Portfolio Navigator

RIVERFRONT INVESTMENT GROUP

Investment, Equity and Fixed Income Portfolio Strategies

July 2, 2009

-- Portfolio Investment Strategy Navigator --

	Recommended Weight	Comments	ETFs
Capitalization			
Large	Underweight	We are underweight US stocks to accommodate our overweight in Commodities and Emerging Markets.	PowerShares QQQ Trust (QQQQ-NasdaqGM-$36.40)
Mid[1]	Neutral		
Small	Neutral		

	EAFE Weight	Recommended Weight	Comments	ETFs
International[2]	**100%**	Neutral	We are still underweight traditional International, but have been adding to Small Caps and Dividend Achievers amid renewed dollar weakness. Within International, we are overweight Pacific ex-Japan and Canada given their commodity exposure as central banks engage in quantitative easing.	Vanguard Europe Pacific ETF (VEA-NYSEArca-$29.24) Vanguard FTSE All-World ex-US Small-Cap Index (VSS-NYSE-$66.60) PowerShares International Dividend Achievers (PID-AMEX-$11.54)
UK	24%	Underweight		
Europe ex-UK	45%	Underweight		
Japan	23%	Underweight		
Pacific ex-Japan & Canada	8%	Overweight		

	MSCI EM Weight	Recommended Weight	Comments	ETFs
Emerging Markets	**100%**	Overweight	Emerging Markets is one of our largest asset allocation overweights. We believe this sector is likely to weather the recession, emerge stronger and benefit from its commodity orientation. We maintain an overweight to Latin America and Asia (ex-Japan). We expect superior relative growth (and returns) in Emerging Markets over the long run.	Vanguard Emerging Markets (VWO-NYSEArca-$32.49) iShares MSCI All Country Asia ex Japan Index Fund (AAXJ-NasdaqGM-$44.97) iShares S&P Latin America 40 Index Fund (ILF-AMEX-$35.08)
Eastern Europe	16%	Underweight		
Latin America	24%	Overweight		
Asia	50%	Overweight		
ME/Africa	10%	Underweight		

1. Small- and mid-cap companies may be hindered as a result of limited resources or less diverse products or services and have therefore historically been more volatile than the stocks of larger, more established companies.
2. Investments in international and emerging markets securities include exposure to risks including currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

Riverfront Investment Group owns shares of the exchange-traded funds mentioned above in its portfolios.

Please note that individual exchange-traded funds (ETFs) are sold by prospectus through a broker-dealer. For further information about obtaining a prospectus, or concerning any of the individual securities mentioned in this report, please contact your Financial Advisor.

