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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.

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## TACTICAL ASSET ALLOCATION QUARTERLY

### Does This Recovery Lack Substance?

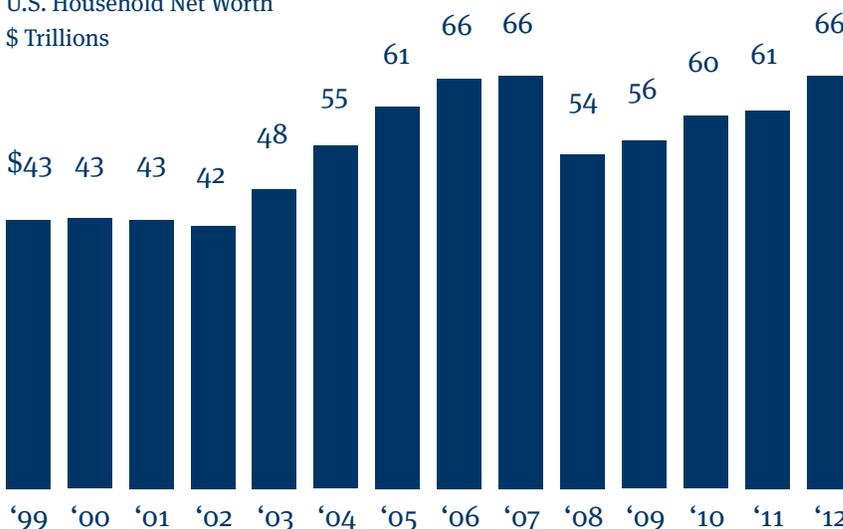
We are entering the fifth year of recovery, with most of the data improved since last summer's slump. Large amounts of deficit-financed spending and central bank liquidity are contributing to economic activity and lifting asset values. With the stock market back to pre-crisis levels, we want to look at how various "pillars" of the recovery are holding up.

#### Pillar 1: Rising Wealth

Rising household asset values are providing a major boost to the economy even though many are still experiencing significant financial burdens. According to Federal Reserve data, the total value of U.S. household assets increased \$11.8 trillion to \$79.5 trillion from \$67.7 trillion in 2008. About half of this gain came from a rise in the value of stocks and mutual funds, while the other half of the gain was spread among a variety of other assets.

At the same time that asset values are getting a boost, household debt is being cut. Roughly \$600 billion in debt has been erased, mostly because existing mortgages are being paid off (or defaulted on) faster than new debt is incurred. Total debt now stands at \$13.5 trillion versus \$14.1 trillion in 2008. The combination of higher asset values and less debt translates into a \$12 trillion (23%) improvement in total net worth. Since linkages exist between spending and wealth, at least part of the economy's improvement can be traced to rising asset values and wealth.

U.S. Household Net Worth  
\$ Trillions



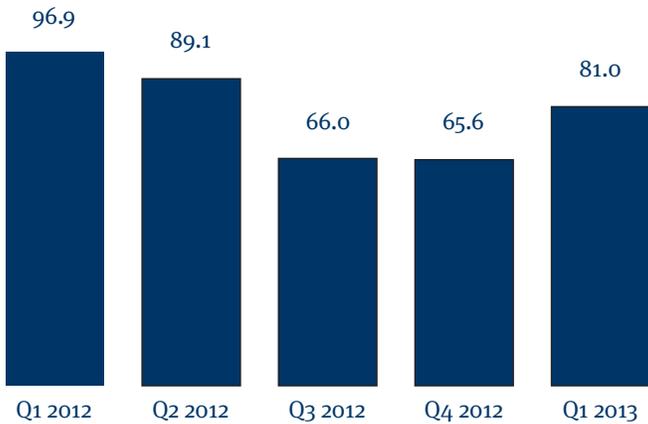
Source: Federal Reserve

Economy

Pillar 2: Business Expectations

The next important pillar to watch is business confidence, since it drives plans for investment and hiring. A recent survey of CEOs conducted by the Business Roundtable Network (graph below) shows a modest lift in business expectations by several of the nation's business leaders. The survey questions CEOs about their outlook for sales, planned investment, and hiring. Expectations for sales and capital spending picked up early this year after several quarters of reduced expectation. Unfortunately, expectations for hiring are not picking up as quickly as expectations about sales and investment.

