MARKET COMMENTARY

SOME IMPROVEMENT

We are starting to see some light at the end of the tunnel. The stock market is up for the year, inflation has begun to decelerate, and the labor market shows continued strength. These positive signals push back against the recession and inflation story that hung over markets for most of the past year. The improved backdrop is also reflected in our WCA Barometer (Chart A, on the next page).

CHART A | WCA BAROMETER Source: WCA, Bloomberg

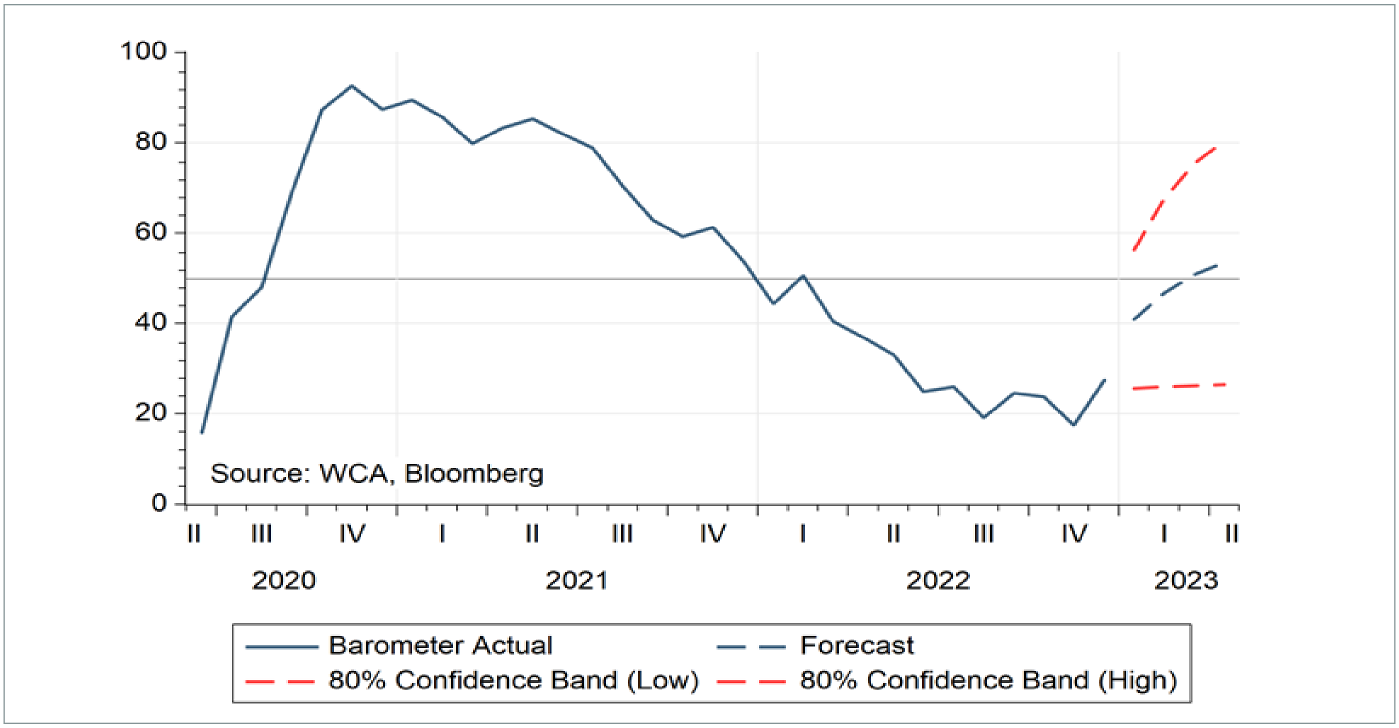


CHART B | S&P 500 FORECAST OPERATING EARNINGS Source: Bloomberg

While the current forecast reading of 48 (the blue dotted line) is not robust, it is anticipating some stability and lift after a long downward slide. While the lift could prove fleeting, it could also take root, paving the way for some positive momentum. The bottom line is that we see a shift in data that lifts our outlook from decidedly negative to something of a mixed bag.

Accordingly, we again boosted equity exposure this month for tactically allocated, top-down portfolios. For individual stock portfolios based on bottom-up fundamentals, we continue to focus on consistent, highly profitable, low-debt companies trading at reasonable prices. However, just because we see some tentative signs of improvement, we are not throwing caution to the wind. A few critical headwinds are still with us, and these require continued vigilance.

THREE HEADWINDS

FIRST, the profit picture is darkening. Every week since June, forecast S&P 500 profits have fallen (Chart B, on page 2), and there is no reason to think this trend will soon change. In past down-cycles, profit forecasts end up anywhere from 15-40% lower and write-offs are common. To date, forecasts are only down about 5% and have yet to show signs of perking up.

SECOND, there is no compelling sign that the economy is rebounding yet. The January purchasing manager's index (Chart C on page 4), a very good leading indicator for the economy, is at 47 — a level generally consistent with low or negative near-term growth. Other indicators like pending home sales (-34% year-over-year) and new housing starts (-18% year-over-year) paint a similar picture of weak-ening demand in important areas of the economy.

