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

A lull in the data through the winter months appears to be giving way to better economic performance as we head into the second quarter. Employment, production, and final demand seem to be firming now that the winter is over.

"There Will Be Growth in the Spring!"

In the 1979 film "Being There," we were introduced to the character of Chance Gardiner, who was played by Peter Sellers. Chance lived a sheltered life as an ordinary gardener whose mistaken utterances were often interpreted as pearls of wisdom, when in fact, they were simply his observations of life in the garden. His most famous quote, "There will be growth in the spring," was echoed by many analysts in recent months, who had to explain weak economic data through the trying winter months.

Now that winter is over, it appears that Chauncey may again be having the last laugh. There is evidence that the economy firmed up as we entered March and the snows melted. Just last week, we saw indications of final demand, employment, and production all pick up a bit.

Signs of Growth:

1. Automobile sales during March rose to an annual rate of 16.3 million during March (versus a 3-month average of 15.6 million).
2. Payrolls grew by 192,000 jobs in March (versus a 3-month average of 178 thousand).
3. Surveys of purchasing managers in both the manufacturing and service sectors rose and remain at levels consistent with near-term growth.

Markets appear largely unfazed by either the winter doldrums or the recent reappearance of growth. Equity markets are about flat for the year so far, and long-term bond yields are still comfortably ensconced in the 2½-3% range they have occupied most of the past 9 months. A sharp move higher in stock prices moved equity valuations to levels that indicate a fair valuation versus underlying earnings power. Return expectations for stocks are increasingly tied to underlying economic growth, along with dividends and buy backs.

Bond yields are being constrained by the Fed's reluctance to raise short-term rates on the one hand, and low inflation expectations on the other. Bond returns are limited to coupon payments, offset by a drag from eventual yield normalization so long as growth proceeds from here.

A Changing of the Guard at the Fed

Dr. Janet Yellen assumed her role as Chair of the Board of Governors of the Federal Reserve System on February 3. She also will serve as head of the Federal Open Market Committee, which is principally responsible for formulating monetary policy. She inherits a $17 trillion economy that is expanding near 2½% with inflation below 2% and unemployment near 6.7%. Corporate profits are at record levels in absolute terms and as a share of the economy. Households control a record $90 trillion of assets, and household debt continues to fall as a percentage of income and overall GDP.

Still, Dr. Yellen sees slack in the labor market as reason for continued accommodation. Expect discussions of high unemployment and low inflation to remain dominant themes at the Fed as Dr. Yellen assumes responsibility for the Fed's policy-making apparatus.

The Effect of Zero Interest Rates and Central Bank Asset Purchases

Since 2008, the Fed has pushed long and hard on the monetary throttle. First by cutting the short-term rate to near 0%, and then by adding cash to the financial system through asset purchases, the Fed is successfully influencing behavior.

These policies have had an impact on asset prices. Banks and non-bank investors find themselves holding large amounts of cash with no safe place to find a fair return. With each passing year, these investors inevitably deploy more cash into riskier assets, driving up the value of those assets.

For example, a bank that holds low-yielding Treasuries may look to make a higher-yielding, but riskier loan. Another institution not constrained by bank regulations may move into even higher-yielding financial assets, including bonds, stock, real estate, and other assets. Individual investors may venture out away from CDs and short-term, high-grade fixed income instruments to pick up a few extra basis points of scarce yield. Allocating between risky and safe assets becomes even more complicated when momentum and psychology enters into the picture.

This is all the more reason why an objective and diversified approach to investing is so important.

Why Asset Prices Matter

This “portfolio rebalancing” process leads investors away from cash and into other areas further along the risk / reward spectrum. As this happens, prices of riskier assets in portfolios will be pushed up, and their prospective yields will fall.

At some point, the prospective return on the real underlying physical asset will exceed the prospective return on the financial asset. At this point, an economy might undergo a transition. Incremental investments from that point may begin to flow into real, physical, productive investments (plant and equipment) rather than just their financial proxies (stocks and bonds). Investment in new buildings, plants, research and development of new products, and technology all have the potential to provide further forward momentum for growth.

