April 2012

Tactical Allocation: Second Quarter 2012

Where to From Here?

Improved market performance since the turn of the calendar reflects two facts.

First, there is real improvement in the economy. Private businesses increased hiring in the first quarter by an average monthly rate in excess of 200,000. This improvement instills confidence and puts spendable income back into the pockets of consumers. Confidence and income, along with pent-up demand for items like automobiles (the average car on the road is now over 11 years old), are giving the global economy a needed boost.

Second, further easy money policies have been forthcoming in recent months. The most notable recent initiative was the European Central Bank's addition of over 500 billion Euros of reserves to bolster the liquidity position of nearly 800 different European banks. That injection paved the way for a record-setting restructuring of outstanding Greek debt (the largest sovereign restructuring of any nation on record to date).

The combination of central bank support and progress on restructuring took some of the heightened risk factors out of the market that had become a depressant to equity prices last year.

Improved risk appetite in markets does not mean that investors should throw caution to the wind. Other countries, such as Spain and Portugal, remain potentially vulnerable to rising interest rates and growing debt burdens. Related budget pressures will be a drag on growth and could also create headwinds for equities.

Still, generally improving fundamentals are evident in our barometer (see the WCA Fundamental Conditions Index on page 4). This fact, plus improved market sentiment during the first quarter are unqualified positives that can serve to bolster confidence – a basic requirement necessary for any chance at a lasting recovery.

Kevin Caron
Portfolio Manager
(973) 549-4051

Chad Morganlander
Portfolio Manager
(973) 549-4052

Matthew Battipaglia
Analyst
(973) 549-4047

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Another False Start?

Investors may be saying to themselves, "Haven't we seen these promising facts before?" In both 2010 and 2011, the economy and financial markets did appear to be improving earlier in the year only to give way to disappointment as the year progressed. There are reasons to think that this year may be different.

Consumer spending at the retail level is expanding at a respectable 6% pace, and automobile sales are up nearly 10% and nearing the 15 million annual rate of production (automobile sales fell below 10 million in the depths of the last recession). These trends have also been reasonably consistent and stable over the past few months. Add to this that private companies are hiring – a sign of confidence on the part of business owners. In the last year, there were nearly 2 million non-governmental, private jobs created. Such investment can go a long way toward fostering continued growth.

The large drag from housing also seems to be abating some. While we are nowhere near ready to forecast a sharp recovery in housing, there have been some indications that lower prices, higher employment, and lower mortgage rates are starting to chip away at the overhang of housing inventory. Most of the data on sales, production, and prices appears to be firming to mildly positive in most instances.

Housing trends are a state-by-state phenomenon, with Arizona, California, Florida, Michigan, and Nevada lagging well behind other parts of the country. Nonetheless, a modicum of stability in this area is a welcome and largely new development.

Not Out of the Woods Yet

There are major challenges still ahead. Financial markets and institutions have not yet been put back on truly sound footing in all cases. The ongoing implementation of new and untested regulations of financial firms, including the Dodd-Frank Act and Basel III regulatory standards for bank capital adequacy, creates additional uncertainty. Other questions remain regarding the duration and extent of measures to stimulate the economy and what might be the outcome as those measures are eventually withdrawn (if at all). Election year politics and unresolved budgetary issues remain ahead.

It is precisely for these reasons that an eye toward balancing risk with reward in portfolios is especially important as the recovery process continues to unfold.

Wildcards are always present too. A spike in oil prices is a possibility should tensions intensify between Israel and Iran and diplomacy and sanctions fail; a failure by Congress to avoid gridlock over tax cut extensions could trigger spending cuts and tax increases that may sap as much as $300-400 billion (2-2.5% of GDP) from output; and potential for a deepening and spreading of Europe's sovereign debt woes are all potential pitfalls. None of these seem to us to be the most likely outcome, but all are potential risks to the outlook.

Still, it is our discipline to focus on trends in a wide variety of data in drawing conclusions about how to best position portfolios. As of this writing, most of those observations appear more supportive of equity markets.

