plans to reduce asset purchases. The economy is not in the clear, but the data certainly appears to have improved significantly. Households and businesses, which ultimately drive the economy, are generally feeling more optimistic and are in a better financial position than just a few years ago. This is feeding back into growth and market behavior.

Five Key Assumptions for 2014

1. Global growth improves as the U.S. accelerates and Europe emerges from recession.

2. Inflation remains below 2% as quantitative easing is dialed back, and 10-year Treasury rates remain below 4%.

3. The economy continues to add about 200,000 jobs monthly, and private payrolls rise above 117 million to a new record level of private sector employment.

4. For the first time in five years, private credit growth expands and reinforces prospects for growth in final demand.

5. The sharp advance in equity markets in 2013 gives way to a period of consolidation lest the need to address bubbles becomes more acute.

As we head into 2014, we see fundamental conditions as generally supportive of growth. Stock and bond markets appear to be pricing in a good deal of this

Economy

We are exiting 2013 with some momentum. The U.S. economy grew at a 4% rate in the third quarter, which is one of the better readings we've seen since the recovery began in 2009.

- Real private final demand, a purer measure of underlying strength, grew by 2.5% since last year. This growth remains steady and in line with recent years' performance, suggesting further progress ahead.

- The fading of some fiscal drag, a more confident consumer, and an expected pickup in overseas economies bode well for continued growth in 2014. Our recession indicators are indicating a lower probability of recession at this time.

Central to the recovery has been the repair of household balance sheets. Very high levels of government spending, along with central bank easing, were required to provide latitude for private sector healing. These steps, while necessary, can be destabilizing if carried on too long. 2014 will be another successful year if the private economy continues to respond well as supports are unwound.

The Consumer

While the recovery has not been evenly experienced by all, the average consumer is feeling better. There is good reason for rising confidence. Since the start of recovery in 2009, the private sector has added 8 million jobs, and total income is up $1.8 trillion. Household debt is down by over $1 trillion, cash deposits are up over $1 trillion, and net worth of $77 trillion exceeds the peak of the housing boom.

- The average household is saving about $6,000 per year and borrowing very little. The additional borrowing prior to the 2008-2009 recession essentially "pulled forward" spending and made growth look more robust than what could be sustained.

- The ratio of U.S. household debt-to-net worth is down sharply. At last measure, the ratio stood at 17% versus a prior peak of 25% in 2006, and back to levels last seen in the late 1990s.

We expect the consumer to continue to increase spending in 2014, while simultaneously adding to savings.

Investment

The stock market's assessment of risk plummeted during 2013, and even the beleaguered real estate sector saw a pickup in transactions and prices. We still see business reluctant to join the party, as they remain hesitant to boost investment.

- Investment continues to rise as a share of Gross Domestic Product. After falling to 12% of GDP in 2009, investment has returned to 16.2% of GDP. There is room for further improvement, given prior peaks were closer to 20%.

- We are looking for further growth in business investment in 2014, and an acceleration of such investment could be a source of upside surprise during the year.

Government

After government deficits peaked near 14% during the height of the recession, such deficits have worked their way down toward pre-recession levels. The decline in the deficit should continue in 2014 despite recent budget agreements.

- There was worry about drag from higher taxes and less government spending in 2013. If anything, however, the economy is performing better despite "fiscal drag."

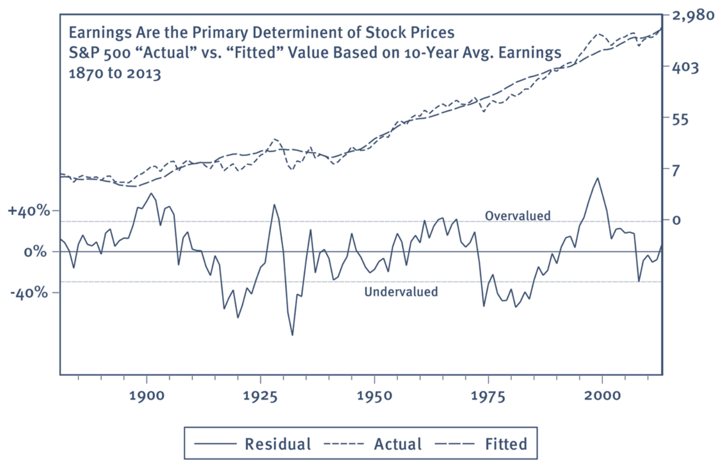
We look for the fiscal deficit to decline further in 2014.