-- Equity Portfolio Navigator --

	Fundamental	Valuation	Technical	Total	S&P Weight	Recommended Weight	25-Stock Portfolio	Comments	Best Ideas: ETFs	Best Ideas: Stocks
Financials				**-1**	**13%**	**10%**	**3**	We anticipate industry and company selection to matter the most in Financials. We are incrementally more positive on insurance companies as the market rebound improves investment portfolios and balance sheets. We are also positive on the capital markets industry, believing that the survivors will take advantage of an improved environment for capital raising and equity issuances. On the other hand, we are cautious on the banks and diversified financials as we expect growing losses in commercial real estate. We rate the sector **Underweight.**	iShares Broker/Dealer (IAI-N-$25.57)	Hudson Bank (HCBK-NasdaqGM-$13.30) HCC Insurance (HCC-N-$24.46) Travelers (TRV-N-$41.13) Corporate Office Properties (OFC-N-$29.84)
Banks/Div. Financial	Neg	Below	Neg	-1	6%	3%	1			
Insurance	Pos	In-Line	Neg	0	3%	3%	1			
Cap. Mkts	Pos	In-Line	Neut	1	3%	4%	1			
REITs[3]	Neut	In-Line	Neg	-1	1%	0%	0			
Technology[4]				**10**	**18%**	**22%**	**5**	Tech continued its winning ways in June, up approximately 6% for the month. While we still believe that tech's relative performance may need to take a near-term breather and consolidate some of its impressive year-to-date gains, we are convinced that the sector will continue to be one of the winners from a longer-term perspective, and thus we remain **Overweight**. Tech benefits not only from solid balance sheets but, among other growth avenues, the explosive adoption trajectory of mobile computing via smartphones, laptops and netbooks. We think this trend will continue to grow and disproportionately benefits our preferred sub-sector plays: software (which tend to possess solid growth and resilient earnings) and networking (higher beta[5], strong secular growth).	iShares Goldman Networking (IGN-NYSEArca-$23.86)	IBM (IBM-N-$104.84) Microsoft (MSFT-NasdaqGS-$24.04) Polycom (PLCM-NasdaqGS-$20.58) Apple (AAPL-NasdaqGS-$142.83) Oracle (ORCL-NasdaqGS-$21.74)
Computer Hardware	Pos	In-Line	Pos	2	5%	6%	2			
Software & Services	Pos	Below	Pos	3	5%	7%	2			
Semiconductors	Neut	In-Line	Pos	1	3%	3%	0			
Networking	Pos	In-Line	Pos	2	3%	4%	1			
Internet	Neut	Below	Pos	2	2%	2%	0			
Energy				**0**	**13%**	**12%**	**3**	With oil prices significantly higher this year, we believe now is a good time to replace a portion of our allocation to the most commodity-senstive areas of energy (exploration & production and drillng & services) with the historically less sensitive integrated oils. The integrateds also represent an attractive valuation proposition, in our view, having underperformed the broader energy indices this year. We now rate energy **Market Weight.**	Vanguard Energy (VDE-NYSEArca-$70.05)	XTO Energy (XTO-N-$37.33) Superior Energy (SPN-N-$17.23) National Oilwell (NOV-N-$32.34)
Integrated/E&P's	Pos	In-Line	Neg	0	11%	10%	1			
Equipment & Services	Neut	In-Line	Neut	0	2%	2%	2			
Healthcare				**7**	**14%**	**18%**	**4**	Although healthcare has enjoyed a strong recent bounce, we believe that, "pound for pound," there is no industry with better investment characteristics. Historically, the sector has enjoyed (1) superior growth, (2) less economically sensitive earnings, and (3) a less volatile share price. We also believe that the threat of pending government reform has been adequately discounted in the share price. Healthcare is an **Overweight.**	iShares Medical Device (IHI-N-$43.83)	CVS Caremark (CVS-N-$31.75) Johnson & Johnson (JNJ-N-$57.07) Becton Dickinson (BDX-N-$70.70)
Pharmaceuticals	Neut	Below	Neut	1	7%	8%	1			
Healthcare Equipment	Pos	Below	Pos	3	3%	5%	1			
Healthcare Services	Neut	Below	Neut	1	2%	2%	1			
Biotech	Pos	Below	Neut	2	2%	3%	1			
Industrials				**-1**	**10%**	**7%**	**2**	We view the Industrial sector as a leaky boat that has been lifted with the rising tide, and we think this provides attractive exit window for holders of Industrial stocks. Of the 10 S&P 500 sectors, the Industrials space has historically been the most reliant on the economic cycle for its growth. Since we believe a bottom for the economy is not yet on the horizon, we recommend an **Underweight**. We also recognize that many industrial companies have below-average balance sheets and a significant number of fixed committments, such as underfunded pension liabilities and a unionized labor force.	PowerShares Building & Construction (PKB-NYSEArca-$11.00); PowerShares Global Water (PIO-N-$15.15)	Fluor (FLR-N-$50.46) United Technologies (UTX-N-$52.58)
Conglomerates	Neg	Below	Neg	-1	2%	1%	0			
Aerospace & Defense	Pos	Below	Neut	2	3%	3%	1			
Transport	Neg	In-Line	Neg	-2	2%	0%	0			
Machinery	Neut	In-Line	Neut	0	3%	3%	1			

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3. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.
4. Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.
5. Beta measures a portfolio's volatility relative to a benchmark. A result greater than 1.0 implies that the portfolio is more volatile than the benchmark; a result less than 1.0 suggests that the portfolio is less volatile than the benchmark. Betas may change over time.

The specific securities identified do not represent all of the securities purchased, sold or recommended for client portfolios. Other securities mentioned may be considered by Riverfront Investment Group for purchase or sale in client portfolios in the future.
The opinions expressed are current as of the date shown and are subject to change. They are not intended to be investment recommendations. Past performance is no guarantee of future results.
Riverfront Investment Group owns shares of the securities mentioned above in its portfolios.