Portfolio Posture for Tactical Model Portfolios

We continue to see in our own "barometer" that fundamental conditions are generally improving. Combine this with continued high levels of corporate profitability, generally improved corporate balance sheets, and reasonable valuations for many companies relative to underlying earnings power, and the longer-term view is compelling.

The WCA Fundamental Conditions Index (aka "barometer") stands near 50 and is rising (see next page). This level is consistent with moderate growth and suggests a better risk / reward tradeoff for equities over bonds, all else being equal.

Our view remains that investments in high-quality companies at reasonable prices within the context of a diversified and flexible portfolio is still the best way to participate in markets while balancing risk.

Update on Fundamental Conditions

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 (therefore favoring bonds).

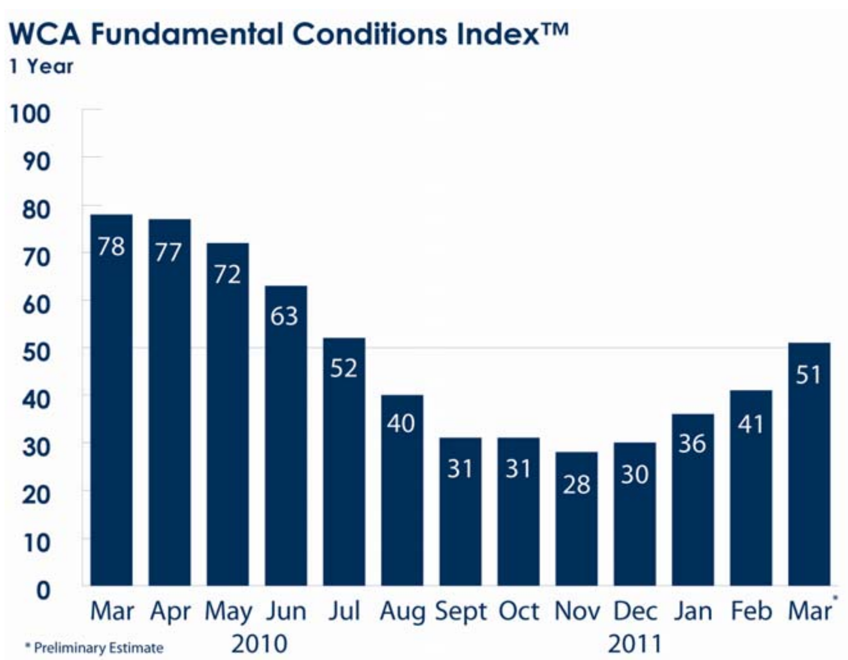
The WCA Fundamental Conditions Index™ combines the 3 underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

