Update&Review

Winter 2013

It's Time

Inside:

Page 4 The annual forecast is a prominent feature of Wall Street and, despite the skepticism, they do have a role in forming market expectations. However, the value of yearly forecasts is more limited to the objectives of building and protecting long-term wealth.

Page 5 The most important investment decisions are how to allocate assets and diversify investments. We believe the equity market is at an important juncture for embarking on a period of wealth creation that can have a profound impact for achieving financial goals.

Page 10 Many fixed income yields are below the rate of inflation and investors are reluctant to invest in stock portfolios after two major bear markets in the past 13 years. We believe strongly that a portfolio of high quality stocks providing income that grows over time will deliver a better risk-adjusted return in the current environment than many alternatives being suggested by other investment managers.

Page 14 Global equity markets produced solid gains for investors in 2012. Despite the risk aversion demonstrated by investor preference to increase bond holdings at the expense of stocks, equity gains were broad by geography, investment style, and market capitalization.

EquityCompass Strategies

A subsidiary of Stifel Financial Corp.

Investment portfolios & products managed using EquityCompass' strategies are available exclusively via Stifel Nicolaus Financial Advisors.

CIO Commentary

For increasing wealth, 2012 was a good year. Investors seeking the market return, a balance of risk and reward reflected in an allocation of 60% stocks and 40% bonds, achieved better than their average annual return of 9% versus the DJIA which was up 7% and money market funds that were earning close to 0.1%. That the market provided such solid returns may come as a surprise to investors who have generally been net sellers of stocks and big buyers of bonds.

The immutable fact of long-term investing is that investment returns will primarily be a result of how assets are allocated and investments are diversified. We believe investors are at an important juncture in making asset allocation choices. From our perspective there is enough evidence to suggest that shifting asset allocation to stocks from bonds is likely to have a profound impact in terms of protecting and growing long-term wealth.

After two major bear markets in the last 12 years, investors have a healthy respect for equity risk. Additionally, their expectation for earning a higher return in stocks is greatly diminished. Historically, these conditions foreshadow a better period for stocks and we believe it is time for investors to recognize their potential over an extended period.

Sincerely,

Richard E. Cripps, CFA

Chief Investment Officer
EquityCompass Strategies

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Written By:
Richard E. Cripps, CFA
CIO, Senior Portfolio Manager

The Yearly Forecast

The annual forecast, long a staple on Wall Street, has attracted a lot of flak of late. According to a recent poll of professional security analysts, 90% believe the annual economic and stock market forecasts offer little value. The late Peter Bernstein often quipped that annual forecasts were apt to be more, "dangerous than useless," implying that forecasts are dangerous in the presumption of knowing the future and become useless when new information develops.

That being said, 65% of research analysts read these forecasts despite being skeptical about their value add. The most popular editions of Barron's magazine are the ones featuring the annual roundtable in which top market pros offer their outlook and stock ideas for the coming year. While studies suggest that past roundtable forecasts have led to little or no excess returns, the January/February roundtable editions continue to be enormously popular.

The reason annual forecasts are popular has a human element. Investing is a goal-oriented endeavor and, as humans, we have a hard time accepting a future without proactive involvement. The forecast, as such, is our way of controlling the future rather than leaving our destiny to the whims of randomness.

Unfortunately, successful investing can be counter to our emotional well-being. Everyone knows about the dangers of buying high and selling low, becoming fearful or greedy at inopportune times, and the allure of investing in what has recently done well. Forecasts appeal to these behavioral vulnerabilities with a human desire to clear the decks and have a fresh start on being opportunistic in the coming year.

We do agree, to a certain extent, with the skeptics' opinion that forecasts are more for marketing purposes rather than providing investment insight. We also believe there is a constructive purpose to thoughtfully considered outlooks. Forecasts are part of the expectations-setting process. This rough aggregate consensus or "sense of the future" partly substantiates current prices. It is the change in these expectations rather than their forecast that drives changes in stock prices. Evaluating forecasts based on their proximity to eventual year-end index levels is a naïve and unreasonable expectation.

The EquityCompass Yearly Forecast

At EquityCompass, we do not provide a detailed yearly forecast estimating economic growth, corporate profits, outperforming sectors, prevailing investment styles, or whether foreign stocks will do better than domestic. Importantly, we have professional respect for the thoughtful efforts that go into forecasts and recognize their contribution to the expectations-setting process in financial markets. However, we just do not think hitching an investment plan to these outlooks will produce the reliable and consistent long-term results that achieve financial objectives.

So if not a yearly forecast, how should investors go about achieving their goals?[1] The immutable fact of long-term investing is that investment results will be a function of how assets are allocated and how diversified the investments. Asset allocation integrates investors' wants and needs, risk tolerance, and unique circumstances. The perspective goes well-beyond a yearly forecast to a plan to meet long-term financial objectives. For more information on how we believe this process should be implemented, see our overview on page 11 or request the publication, *"Solving the Investor Dilemma"* from your Stifel Nicolaus financial advisor. Controlling your financial destiny will have more to do with these decisions than guessing the vagaries of yearly market performance.

(1) See Asset Allocation overview on page 11.

Written By:
Bernard J. Kavanagh, CMT
V.P., Portfolio Management

It's Time

Opportunity is defined as a favorable juncture or circumstance, or providing a good chance for advancement or progress. Some opportunities occur more frequently than others. The rarer the opportunity the more critical it is that we take advantage. These are the opportunities that have the ability to be transformational. We believe the current backdrop for financial markets is creating such an opportunity.

As investors are well aware the past 12 years in the equity markets have been rather painful, encompassing the bursting of the Internet bubble and the 2008 financial crisis, both of which saw equity declines of 50%. The average annualized return for the S&P 500 since the turn of the millennium has been a pitiful -0.23% and a meager 1.6% including dividends. However, extended periods of subdued equity returns (secular bear markets) are not an exception but rather part of the equity markets long-term stair-step pattern of wealth creation and wealth stagnation. (**Chart 1**)

Death of the Bull and of the Bear?

Although each secular bull and bear market is unique, the common theme is that these prolonged periods of wealth stagnation or wealth creation (12–17 years) produce extreme conditions that usually coincide with the tail end of that period and lay the foundation for the period to follow.

The combination of record high interest rates in the late 1970s and early 1980s and excessive risk aversion over the last decade created a thirty year bull market in bonds, pushing current yields to generational lows. In contrast, sky-high stock valuations in the late

Time for Wealth Creation? Chart 1

Source: Ned Davis Research, Inc.

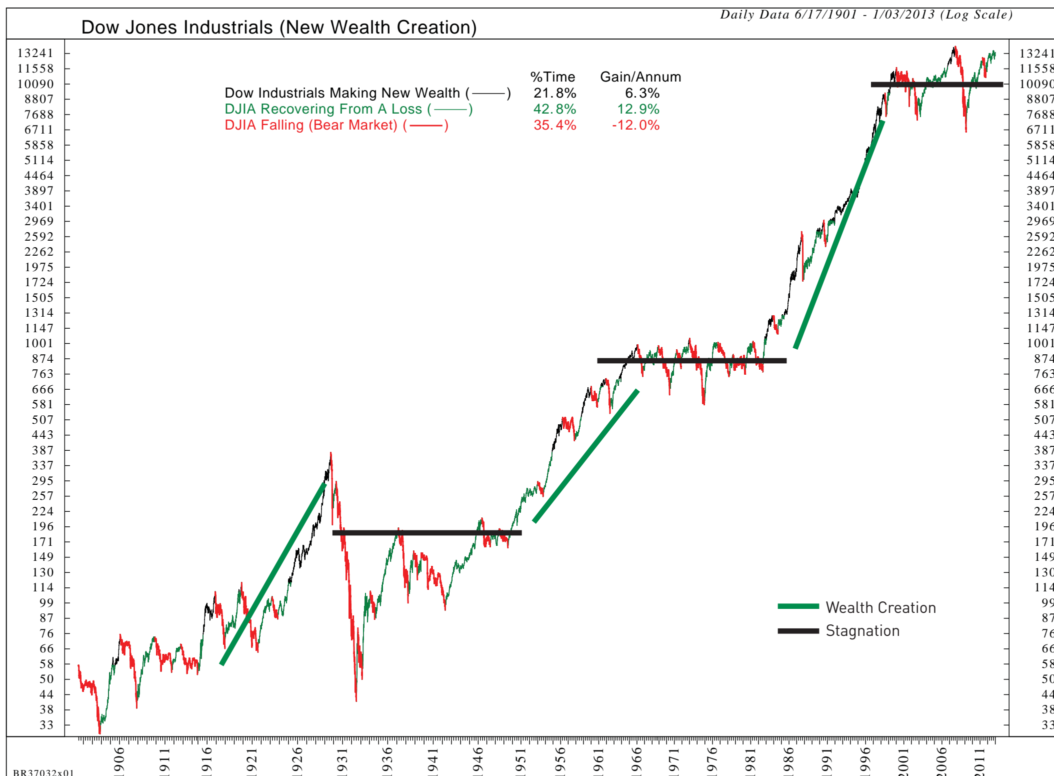

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Table 1 **Deleveraging Process**

Source: McKinsey & Company

	Pre-Crisis Period	Early Stage of Recession	Private-Sector Deleveraging	Rebound and Public-Sector Deleveraging
	10 Years	1 - 2 Years	4 - 6 Years	~10 Years
Real GDP Growth	3%	-3%	1%	3%

Annual average (%)

1990s, driven by excessive investor enthusiasm, followed by the aftermath of the global financial crisis have created a 12-year bear market in equities.

We believe there is enough evidence to suggest that we have reached a major inflection point in these trends. For those investors willing to extend their time horizons beyond the near-term market noise, an increased allocation to stocks from bonds is likely to have a profound impact on achieving long-term financial success.

Economic Recovery

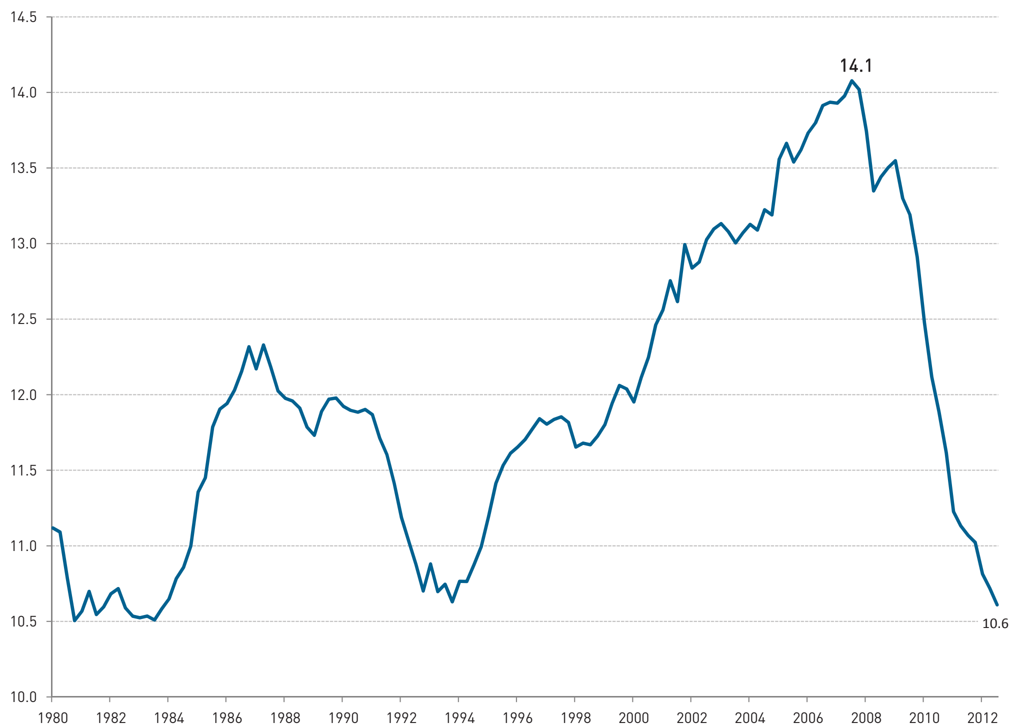
According to a McKinsey & Company report that analyzed 32 episodes of debt reduction following a financial crisis, the deleveraging process is marked by two distinct phases. (**Table 1**)

"In the first, households, corporations and financial institutions reduce debt significantly over several years, while economic growth is negative or minimal and government debt rises. In the second phase, growth rebounds and government debt is reduced gradually over many years."