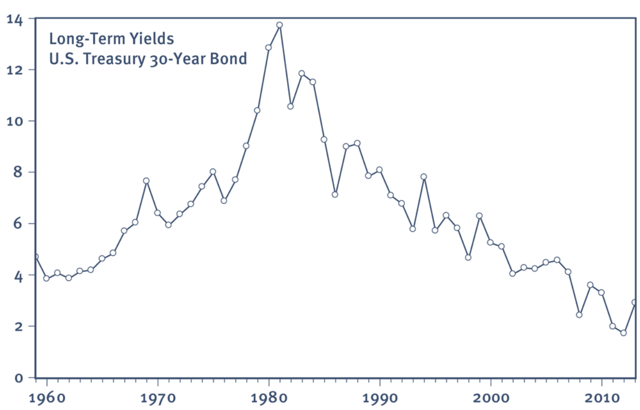
Trade

Exports from the U.S. continue to show signs of improvement into year's end, suggesting better global growth. This is happening as the value of the dollar remains about 20% below the average level of the past 40 years on a trade-weighted basis. China continues to allow its currency to appreciate versus the dollar.

- Supported by a weak dollar, exports from the United States to the rest of the world have gradually doubled in size relative to GDP since the mid-1980s.

Terms of trade are gradually becoming more favorable for U.S. exporters. We expect this trend to continue for some time to come.





Equities

The S&P 500 carries a multiple of just under 16 times our forecasted earnings and just over 16 times trailing earnings. This compares with a 10-year high water mark of 22.4 times earnings and a low multiple of 11.3 times. In other words, the market does not carry either an extremely high or low valuation.

- We think S&P 500 profits can grow by 6.5% next year to $115, driven by continued growth in the domestic economy (4.8% nominal), some pickup in the global economy, and share repurchases. Consensus 2014 S&P 500 EPS forecasts of $120 are likely to prove overly aggressive.

- The 2013 move in stock values puts the S&P 500 slightly ahead of valuations implied by the earnings trend (chart, left). Value will be harder to find in 2014. Foreign markets may still offer some value, however.

Fixed Income

Real interest rates are still negative across most of the yield curve. Rate repression is hurting savers and fixed income investors who continue to find it impossible to achieve desired returns without adding risk. However, inflation remains very low (below 2%) despite central banks' attempts to give inflation a boost.

- Owning shorter-duration bonds makes some sense given low yields on longer-term bonds (chart, left) and against the backdrop of improving growth. Credit spreads have narrowed too, suggesting more limited upside in private sector debt instruments.

Commodities

A moderating pace of central bank accommodation over our forecast, coupled with still soft but positive inflation rates, suggests that commodities are likely to trade in a range. Gold continues to exhibit negative relative performance. Hence, we remains guarded in our outlook for commodities.

FUNDAMENTAL CONDITIONS UPDATE

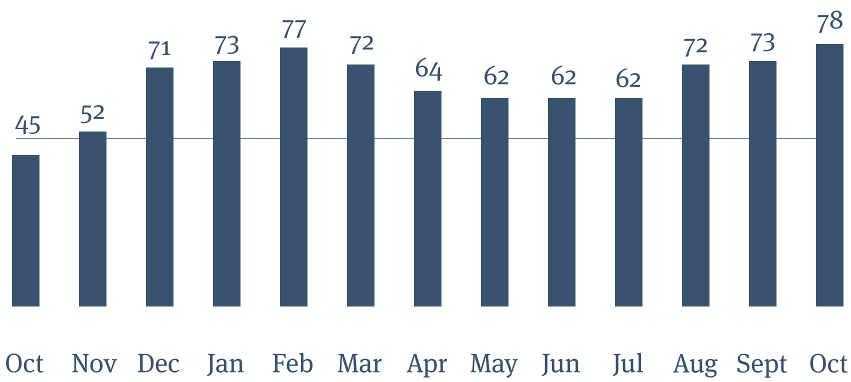
Fundamental conditions continue to show improvement into the fourth quarter. While the December data is not in yet, we feel comfortable that 2013 ended on a strong footing with regard to most of the data we analyze.

WCA Fundamental Trend Indicators

	Last Quarter	Most Recent	Change
Credit and Capital Markets	54	68	Higher
U.S. Economic Conditions	75	65	Lower
Foreign Conditions	90	100	Higher
Fundamental Conditions	73	78	Higher

WCA Fundamental Conditions Barometer

Rising /Above 50 = Lower recession odds



A Barometer for Assessing Changing Conditions

We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions.

Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions to Foreign Conditions.

From each category of data, we create 3 diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks); while readings below 50 would indicate potential deterioration (potentially favoring bonds).

The WCA Fundamental Conditions Index combines the 3 underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

LAST QUARTER PORTFOLIO CHANGES

	Conservative		Balanced		Moderate Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change
Core Bonds	15%		10%		5%		0%	
Floating Rate Securities	15%		10%		6%		0%	
Cash & 1-3 Year Treasuries	17%		10%		4%		5%	
Mortgage-Backed Bonds	11%		6%		0%		0%	
7-10 Year Treasuries	0%		0%		0%		0%	
10+ Year Treasuries	0%		0%		0%		0%	
Investment-Grade Corp Bonds	9%		7%		3%		0%	
High-Yield Corporate Bonds	3%		2%		2%		0%	
International Treasury Bonds	0%		0%		0%		0%	
Domestic Stocks	7%		15%		22%		24%	
Large-Mid Cap Growth	3%		6%		9%		12%	
Large-Mid Cap Value	3%		6%		9%		12%	
Small Cap	7%		8%		10%		11%	
Developed Foreign Markets	5%		12%		18%		22%	
Emerging Foreign Markets	2%		3%		5%		5%	
Gold	0%		0%		0%		0%	
REITs	3%		5%		7%		9%	
Subtotal Bonds & Cash	70%		45%		20%		5%	
Subtotal Equities & Other	30%		55%		80%		95%	
Total	100%		100%		100%		100%	

No changes during the fourth quarter, 2013.

Tactical Positioning

Shorter bond duration given low yields and potential for rates to move higher. Favor shorter-term and floating rate bonds instead.

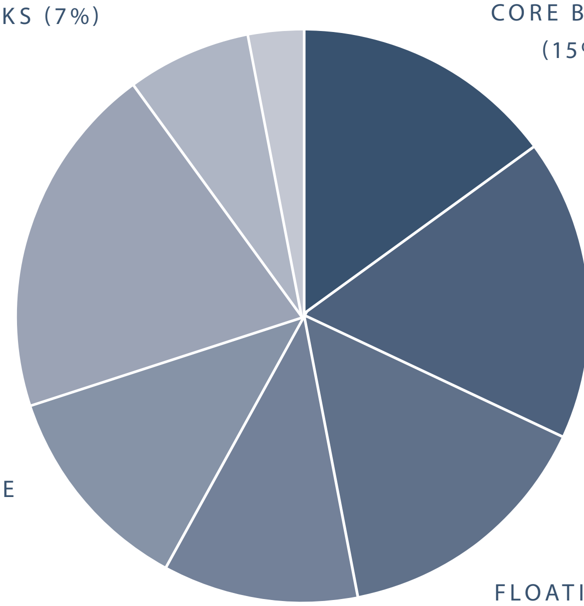
Underweight gold given poor relative strength; better performance by banks; and constrained inflation outlook.

Equity exposure is slightly overweight given improving fundamentals.

Small cap overweight on better relative performance.