Business Roundtable CEO Economic Outlook Index



Source: Business Roundtable

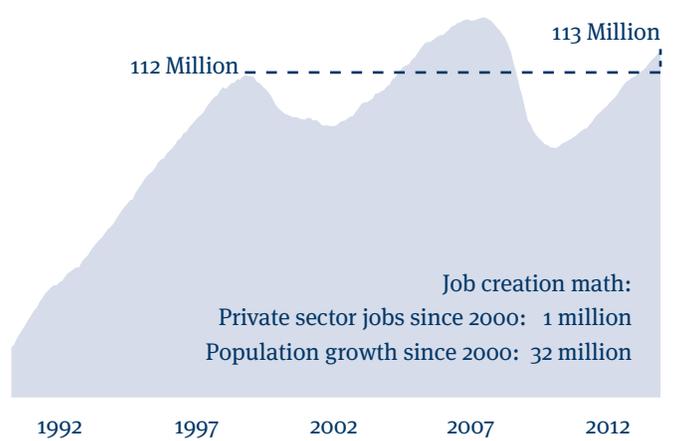
We note that last fall was particularly difficult for the business planning process. Confronted with uncertainties over taxation and government spending, over half of the nation's biggest companies were planning to slash capital budgets into the new year, *The Wall Street Journal* reported last fall. The forecast raised the specter of a relapse into recession and jeopardized the outlook for jobs and earnings in the process.

Fortunately, with the passing of time and with some greater comfort over budget issues, it appears that business leaders feel a bit more optimistic about the future. Now, we need to see a flow through from survey to dollars committed in the way of higher capital goods orders, increased budgets, and hiring. Further gains in business confidence and commitments to investment and hiring are needed to accelerate growth.

Pillar 3: Employment and Income Gains

When the employment situation was at its worst in February 2010, there were just under 107 million people working for private businesses in the United States. Today that number has risen to 113 million — an increase of just over 6 million workers from the recession depths. Along with this recent progress has been an increase in income. Total disposable income increased by \$1.1 trillion in the past three years (3.2% annualized). Unfortunately, this improvement has not been steady, and wage growth has again slipped to just below the rate of inflation.

U.S. Private Sector Jobs Since 2000 - Still Adding Jobs



Source: Labor Department

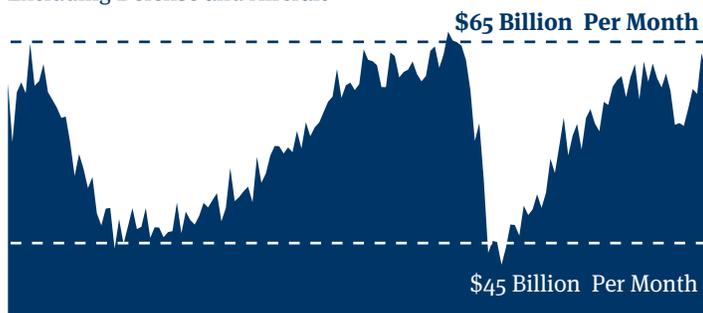
March's employment report was another indication of how uneven the jobs recovery is. There were fewer than 100,000 private sector jobs created during March compared with a three-month average of just over 200,000. A drop in the unemployment rate was largely attributed to a surprise increase in the number of discouraged workers who left the workforce, but we know not to make too much out of a single month's data, since it can be erratic and misleading. The jobs recovery is clearly progressing but at a far weaker pace and with less consistency than past cycles.

Given the continued growth in the population, it is imperative that the private sector continue to generate additional opportunities to absorb a growing pool of workers and consumers. Although the trends of the past decade are discouraging, recent improvement should be recognized.