In this way, what begins with easy monetary policies eventually moves through the spectrum of financial assets and eventually ends up as investment in real, productive assets.

Capital Investment Rising

Today, investment spending stands at 16% of GDP — a level that used to be considered recessionary. By this measure, capital investment is only halfway back from the depths of recession. We continue to see progress in this area and anticipate further improvement as the year progresses.

A challenge for the Fed, under Dr. Yellen's stewardship, will be to know when to say when. It is well documented that monetary policy works with a lag. The length of this lag under normal circumstances is highly uncertain. However, we also have seen the harm that can be caused when asset bubbles are formed and suddenly reverse.

For this reason, we continue to look for signs of extreme valuations in markets. The rise in stock prices from the 2009 low has mostly been accompanied by an increase in earnings power, which supports valuations. We have developed a model for examining the valuation of the S&P 500 compared to a long-run average of underlying earnings (to smooth out volatility). Presently, this model shows signs of a market within the bounds of reasonable valuation (see chart on the next page).

Dr. Yellen's challenge will be to cultivate the benefits that come with higher asset prices without succumbing to the temptation to stay too long at the table.

Equity Valuations

We take a long view with regard to equity valuation. Over longer time horizons, we see that valuations are most influenced by the general level of earnings. The graph below shows the actual value of the S&P 500 index compared to the theoretical “fair value” for the index based upon earnings. In this example, we use an average of ten years' worth of net, after-tax earnings per share for the S&P 500.

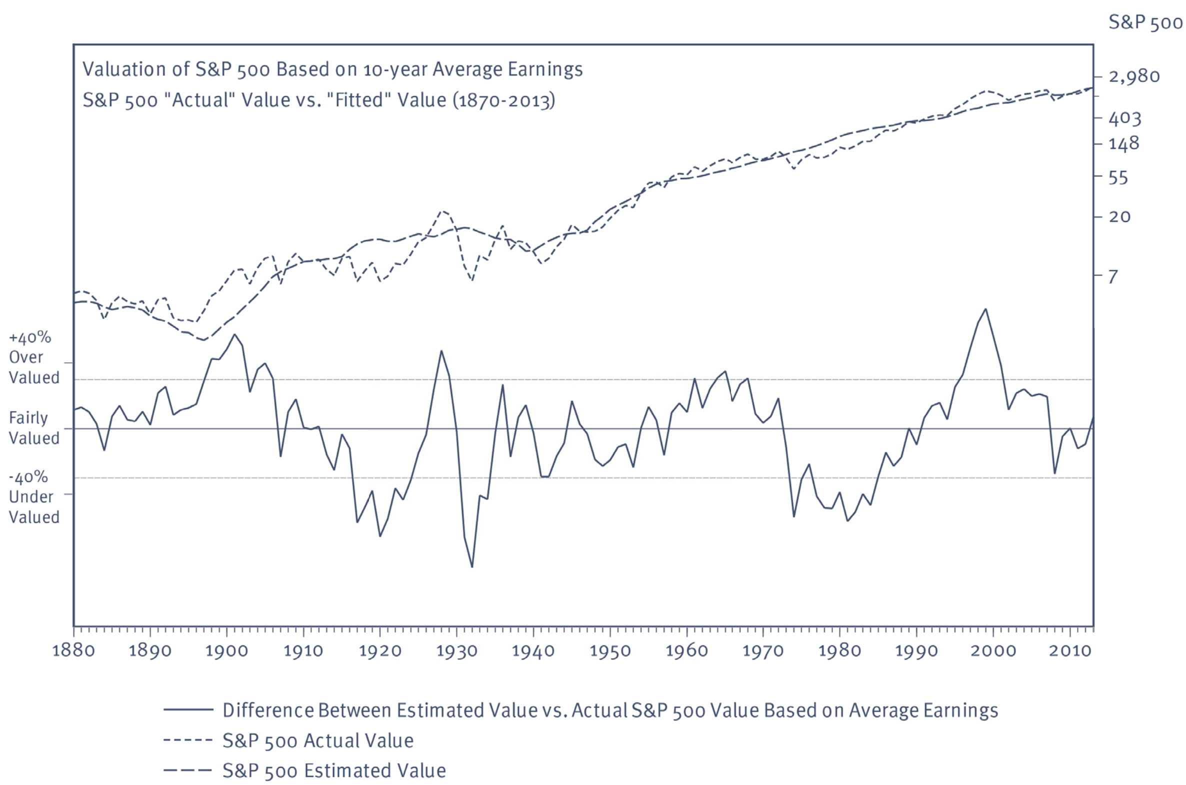
- Since about the end of World War II, profits have grown at roughly 6%. A farther look back places the growth rate closer to 4%. Over time, these growth rates have been the primary determinant of market returns. A dividend yield can be added to these numbers to get to a trendline total return figure for equity investment.