Conservative Portfolio

CONSERVATIVE PORTFOLIO
EQUITY POLICY RANGE: 0-50%
CURRENT EQUITY EXPOSURE: 30%

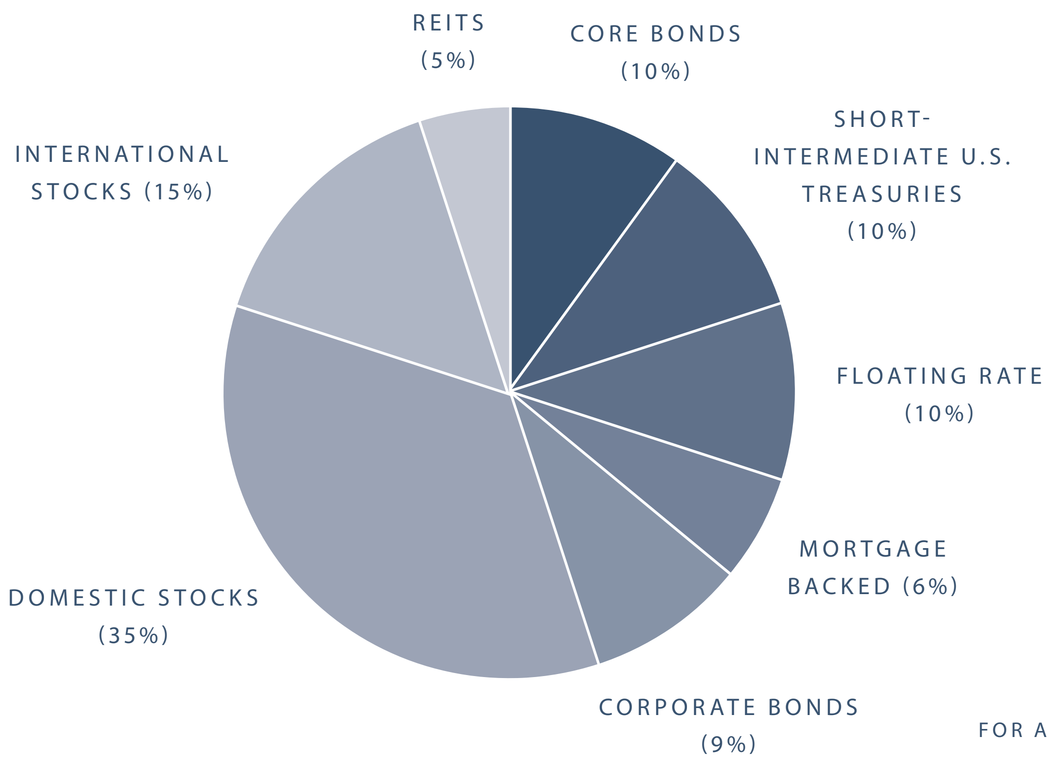


FOR A DETAILED LIST OF HOLDINGS, INCLUDING SUB-ASSET CLASSES, SEE PAGE 5

Portfolio Description

The CONSERVATIVE PORTFOLIO invests between 0-50% in equities based on fundamental market and economic conditions. The strategy seeks to provide a risk-adjusted return, over time, better than that of a fixed portfolio comprised of 25% stocks and 75% bonds. This portfolio offers the most conservative mix of stocks and bonds relative to the other portfolios mentioned herein. Investors with a short-to-medium investment horizon of at least 5 years or lower risk tolerance who desire modest growth may prefer this option over a portfolio with greater exposure to stocks.

BALANCED PORTFOLIO
EQUITY POLICY RANGE: 25-75%
CURRENT EQUITY EXPOSURE: 55%



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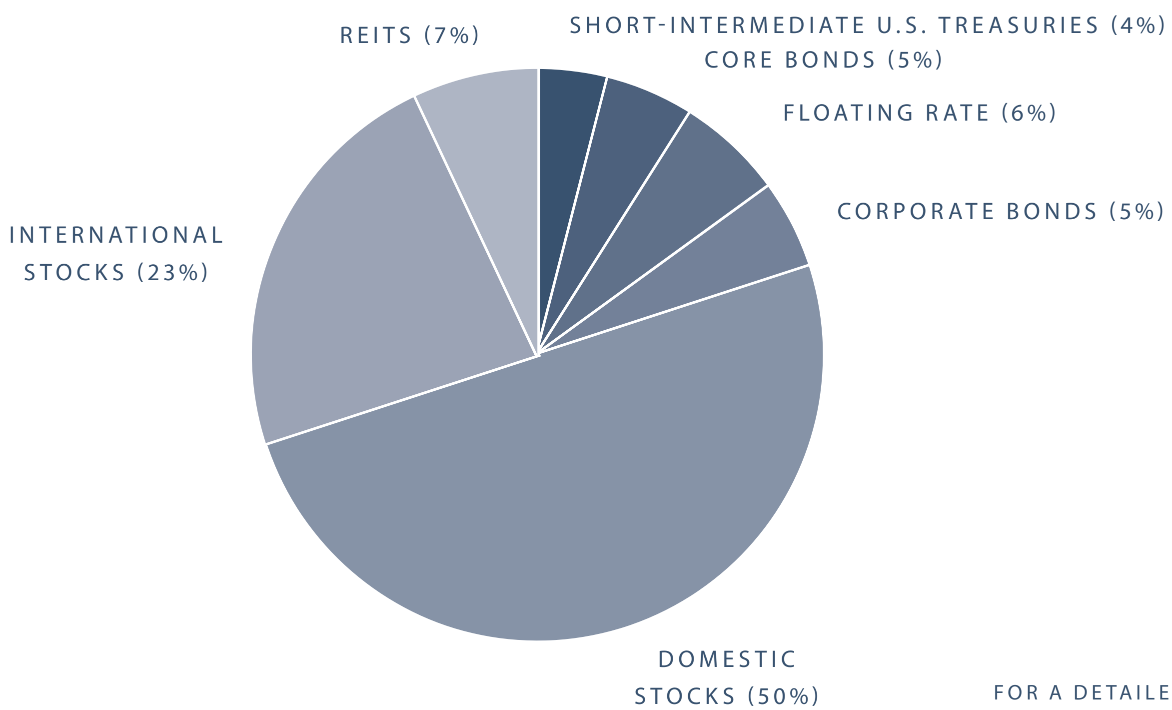
Portfolio Description