#### Pillar 4: Production and Manufacturing

Manufacturing is an area to watch, because it is more sensitive to changes in the overall economy than the service sector. This part of the economy is relatively small in terms of employment, with about 18 million workers compared to nearly 120 million workers in the services segment. Back in 2007-2008, we saw orders for capital goods (excluding aircraft and defense) plunge from about \$64 billion per month (5.5% of GDP) to \$45 billion per month (3.8% of GDP). Currently, we again see such orders nearing pre-recession levels.

Capital Goods New Orders  
Excluding Defense and Aircraft



Source: U.S. Census Bureau

There has been a small pickup in manufacturing jobs in the United States as the result of a variety of factors (weaker dollar, rising labor costs in China, incentives for domestic hiring). The automobile industry bailout prevented significant drawdown of automobile and related employment. Gains to date have been small but positive, with manufacturing adding about 10,000 jobs per month since 2010, or about 10% of all new private sector jobs).

The addition of 10,000 manufacturing jobs each month is not going to make a large impact on overall employment, but it is a net positive rather than a net loss. Furthermore, American manufacturing export growth appears to be slowing, since the dollar stopped its slide in mid-2011. Further pickup in the global economy, a downward move in the dollar, improved competitiveness versus overseas production, technological advances, and regulation are all meaningful determinants of what comes next for manufacturing. Additionally, the potential for improvement in Europe and global growth in the future, along with potential for a more robust performance domestically, make manufacturing an important pillar for the recovery's progress.

#### Conclusion

As you can see, there are several important pillars supporting the current recovery, and many of the variables that reflect the economy's progress have returned to pre-recession levels. In many respects, the "recovery" process is nearing completion. From here, the question becomes whether the economy tracks moves from "recovery" to "expansion" or stagnates. Stimulus has contributed significantly to the recovery process through asset prices and deficit spending. Private sector signals have been modestly positive, but weak.

Asset values can only carry the water so far, and **until there is sustained improvement in outlook, employment, income, and production, the recovery will lack substance.** The test of whether the recovery can develop this substance lies in the months ahead. We will continue to monitor incoming data for insight into how this transition from recovery to expansion is transitioning and whether the pillars of expectations, employment and income gains and production begin to carry more of the load.

#### Outlook

Our outlook for growth remains roughly 2% for real gross domestic product this year, with an underlying inflation rate of approximately 2 1/4%. We continue to expect employment growth of 1.7% for nonfarm payrolls and private sector payroll growth of 2.5%.

Private sector surplus is expected to expand by 4%, driven by further household deleveraging and productivity-led profit growth. Government deficits should slip to 7% from peak levels of 11% of GDP recorded back in 2010. Aggregate investment spending is a potential bright spot given an anticipated pickup in business commitments along with some improvement in construction activity. Overall business profits are expected to expand by 3%, with S&P 500 profits per share advancing by roughly 5%.

A summary of key economic assumptions can be found in the appendix of this report.

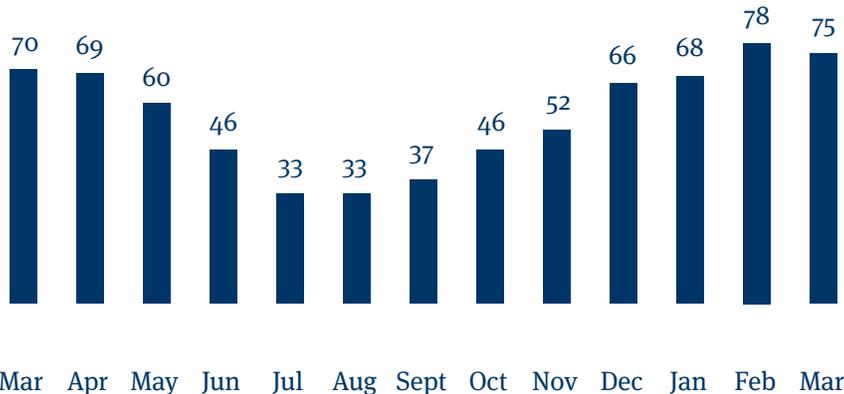
FUNDAMENTAL CONDITIONS UPDATE

By our measure, fundamental conditions improved through the fourth quarter and into the first quarter as the lagged effects of monetary policy boosted risk-taking and final demand. Credit indicators, while still strong, appear to be moderating their pace of improvement. Data that reflects economic trends, such as employment, sales, production, and trade all improved during the first quarter.