-- Equity Portfolio Navigator --

	Fundamental	Valuation	Technical	Total	S&P Weight	Recommended Weight	25-Stock Portfolio	Comments	Best Ideas ETFs	Best Ideas Stocks
Consumer Staples				**5**	**12%**	**12%**	**3**	Consumer Staples have lagged significantly throughout the recent rally and become significantly more attractive. We believe Staple stocks are poised to outperform in the near term as they are oversold and will either be dragged along if the market moves higher, or provide a safe harbor if the market declines. We recommend investors hold a **Market Weight** in this sector.	Vanguard Consumer Staples (VDC-NYSEArca-$58.61)	Proctor & Gamble (PG-N-$52.00) Philip Morris International (PM-N-$44.09)
Food & Beverage	Neut	In-Line	Neut	0	6%	5%	1			
Food & Staple Retailing	Pos	In-Line	Pos	2	3%	4%	2			
Houshld. Product/Pers. Care	Pos	Below	Pos	3	3%	3%	0			
Consumer Discretionary				**0**	**9%**	**8%**	**2**	We believe Consumer Discretionary has lost some leadership and has digested its overbought levels. We have been wrong to be negative on this sector for the past three months and recognize our bearishness is in consensus. We are hesitant to take a big bet one way or the other as the fundamental story keeps us skeptical, but we think the technical case remains encouraging. Our recommendation is a **Slight Underweight** with a Stop plan to get to Neutral.	Powershares Entertainment & Leisure (PEJ-NYSEArca-$11.37)	McDonalds (MCD-N-$58.22) Staples (SPLS-NasdaqGS-$20.12)
Retail	Neut	Above	Pos	0	4%	3%	1			
Media	Neut	Below	Neg	0	2%	2%	0			
Leisure & Entertainment	Pos	Above	Pos	1	2%	3%	1			
Homebuilding	Neg	Above	Pos	-1	1%	0%	0			
Utilities				**0**				Typically, Utilities are defensive and have rarely outperformed in a rising market. However, we are beginning to see early indications of Utility leadership despite the strong market. In our view, reasonable valuations, high dividend yields[6] and improving momentum suggest **Overweight.**	JP Morgan Alerian MLP ETN (AMJ-N-$22.41)	Dominion Resources (D-N-$34.23)
Electric Utilities	Neut	In-Line	Neut	0	**4%**	**4%**	**1**			
Materials				**0**	**4%**	**4%**	**1**	While the fiscal/monetary stimulus and stabilization in most leading economic indicators has helped propel the Materials sector higher on a relative basis off the March lows, we suspect the rise in sentiment towards this commodity-sensitive area may reverse in the weeks ahead. This potential moderation in sentiment could cause a healthy consolidation (on a relative basis) into the fall and create a more confident entry point. As a result, we think a more **Market-weight** equity allocation will be necessary in the near futures with expectations that the September/October timeframe will the most optimal with which to rebuild our Overweight allocation and realign ourselves with our longer-term bullish thesis on the space.	iShares Materials (IYM-AMEX-$43.45) SPDR Metals (XME-AMEX-$37.01)	Praxair (PX-N-$70.90) Ball Corp (BLL-N-$47.85)
Chemicals	Neg	In-Line	Neut	-1	2%	1%	0			
Precious Metals	Neut	In-Line	Neut	0	1%	1%	0			
Metals	Neut	In-Line	Pos	1	1%	2%	1			
Telecommunications Services				**0**				It may be inappropriate to Overweight this sector if the market is beginning a bottoming process. We therefore rate the sector **Market Weight**.	iShares Global Telecomm (IXP-N-$48.04)	Verizon (VZ-N-$30.82)
Wireline Services	Neut	In-Line	Neut	0	**3%**	**3%**	**1**			
					100%	100%	25			

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6. Dividends are not guaranteed and are subject to change or elimination.