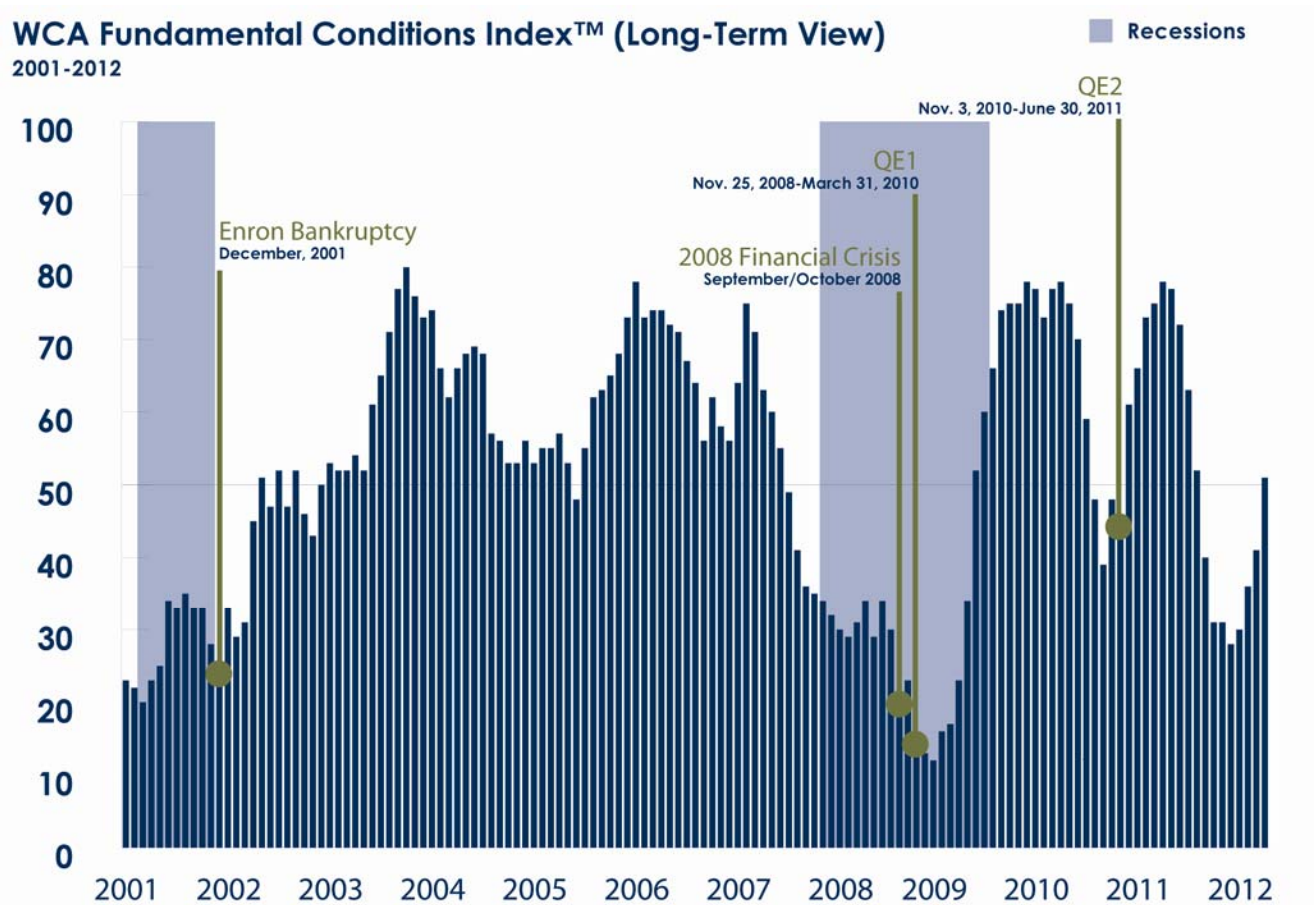
The fundamental backdrop improved in the first quarter. Credit conditions, indicators of domestic economic performance, and foreign indicators all improved since last fall, and there is room for further improvement. The chart below depicts the near-term perspective for our barometer, and the next page presents the barometer in an expanded, longer-term view.

WCA Indices*

>50 Favors Stocks / <50 Favors Bonds

	Last Quarter	**Current** (Preliminary)	**Change**	**Summary**
Credit & Capital Markets	19	33	+	Rising, Faster Rate
U.S. Economic Conditions	50	65	+	Rising, Faster Rate
Foreign Conditions	20	55	+	Rising, Faster Rate
Fundamental Conditions	30	51	+	Rising, Faster rate