The U.S. is now into its third year of the economic recovery. While GDP growth has been below par, households, corporations and financial institutions have dramatically improved their balance sheets. U.S. corporate fundamentals are strong and companies sit on more than $2 trillion in cash. Historically low interest rates have brought household debt service ratios to their lowest levels since 1984 (**Chart 2**). The banking sector has recapitalized and appears to have turned the corner. Loan

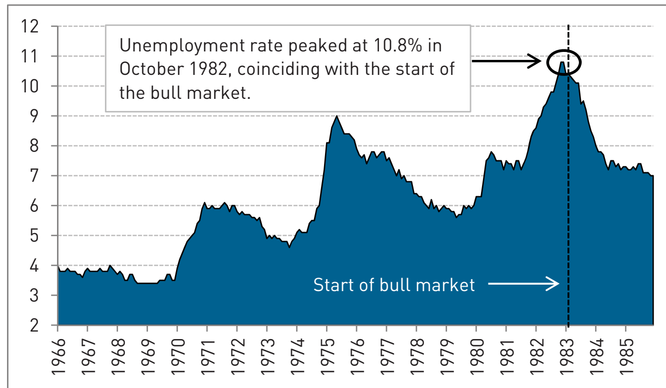
Chart 2 **Household Debt Service Payment as a Percent of Disposable Income**

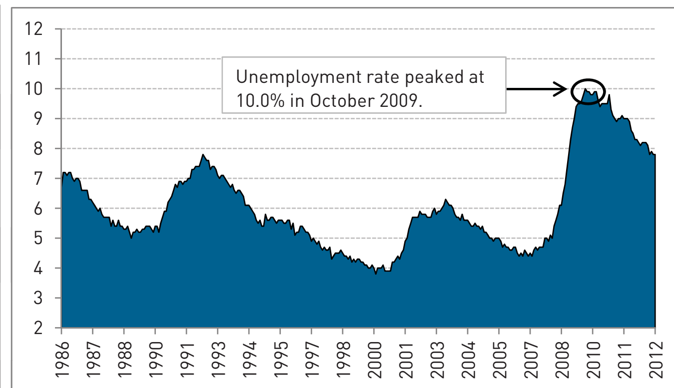
Source: Federal Reserve Economic Data - St. Louis Fed



Unemployment Rate Charts 3 & 4

Source: Bloomberg





growth has seen a modest uptick in 2012 led by commercial, industrial and residential real estate loans. While the growth is more tepid than usual at this point in the recovery, it is positive growth nonetheless.

Although we still could be a few years away from completing private sector deleveraging, the fiscal cliff negotiations could mark the early stages of phase two, as the government begins to address the unsustainable debt levels.

The housing sector, which has been a drag on economic growth, appears to have bottomed and showing signs of a modest recovery. According to Case/Shiller data, home prices have risen for nine straight months.

Unemployment, while elevated, is well below its 2009 peak. Similar to the late 1970s and the so-called jobless recovery of the early 1980s, the peak in unemployment coincided with the tail-end of the secular bear market. The great bull market of the 1980s and 1990s began with unemployment higher than today's 7.7% reading (**Chart 3** & **4**). In fact, studies have shown the best performance for equity markets occurs when the unemployment rate is elevated but improving.

Further improvement in home prices and unemployment should increase consumer and investor confidence, boosting economic growth and lifting equity markets.

Sentiment

Sentiment extremes often signal major turning points. Just as excessive optimism had investors rushing into the equity market during the late 1990s, excessive pessimism and a destruction of confidence has investors fleeing equities and into low yielding fixed income. Despite a near doubling of the S&P 500 since the March 2009 lows, equity mutual funds have seen nearly $400 billion in net outflows compared to more than $1 trillion in net inflows for bond funds. According to Investment Company Institute (ICI) the percentage of households owning stock mutual funds has fallen every year since 2008.

Individual investors aren't the only ones pulling back on equity exposure. Pension funds have also drastically reduced exposure to equities, while increasing exposure to bonds and alternatives. (**Chart 5**)

The upside of depressed investor sentiment is the increased potential for positive surprises, as most of the pessimism has already been discounted by markets. As confidence and sentiment begin to improve, the flow of funds out of bonds and into equities should reverse, lifting equity markets higher.

U.S. Pension Fund Asset Allocation Chart 5

Source: Towers Watson

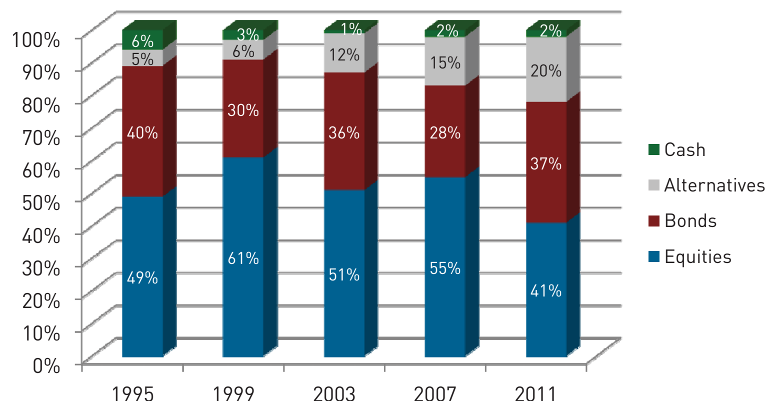
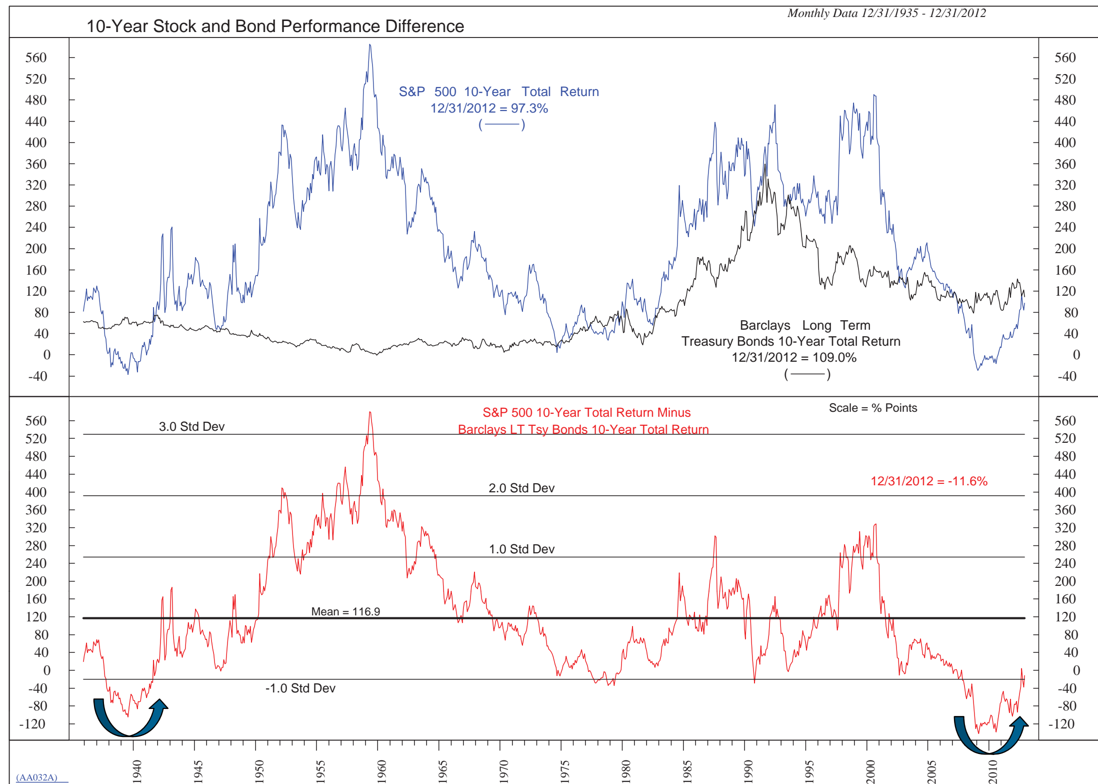


Chart 6 **Inflection Point for Stock *vs.* Bond Performance**

Source: Ned Davis Research



Valuations

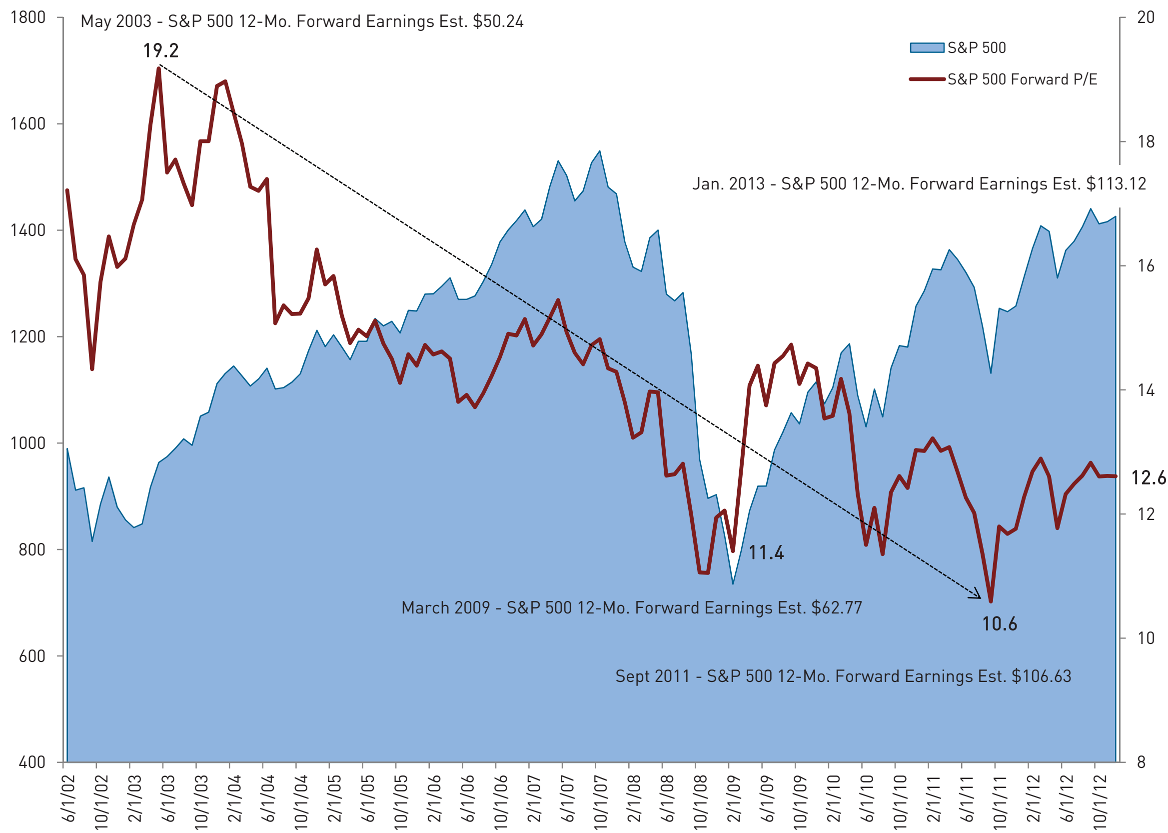
Valuation extremes often mark major turning points in secular bull and bear markets. While there is opportunity, there is also the opportunity cost. That is the cost of an alternative that must be forgone in order to pursue a certain action. Currently investors are willing to accept the minimal returns provided by fixed income, foregoing the potential greater returns of equities. The cost of wealth preservation (i.e., bonds) versus wealth accumulation (i.e., stocks) has created an extreme valuation disparity between the two asset classes, making stocks extremely attractive relative to bonds.