The BALANCED PORTFOLIO invests between 25-75% in equities based on fundamental market and economic conditions. The strategy seeks to provide a risk-adjusted return, over time, better than that of a fixed portfolio comprised of 50% stocks and 50% bonds. The portfolio provides a mix of stocks and bonds without a bias toward either. It may be appropriate for investors with a time horizon of at least 10 years with a moderate risk tolerance.

Moderate Growth Portfolio

MODERATE GROWTH PORTFOLIO
EQUITY POLICY RANGE: 50-100%
CURRENT EQUITY EXPOSURE: 80%

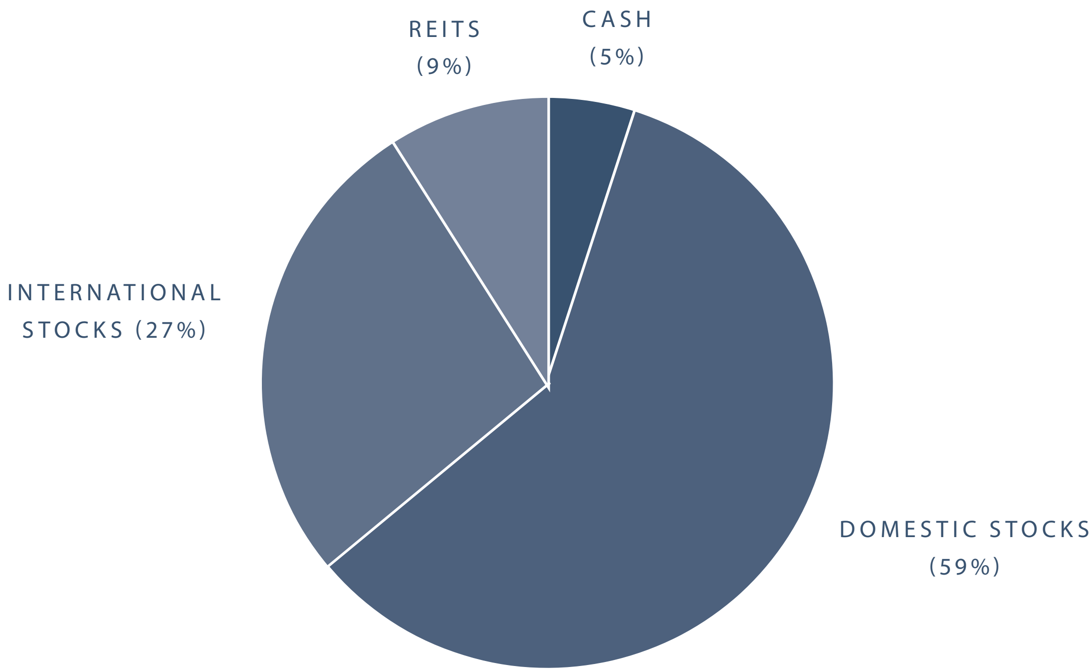


FOR A DETAILED LIST OF HOLDINGS, INCLUDING SUB-ASSET CLASSES, SEE PAGE 5

Portfolio Description

The MODERATE GROWTH portfolio invests between 50-100% in equities based on fundamental market and economic conditions. The strategy seeks to provide a risk-adjusted return, over time, better than that of a fixed portfolio comprised of 75% stocks and 25% bonds. Because the portfolio invests primarily in stocks and secondarily in bonds, the portfolio may be appropriate for investors with a time horizon of at least 15 years or those who seek principal growth with a moderate amount of income.

AGGRESSIVE GROWTH PORTFOLIO
EQUITY POLICY RANGE: 80-100%
CURRENT EQUITY EXPOSURE: 95%



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Portfolio Description

The AGGRESSIVE PORTFOLIO invests between 80-100% in equities based on fundamental market and economic conditions. The strategy seeks to provide a risk-adjusted return, over time, better than that of a fixed portfolio comprised of 90% stocks and 10% bonds. Because of the high degree of exposure to stocks, investors in this portfolio should have an investing time horizon of at least 20 years or be able to accept greater variability of returns associated with stock market investing.