-- Fixed Income Portfolio Navigator --

Fixed Income Portfolio Navigator

	Merrill Lynch U.S. Corp, Govt, and Mtg Index Weightings	Fundamentals	Valuation	No Weight	Underweight -5% or more	Slight Underweight -1% to -4%	Neutral At Benchmark	Slight Overweight +1% to 4%	Overweight +5% or more	Comments
Traditional Fixed Income:										
Treasuries	29%	Negative	Negative	X						The 10-year Treasury yield is about 1.5% higher year to date, but it still offers little value, in our view. Fed purchases ($300B) initially kept yields contained, but supply/demand concerns have recently pushed longer-term yields much higher. Yields are likely to rise further once economic growth resumes. For the most risk-adverse investors, we see better value in Treasury Inflation Protection Securities (TIPs), FDIC-insured bank debt and agency debt.
Mortgage Backed Securities (MBS)	35%	Negative	Neutral		X					The Fed's planned purchases of $1,250 billion agency-backed MBS, have compressed risk premiums sharply. At current levels, MBS are likely to sell off at least as much as Treasuries in rising rate environment.
Agencies	15%	Negative	Neutral	X						Agencies lack an explicit government guarantee. The Fed's planned purchases of $200 billion of senior and subordinated agency debt have compressed risk premiums sharply, and we think agencies are currently only attractive relative to Treasuries. FDIC-guaranteed bank debt offers an attractive alternative for most risk-adverse investors, in our view.
Corporates	21%	Negative	Slightly Positive						X	Momentum has begun to fade after a strong second-quarter rally, where risk premiums fell 255 bps (to 331bps, "bps" = 1/100th of 1%). Risk premium is now at a normal recessionary level and will likely grind tighter on signs of economic improvement. Corporate bonds can still absorb a moderate increase in Treasury yields without prices being negatively affected We favor shorter maturities (7-yrs or less) and the senior debt of higher quality financials and lower rated industrials.
Alternative Income:										
High Yield		Negative	Slightly Positive				X			Momentum has also slowed after a strong 2Q09 rally, especially for the "junkiest" issuers. Risk premiums have dropped 831 bps since early March (to 1055 bps) and are at levels seen during past two recessions. Future spread tightening will be dependent upon economic growth and defaults (currently ~9%). The re-opening of capital markets to better quality "junk" issuers will help to lower peak default rate towards our "Lucky" capital market assumption (~13%). At current valuations, we believe the higher quality sectors (BB and B-rated) have the best risk/reward profiles. Good professional managers will earn their fees by avoiding defaults.
Emerging Markets		Negative	Slightly Positive				X			Emerging market momentum is also slowing after risk premiums falling more than 300 bps (to 700 bps) since early March. Further spread tightening will be dependent upon global economic growth and commodity prices.
Non-benchmark Sectors:										
Municipals		Negative	Neutral				X			Municipals have outperformed Treasuries significantly since December and are no longer attractive to cross-over investors. For investors in higher tax brackets, they remain attractive (and will become more so under the new administration) relative to taxable alternatives. California remains a source of market concern, highlighting fiscal stress across the country. We recommend using professional management when buying lower quality sectors.

TACTICAL DURATION RECOMMENDATION

	Short Over -0.75/yr	Slightly Short -0.25 to -0.75/yr	Neutral At Benchmark	Slightly Long +0.25 to +0.75/yr	Long Over 0.75/yr	
Duration	X					The short-end of the curve is likely to remain anchored by the market's expectations of near 0% Fed Funds Rate for the intermediated future, while longer term yields could be pressured by concerns about supply and future inflation. We have a strong preference for non-Treasury duration.

High-yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds.
Investments in international and emerging markets securities include exposure to risks including currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.
S&P Ratings Definitions: Obligations rated BB, B are regarded as having significant speculative characteristics. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. **BB** -- An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. **B** -- An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