Ned Davis Research shows that the spread between the total returns for the S&P 500 and the Barclays Capital Long-Term U.S. Treasury Bond index reached levels similar to the 1940s, which marked the beginning of an extended period of equity outperformance relative to bonds. This turning point also preceded a 20+ year bull market in stocks and a 40 year bear market in bonds. (**Chart 6**)

On an absolute basis stocks are attractive as well. The S&P 500 is trading at less than 13x forward earnings estimates, which are at an all-time high and continue to rise. During bull markets price/earnings (P/E) multiples often rise as investor enthusiasm drives up valuations. In contrast, price/earnings multiples often decline during bear markets, even if earnings are rising. Since peaking at more than 25x in 2000, the P/E for the S&P 500 has fallen steadily over the last 12 years bottoming at 10.6x in September 2011. Even as earnings increased more than 80% since the March 2009 lows the P/E ratio remains depressed and below its historical average of 15x. As investor sentiment improves the combination of rising earnings and multiple expansion would lift markets higher. (**Chart 7**)

Equity Valuations Leave Room for More Upside **Chart 7**

Source: Bloomberg, EquityCompass Strategies



We Have a Verdict

In the legal system the burden of proof refers to the obligation placed upon a party to either prove or disprove a disputed fact. There are different legal standards of proof that require varying degrees of certainty depending upon the type of case ranging from reasonable suspicion to preponderance of the evidence, up to the highest standard of beyond reasonable doubt. While unfortunately we cannot conclude beyond reasonable doubt that the 12-year secular bear market has ended, as this will only be known with the benefit of hindsight, we do believe the preponderance of the evidence suggests that the longer-term outlook for equity markets is very compelling, especially when compared to bonds. So for investors asking the question, *"Is it time to get back into the equity markets?"* Our answer is, *"Yes. It's Time!"*

Written By:
Larry C. Baker, CFA
Senior Portfolio Manager

Investing in the "New Normal"

In a recent Time Magazine article, PIMCO gurus Bill Gross and Mohamed El-Erian discuss their concept of the "New Normal." Under the "New Normal," debt liquidation, a bifurcated economy and political stalemate lead to only 2% GDP growth for a lengthy period in our future. Gross has been recently joined in the slow growth club by Jeremy Grantham of Grantham, Mayo, Van Otterloo & Co. LLC (GMO). Grantham foresees growth of approximately 1.4% going forward. His reasoning includes low birth rates in developed countries, lack of service sector productivity growth and rising raw material prices.

While we do not advocate a particular growth forecast, we do seek to test our investment style against various potential conditions. When Gross was developing the "New Normal" he suggested that if we were in a no growth or slow growth environment, one might as well buy utilities. At least that way investors could secure a 4%–5% dividend yield since there was unlikely to be much appreciation.

This time around, Gross is not recommending utilities, perhaps correctly since they have been underperforming for the past year. Instead PIMCO is suggesting stocks are dead, or a Ponzi scheme, and investors should select among commodities (oil and gold), munis, TIPs, top-quality corporate bonds and emerging-market stocks.

While we were digesting these ideas, The Wall Street Journal ran an article entitled "Danger Lurks Inside the Bond Boom." The article included this wisdom: *"Interest rates are so low that bonds, once thought the safest of investments, are now an investment class with risk."* According to Barclays, an interest rate rise of 1% would trigger a 5% decline in the average bond issued in 2012. Further, a Bank of America strategist said, *"It is mathematically impossible to match the 10% annual return that bonds generated for the past three decades."*

What's an investor to do? Clearly investing in fixed income securities or CDs below the rate of inflation provides a near-certain loss of purchasing power, but proponents say at least we know and can limit the loss. Meanwhile, stock portfolios are a difficult sale due to volatility and two sharp declines in the past 13 years.

While acknowledging that stocks are inherently not as safe as bonds, we still believe strongly that a portfolio of carefully selected, high-quality stocks providing income that grows over time will deliver a better risk-adjusted return in the current environment than many of the alternate ideas put forth by other investment managers.

We would like to make one final point. We acknowledge that stocks performed badly in the two recent downturns, and that dividend-paying stocks performed in line with stocks. Nevertheless, those that held dividend-paying stocks through the downturn and into the recovery received a steady stream of income and eventually saw principal recover to approximately pre-selloff levels. We do not claim that this was an easy period for anyone. However, we believe that investors with longer-term horizons, who buy quality companies able to pay and increase their dividends should be able to generate a reasonably stable and growing stream of income for the next several years with a good chance of maintaining their principal.

Asset Allocation

Philosophy

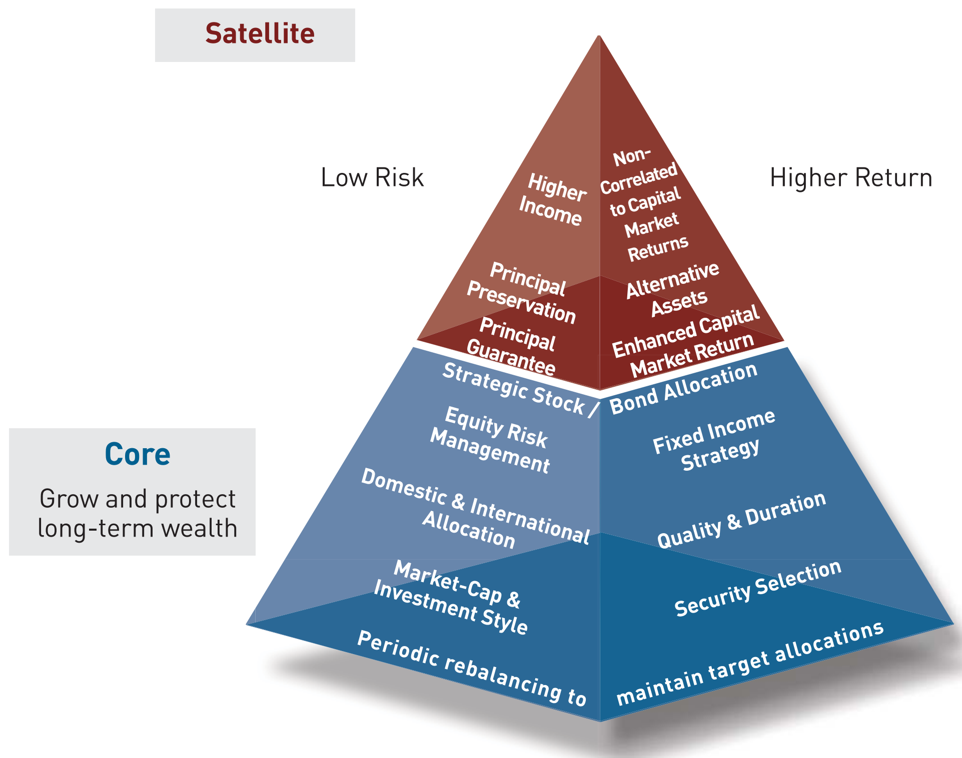
The growth and protection of long-term wealth will primarily be a result of how assets are allocated and investments are diversified. The core/satellite approach for asset allocation provides the flexibility for integrating investors' wants and needs, risk tolerance, and focus to achieve investment goals.

Core/Satellite Asset Allocation

Core/satellite allocates an investment portfolio into two categories

- **Core** is focused on reliably capturing market returns with the least amount of risk.
- **Satellite** provides the flexibility to incorporate investments with higher and lower risk/ reward profiles.

Core addresses the longer term needs of protecting and growing wealth and relies on timeless principles and disciplined decision-making. Satellite investments provide the flexibility to incorporate a wider spectrum of investments ranging from low risk, capital preservation strategies to high risk strategies pursuing excess returns.



For a more detailed discussion of core/satellite allocation, please request our publication, "Solving the Investor Dilemma," from your Stifel representative.

Implementing Core/Satellite

Your Stifel financial advisor provides a full range of wealth management services for implementing an appropriate asset allocation.

EquityCompass Portfolio Management

EquityCompass has developed portfolio strategies consistent with Core/Satellite allocation and specific investment objectives. The portfolios are discussed in the Portfolios & Products section of this report.

Portfolio Management

Philosophy

We believe the key to achieving consistent superior performance that is both explainable and repeatable is the disciplined application of a rules-based investment process that merges traditional investment theory with quantitative techniques

- Investment theory and portfolio manager experience serve as a foundation for all investment strategies
- Quantitative techniques verify, refine, and apply those ideas to the portfolio management process

Investment Process

A disciplined stock selection process that combines fundamental insights with quantitative tools

Based on investment themes that have demonstrated the ability to contribute to excess returns

- Implemented using proprietary, fully transparent quantitative models, all developed and maintained in-house

Portfolio construction that maximizes expected returns while incorporating rigorous risk management

- Uses sophisticated optimization in an effort to construct portfolios exhibiting the most efficient risk/return profile
- Employs proprietary risk models to measure and manage the impact of portfolio and systematic risks

Portfolio Maintenance

- Periodic review to ensure strategies maintain consistency with stated investment objectives and ongoing monitoring to manage risk

EquityCompass Investment Opinion

EquityCompass utilizes extensive quantitative models to evaluate 3,000+ U.S. stocks to rank them for favorability on the four primary drivers of performance.

- Value
- Momentum
- Over-/Underreaction
- Quality

An overall Buy/Neutral/Sell opinion is assigned as indicated below.

Quantitative Ranking

Most Favorable — Least Favorable

Over-/Underreaction

Value

Momentum

Quality

Key:

Green — Buy; Yellow — Neutral; Red —Sell

Available on the Stifel Nicolaus platform as separately managed accounts since 2005

Strategies are based on fundamental, technical, and behavioral insights evolving from the empirical research conducted by EquityCompass professionals since 2001.

We follow a rules-based investment process that helps minimize the subjective biases that can compromise traditional managers' investment decisions.

We use quantitative models for stock selection, portfolio construction, and risk management. The quantitative approach helps evaluate more information on a much wider universe of stocks with remarkable efficiency and consistency when compared to the traditional approach.

The investment team collaborates to leverage ideas, research, and expertise to develop the investment decision making process for all strategies.

For updated performance and portfolio statistics, contact a Stifel Nicolaus Financial Advisor.

Portfolios & Products

- **Tactical Total Core**
- **Tactical Total Core-Municipal**
- **Tactical Core Equity**
- **Quality Dividend**
- **Research Opportunity**
- **Select Quality**
- **Socially Responsible Select Quality**
- **Equity Risk Manager**
- **Share Buyback**

Investment Portfolios & Products	Inception	Description
Global Asset Allocation		
Tactical Total Core (TTC) **Tactical Total Core - Municipal (MTTC)**	June 2009 December 2009	Stock/bond strategy that seeks to effectively capture market returns while minimizing volatility. With MTTC, the fixed income component is allocated to municipal bond ETFs and closed-end funds.
Global Equity		
Tactical Core Equity (TCE)	May 2011	Risk-managed equity portfolio that seeks to achieve returns in excess of the stock market returns while minimizing volatility.
U.S. Equity		
Quality Dividend (QDIV)	January 2006	Diversified strategy of 25 high-quality, high-yielding stocks that integrates quantitative and qualitative approaches.
Research Opportunity (ROPP)	January 2006	Integrates insights from Stifel's nationally recognized equity research and EquityCompass' quantitative investment process.
Select Quality (SQLT)	January 2006	Sector balanced strategy investing in high quality, underpriced stocks with favorable value and price momentum characteristics.
Socially Responsible Select Quality (SRS)	June 2007	Sector balanced strategy investing in high quality, underpriced stocks with favorable value and price momentum characteristics. Stock selection is constrained by social criteria developed and monitored by RiskMetrics Group.
Alternative Strategies		
Equity Risk Manager (ERM)	June 2009	Rules-based tactical asset allocation strategy designed to reduce portfolio risk without curtailing the upside.
Share Buyback	November 2011	Seeks to systematically capture the investment returns associated with share buyback announcements.