- Presently, the market seems to be within a reasonable distance from what our model would indicate “fair value” to be. In our view, slight deviations above and below fair value are not especially relevant and require no major adjustment to portfolios. The difference between our model's “fitted” value (implied by earnings) and the “actual” value of the S&P 500 is indicated by the bottom line on the graph.

- Significant deviations from fair value would be cause for raising expectations for equity returns in the case of significant undervaluation and reducing equity return expectations in the case of significant overvaluation. The bottom section of the chart includes bands of under- and overvaluation. We are currently well within those bands.

- A smaller trade deficit, increasing investment, and heightened bargaining power by business in labor negotiations are all part of the macroeconomic mix that has contributed to profit growth in recent years. Efforts to reduce the fiscal deficit through less government spending and increased taxes are providing a slight headwind to the profit outlook, however.

S&P 500 Within Fair Value Range



FUNDAMENTAL CONDITIONS UPDATE

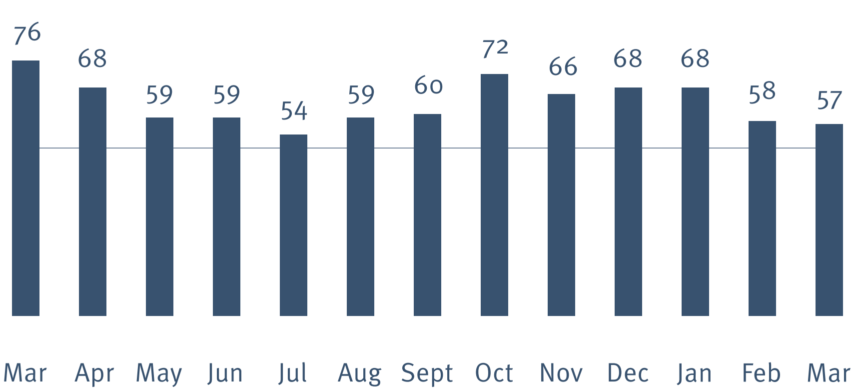
Market trends and economic data are cooling as we start the year. Difficult weather impacted some of the domestic data in January and February, and slower growth in emerging markets was evident in data flow from overseas. Very recent data shows signs of stabilization through March, however, as automobile sales, employment, and manufacturing all seemed to improve during the month.

WCA Fundamental Trend Indicators

	Last Quarter	Most Recent	Change
Credit and Capital Markets	78	75	Lower
U.S. Economic Conditions	50	39	Lower
Foreign Conditions	75	57	Lower
Fundamental Conditions	68	57	Lower

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 and 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
Bonds	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%	
Equities and Other	Domestic Stocks	9%	+2%	18%	+3%	27%	+5%	29%	+5%
	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	0%	-2%	0%	-3%	0%	-5%	0%	-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%	

First Quarter Changes:

Moved to an overweight U.S. equities versus emerging markets, which continue to be challenged by political tension, growth concerns, tighter credit, and inflation.

While we still see a better long-run growth dynamic in those economies, the near-term concerns mentioned above suggest a better risk/reward trade-off across our forecast horizon.

Tactical Positioning

Overweight U.S. equities versus foreign.

Shorter bond duration given low yields and potential for rates to move higher.