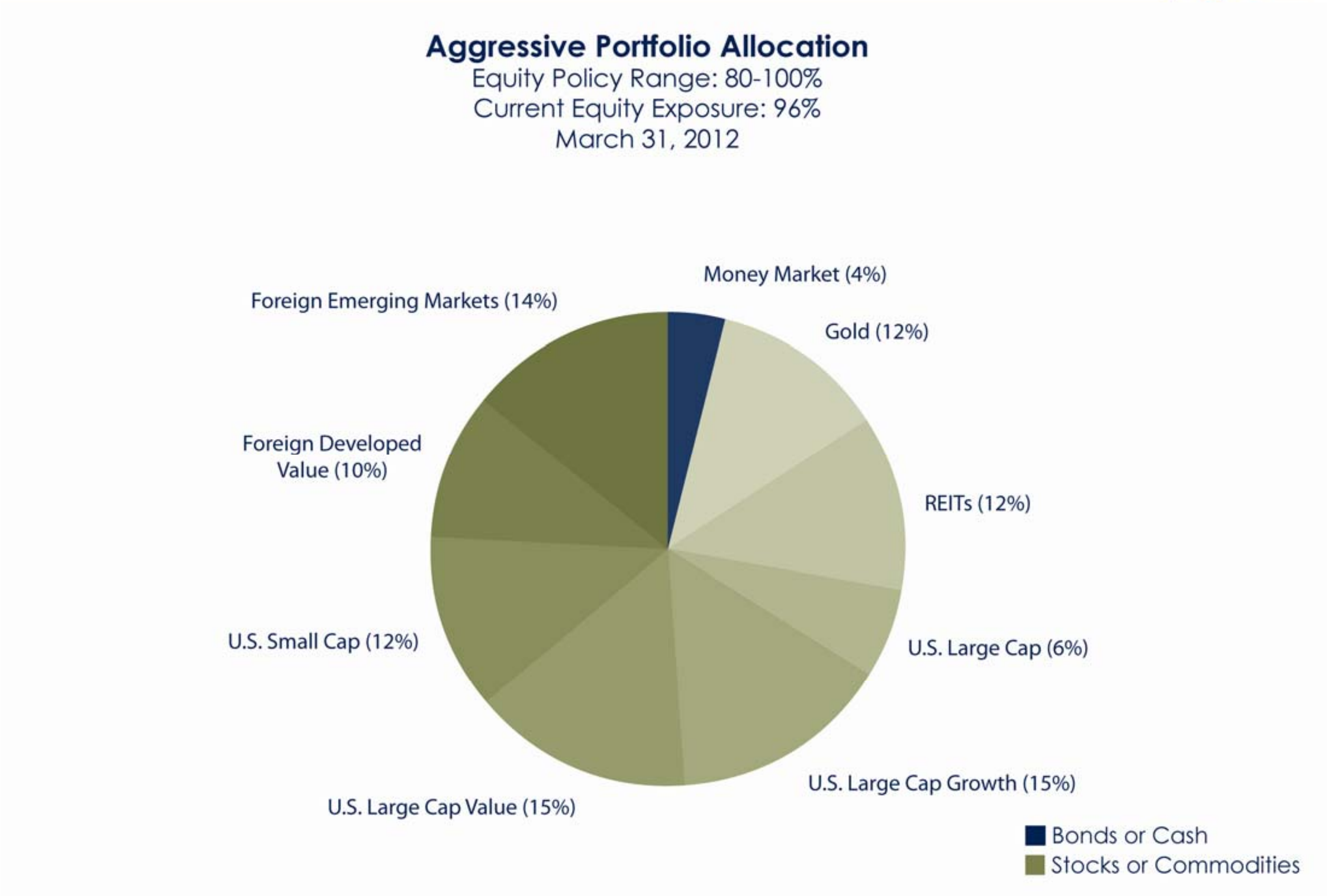


The above "barometer" helps us assess changes in fundamental conditions and evaluating risk in a quantifiable way. We refer to this frequently in our assessment of conditions (a one-year view of this index is on the preceding page). It is designed to be a quantitative and unbiased guide for macroeconomic analysis. The index looks at trends of 30 different forward-looking indicators in three broad categories of information. These categories include financial market risk appetite, performance of the domestic economy, and foreign conditions.

Trends are evaluated on a month-to-month basis as data becomes available. When most of the 30 indicators are moving in a positive direction for growth, the "barometer" rises toward the upper end of the range. When the data presents a "mixed bag," the barometer moves toward the middle of the historic range. When risk is rising and the economy is weakening, the barometer will fall toward the bottom end of the range.