WCA Fundamental Trend Indicators

	Last Quarter	Current (Preliminary)	Change
Credit and Capital Markets	88	85	Lower
U.S. Economic Conditions	55	70	Higher
Foreign Conditions	55	70	Higher
Fundamental Conditions	66	75	Higher

WCA Fundamental Conditions Barometer



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.

## TACTICAL ASSET ALLOCATION REVIEW

Global equities extended their rally through the first quarter. A deepening recession in Europe and recent concerns over Cyprus caused European markets to lag U.S. markets.

Closer to home, markets responded well to continued improvement in most data, ongoing support from the Federal Reserve, and a largely successful navigating of budgetary issues. The initiation of a new program by the Bank of Japan to stimulate growth and end deflation, coupled with continued struggles in Europe, provided a modest boost to the U.S. dollar.

Commodities and emerging markets came under some pressure during the quarter, given the firmer dollar and recent policy tightening by Brazil and China.

Bond markets were generally flat for the quarter, as risk assets were the focus of most investors (equity inflows during the quarter were the strongest they have been in some time).

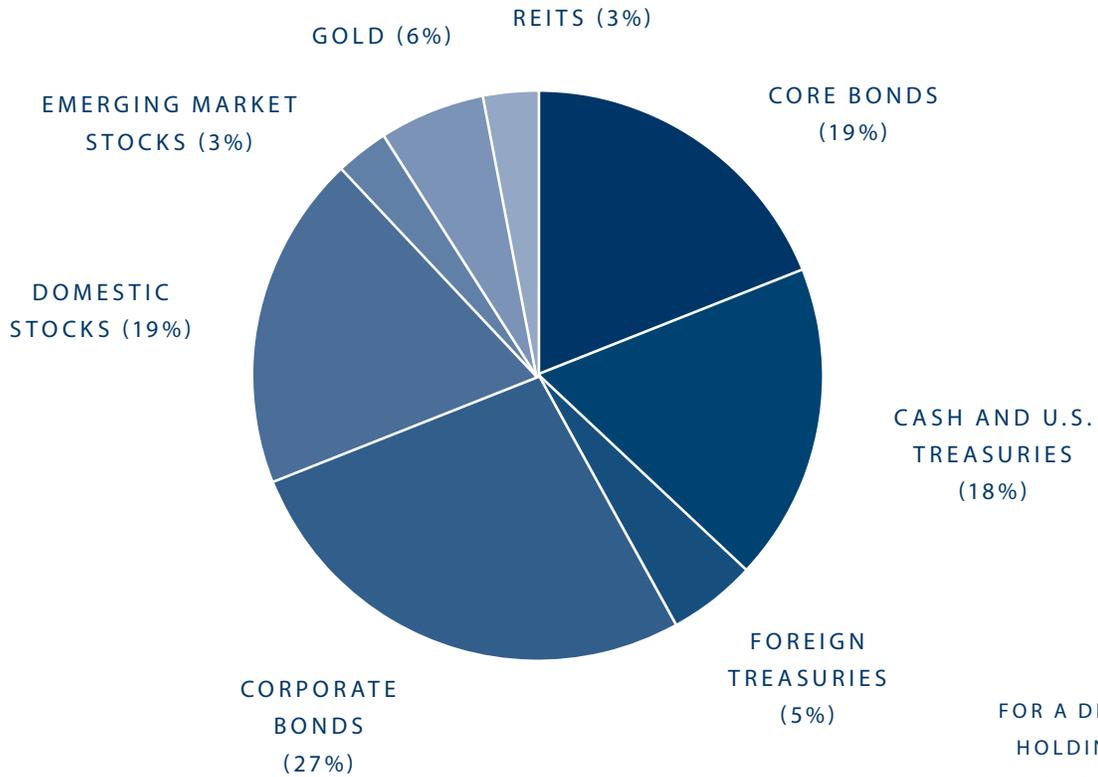
We remain overweight equities as we start the second quarter and continue to emphasize domestic over foreign developed markets, given better domestic growth and a stronger dollar. Bond allocations are focused primarily on intermediate maturities and corporate credits over longer-term Treasuries.