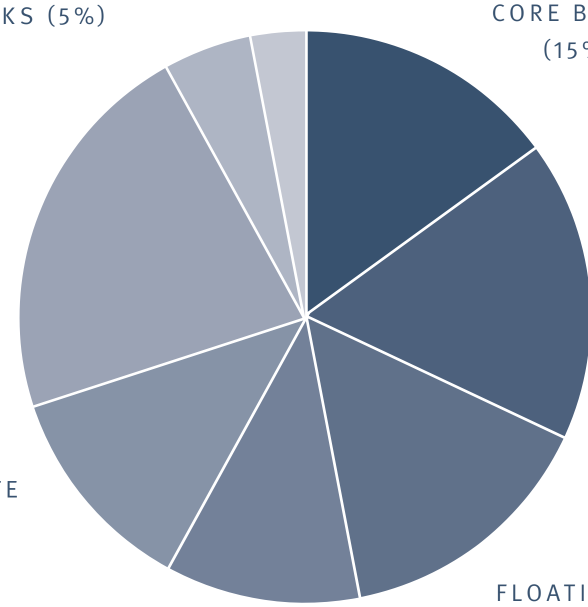
Underweight gold given poor relative strength; better performance by banks; and constrained inflation outlook.

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%

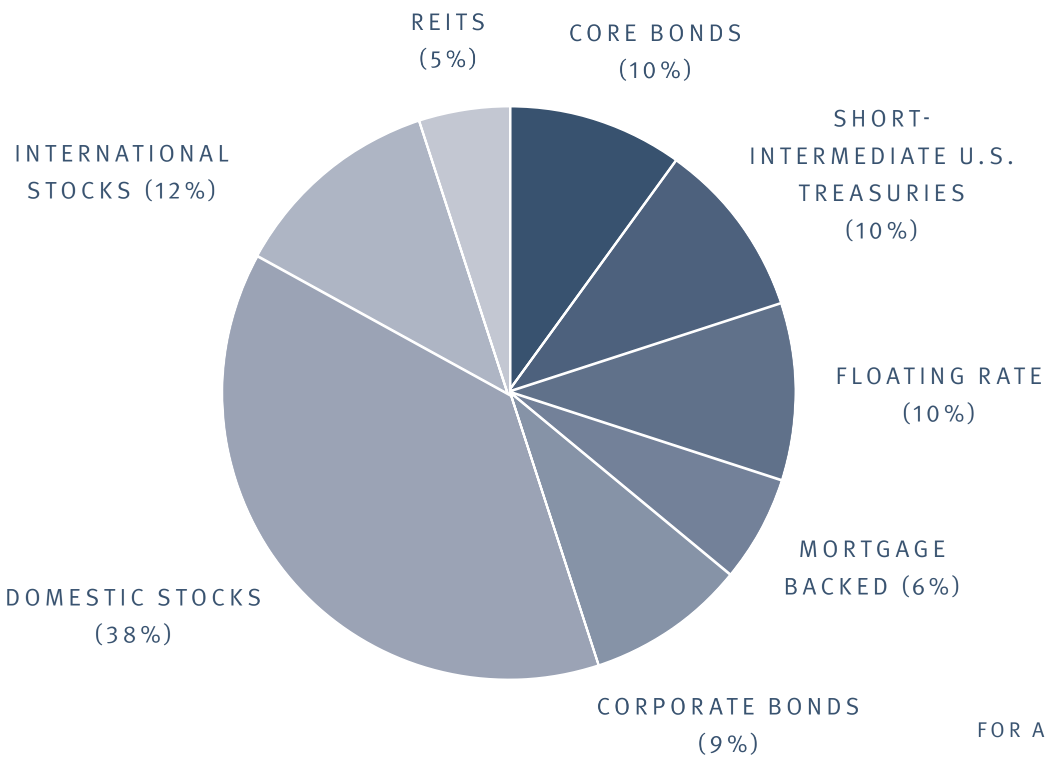


FOR A DETAILED LIST OF HOLDINGS, INCLUDING SUB-ASSET CLASSES, SEE PAGE 5