A rising barometer typically favors greater equity exposure, while a falling barometer tends to favor bonds.

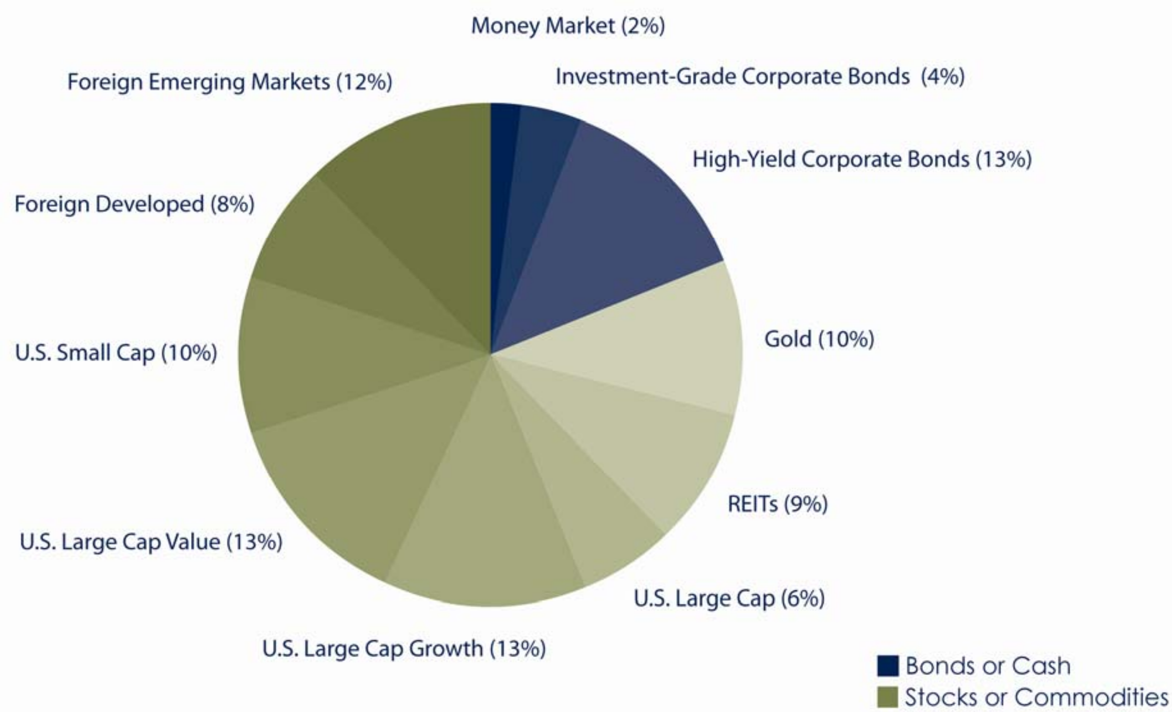
WASHINGTON CROSSING ADVISORS



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.