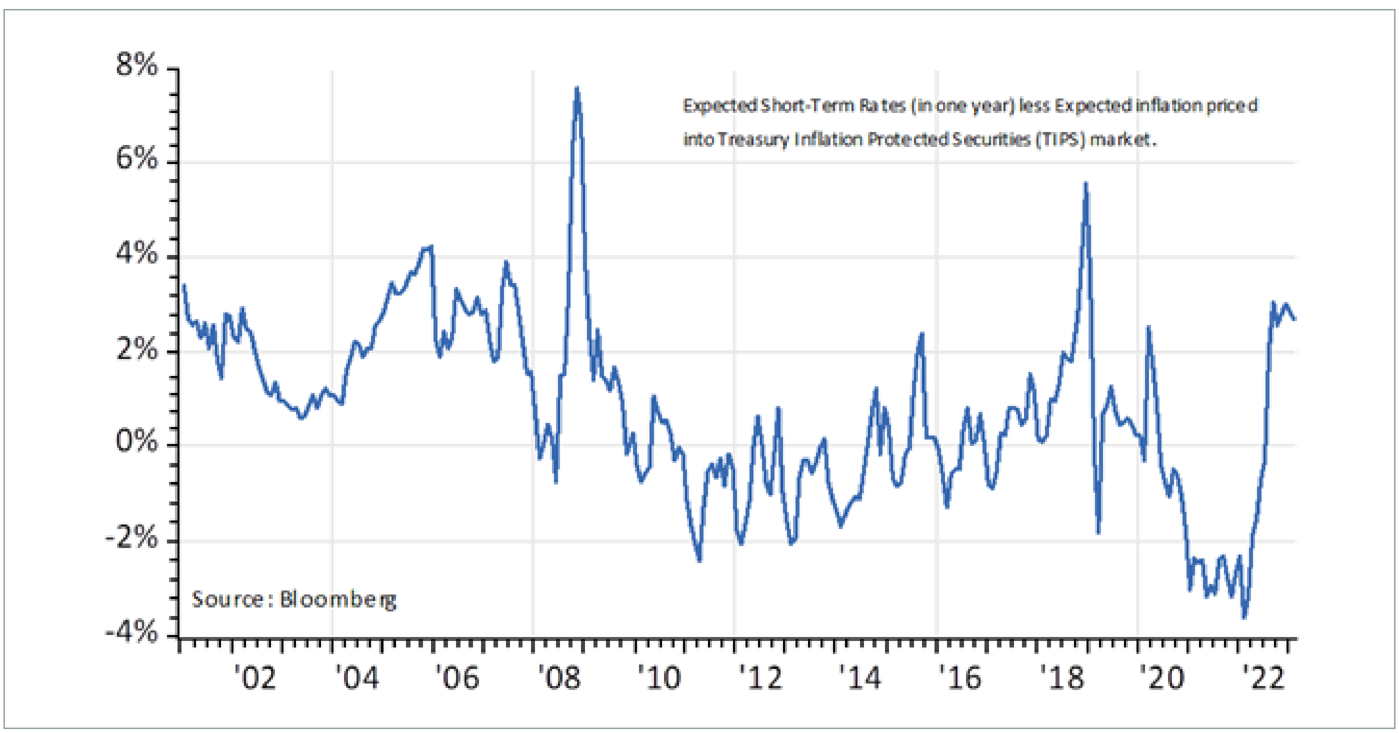
THIRD, the fall in inflation rate, coupled with prospects for further rate increases, means policy has gotten more restrictive, not less. We see this in higher real interest rates, which can act as a brake on growth and risk appetite. Chart D on page 4 shows the sharp rise in rates using a forward-looking concept, subtracting market inflation expectations from market-implied interest rate expectations a year from now. While the market got excited about prospects for a turnaround by the Federal Reserve (Fed) a couple weeks back, last week's hot employment report casts some doubt on such a turnaround by the Fed. Since policy works with a lag, it is likely that the cumulative impact of tightening has not yet been fully felt in the economy.

CONCLUSION

Given all this, we think our portfolios are well positioned relative to our goal of prudent long-run focused management. The investment process is intact, but has room to adapt, and is forward-looking. Should the economy, earnings, risk-appetite, and interest-rates demonstrate further improvement, we are prepared to lean into risk. On the other hand, if January's rally proves short-lived, and conditions do not improve as hoped, we are also prepared to pare back risk.

CHART C | U.S. PURCHASING MANAGER'S MANUFACTURING SURVEY Source: Institute for Supply Management

CHART D | REAL SHORT-TERM INTEREST RATES Source: Bloomberg



WCA Fundamental Conditions Barometer Description: We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. The 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 three 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 three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

Index Descriptions: WCA Quality Indices are based on Washington Crossing Advisors' quantitative analysis of firms along three dimensions: asset profitability, consistency, and leverage. Higher quality companies are defined as those which fall in the top quintile of largest-cap U.S. companies and tend to have higher average profitability, greater than normal consistency, and low leverage. Lower quality companies are defined as those which fall in the lowest quintile based on the same criteria. Indices are reconstituted annually, continuously rebalanced, and presented on a total return basis, as calculated by Bloomberg. Indices are unmanaged and do not represent performance of any actual portfolio or portfolio strategy offered by Washington Crossing Advisors, LLC.

Standard & Poor's 500 Index (S&P 500) is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. S&P 500 Growth Index and S&P 500 Value Indices are designed to provide a comprehensive measure of global equity growth and value performance.
S&P High Beta Total Return Index is designed to measure the performance of the constituents of the S&P 500 that are most sensitive to changes in market returns.
S&P Low Beta Total Return Index is designed to measure the performance of the constituents of the S&P 500 that are least sensitive to changes in market returns.

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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.

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

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