Global Asset Allocation Portfolio Commentary*

Global capital markets produced a solid increase in wealth for investors in 2012. The Bloomberg World Index (BWI) rose 16.6% and global bonds, as measured by JP Morgan Global Aggregate Bond Index had a total return of 4.2%. The U.S. markets underperformed the global benchmarks due to a soft fourth quarter where fiscal cliff worries subdued domestic gains. The global market return, represented by 60% stocks and 40% bonds, gained an above average 11.7% in 2012 with the U.S. version slightly less at 11.3%. These absolute returns far outpaced "safe" investments such as money market funds of 0.1% and or diversified bond index such as the Barclays Capital U.S. Aggregate, which had a total return of 4.2% for the year.

With bond yields reaching extreme low levels, the question for market return investors is the risk presented by the allocation to bonds. The major benefit of a 60/40 portfolio is the expectation of capturing 70%–75% of the upside in stocks with significant reduction in risk. This objective is important to investors wishing to mitigate portfolio volatility, but yet grow wealth to meet various financial objectives. An example may be useful to understanding the risk/reward. We estimate that a 1% increase in the 10-year Treasury bond yield will produce a -1.3% total return loss in the Barclays Capital U.S. Aggregate Bond index. However, since 1994, a 1% increase in Treasury bond yields has correlated with a 17.6% increase in the S&P 500. In this example, the 60/40 market return is about 10% — not as good as stocks, but a lot better than bonds. And then there is the opposite example of an economic disruption that causes stocks to decline. If the S&P 500 declined 20% and bonds remained unchanged (earning coupon yield), the portfolio value would decline about 10% — a lot less than stocks, but more than bonds. This trade-off — losing less in market declines and participating in the majority of stock market gains — is the superior risk-adjusted return that the 60/40 has historically provided and we see no reason while it will not continue so in the future.

Tactical Total Core Portfolio (TTCP)

TTCP performed consistent with its 60/40 benchmark in 2012. The results were achieved despite a lower exposure to stocks during the year as the tactical component of the strategy (Equity Risk Manager – ERM) was more defensive. This trade-off is desirable for the objective of mitigating downside volatility. The actively managed, domestic equity component reliably captured broad market performance.

TTCP incorporates strategic and tactical components to a 60/40 strategy. The strategic policy allows an overweighting to stocks if returns have deviated from their long-term norm. Despite the gain in stocks in 2012, the trailing five-return is still well below their norm, which increases the allocation to 65% stocks and decrease bonds to 35%. There is no change to the international equity allocation (20%). As far as the tactical strategy, the Equity Risk Manager is 100% invested in the S&P 500 for January. The bond allocation remains weighted to high quality and moderate duration with the objective of stability to counter excess downside volatility in the stock market.

Tactical Total Core–Municipal Portfolio (MTTCP)[2]

MTTCP utilizes a diversified portfolio of investment grade municipal bonds for the fixed income allocation of the Tactical Total Core Portfolio. The Barclays Capital U.S. Municipal Bond Index provided a return of 6.8% for the year. This favorable relative performance for municipal bonds helped the municipal benchmark achieve a return of 12.6% for 2012, giving it a slight performance edge versus the taxable benchmark.

(1) 48% Russell 3000 Index, 12% MSCI All Country World ex-U.S. Index and 40% Barclays Capital U.S. Aggregate Bond Index

(2) The benchmarks for MTTCP are 48% Russell 3000 Index, 12% MSCI All Country World ex-U.S. Index and 40% Barclays Municipal Index

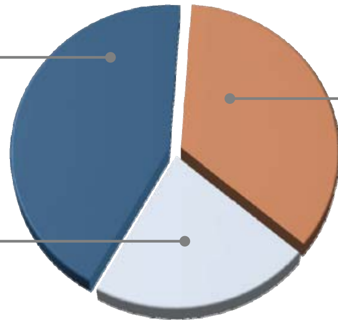
* For updated performance and portfolio statistics, contact a Stifel Nicolaus Financial Advisor.

Tactical Total Core Portfolio

Stock and bond portfolio that seeks to effectively capture market returns while minimizing volatility

Fully Invested **Equity**	**43%**
U.S. Equity	35%
Int'l. Equity - Developed	4%
Int'l. Equity - Emerging	4%

Tactical **Equity**	**22%**
(Equity Risk Management Strategy) Current Allocation (12/31): **100% S&P 500**	



Fixed Income	**35%**
U.S. Corp. - Inv. Grade	14.0%
U.S. Tsys. - Long Term	3.5%
U.S. Tsys. - Short Term	10.5%
U.S. Tsys. - Inflation Protected	3.5%
Cash	3.5%

Equity Allocation 65%

- Emphasizes diversification, volatility control, and excess return potential
- 20% of the fully invested equity is allocated to international stocks (equally between developed and emerging markets)
- The actively managed All-Cap Blend Portfolio represents the U.S. equity portion
- Equal-weight positions in 50 stocks across 10 sectors
- Uses EquityCompass' quantitative models to identify stocks with favorable relative value, price momentum and quality, which are mispriced as a result of investor over-/underreaction
- Rebalanced monthly to optimize exposure to drivers of excess returns
- Allocations to U.S. and international equities are reviewed annually and adjusted if necessary

Fixed Income Allocation 35%

- Emphasizes credit quality and capital stability while employing tactics to manage interest rate and inflation risk
- All investment grade or better credit quality; no high yield or foreign bonds
- Average duration of 5.7 years and a weighted average maturity of 10 years
- 53% of the portfolio has maturities of five years or less

Global Asset Allocation

General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $150,000

Inception: June 2009

Highlights:

- Stock and bond portfolio designed to be the foundation of an investor's overall portfolio to achieve long-term financial objectives
- Strategic stock/bond allocation is reviewed annually, and adjusted if necessary, to respond to changing market conditions
- Tactically allocated equity (using Equity Risk Management Strategy) seeks to provide downside protection and volatility control without curtailing upside potential
- Portfolio is diversified across asset classes, active and passive investment approaches, domestic and international stocks, investment styles, market-capitalizations and economic sectors
- The actively-managed U.S. equity component seeks to outperform by opportunistic stock selection and portfolio tactics
- Adheres to a research-based, rules-driven investment process implemented using quantitative models to impose discipline and consistency to investment decisions

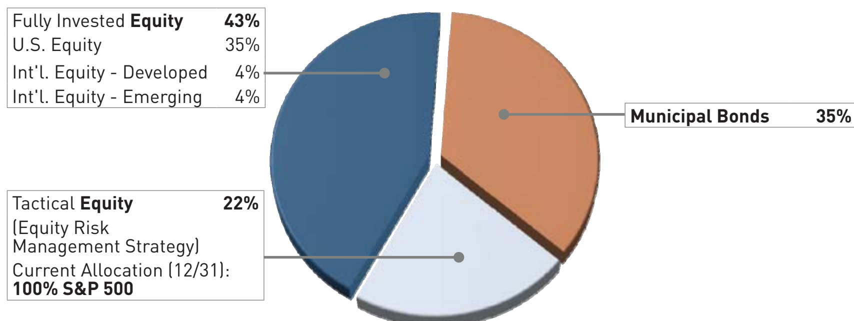
Tactical Equity: Equity Risk Management Strategy

The Equity Risk Management Strategy (Risk Manager) is a rules-based tactical allocation strategy designed to reduce TTCP's equity exposure when near-term market conditions are deemed unfavorable and to restore exposure when factors become favorable. The Risk Manager analyzes fundamental and technical indicators to determine the market condition. Under favorable conditions, the Risk Manager will be fully invested in the S&P 500. When conditions are deemed unfavorable, the Risk Manager reduces equity exposure by shifting an amount to cash or inverse (short) the S&P 500.

Market Indicators	Market Condition	Risk Manager Action	TTC Equity Exposure	TTC Allocation Fully Invested Equity: 43% Fixed Income: 35% Tactical Equity: 22% Equity Risk Manager
• Earnings expectations (fundamentals) rising • Technical conditions positive	Favorable	Fully Invested	65%	Tactical Equity: Long S&P 500
Either fundamentals OR technical conditions are negative	Caution	Reduce Equity Exposure	Max: 62% Min: 44%	Tactical Equity: Cash
Both fundamental AND technical conditions are negative	Unfavorable	Hedge Equity Exposure	Max: 44% Min: 24%	Tactical Equity: Short S&P 500

Tactical Total Core-Municipal Portfolio

- Seeks to effectively capture market returns while minimizing volatility
- Allocates the fixed income component to municipal bonds appropriate for tax-sensitive investors



Equity Allocation 65%

- Emphasizes diversification, volatility control, and excess return potential
- 20% of the fully invested equity is allocated to international stocks (equally between developed and emerging markets)
- The actively managed All-Cap Blend Portfolio represents the U.S. equity portion
- Equal-weight positions in 50 stocks across 10 sectors
- Uses EquityCompass' quantitative models to identify stocks with favorable relative value, price momentum and quality, which are mispriced as a result of investor over-/underreaction
- Rebalanced monthly to optimize exposure to drivers of excess returns
- Allocations to U.S. and international equities are reviewed annually and adjusted if necessary

Municipal Bond Allocation 35%

- Uses ETFs and closed-end funds that invest in municipal bonds, thus providing liquidity, cost efficiency and diversification across securities and maturities
- The income produced by muni bonds is exempt from federal taxes, and in some cases, state and local taxes
- Muni bonds have historically been high quality, with a low default rate and low volatility compared to other bonds
- Munis help diversify a portfolio because they have a low or negative correlation to other asset classes

Credit Rating	
AAA	38.6%
AA	37.7%
A	14.6%
BBB	5.0%
BB	1.0%
B	0.5%
CCC	0.3%
CC (or lower)	0.0%
Not Rated	2.5%
Avg. Maturity (yrs.)	11.5
Avg. Effective Duration (yrs.)	6.7
Avg. Leverage	10.7%
Weighted Indicated Yield (%)	4.0%

Global Asset Allocation

General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $150,000

Inception: December 2009

Highlights:

- Stock and bond portfolio designed to be the foundation of an investor's overall portfolio to achieve long-term financial objectives
- Strategic stock/bond allocation is reviewed annually, and adjusted if necessary, to respond to changing market conditions
- Tactically allocated equity (using Equity Risk Management Strategy) seeks to provide downside protection and volatility control without curtailing upside potential
- Portfolio is diversified across asset classes, active and passive investment approaches, domestic and international stocks, investment styles, market-capitalizations and economic sectors
- The actively-managed U.S. equity component seeks to outperform by opportunistic stock selection and portfolio tactics
- Adheres to a research-based, rules-driven investment process implemented using quantitative models to impose discipline and consistency to investment decisions

Tactical Equity: Equity Risk Management Strategy

The Equity Risk Management Strategy (Risk Manager) is a rules-based tactical allocation strategy designed to reduce MTTCP's equity exposure when near-term market conditions are deemed unfavorable and to restore exposure when factors become favorable. The Risk Manager analyzes fundamental and technical indicators to determine the market condition. Under favorable conditions, the Risk Manager will be fully invested in the S&P 500. When conditions are deemed unfavorable, the Risk Manager reduces equity exposure by shifting an amount to cash or inverse (short) the S&P 500.