## LAST QUARTER PORTFOLIO CHANGES

	Conservative		Balanced		Moderate Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change
Core Bonds	19%	-	9%	-	0%	-	0%	-
Cash & 1-3 Year Treasuries	7%	-	2%	-	2%	-	3%	-
3-7 Year Treasuries	0%	-	0%	-	0%	-	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%	-	12%	-	13%	-	0%	-
International Treasury Bonds	5%	-	3%	-	0%	-	0%	-
Domestic Stocks	6%	-	6%	-	15%	-	20%	-
Large-Mid Cap Growth	5%	-	10%	-	13%	-	15%	-
Large-Mid Cap Value	5%	-	10%	-	13%	-	15%	-
Small Cap Growth	3%	-	9%	-	15%	-	16%	-
Developed Markets	0%	-	0%	-	0%	-	0%	-
Emerging Markets	3%	-	5%	-	6%	-	7%	-
Gold	6%	-	8%	-	10%	-	12%	-
REITs	3%	-	7%	-	9%	-	12%	-
Subtotal Bonds & Cash	69%	0%	45%	0%	19%	0%	3%	0%
Subtotal Equities & Other	31%	0%	55%	0%	81%	0%	97%	0%
Total	100%	0%	100%	0%	100%	0%	100%	0%

Conservative Portfolio

CONSERVATIVE PORTFOLIO  
EQUITY POLICY RANGE: 0-50%  
CURRENT EQUITY EXPOSURE: 31%

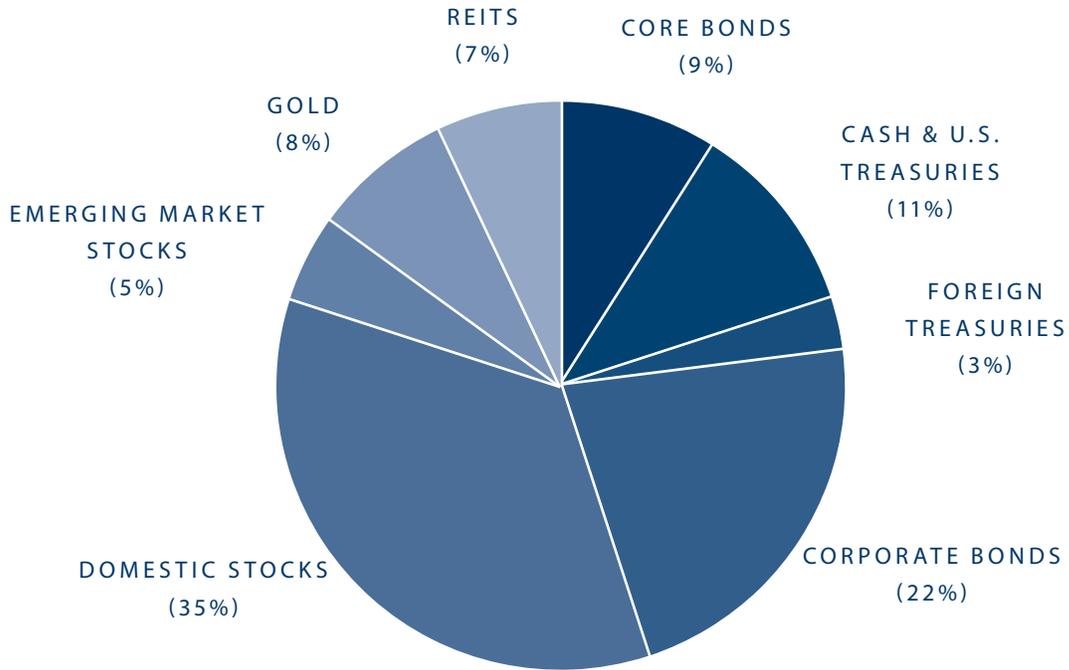


FOR A DETAILED LIST OF HOLDINGS, INCLUDING SUB-ASSET CLASSES, SEE PAGE 5

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%



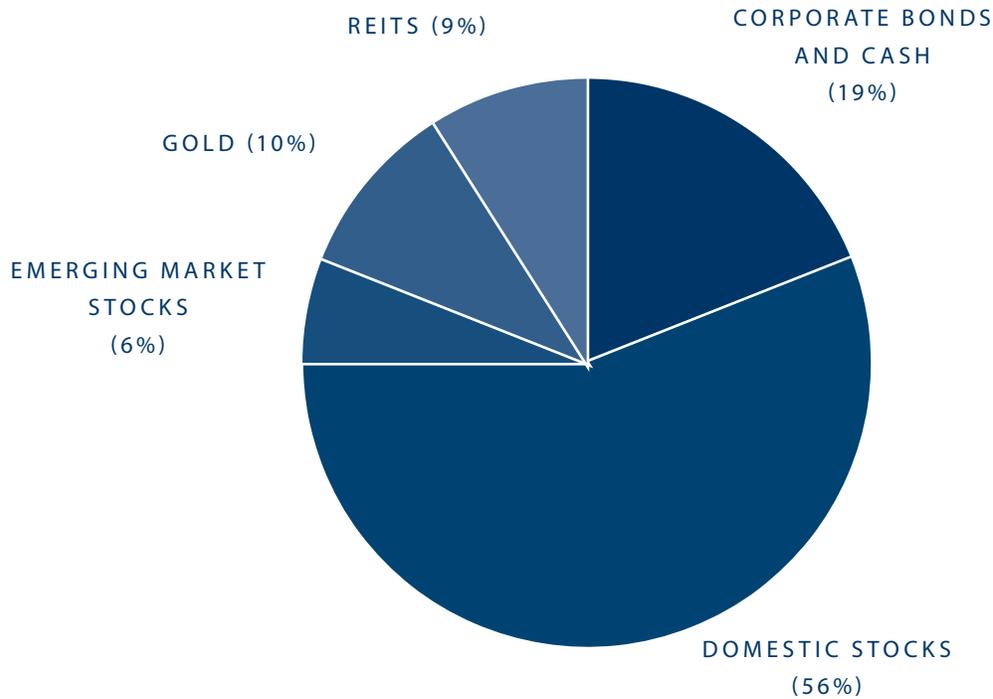