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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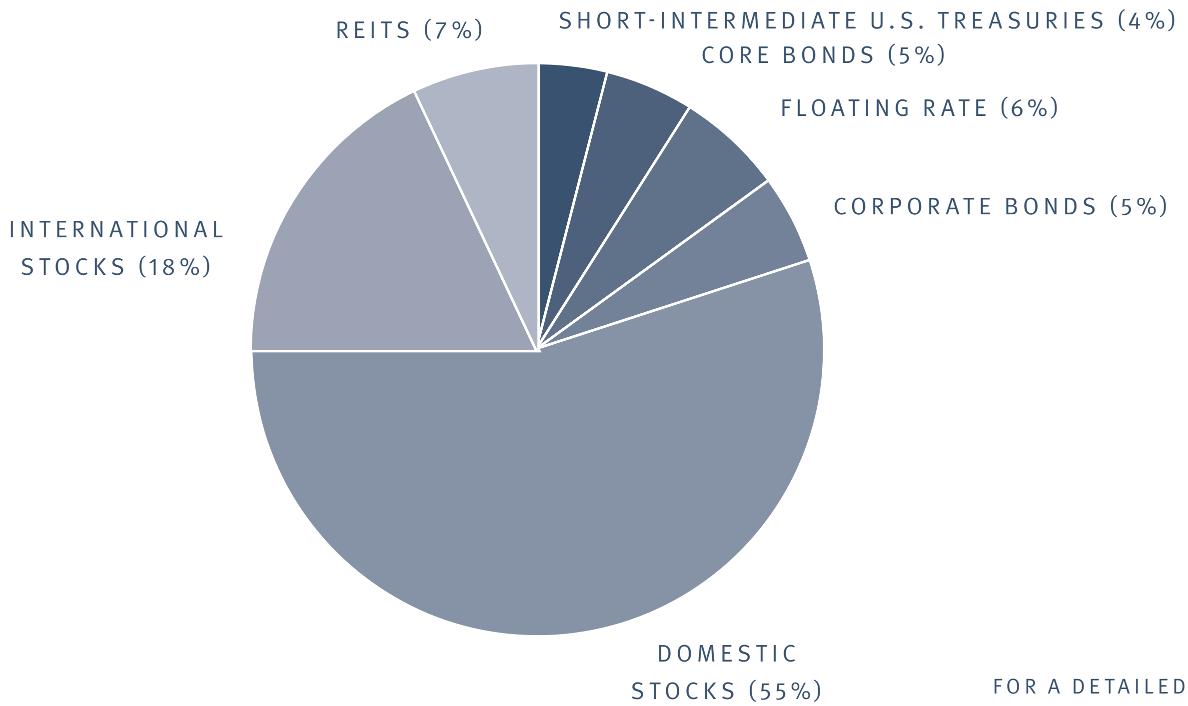
Portfolio Description

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%



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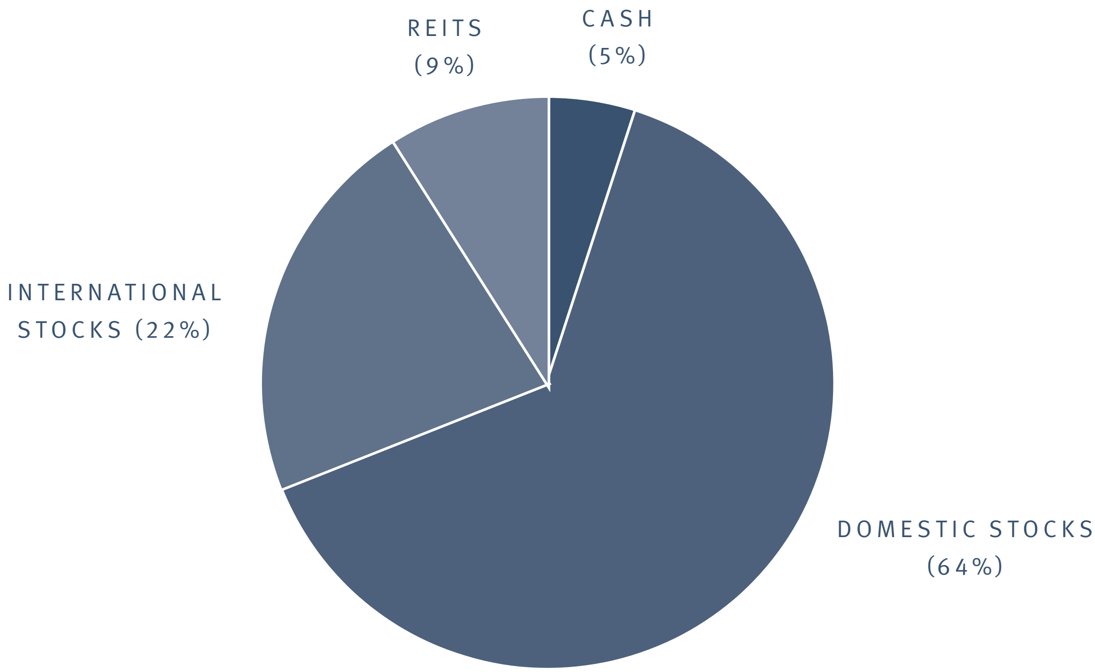
Portfolio Description

