

Doug Sandler, CFA

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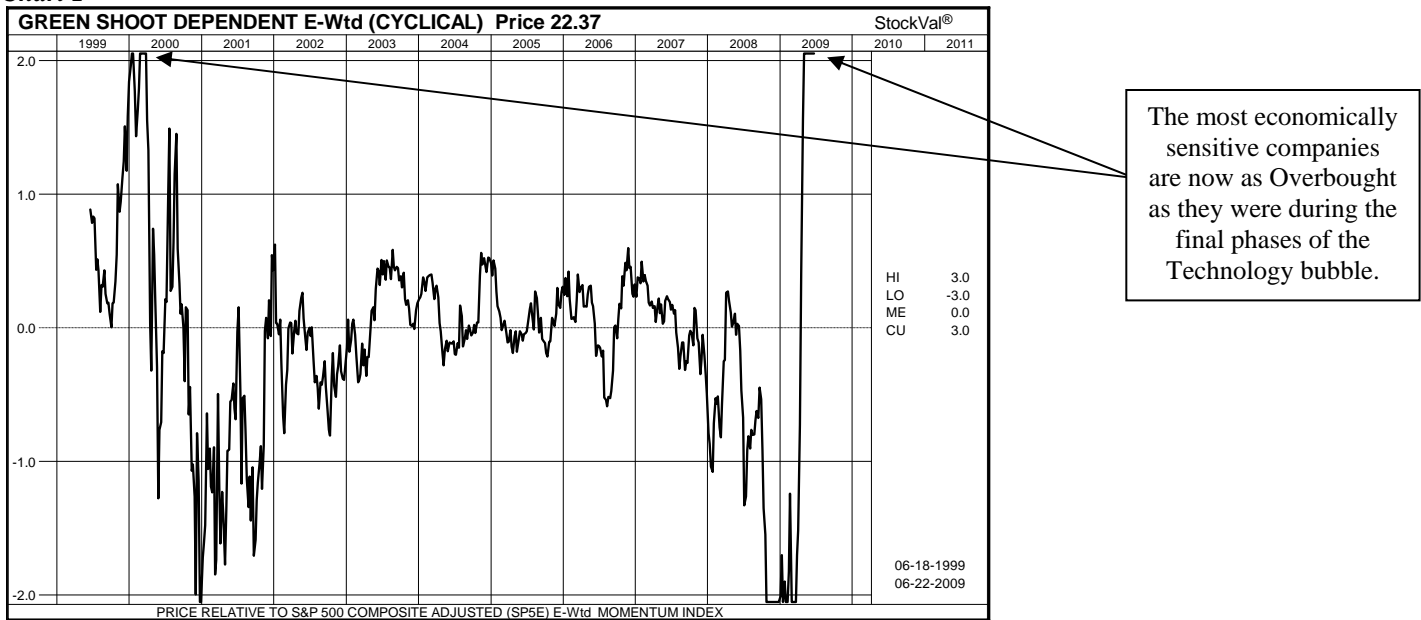
## Who's At Risk if Green Shoots Fail to Bloom?

Since the rally began three and a half months ago, one of the buzz words when discussing the economy has been “green shoots.” Economic reports, earnings reports and anecdotal evidence have all pointed to an economy that was not only getting less bad, but was actually starting to sprout. As a result, many companies that have historically been most sensitive to improving macro-economic factors have registered performance well in excess of the S&P 500.

Whether the green shoots take root or not is still up for debate; however, we believe it is important to identify areas of potential vulnerability and implement appropriate risk management before that argument is resolved. Appropriate risk management could potentially entail setting stops, pruning position sizes or employing a protective option strategy.

While the recent pullback has taken a little wind out of the sails of the most cyclical companies, there is still further room for them to fall. Since March 9, 2009, companies in the S&P 500 with a beta<sup>1</sup> of 1.5 or greater have appreciated 96%, besting the S&P 500 equally weighted index by 64%. Chart 1 below shows that a portfolio of those high-beta companies relative to the S&P 500 is stretched to the upside by more than 3 standard deviations, a situation last observed prior to the bursting of the Technology bubble.

**Chart 1**



Source: StockVal

**Greatest Vulnerability:** Companies that are the most vulnerable to a correction, in our view, (1) have historically displayed a high degree of economic sensitivity; (2) have significantly outperformed the S&P 500 since March 9; and (3) have broken through an area of significant technical support. In the following table, we provide a list of the more widely held companies, along with our recommended stop levels.

Company	Stop	Company	Stop
Alcoa (AA-N-\$10.02)	\$10.00	American Express (AXP-N-\$23.23)	\$23.00
Bank of America (BAC-N-\$11.94)	\$10.50	Dow Chemical (DOW-N-\$15.17)	\$15.00
Ford Motor (F-N-\$5.38)	\$4.25	Goodyear Tire & Rubber (GT-N-\$11.31)	\$10.00
Hartford Financial (HIG-N-\$10.98)	Violated	Ingersoll-Rand (IR-N-\$20.53)	\$19.50
International Paper (IP-N-\$12.53)	\$11.00	Limited Brands (LTD-N-\$11.50)	\$11.00
Motorola (MOT-N-\$6.03)	\$5.63	JC Penney (JCP-N-\$25.93)	\$24.00
Textron (TXT-N-\$9.12)	Violated	United States Steel (X-N-\$34.12)	\$33.00
Whirlpool (WHR-N-\$41.89)	\$39.00	Wynn Resorts (WYNN-NasdaqGS-\$34.28)	\$33.00

<sup>1</sup> 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.

**Some Good News:** While we worry about green shoot-dependent companies, we have few worries about those companies that have historically been less economically sensitive. We continue to find attractive investment opportunities in the secular growth industries where the constituents tend to be faster growing, have fewer fixed commitments (debt, pensions, etc.) and derive a significant portion of their revenue internationally. A few of the industries that fall into these categories, along with some representative ETFs, are listed below.

- **Broad Domestic:** PowerShares Dividend Achievers (PFM-NYSEArca-\$10.33)
- **Broad International:** PowerShares International Dividend Achievers (PID-NYSEArca-\$11.04)<sup>2</sup>
- **Medical Devices:** iShares Medical Devices (IHI-NYSEArca-\$42.90)
- **Software:** iShares Goldman Software (IGV-NYSEArca-\$37.17)<sup>3</sup>
- **Engineering:** PowerShares Engineering & Construction (PKB-NYSEArca-\$10.38)
- **Water:** PowerShares Global Water (PIO-NYSEArca-\$14.16)
- **Biotech:** SPDR Biotech (XBI-NYSEArca-\$48.54)
- **Networking:** iShares Goldman Networking (IGN-NYSEArca-\$22.33)<sup>3</sup>

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<sup>2</sup> 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.

<sup>3</sup> Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Doug Sandler, CFA, Chief Equity Officer • 804-549-4803 • [dsandler@riverfrontig.com](mailto:dsandler@riverfrontig.com) • [www.riverfrontig.com](http://www.riverfrontig.com)  
Riverfront Investment Group, 9011 Arboretum Parkway, Suite 110, Richmond, VA 23236

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A complete list of companies included in the Green Shoot Dependent composite is available upon request.

**Exchange Traded Funds (ETFs) are sold by prospectus. Please consider the investment objectives, risk, charges and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained by calling your financial advisor. Read it carefully before you invest.**