Moderate Growth Portfolio Allocation

Equity Policy Range: 50-100%
Current Equity Exposure: 81%
March 31, 2012



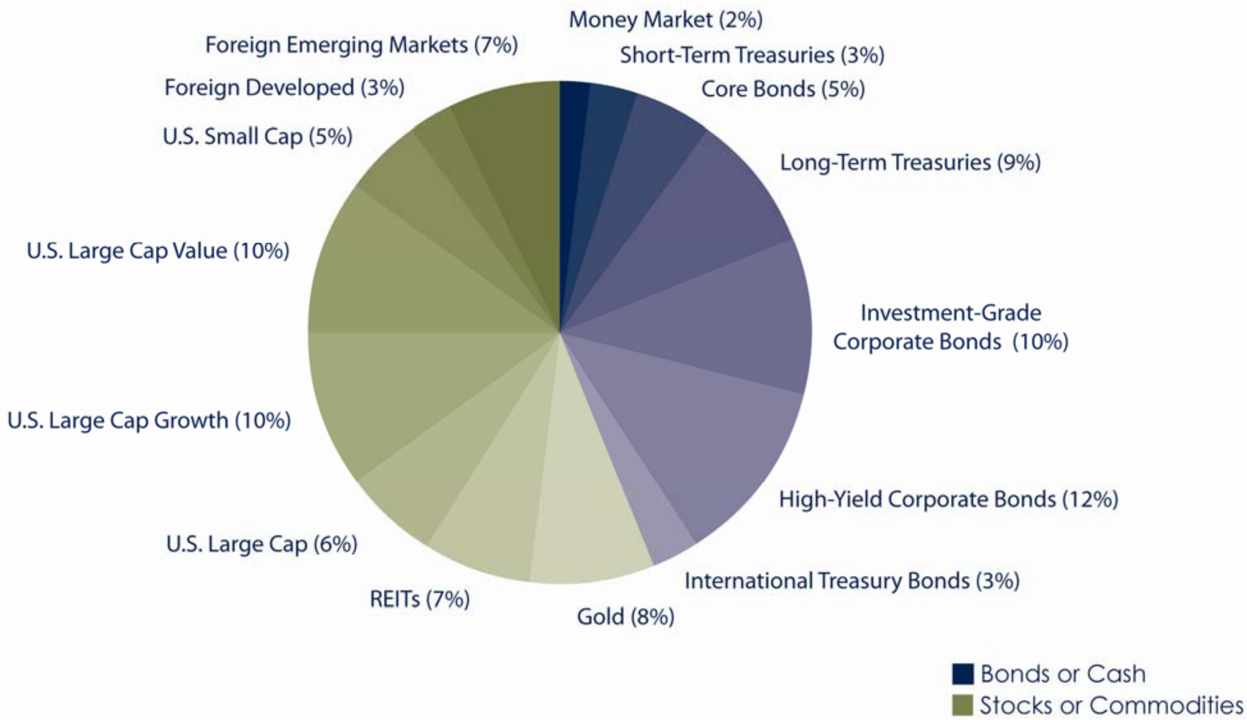
Increasing Risk ---------------------->

Conservative	Balanced	Moderate Growth	Aggressive Growth

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.