-- Commodities Portfolio Navigator --

	Dow Jones AIG Commodities Index Weighting	Fundamentals	Technicals	Underweight -5% or more	Slight Underweight -1% to -4%	Neutral At Benchmark	Slight Overweight +1% to 4%	Overweight +5% or more	Implementation	Comments
Core	100%	Positive	Positive			X			Powershares DB Commodities (DBC-NYSEArca-$22.53)	In our view, a diversified commodity portfolio should include representation from each of the four major commodity classes: Energy, Industrial Metals, Agriculture and Precious Metals. Our recommended approach to building this allocation is through a core/satellite approach; the core of the portfolio is comprised of a broadly diversified commodity vehicle, and satellite positions are added when alpha[7] opportunities present themselves.
Industrial Metal	20%	Neutral	Positive		X				Powershares DB Base Metal (DBB-NYSEArca-$15.56)	Arguably, the metals are the most cyclical of the commodities, since the demand for copper, aluminum, lead, zinc and nickel are a function of the general level of business activity. It takes lots of industrial metal to erect office buildings, manufacture automobiles and construct homes, but less is required when those businesses enter a recession. From a long-term perspective, strong fundamental tailwinds should help both the demand (emerging markets) and supply (consolidation) side; however, temporary headwinds will remain until the economic environment stops its contractions. We recommend underweighting industrial metals.
Agriculture	35%	Positive	Positive			X			Powershares DB Agriculture (DBA-NYSEArca-$25.72)	Given the "Consumer Staples"-oriented end market, the agricultural (ag) space had proven to be quite resilient in previous downtrends in overall commodities. However, the group has been leading the asset class to the downside on better-than-expected weather throughout much of the important planting season. This has resulted in recent USDA upward revisions to the amount of acreage planted for corn and other grains. The weakness in grains has led the other ags lower, and we believe the recent technical break is notable. We recommend being more Neutral agriculture commodities.
Precious Metal	13%	Negative	Positive				x		SPDR Gold (GLD-N-$92.39)	Since incremental demand for gold, silver and platinum is more likely to come from people purchasing it as a store of value/alternative to paper currency, it has traditionally been viewed as the most pure inflation hedge. With inflation becoming a more realistic risk every day, we think precious metals serve an important purpose in any commodity allocation. We recommend a slight overweight, with our preference to buy more aggressively on pullbacks, given this commodity's historically high valuation.
Energy	32%	Neutral	Positive				x		SPDR Exploration & Production ETF (XOP-NYSEArca-$31.71) iPath Natural Gas ETN (GAZ-N-$16.49)	An important component of long-term commodity returns is the roll yield[8]. Positive roll yield occurs when the commodity markets are in backwardation (spot prices are higher than future prices); negative roll yield is present when the commodity markets are in contango (spot prices are below future prices). Currently, the energy commodity market is in contango, and it is therefore more difficult to generate positive returns through traditional energy commodity investing. To make money in energy commodities, prices not only need to rise, but they must rise enough to offset the negative roll yield. Therefore, we recommend an overweight to energy and prefer to gain exposure through energy-related equities rather than energy commodity ETFs. We recently added Natural Gas to our recommendation due to its better futures curve, and catch-up potential.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add this asset class to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any commodity purchase represents a transaction in a non-income-producing asset and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio. Investors in commodity ETFs are likely to be subject to K-1 filings. The income and certain expenses of commodity ETFs are passed through to the owners, who report and pay tax on the income. The K-1 is the form used to report each owner's share of income and certain expense items.
We own shares of DBC, DBB, DBA, GLD, GAZ and XOP in our managed portfolios.

7. Alpha measures the risk (beta) adjusted rate of return on a portfolio in excess of what would be predicted by an equilibrium model, such as the Capital Asset Pricing Model (CAPM). If two managers had the same return, but one had a lower beta, that manager would have a higher alpha. Alphas may change over time.
8. The increase or decrease in price that occurs when a security is rolled to a new futures contract, instead of trading in the futures contract or just letting it expire.

-- Navigators Explained --

	Fundamental	Valuation	Technical	Total	S&P Weight	Recommended Weight	25 Stock Portfolio	Comments	Best Ideas ETFs	Best Ideas Stocks
Technology				**0**	**16%**	**15%**	**3**	Semiconductors likely to bounce but we do not believe it is a long-term investment opportunity. We continue to favor software over semis/hardware/networking due to more predictable earnings.	iShares Software (IGV)	Microsoft (MSFT) Citrix Systems (CTXS)
Computer Hardware	Neut	In-Line	Neg	-1	4%	3%	0			
Software & Services	Pos	In-Line	Neut	1	4%	6%	2			
Semiconductors	Neg	In-Line	Pos	1	3%	3%	0			
Networking	Neg	In-Line	Neg	-1	3%	2%	1			
Internet	Neg	In-Line	Pos	0	2%	1%	0			

Our Fundamental View combines our long-term industry outlook with our shorter-term (six-month) cyclical outlook and expectatitions around potential catalysts.

Example: For industries in which our long-term bias is negative, we may raise our ratings to neutral ifsignificant near-term catalysts exist. However, we would be unlikely to move our rating to Positive.

Our valuation rating is determined by measuring the sub-sectors' price, Price/Earnings, and Price/Cashflow ratios relative to the S&P 500. "Above" ratings are given to sub-sectors trading one standard deviation[1] or more above their normal range and a rating of "Below" is given to those one standard deviation or more below.

Our technical[2] rating is based on the long-term technical trend of the sub-sector. There are three ratings: "Negative," "Neutral," or "Positive."

We use a "weight of evidence" approach to determine our recommended weightings. Sub-sectors with favorable fundamental, valuation and techical ratings are overweighted relative to the S&P and vice-versa.

In a 25-stock portfolio, we would allocate 3 positions to Technology -- 2 to Software, 1 to Networking

Our advice can be implemented multiple ways. In these two columns we provide ideas for the ETF investor and for those building a traditional stock portfolio.

1. Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data is, the higher the deviation.
2. Technical analysis is based on the study of historical price movements and past trend patterns. There are also no assurances that movements or trends can or will be duplicated in the future.