Market Indicators	Market Condition	Risk Manager Action	MTTC Equity Exposure	MTTC Allocation Fully Invested Equity: 43% Muni Bonds: 35% Tactical Equity: 22% Equity Risk Manager
• Earnings expectations (fundamentals) rising • Technical conditions positive	Favorable	Fully Invested	65%	Tactical Equity: Long S&P 500
Either fundamentals OR technical conditions are negative	Caution	Reduce Equity Exposure	Max: 62% Min: 44%	Tactical Equity: Cash
Both fundamental AND technical conditions are negative	Unfavorable	Hedge Equity Exposure	Max: 44% Min: 24%	Tactical Equity: Short S&P 500

Equity Portfolio Commentary*

For the year, stocks enjoyed strong performance relative to historic averages. The S&P 500 was up 16.0% and the Bloomberg World Index rose 16.6%. Gains in the U.S. were broad, with the S&P 500 Equal Weight Index, which measures the performance of the average stock in the S&P 500, up 17.7% during the year. Within sectors, however, performance was far narrower, with only Financials, Consumer Discretionary and Health Care outperforming the S&P 500. The only sector to decline in 2012 was Utilities, the best-performing sector in 2011, as investors shifted more to risk and looked to reduce exposure to dividend-payers ahead of potential tax changes associated with the fiscal cliff.

Equity strategies relying on active stock selection have had difficulty the last three years. According to our analysis of Morningstar data, 86% of equity funds with an S&P 500 benchmark underperformed the index (2010–2012). The percentage underperforming decreased to 68% in 2012 but is still high from its historical average (≈60%). We believe there are several reasons challenging active management.

1) The risk-on/off mentality has conditioned investors to become "macro" or big picture oriented in managing risk. Examples include having higher cash levels, lower beta stocks, and engaging in tactical market timing.
2) Stocks have become more highly correlated with one another, decreasing the opportunity for discriminatory stock selection. The popularity of ETFs may be a reason for the spread in market characteristics such as growth/value, large/small, and high/low beta to become unusually narrow.

As investors move away from risk aversion, they are likely to become opportunistic to achieving a relative rather than absolute return. As this occurs, stock selection will play an increasing role as investors seek to outperform with insights on individual stocks rather than macro conditions.

Tactical Core Equity Portfolio (TCE)

TCE is a diversified equity and tactical strategy. The strategy is diversified domestically (80%) and internationally (20%), with weightings in both value and growth investment styles, and representation in all market capitalizations. The tactical strategy involves decreasing equity exposure when conditions for a significant market decline become evident and remaining fully invested otherwise. During the year, TCE responded to corporate earnings deterioration by decreasing equity exposure. TCE successfully captured broad equity performances consistent with the lower risk profile from tactical allocation strategy.

Quality Dividend Portfolio (QDIV)

QDIV is focused on three specific objectives: (1) asset preservation, (2) current income, and (3) income growth. Benchmarks with a similar objective such as the Morningstar Lifetime Conservative Income Index rose 7.25% for 2012; the DJIA, a higher yielding and quality portfolio, rose by 7.3%. The average yield of QDIV during the year was 4.7% and 90% of its holdings increased their dividend during 2012. In terms of risk, the monthly upside/downside capture relative to the S&P 500 is a useful measure. Over the last three years, the QDIV strategy has a 70% upside versus 37% downside capture. It is important to note that the objective of QDIV is not to outperform the S&P 500 or other broad equity market index, but rather to produce a safe and high level of income with growth of income. In 2012, QDIV produced results consistent with its objectives.

Research Opportunity Portfolio (ROPP)

ROPP is an all equity strategy seeking long-term capital appreciation by investing in stocks that are Buy-rated by a Stifel Nicolaus research analyst and indentified by our EquityCompass quantitative models as being timely for purchase. ROPP's strategy is expected to do better than the broad stock market when it is producing average or above average returns and its higher risk profile will likely cause it to underperform when markets are underperforming. Over the last three years, the upside/downside of the strategy has been 123%/115%. Given the strong positive year by the S&P 500 in 2012, ROPP performed as expected.

Select Quality Portfolio (SQLT)

SQLT seeks long-term growth by owning a diversified portfolio of higher than average quality stocks. The diversification strategy of SQLT and focus on higher quality stocks is expected to mitigate downside risk. In the last three years, the monthly downside capture of SQLT has been 90% relative to the S&P 500. SQLT seeks to outperform by identifying opportunistically priced stocks exhibiting above-average fundamentals such as sales growth and improving profit margins as those delivering shareholder value in terms of dividend growth, share buybacks, and debt reduction. The monthly upside capture of the SQLT strategy has been 97% in the last three years.

Socially Responsible Select Quality Portfolio (SRS)

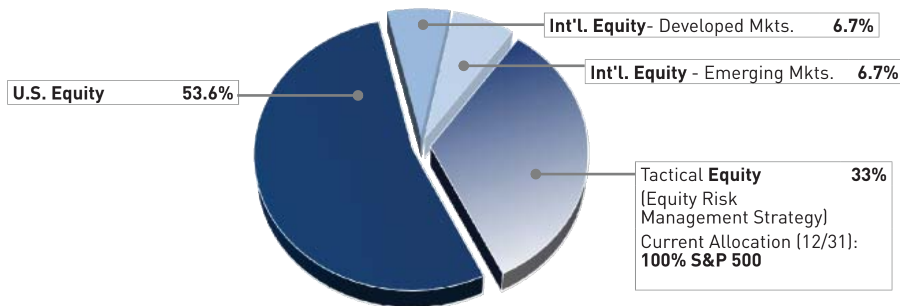
SRS is similar to Select Quality with special considerations to owning stocks meeting specific socially responsible criteria. SRS has a slightly higher weighting than SQLT to small- and mid-caps, which make up 60% of the portfolio, helping to boost performance in 2012. This greater bias to smaller stocks helped provide SRS a slight edge versus SQLT during the year.

** For updated performance and portfolio statistics, contact a Stifel Nicolaus Financial Advisor.*

Tactical Core Equity Portfolio

Global Equity

Risk-managed equity portfolio that seeks to achieve returns in excess of the stock market returns while minimizing volatility



General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $100,000

Inception: May 2011

Highlights:

- Designed to be the foundation of an investor's overall portfolio to achieve long-term financial objectives
- Tactically allocated equity component (using Equity Risk Management Strategy) seeks to provide downside protection and volatility control without curtailing upside potential
- Portfolio is diversified with active and passive investment approaches, domestic and international stocks, various investment styles (growth/value) and market-capitalization segments (large/mid/small)
- The actively managed U.S. equity component (EquityCompass All-Cap Blend) seeks to outperform by opportunistic stock selection and portfolio tactics
- Adheres to a research-based, rules-driven investment process implemented using quantitative models to impose discipline and consistency to investment decisions

Investment Process

1 Portfolio Allocation

- 67% of TCE is fully invested equity and 33% is tactically allocated by investing in the Equity Risk Management Strategy that can shift from fully invested if market conditions are deemed unfavorable
- Combines active strategies that seek to outperform with passive strategies that focus on reliably capturing market returns
- Diversified to reduce specific stock or sector risk

2 Portfolio Construction

- Domestic and international stock exposure optimized to provide favorable risk/reward
- The actively managed All-Cap Blend Portfolio represents the U.S. equity portion
- Equal-weight positions in 50 stocks across 10 economic sectors to provide broad diversification and lower volatility
- Uses EquityCompass' quantitative models to identify stocks with favorable relative value, price momentum and quality, which are mispriced as a result of investor over-/ underreaction

3 Portfolio Management

- Equity Risk Management Strategy can vary overall equity exposure from 100% to as low as 37%
- The All-Cap Blend portfolio, the U.S. equity component of TCE, is actively managed to optimize exposure to drivers of excess returns while keeping overall portfolio turnover moderate
- Allocation between U.S. and international equities is reviewed annually

U.S. Equity Component: EquityCompass U.S. All-Cap Blend — Current Holdings

Symbol	Company Name
AKRX	Akorn Inc.
AMT	American Tower Corp.
AWK	American Water Works Co.
AAPL	Apple Inc.
ARIA	Ariad Pharmaceuticals Inc.
ASH	Ashland Inc.
T	AT&T Inc.
CAR	Avis Budget Group Inc.
BCE	BCE Inc.
CRUS	Cirrus Logic Inc.
CLF	Cliffs Natural Resources Inc.
CMS	CMS Energy Corp.
CCI	Crown Castle Int'l. Corp.
CVS	CVS Caremark Corp.
EXXI	Energy XXI (Bermuda) Ltd.
FINL	Finish Line Inc. Cl A
HAL	Halliburton Co.
HLF	Herbalife Ltd.
INGR	Ingredion Inc.

Symbol	Company Name
IPHS	Innophos Holdings Inc.
LGF	Lions Gate Entmt. Corp.
LPSN	LivePerson Inc.
MHP	McGraw-Hill Cos.
NCT	Newcastle Investment Corp.
NEE	NextEra Energy Inc.
NUS	Nu Skin Entprs. Inc. Cl A
NVE	NV Energy Inc.
OCN	Ocwen Financial Corp.
POL	PolyOne Corp.
QCOM	QUALCOMM Inc.
QCOR	Questcor Pharmaceuticals
RGA	Reinsurance Grp of Amer.
ROSE	Rosetta Resources Inc.
SBAC	SBA Communications Corp.
SLB	Schlumberger Ltd.
SCSS	Select Comfort Corp.
SCI	Service Corp. International
SPPI	Spectrum Pharmaceuticals

Symbol	Company Name
SCS	Steelcase Inc.
SNPS	Synopsys Inc.
TKR	Timken Co.
TWI	Titan International Inc.
TWO	Two Harbors Invest. Corp.
UGI	UGI Corp.
URI	United Rentals Inc.
UHS	Universal Health Svcs. Cl B
VZ	Verizon Communications Inc.
GRA	W.R. Grace & Co.
WMT	Wal-Mart Stores Inc.
WMB	Williams Companies Inc

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Quality Dividend Portfolio

U.S. Equity

Seeks to provide capital preservation and generate attractive current income and long-term capital appreciation by efficiently managing a focused and diversified portfolio of high quality higher-dividend paying stocks.

Portfolio Manager's Commentary

- December was a busy month with three changes and three dividend increases.
  - **Lockheed Martin (LMT)** was removed and replaced with **Seagate Technologies (STX)**. While LMT has performed well over the past year and a half, we are somewhat concerned about future earnings growth in view of ongoing budget problems. STX has raised its dividend dramatically after initiating it last year, recently boosted its dividend 33% and moving its payment into December to avoid potentially higher taxes in 2013. At the time of the trade, STX's yield was approximately 50 basis points higher than LMT's.
  - **TECO Energy Inc. (TE)** was removed and replaced with **AGL Resources Inc. (GAS)**. In exchange for 70 basis points in current yield, we gained the potential for faster dividend growth. TE's earnings are forecast to decline for a second year in a row and its payout ratio, as a result, should rise to more than 75%, reducing its outlook for dividend growth. GAS, on the other hand, is forecast to generate 4% dividend growth for the next 3 years.
  - **ConAgra (CAG)** was removed and replaced with **Procter & Gamble (PG)**. Despite giving up approximately 10 basis points of current yield, we believe PG's exposure to emerging markets will lead to faster dividend growth over the next several years.
- There were three dividend increases in December.
  - **Waste Management (WM)** raised its annual dividend by 2.8% to $1.46 per share. **Kraft Foods Group (KRFT)** declared its initial quarterly dividend of $0.50 per share as expected. **Pfizer (PFE)** raised its annual dividend 9.1% to $0.96 per share. So far, six companies have raised dividends for 2013 by an average of 8.9%. Last year, 23 of the 25 stocks in the strategy raised their dividends an average of 6%.
- At the end of December, the Strategy had a yield of 4.6%. The average payout ratio for 2013 is estimated at 58%, the average beta was 0.6, the average market capitalization was approximately $80 billion, and the average P/E ratio looking out 12 months was 13.2x.