FOR A DETAILED LIST OF HOLDINGS, INCLUDING SUB-ASSET CLASSES, SEE PAGE 5

**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: 81%

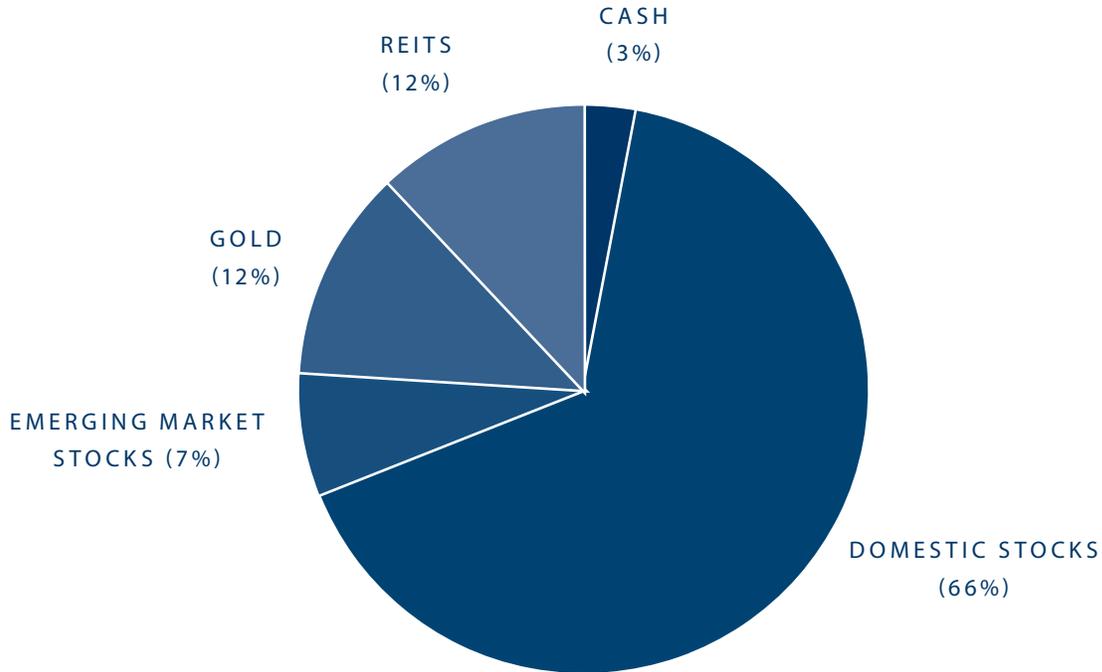


FOR A DETAILED LIST OF HOLDINGS, INCLUDING SUB-ASSET CLASSES, SEE PAGE 5

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: 97%



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

### 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.

## Appendix

## FORECASTS AND ASSUMPTIONS: ECONOMY

	2010 (Actual)	2011 (Actual)	2012 (Actual)	2013 (Estimate)	2012-2013 (Growth Est.)	2010-2013 (Growth Est.)
Real Gross Domestic Product	13,063	13,299	13,593	13,865	2.0%	2.0%
Gross Domestic Product	14,499	15,076	15,685	16,351	4.3%	4.1%
Consumption	10,216	10,729	11,120	11,600	1.5%	4.3%
% GDP	70%	71%	71%	71%		
Investment	1,737	1,855	2,062	2,263	8.6%	9.2%
% GDP	12%	12%	13%	14%		
Government Spending	3,058	3,060	3,063	3,075	-0.8%	0.2%
% GDP	21%	20%	20%	19%		
Exports	1,844	2,094	2,184	2,357	4.0%	8.5%
% GDP	13%	14%	14%	14%		
Imports	(2,356)	(2,662)	(2,744)	(2,944)	3.0%	7.7%
% GDP	-16%	-18%	-17%	-18%		
Government Deficit	(1,651)	(1,542)	(1,358)	(1,193)	-12.1%	-10.3%
% GDP	-11%	-10%	-9%	-7%		
Government Revenue	(1,407)	(1,518)	(1,705)	(1,882)	10.4%	10.2%
% GDP	-10%	-10%	-11%	-12%		
Private Saving	2,835	2,828	2,840	2,872	4.0%	0.4%
% GDP	20%	19%	18%	18%		
Households & Institution	862	791	780	753	-0.6%	-4.4%
% GDP	6%	5%	5%	5%		
Business Profits	1,973	2,036	2,060	2,119	3.0%	2.4%
% GDP	14%	14%	13%	13%		
Employment (Nonfarm Payroll)	130,395	132,498	134,691	136,981	1.7%	1.7%
Employment (Private Sector)	108,128	110,548	112,817	115,637	2.5%	2.3%
S&P 500 EPS	\$84.70	\$96.26	\$100.73	\$105.77	5.0%	7.7%
Inflation Index	111	113	115	118	2.3%	2.1%

NOTES

## 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 NAREIT. 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 December 2012, the MSCI EAFE Index consisted of 22 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.”

The Standard & Poor’s 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

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 U.S. 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.”

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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.