FORECASTS AND ASSUMPTIONS: ECONOMY

	2011 (Actual)	2012 (Actual)	2013 (Estimate)	2014 (Estimate)	2013 Growth	2014 Growth
Real Gross Domestic Product	15,052	15,471	15,900	16,400	2.8%	3.1%
Gross Domestic Product	15,534	16,245	17,004	17,817	4.7%	4.8%
Consumption	10,712	11,150	11,676	12,231	4.7%	4.8%
% GDP	69%	69%	69%	69%		
Investment	2,232	2,475	2,713	2,972	9.6%	9.6%
% GDP	14%	15%	16%	17%		
Government Spending	3,159	3,167	3,179	3,185	0.4%	0.2%
% GDP	20%	19%	19%	18%		
Exports	2,101	2,196	2,379	2,563	8.4%	7.7%
% GDP	14%	14%	14%	14%		
Imports	(2,670)	(2,743)	(2,943)	(3,134)	7.3%	6.5%
% GDP	-17%	-17%	-17%	-18%		
Government Deficit	(1,665)	(1,507)	(1,344)	(1,158)	-10.8%	-13.8%
% GDP	-11%	-9%	-8%	-7%		
Government Revenue	(1,494)	(1,660)	(1,836)	(2,027)	10.6%	10.4%
% GDP	-10%	-10%	-11%	-11%		
Total Private Saving	3,445	3,541	3,660	3,781	3.4%	3.3%
% GDP	22%	22%	22%	21%		
Households & Institution	1,071	1,097	1,125	1,156	2.5%	2.7%
% GDP	7%	7%	7%	6%		
Business Saving / Profits	2,374	2,444	2,535	2,625	3.7%	3.5%
% GDP	15%	15%	14.9%	14.7%		
Employment (Nonfarm Payroll)	132,498	134,691	137,000	139,400	1.7%	1.8%
Employment (Private Sector)	110,548	112,817	115,000	117,400	1.9%	2.1%
S&P 500 Operating EPS	$96.48	$103.08	$108.00	$115.00	4.8%	6.5%
Inflation Index (GDP Deflator)	103.2	105.0	107.0	108.8	1.9%	1.7%

Historic data provided by Bureau of Economic Analysis (NIPA Tables 1.1.5 / 5.1) for GDP, Bureau of Labor Statistics for employment, and Standard & Poor's for S&P 500 earnings. Forecasts and assumptions provided by Washington Crossing Advisors.

EQUITY VALUATIONS

Asset Class	Index	----- 10-Year Price to Earnings Ratio (P/E) ----- Low	High	Median	Current P/E
Domestic Equities	S&P 500 Index	11.3	22.4	16.4	17.1
Foreign Developed Market Equities	MSCI EAFE Index	8.6	102.8	15.7	19.6
Foreign Emerging Market Equities	MSCI Emerging Markets Index	6.6	24.1	12.7	11.6
Domestic Large Capitalization	Russell 1000	12.2	22.8	16.9	17.7
Domestic Small Capitalization	Russell 2000	22.4	705.4	30.6	33.7
Domestic Value	Russell 3000 Value	11.2	25.5	18.8	20.9
Domestic Growth	Russell 3000 Growth	11.3	27.2	14.9	15.2

CREDIT SPREADS

Spread	Index	------------------- 10-Year Spread --------------------- Low	High	Median	Current Spread
Inflation / T-Bills	CPI / U.S. Treasury Bill	-224	279	-81	-172
Term Spread	30 Day T-Bill / 10-Year Treasury	-56	379	213	283
Liquidity Premium	Moody's Aaa Index / 10-Year Treasury	45	269	77	75
Baa Credit	Moody's Baa / Aaa Index	115	607	185	167

DEFINITIONS AND DISCLOSURES

The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The MSCI EAFE Index (Europe, Australasia, and the Far East) 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. The MSCI Emerging Markets Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of emerging markets. The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The average market capitalization is approximately $11 billion, and the median market capitalization is approximately $3.5 billion. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index. The average market capitalization is approximately $490 million, and the median market capitalization is approximately $395 million. The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values.

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Asset allocation and diversification do not ensure a profit and may not protect against loss. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Due to their narrow focus, sector-based investments typically exhibit greater volatility. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. Property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance of real estate companies. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High-yield bonds have greater credit risk than higher quality bonds. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.