Highlights

- Focused portfolio with equal-weight positions in 25 high-quality, high-yielding stocks that seek to provide the highest possible dividend yield within the constraints of quality, capital preservation and diversification
  - Average portfolio yield is 4.6% compared to 2.1% for the S&P 500 and 1.6% for 10-year Treasuries
- Diversified across industries with a maximum sector exposure of 20%
- Investment process combines quantitative and qualitative approaches
  - Quantitative model selects portfolio candidates based on the following criteria: quality, momentum, valuation and timeliness
  - Portfolio manager provides insights that leverage fundamental research
- Strategy has three goals: (1) provide asset preservation, (2) generate current income, and (3) develop growth in current income

Investment Process

1 Universe Definition

3,000+ U.S. stocks under coverage

2 Stock Selection

Quantitative Models
- Over-/Underreaction
- Momentum
- Valuation
- Quality

Qualitative Overlay
- Fundamental research
- Portfolio Manager's experience

Portfolio Candidates

High-yielding, high-quality, underpriced stocks with favorable momentum and valuation characteristics

3 Portfolio Construction

High dividend yield
Risk management
Maximize expected returns

Quality Dividend Portfolio Strategy

Equal weight positions in 25 stocks

Maximum allocation to a single sector limited to 20%

4 Portfolio Management

Adherence to portfolio objectives
Risk monitoring
Low turnover
Tax efficiency

Portfolio Manager's oversight

Periodic rebalancing

General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $50,000

Inception: January 2006

Key Portfolio Statistics: Represents Weighted Averages

Number of Holdings	25
Market Cap ($Billion)	$80.5
Dividend Yield	4.6%
Price/Earnings (12-Mo. Forward)	13.2
Beta	0.6
Est. Payout Ratio - 2013	58.0%
Moody's Debt Rating	100% Inv. Grade
Dividend Growth - 2012	6.0%

Sector Allocation:

Consumer Staples	20%
Energy	20%
Health Care	16%
Telecom. Services	16%
Utilities	12%
Financials	8%
Industrials	4%
Information Technology	4%

Current Portfolio Holdings:

Symbol	Company Name	Yield
CTL	CenturyLink Inc.	7.41%
SNH	Senior Housing Pptys.	6.60%
AZN	AstraZeneca PLC ADS	6.03%
T	AT&T Inc.	5.34%
GSK	GlaxoSmithKline PLC ADS	5.33%
BCE	BCE Inc.	5.30%
STX	Seagate Technology Inc.	5.00%
HCN	Health Care REIT Inc.	4.83%
TOT	Total S.A. ADS	4.82%
DUK	Duke Energy Corp.	4.80%
VZ	Verizon Commun. Inc.	4.76%
GAS	AGL Resources Inc.	4.60%
SO	Southern Co.	4.58%
COP	ConocoPhillips	4.55%
KRFT	Kraft Foods Group Inc.	4.40%
RDSA	Royal Dutch Shell ADS Cl A	4.24%
WM	Waste Management Inc.	4.21%
KMI	Kinder Morgan Inc.	4.08%
PM	Philip Morris Int'l. Inc.	4.07%
PFE	Pfizer Inc.	3.83%
HNZ	H.J. Heinz Co.	3.57%
KMB	Kimberly-Clark Corp.	3.51%
JNJ	Johnson & Johnson	3.48%
CVX	Chevron Corp.	3.33%
PG	Procter & Gamble Co.	3.31%
	Average	4.64%

For illustrative purposes only and not intended as personalized recommendations. Holdings are subject to change.

Research Opportunity Portfolio

U.S. Equity

A focused, high-conviction strategy that integrates insights from Stifel's nationally recognized fundamental research and EquityCompass' quantitative investment process to seek returns superior to the market.

Investment Strategy

- Combines qualitative and quantitative research insights for stock selection
  - — Invests in stocks rated "Buy" by Stifel fundamental analysts
  - — EquityCompass Quantitative models select underpriced stocks
- Portfolio management processes focus on maximizing excess return potential as well as monitoring and managing risk
- Adheres to a rules-based investment process to minimize subjective biases that can characterize traditional managers' approach

Highlights

- Helps leverage the insights of Stifel Nicolaus' nationally recognized equity research
  - — Tied for third out of 350 qualifying firms in the eleventh annual FT/StarMine's 2012 World's Top Analysts Survey by earning a total of 14 individual awards — seven for earnings estimate accuracy, four for stock picking, and three overall awards; Stifel has ranked in the survey's top five for the last seven years and the top ten for nine consecutive years
  - — One of the largest U.S. equity research platforms with more than 1,100 companies under coverage
- Combination of quantitative and qualitative insights to enhance stock selection
  - — Fundamental analysts incorporate their opinions on management capability, business strategy, industry standing, etc., to determine the intrinsic value of a stock and conclude an investment opinion (Buy, Hold, or Sell)
  - — Disciplined application of quantitative techniques helps to identify and exploit market inefficiencies
- Portfolio tactics to maximize risk-adjusted return potential
  - — Invests across styles and market capitalizations to exploit the most attractive opportunities
  - — Individual security exposure is controlled; portfolio holds equal-weighted positions in an optimized number of stocks

Investment Process

1 Universe Definition

1,300+ U.S. stocks covered by both EquityCompass and Stifel Equity Research

2 Stock Selection

Quantitative Models
- Over-/Underreaction
- Momentum
- Valuation

Fundamental Analyst Opinion
- Bottom-up analysis to determine intrinsic value

Portfolio Candidates

Underpriced stocks rated Buy by Stifel fundamental analysts

3 Portfolio Construction

Maximize risk-adjusted returns

Research Opportunity Portfolio Strategy

Equal weight positions in 20 stocks

Invests across styles and market capitalizations

4 Portfolio Implementation

Adherence to portfolio objectives

Risk monitoring

Monthly Review

Stocks are removed based on deterioration in model rankings or fundamental analyst downgrades and replaced with stocks that are more attractively ranked

General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $50,000

Inception: January 2006

Key Portfolio Stats:

Represents Weighted Averages

Number of Holdings	20
Market Cap ($Billion)	$8.8
Dividend Yield	1.2%
Price/Earnings (Trailing 12-Mo.)	11.1

Sector Allocation:

Industrials	20%
Information Technology	20%
Consumer Discretionary	15%
Financials	15%
Health Care	15%
Materials	10%
Consumer Staples	5%

Current Portfolio Holdings:

Symbol	Company Name
AON	AON PLC
ABX	Barrick Gold Corp.
CRS	Carpenter Technology Corp.
CELG	Celgene Corp.
CRUS	Cirrus Logic Inc.
GPN	Global Payments Inc.
HBI	Hanesbrands Inc.
HTLD	Heartland Express Inc.
HUM	Humana Inc.
IGT	International Game Technology
IVZ	INVESCO Ltd.
MRVL	Marvell Technology Group Ltd.
MD	Mednax Inc.
NSC	Norfolk Southern Corp.
NUS	Nu Skin Enterprises Inc. Cl A
NVDA	NVIDIA Corp.
TPX	Tempur-Pedic International Inc.
TTEK	Tetra Tech Inc.
TGI	Triumph Group Inc.
XL	XL Group PLC

For illustrative purposes only and not intended as personalized recommendations. Holdings are subject to change.

Select Quality Portfolio

U.S. Equity

Broadly diversified strategy investing in high-quality, underpriced stocks with favorable valuation, momentum, and dividend growth characteristics.

Investment Strategy

- Invests in stocks that are deemed underpriced due to investor over-/underreaction. The universe of investible stocks is further refined by considering only high-quality stocks and by eliminating those with negative price momentum and high valuations
- Portfolio construction and management focus on maximizing expected returns while incorporating rigorous risk management
- Incorporates dividend growth forecasts as confirmation of underlying earnings momentum
- Adheres to a rules-based investment process to eliminate subjective biases in investment decisions

Highlights

- Opportunistic stock selection
  - Integrates fundamental, technical and behavioral themes that are proven sources of excess returns
  - Use of quantitative models helps evaluate more information on a much wider universe of stocks
- Portfolio tactics that seek to maximize risk-adjusted return potential
  - Invests across styles and market capitalizations in order to exploit the most attractive investment opportunities
  - Diversified across ten S&P sectors and holds equal weight positions in 30 stocks
  - Add dividend growth measure to improve returns
  - Rebalanced quarterly to optimize exposure to drivers of excess returns
  - Investment process designed for moderate turnover

Investment Process

1 Universe Definition

3,000+ U.S. stocks under coverage

2 Stock Selection

Quantitative Models
Over-/Underreaction
Momentum
Valuation
Quality

Portfolio Candidates

High-quality, underpriced stocks with favorable momentum and valuation characteristics

3 Portfolio Construction

Risk management
Maximize expected returns

Select Quality Portfolio Strategy

Equal weight positions in 30 stocks

Diversified across 10 sectors

4 Portfolio Management

Adherence to portfolio objectives
Risk monitoring

Quarterly Review

Stocks are removed based on a deterioration in model rankings and replaced with stocks that are more attractively ranked

Rebalanced quarterly to optimize exposure to drivers of excess returns

General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $50,000

Inception: January 2006

Key Portfolio Stats:

Represents Weighted Averages

Number of Holdings	30
Market Cap ($Billion)	$33.6
Dividend Yield	2.0%
Price/Earnings (12-Month Forward)	13.0

Current Portfolio Holdings:

Symbol	Company Name
AMT	American Tower Corp.
AON	AON PLC
AVGO	Avago Technologies Ltd.
B	Barnes Group Inc.
CBT	Cabot Corp.
CE	Celanese Corp. Series A
XEC	Cimarex Energy Co.
CSCO	Cisco Systems Inc.
COH	Coach Inc.
CCE	Coca-Cola Enterprises Inc.
CCI	Crown Castle International Corp.
DUK	Duke Energy Corp.
EE	El Paso Electric Co.
HAR	Harman Int'l. Industries Inc.
HD	Home Depot Inc.
IAG	IAMGOLD Corp.
JAZZ	Jazz Pharmaceuticals PLC
JNJ	Johnson & Johnson
JOY	Joy Global Inc.
KMB	Kimberly-Clark Corp.
NOV	National Oilwell Varco Inc.
NSC	Norfolk Southern Corp.
PEP	PepsiCo Inc.
DGX	Quest Diagnostics Inc.
STT	State Street Corp.
SU	Suncor Energy Inc.
TGT	Target Corp.
UHS	Universal Health Svcs. Inc. Cl B
VCLK	ValueClick Inc.
VZ	Verizon Communications Inc.

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Socially Responsible Select Quality Portfolio

U.S. Equity

Sector balanced strategy investing in high-quality stocks with favorable value and price momentum characteristics. Only those companies that qualify based on the socially responsible criteria developed by the industry leader RiskMetrics Group are considered for investment.

Investment Strategy

- Socially responsible (values-based) investing seeks to maximize financial returns while promoting social good. According to the Social Investment Forum almost one out of every nine dollars under professional management in the U.S. today is involved in socially responsible investing.
- Uses socially responsible screen developed by Risk Metrics Group that ranks companies based on the following criteria: Adult Entertainment, Alcohol, Animal Testing, Board Composition, Contraceptives/Abortifacients, Environment, Firearms, Gambling, Stem Cell Research, and Tobacco.
- EquityCompass' quantitative models are used to identify high-quality underpriced stocks with favorable momentum and valuation characteristics.
- Portfolio construction and management focus on maximizing expected returns while incorporating rigorous risk management.
- Adheres to a rules-based investment process to eliminate subjective biases in investment decisions.