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 (Actual)	2014 (Estimate)	2013 Growth	2014 Growth
Real Gross Domestic Product	15,052	15,471	15,761	16,300	1.9%	3.4%
Gross Domestic Product	15,534	16,245	16,800	17,628	3.4%	4.9%
Consumption	10,712	11,150	11,502	12,101	3.2%	5.2%
% GDP	69%	69%	69%	69%		
Investment	2,232	2,475	2,670	2,940	7.9%	10.1%
% GDP	14%	15%	16%	17%		
Government Spending	3,159	3,167	3,126	3,152	-1.3%	0.8%
% GDP	20%	19%	19%	18%		
Exports	2,101	2,196	2,260	2,535	2.9%	12.2%
% GDP	14%	14%	14%	14%		
Imports	(2,670)	(2,743)	(2,757)	(3,100)	0.5%	12.5%
% GDP	-17%	-17%	-17%	-18%		
Government Deficit	(1,665)	(1,507)	(1,071)	(1,146)	-29.0%	7.0%
% GDP	-11%	-9%	-8%	-7%		
Government Revenue	(1,494)	(1,660)	(1,814)	(2,006)	9.3%	10.6%
% GDP	-10%	-10%	-11%	-11%		
Total Private Saving	3,445	3,541	3,616	3,741	2.1%	3.4%
% GDP	22%	22%	22%	21%		
Households & Institution	1,071	1,097	996	1,144	-9.3%	14.9%
% GDP	7%	7%	7%	6%		
Business Saving / Profits	2,374	2,444	2,505	2,597	2.5%	3.7%
% GDP	15%	15%	14.9%	14.7%		
Employment (Nonfarm Payroll)	132,498	134,691	137,395	139,400	1.7%	1.5%
Employment (Private Sector)	110,548	112,817	115,541	117,400	2.1%	1.6%
S&P 500 Operating EPS	$96.48	$103.08	$108.44	$115.50	5.2%	6.5%
Inflation Index (GDP Deflator)	103.2	105.0	106.6	108.2	1.5%	1.5%

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	Z-Score
Domestic Equities	S&P 500 Index	11.4	22.6	16.4	17.2	52%
Domestic Small Capitalization	S&P 600 Small Cap Index	14.0	67.5	20.8	25.1	36%
Domestic Value	S&P 500 Value Index	10.9	29.0	15.3	14.7	-28%
Domestic Growth	S&P 500 Growth Index	10.1	22.9	17.2	19.9	108%
Foreign Developed Market Equities	MSCI Developed Markets	8.6	103.0	15.7	18.4	-10%
Foreign Emerging Market Equities	MSCI Emerging Markets Index	6.6	24.1	12.8	11.9	-47%
Domestic Growth	Russell 3000 Growth	11.2	27.8	14.9	15.4	-1%

CREDIT SPREADS

Spread	Index	------------------- 10-Year Spread --------------------- Low	High	Median	Current Spread	Z-Score
Inflation / T-Bills	CPI / U.S. Treasury Bill	-224	279	-81	-172	-98%
Term Spread	30 Day T-Bill / 10-Year Treasury	-56	379	213	283	63%
Liquidity Premium	Moody's Aaa Index / 10-Year Treasury	45	269	77	75	-6%
Baa Credit	Moody's Baa / Aaa Index	115	607	185	167	-60%

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.