Balanced Portfolio Allocation

Equity Policy Range: 25-75%
Current Equity Exposure: 56%
March 31, 2012



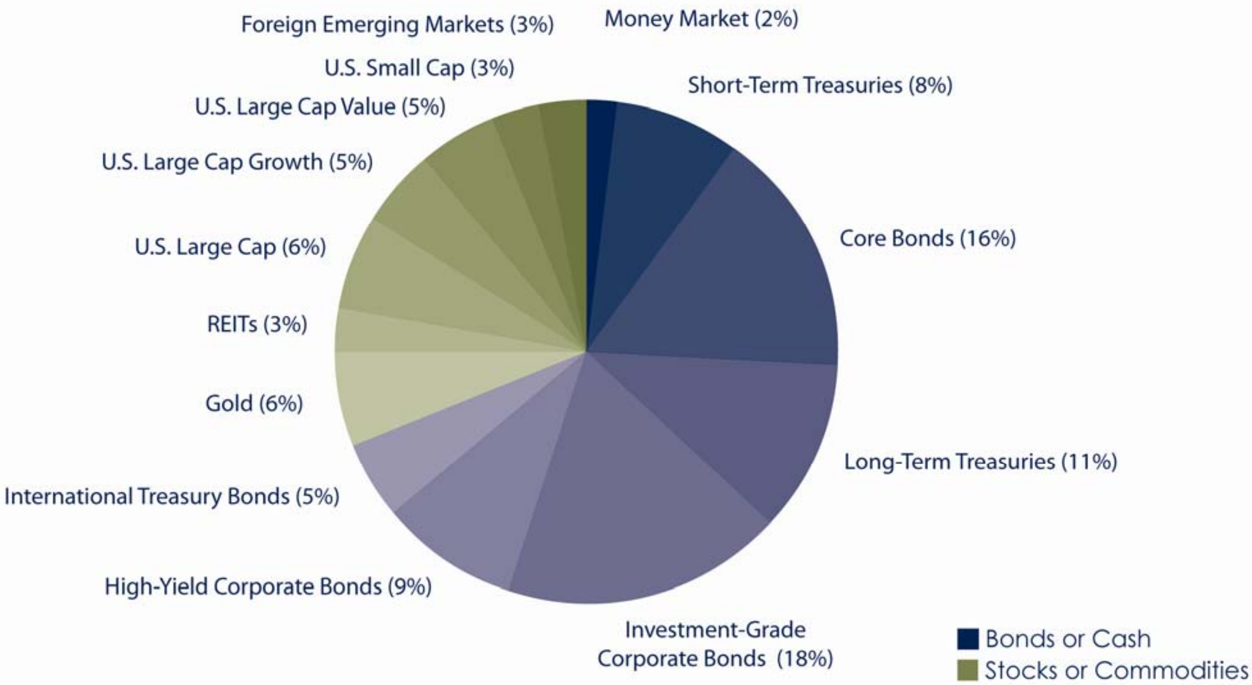
Increasing Risk ---------------------->

Conservative	Balanced	Moderate Growth	Aggressive Growth

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.

Conservative Portfolio Allocation

Equity Policy Range: 0-50%
Current Equity Exposure: 31%
March 31, 2012



Increasing Risk ---------------------->

Conservative	Balanced	Moderate Growth	Aggressive Growth

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.

Sector Allocation
(Sector-Enhanced Portfolios Only)

	Portfolio Weight	S&P 500 Weight	Relative Weight
Energy	17%	11%	+6%
Technology	23%	21%	+2%
Materials	3%	3%	0%
Industrials	10%	11%	-1%
Consumer Discretionary	10%	11%	-1%
Cyclical Sectors	63%	57%	+6%
Health Care	13%	11%	+2%
Utilities	7%	3%	+4%
Consumer Staples	10%	11%	-1%
Telecommunications	0%	3%	-3%
Financials	7%	15%	-8%
Non-Cyclical Sectors	37%	43%	-6%
Total	100%	100.0%	0.0%

Portfolio Changes
First Quarter 2012

	Conservative		Balanced		Moderate Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change
Aggregate Bond Market	16%	16%	5%	5%	0%	-	0%	-
Cash & 1-3 Year Treasuries	10%	-1%	5%	3%	2%	-	4%	-14%
3-7 Year Treasuries	0%	-19%	0%	-20%	0%	-14%	0%	-
7-10 Year Treasuries	11%	-	9%	-	0%	-	0%	-
10+ Year Treasuries	0%	-	0%	-	0%	-	0%	-
Investment-Grade Corp Bonds	18%	-	10%	-	4%	-	0%	-
High-Yield Corporate Bonds	9%	2%	12%	2%	13%	2%	0%	-
International Treasury Bonds	5%	-2%	3%	-7%	0%	-8%	0%	-
S&P 500	6%	6%	6%	6%	6%	6%	6%	6%
Large Cap Growth	5%	-2%	10%	-2%	13%	-13%	15%	-24%
Large Cap Value	5%	1%	10%	2%	13%	-	15%	1%
Small Cap	3%	1%	5%	1%	10%	4%	12%	4%
Developed Markets	0%	-	3%	3%	8%	8%	10%	10%
Emerging Markets	3%	3%	7%	2%	12%	7%	14%	6%
Gold	6%	-4%	8%	2%	10%	4%	12%	4%
REITs	3%	-1%	7%	3%	9%	4%	12%	7%
Subtotal Bonds & Cash	69%	-4%	44%	-17%	19%	-20%	4%	-14%
Subtotal Equities & Other	31%	4%	56%	17%	81%	20%	96%	14%
Total	100%	0%	100%	0%	100%	0%	100%	0%

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."