Highlights

- Opportunistic stock selection
  - Leverages the insights of RiskMetrics Group, a leading provider of data and analysis on companies' approach to and management of socially responsible issues
  - Based on fundamental, technical and behavioral themes that have historically outperformed
  - Use of quantitative models help evaluate more information on a much wider universe of stocks
- Portfolio tactics that maximize risk-adjusted return potential
  - Concentrated, high-conviction portfolio that invests across styles and market capitalization in order to exploit the most attractive investment opportunities
  - Diversified across ten S&P sectors and equal weight positions in 30 stocks
  - Rebalanced quarterly to optimize exposure to drivers of excess returns

Investment Process

1 Universe Definition

3,000+ U.S. stocks under coverage

2 Stock Selection

Quantitative Models
- Over-/Underreaction
- Momentum
- Valuation
- Quality

RiskMetrics Socially Responsible Criteria
- Eliminates stocks based on socially responsible screening requirements

Portfolio Candidates

High-quality, underpriced stocks with favorable momentum and valuation characteristics

3 Portfolio Construction

Risk management
Maximize expected returns

Socially Responsible Select Quality Portfolio Strategy

Equal weight positions in 30 stocks

Diversified across 10 sectors

4 Portfolio Management

Adherence to portfolio objectives
Risk monitoring
Quarterly rebalancing

Quarterly Review

Stocks are removed based on a deterioration in model rankings or downgrades by RiskMetrics Group and replaced with stocks that are more attractively ranked

General Info:

How to Invest:

Please contact a Stifel Nicolaus Financial Advisor

Minimum Initial Investment: $50,000

Inception: June 2007

Key Portfolio Statistics:

Represents Weighted Averages

Number of Holdings	30
Market Cap ($Billion)	$31.4
Dividend Yield	2.10%
Price/Earnings (Trailing 12-Month)	12.7

Current Portfolio Holdings:

Symbol	Company Name
AET	Aetna Inc.
ARG	Airgas Inc.
APC	Anadarko Petroleum Corp.
AON	AON PLC
CRS	Carpenter Technology Corp.
CSCO	Cisco Systems Inc.
COST	Costco Wholesale Corp.
CVS	CVS Caremark Corp.
TRAK	Dealertrack Technologies Inc.
DUK	Duke Energy Corp.
DNB	Dun & Bradstreet Corp.
EE	El Paso Electric Co.
FLR	Fluor Corp.
GLNG	Golar LNG Ltd.
HRB	H&R Block Inc.
HMC	Honda Motor Co. Ltd. ADS
HUM	Humana Inc.
IP	International Paper Co.
JPM	JPMorgan Chase & Co.
NOG	Northern Oil & Gas Inc.
ORCL	Oracle Corp.
PEP	PepsiCo Inc.
COL	Rockwell Collins Inc.
SO	Southern Co.
TDS	Telephone & Data Systems Inc.
THG	The Hanover Insurance Group Inc.
TWI	Titan International Inc.
TWTC	tw telecom inc. Cl A
UHS	Universal Health Services Inc. Cl B
VCI	Valassis Communications Inc.

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Alternative Strategies Commentary*

Alternative strategies seek to mitigate risk or enhance return to a diversified core portfolio of stocks and bonds. The unavoidable investment risk for a diversified core portfolio is from a financial market decline that tends to synchronize asset holdings in a downward direction and disconnect asset prices from their fundamentals. Opportunities for enhanced returns occur from increasing risk (i.e., leverage, illiquidity, etc.) and/or narrowly focusing on specific investment opportunities.

Equity Risk Manager (ERM)

ERM was fully invested during 2012 excepting August and September, when it was in a Neutral position (100% cash) due to two consecutive months of declines in analyst estimates for S&P 500 12-month forward earnings. During these two months, favorable comments from the European Central Bank and the Fed helped fuel a 4.9% move higher in the S&P 500. With ERM accounting for 22% of our asset allocation portfolios, this exposure would result in a drag of approximately 1.1% on returns relative to benchmarks. With a great deal of uncertainty facing the market and expectations for fundamental performance deteriorating, ERM moved to a defensive stance per its discipline. While this can at times reduce participation in short-term market gains, it is consistent with the objectives of reducing portfolio volatility and the likelihood of fully participating in a large decline. Over the past decade, market returns have been more than twice as volatile when earnings estimates are declining than when they are rising, and price moves of 20% or more have been 5x as frequent historically when earnings estimates are declining. We are willing to forgo a small portion of short-term gains if we can achieve the objectives of reducing volatility and large loss. With earnings estimates rising in August and September, ERM moved back to a fully invested position in October and remains fully invested as we enter 2013.

Share Buyback Strategy

The EquityCompass Share Buyback Index (SBBI) was publicly introduced on November 7, 2011 and completed its first calendar year of performance in 2012. The index rose 17.7% in the year versus 16.0% for the S&P 500 (with dividends). The SBBI is designed to reflect the performance of stocks with a recent announcement of a public share buyback. In 2012, there were 480 announced share buybacks worth an estimated $302 billion in the Russell 3000 of which more than 200 of these transactions were represented in the index.

We believe evidence continues to suggest that there is an exploitable opportunity post the announcement of stock buyback. The announcement of a buyback produces a "signaling effect" that corporate insiders believe shares are undervalued and that there are ample financial resources and business visibility to make open-market purchases. The announcement provides a near-term catalyst for share outperformance. The EquityCompass Share Buyback Index is a rules-based methodology that systematically creates a portfolio reflecting the most recent and significant share buyback announcements.

The Buyback Index is referred to as "event-driven" in that the index does not seek to identify undervalued stocks from conventional methods. The index is rules-based to systematically select a portfolio of stocks with the most recent and significant buyback announcements. Event-driven portfolios are used by investors desiring to diversify their equity investing with alternative strategies. The HFRI Event Driven Index was up 6.0% in 2012.

** For updated performance and portfolio statistics, contact a Stifel Nicolaus Financial Advisor.*

Equity Risk Management Strategy

Alternative Strategies

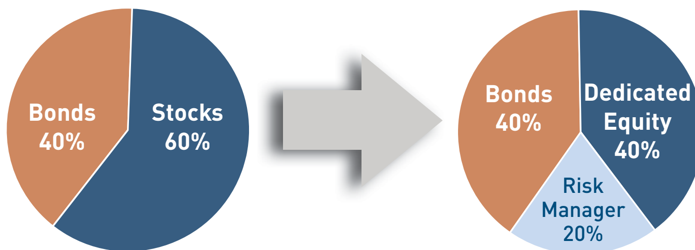
Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to provide downside protection and volatility control without curtailing the upside

- Incorporating the Risk Manager involves carving out a portion of an equity portfolio for tactical allocation (could rage from one-third to a maximum of 50% of the portfolio)
- Risk Manager would be fully invested in the S&P 500 when market conditions are favorable
- When conditions are deemed unfavorable, Risk Manager is shifted to cash or inverse (short)

How to Invest:

1. Available as an Equity Linked Note exclusively via Stifel Nicolaus
2. Incorporated into the Tactical Total Core Portfolio family *(see pages 14 -18)*

Please contact a Stifel Nicolaus Financial Advisor for more details.



This example assumes a 60% stock / 40% bond allocation with 33% of the equity allocation invested in Equity Risk Manager.

How It Works

Risk Manager analyzes technical and fundamental indicators to determine the current market condition and recommends the appropriate tactical allocation

- The fundamental indicator tracks the trend in changes of expected earnings for the S&P 500. Two or more consecutive months of declining expectations increase the risk of large market losses and is considered unfavorable, while two or more consecutive months of increasing expectations is considered favorable.
- Technical indicator determines the market favorability based on the current level of the DJIA

Status of Fundamental and Technical Indicators	Market Condition	Risk Manager Action	Equity Allocation
• Fundamental (earnings expectations) indicators positive • Technical conditions positive	Favorable	Fully Invested	95% - 100% S&P 500
Either Fundamental **OR** Technical indicators are negative	Caution	Reduce Equity Exposure	5% - 100% Cash 0% - 95% S&P 500
Both Fundamental **AND** Technical indicators are negative	Unfavorable	Hedge Equity Exposure	55% - 90% Inverse S&P 500 45% - 10% Cash

Current Allocation (as of December 31, 2012)

Fundamental Indicator: POSITIVE

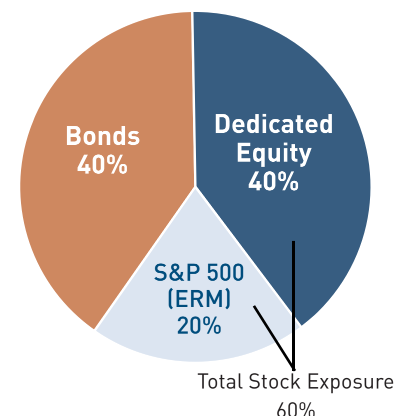
Earnings estimates rose 0.8% in December to $113.12. This is a new month-end high and maintains a positive reading for the fundamental indicator.

Technical Indicator: POSITIVE

Based on the DJIA level of 13,078 at the end of December,[1] which is only 7.7% from the Dow all-time high. The technical indicator remains positive this month.

Risk Manager Allocation
100% Long S&P 500
(Unchanged)

Effective Portfolio Allocation



(1) Average of the last 5 trading days

Share Buyback Strategy

Alternative Strategies

Seeks to systematically exploit the investment returns associated with share buyback announcements

Investment Strategy

- Construct a rules-based portfolio that holds equally-weighted positions in 30 stocks based on the recency and significance of the buyback announcement in the previous three months.
- Actively manage the portfolio to optimize exposure to drivers of excess return.
- Incorporate portfolio management techniques to manage portfolio risks and to mitigate potential market impact while maintaining focus on drivers of alpha generation.

Highlights

Investing in buybacks presents a tantalizing opportunity in today's investment environment

- Like cash dividends, stock buybacks are a tangible method of delivering benefits to shareholders. Given the relatively strong financial condition of corporate balance sheets and depressed stock prices, stock buybacks are expected to remain a significant capital market activity.

Unique Approach

- The EquityCompass approach seeks to capture the short-term excess returns associated with share repurchase announcements. Empirical studies show that this approach is much more reliable than those based on longer-term outperformance or buyback completions.

Actively-managed portfolio with right risk/reward trade-off

- Reconstituted and rebalanced monthly to seek to optimize exposure to drivers of excess return.
- Individual security exposure is controlled. Portfolio holds equal-weighted positions in an optimized number of stocks.
- Imposes size and liquidity constraints to reduce the bias to small-cap companies
- Minimizing market impact is a major consideration during portfolio constitution and ongoing management.

Investment Process

1 Initial Universe Definition

Stocks that are
(a) part of Russell 3000 Index
(b) traded on at least one major U.S. stock exchange

2 Eligible Universe

Stocks of companies with at least one buyback announcement in the previous three months and with a minimum market capitalization of $500 m and an annual trading volume of 15 million shares constitute the eligible universe

3 Stock Selection

The eligible universe is ranked based on two factors:
(1) significance of buyback announcement value
(2) number of days since announcement

4 Portfolio Selection

Thirty stocks from the eligible universe with the highest ranks are then selected to form the portfolio

5 Portfolio Management

Portfolio is reconstituted and rebalanced monthly based on the rule-set described above

EquityCompass Share Buyback Index:

Tracks the performance of the Share Buyback Portfolio. The index is calculated, maintained and published by Barclays Capital.

Daily index levels are available at:

1) **www.barcap.com/indices**
go to Equity / Enhanced Beta / EquityCompass Buyback

2) **Bloomberg**
under symbol EQCOMPBB

How to Invest:

Available as a Medium-Term Note issued by Barclays Capital and available exclusively via Stifel Nicolaus

Please contact a Stifel Nicolaus Financial Advisor for more details

Portfolio Holdings:

Symbol	Company Name
ACIW	ACI Worldwide Inc.
ACM	AECOM Technology Cp.
ALK	Alaska Air Group Inc.
AIG	American International Grp. Inc
AOL	AOL Inc.
AZO	AutoZone Inc.
EAT	Brinker International Inc.
CVS	CVS Caremark Cp.
DV	DeVry Inc.
DNKN	Dunkin' Brands Group Inc.
EFII	Electronics for Imaging Inc.
ENDP	Endo Health Solutions Inc.
FICO	Fair Isaac Cp.
FITB	Fifth Third Bancorp
GGG	Graco Inc.
HCC	HCC Insurance Holdings Inc.
ONE	Higher One Holdings Inc.
JAH	Jarden Cp.
LSI	LSI Cp.
MYE	Myers Industries Inc.
NKE	NIKE Inc.
NSC	Norfolk Southern Cp.
PNRA	Panera Bread Co.
PRXL	PAREXEL International Cp.
PRE	PartnerRe Ltd.
PNR	Pentair Ltd.
SNI	Scripps Networks Interactive Inc.
SKYW	SkyWest Inc.
TRN	Trinity Industries Inc.
UBNT	Ubiquiti Networks Inc.

For illustrative purposes only and not intended as personalized recommendations. Holdings are subject to change.

About EquityCompass Strategies

EquityCompass Strategies is the research and investment advisory unit of Choice Financial Partners, a wholly owned subsidiary and affiliated SEC registered investment adviser of Stifel Financial Corp. (NYSE:SF). EquityCompass professionals have been providing investment research, analysis, and advice for more than 10 years. The firm adheres to a disciplined and rules-based investment process, offering a broad range of benchmark-relative, absolute-return, and risk-management portfolio strategies to individuals, financial intermediaries, and institutional clients. Additionally, EquityCompass has partnered with institutional clients in the U.S. and Europe to develop investment solutions tailored to specific objectives.

Resources of a Large Firm, Focus of a Specialist

As a Stifel Financial company, EquityCompass is able to leverage the resources and infrastructure of its affiliate, Stifel Nicolaus, one of the leading full-service financial services firms in the U.S., for risk management oversight and a global infrastructure for trading, record keeping, reporting, and risk control, while maintaining the autonomy and service of a pure investment firm.

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Important Disclosures

EquityCompass Overview:
The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. EquityCompass Strategies is a research and investment advisory unit of Choice Financial Partners, Inc., a wholly owned subsidiary and affiliated SEC registered investment adviser of Stifel Financial Corp. Portfolios based on EquityCompass Strategies are available exclusively through Stifel, Nicolaus & Company, Incorporated. Affiliates of EquityCompass Strategies may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

Strategy Specific Risks:

Any investment involves risks, including a possible loss of principal.

Tactical Total Core Portfolio. Tactical asset allocations are determined by technical assumptions. The effectiveness of the hedging technique relies on the baseline assumptions that could differ significantly from market returns or expected hedge returns. 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. When investing in real estate, it is important to note that 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. Government bonds are backed by the U.S. government as to the timely payment of principal and interest. Before investing in government bonds, investors should consider country risk, political risk, inflation risk, and interest rate risk. Bonds will fluctuate with market conditions and may be worth more or less than the original investment if sold prior to maturity. An investment in stocks will fluctuate with changes in market conditions and may be worth more or less than the original investment when sold. Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky. The use of inverse strategies by a fund increases the risk to the fund and magnifies gains or losses on the investment. You could incur significant losses even if the long-term performance of the underlying index showed a gain. Most inverse ETFs "reset" daily. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. Brokerage commissions will be associated with buying and selling ETFs unless trading occurs in a fee-based account. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Tactical Total Core-Municipal Portfolio. Fixed income securities are subject to credit risk, interest rate risk and liquidity risk. In addition, municipal bonds are also subject to state-specific risks, such as changes in the issuing state's credit rating, as well as the risk that legislative changes may affect the taxable status of such bonds. Municipal bonds may also have a call feature, entitling the issuer to redeem the bond prior to maturity. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. 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 and are generally associated with a high degree of risk. Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky. The use of inverse strategies by a fund increases the risk to the fund and magnifies gains or losses on the investment. You could incur significant losses even if the long-term performance of the underlying index showed a gain. Most inverse ETFs "reset" daily. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing.

Tactical Core Equity Portfolio. Tactical asset allocations are determined by technical assumptions. The effectiveness of the hedging technique relies on the baseline assumptions that could differ significantly from market returns or expected hedge returns. An investment in stocks will fluctuate with changes in market conditions and may be worth more or less than the original investment when sold. Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky. The use of inverse strategies by a fund increases the risk to the fund and magnifies gains or losses on the investment. You could incur significant losses even if the long-term performance of the underlying index showed a gain. Most inverse ETFs "reset" daily. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. Brokerage commissions will be associated with buying and selling ETFs unless trading occurs in a fee-based account. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. 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. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

Quality Dividend Portfolio. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

Research Opportunity Portfolio. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not

as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

Select Quality Portfolio. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

Socially Responsible Select Quality Portfolio. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

Equity Risk Management Strategy. Some investments involve unique risks, for example, mutual funds and Exchange Traded Funds ("ETFs") are subject to the risk that the values will fluctuate with the value of the underlying investments. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky. The use of inverse strategies by a fund increases the risk to the fund and magnifies gains or losses on the investment. You could incur significant losses even if the long-term performance of the underlying index showed a gain. Most inverse ETFs "reset" daily. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing.

Share Buyback Strategy. Any investment involves risks, including a possible loss of principal. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and midcap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

EquityCompass Index Descriptions:

Attribute Indices. The EC Attribute indices measure the returns of stocks with specific characteristics that influence performance. Indices that are identified as High/Low or Mega/Micro are constructed monthly from the top or bottom 10% of the largest 1,000 stocks within the EquityCompass coverage universe (equal weighted and including dividends). The attributes measures include beta, market capitalization, long-terms earnings growth, financial quality, valuation, short interest, consensus analyst rating, long-term price momentum, and stock price. The EC Dividend and Non-Dividend indices measure the performance of dividend-payers and non-dividend payers. The Underpriced and Overpriced indices represent stocks scoring favorably/unfavorably in the EC Over-Underreaction model. This model identifies the 20% of stocks with valuations relative to other stocks at extremes below or above their 12-month average.

Market Cycle Indices. In addition to indices for specific stock attributes, we calculate Market Cycle indices, which group the attributes that have historically been associated with better relative performance in various stages of a market cycle. The Market Cycle indices are equal-weighted and reconstituted monthly, and represent the 100 stocks within the EC coverage universe with the greatest exposure to the attributes selected. The Early Bull Market index represents stocks identified as high beta, low price, lower financial quality, with extreme valuations and negative long-term price momentum. The Mid-Bull Market index represents stocks identified as low valuation, underpriced, high sales growth, improving operating margins, high ROE, and strong implied EPS growth. The Late Bull Market index represents stocks identified with strong long-term relative price momentum, large market capitalization, high sales growth, favorable consensus analyst rating, and low short interest. The Bear Market index represents stocks with low beta, high financial quality, positive long-term price momentum, average valuation, and high share price.

Buy/Neutral/Sell Indices. The Buy, Neutral and Sell indices measures stocks according to our proprietary EquityCompass Investment Opinion. EquityCompass utilizes quantitative models to evaluate 3,000+ stocks to rank them for favorability on four drivers of performance: valuation, long-term price momentum, fundamental quality and over-/underreaction. The indices are equally weighted and reconstituted monthly.

Sector Indices. The Standard & Poors Sector Indices are capitalization-weighted indices highlighting the individual sector characteristics as defined by the Global Industry Classification Standard (GICS).

EquityCompass Benchmark Index Descriptions:

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The S&P 500 Index is a broad market index that tracks the performance of 500 stocks from major industries of the U.S. economy. This index is generally considered representative of the U.S. large capitalization market.

The S&P 500 Total Return Index tracks both the capital gains of the stocks in the S&P 500 Index over time, and assumes that any cash distributions, such as dividends, are reinvested back into the index. Looking at an index's total return displays a more accurate representation of the index's performance. By assuming dividends are reinvested, you effectively have accounted for stocks in an index that do not issue dividends and instead, reinvest their earnings within the underlying company.

The S&P 500 Equal Weight Index has the same constituents as the capitalization weighted S&P 500 Index, but each company in this index is allocated a fixed weight.

The NASDAQ Composite index, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ.

The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The Barclays Capital Long-Term U.S. Treasury Bond Index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of 10 or more years.

The Barclays Capital U.S. Municipal Bond Index measures the performance of the U.S. municipal bond market. It is composed of approximately 1,100 bonds; 60% of which are revenue bonds and 40% of which are state government obligations.

The Barclays Capital U.S. Aggregate Bond Index is an index used as a benchmark to measure the relative performance of bond funds. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

The MSCI All Country World ex-U.S. Index is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI All Country World Index Ex-U.S. includes both developed and emerging markets.

The Bloomberg World Index is a capitalization-weighted index of all equities included in the Bloomberg World Index series. Equities in the series were in the top 85% market capitalization of their respective Bloomberg classification sector at the time of the rebalance. The index series is rebalanced semi-annually in February and August.

J.P. Morgan Global Aggregate Bond Index consists of the JPM GABI US, a U.S. dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, and the JPM GABI extends the U.S. index to also include multi-currency, investment-grade instruments. Launched in November 2008, the JPM GABI represents nine distinct asset classes: Developed Market Treasuries, Emerging Market Local Treasuries, Emerging Markets External Debt, Emerging Markets Credit, US Credit, Euro Credit, US Agencies, US MBS. The JPM GABI US is constructed from over 3,200 instruments issued from over 50 countries, and collectively represents US$8.6 trillion in market value. The JPM GABI is constructed from over 5,500 instruments issued from over 60 countries and denominated in over 25 currencies, collectively representing US$20 trillion in market value.

The Morningstar Lifetime Conservative Income Index represents a portfolio of global equities, bonds and traditional inflation hedges such as commodities and TIPS. This portfolio is held in proportions appropriate for a U.S. investor who is at least ten years into retirement. The Conservative risk profile is for investors who are comfortable with below-average exposure to equity market volatility.

The HFRI Event Driven Index maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.

The volatility of the S&P 500 Index and any other indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass Strategies. Indices are unmanaged, and it is not possible to invest directly in an index.

Special Note for Stifel Research:

The opinions expressed are based on a hybrid combination of quantitative/technical (EquityCompass) and fundamental (Stifel, Nicolaus Equity Research) analyses. EquityCompass quantitative/technical ratings and opinions can and do differ from Stifel, Nicolaus fundamental research opinions. Access to Stifel, Nicolaus' fundamental research is available through Stifel, Nicolaus & Company, Incorporated. Stifel, Nicolaus & Company, Incorporated's research analysts receive compensation that is based upon (among other factors) Stifel, Nicolaus' overall investment banking revenues. Stifel, Nicolaus' investment rating system is three tiered, defined as follows:

BUY – Stifel, Nicolaus expects this stock to outperform the S&P 500 by more than 10% over the next 12 months. For higher-yielding equities such as REITs and Utilities, Stifel, Nicolaus expects a total return in excess of 12% over the next 12 months.

HOLD – Stifel, Nicolaus expects this stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. A Hold rating is also used for those higher-yielding securities where Stifel, Nicolaus is comfortable with the safety of the dividend, but believes that upside in the share price is limited.

SELL – Stifel, Nicolaus expects this stock to underperform the S&P 500 by more than 10% over the next 12 months and believes the stock could decline in value.

For a copy of any Stifel, Nicolaus report please contact your Stifel, Nicolaus representative. For a discussion of risks to target price please see Stifel, Nicolaus' standalone company reports and notes for all BUY-rated stocks. For applicable current research disclosures applicable to the companies mentioned in this publication that are within Stifel, Nicolaus' coverage universe, please visit the Research Page at www.stifel.com or write to the Stifel, Nicolaus Research Department at Stifel, Nicolaus & Company, Incorporated., One South Street, Baltimore, MD 21202.

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Additional Information Available Upon Request

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Notes:

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