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CAPITAL ASSET MANAGEMENT

The logo graphic consists of a horizontal line above a downward-pointing chevron shape, which is itself above another horizontal line.

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Fund Allocator Highlights:

1. **BUYS:** N/A (increased cash)
2. **SELLS:** Industrials, Large cap, International Developed

A Strong Start to 2012

Following a year in which risk assets struggled and volatility spiked to more than twice its long-term average, global equity markets roared back in January posting a 4.48% gain — the strongest January since 1997. Since 1950, when the S&P 500 has a gain for January, the index has finished the year in positive territory 89% of the time, according to Stock Trader's Almanac. Also, in sharp contrast to 2011, January 2012 was remarkable for its lack of volatility, especially on the downside. Last month, the S&P 500's largest daily decline was 0.57%, making it the first January since 1995 without any 1% down days. Since 1936, when January hasn't had any 1% down days, this lack of volatility has been a positive omen, as the S&P 500 has posted positive returns for the rest of the year 83% of the time, with a median gain of 11.4%. However, in these cases, February has realized a median gain of only 0.12% with positive returns 50% of the time.

Asset Class Performance

	Jan.	2012
Emerging Market Equity Index - MSCI Emerging Mkt Index	11.4%	11.4%
Real Estate - DJ-Wilshire REIT	6.4%	6.4%
Developed Foreign Equities - MSCI EAFE Index	5.4%	5.4%
Global Equities - MSCI All World Index	5.1%	5.1%
U.S. Equities - S&P 500 Index	4.5%	4.5%
Commodities - RJ Commodities Price Index	2.8%	2.8%
Bonds - Barclays U.S. Aggregate Bond Index	0.9%	0.9%
U.S. Dollar - DXY Index	(1.1)%	(1.1)%

The Federal Reserve's low interest rate policy (which was recently extended through 2014), better U.S. employment and manufacturing data, plus improved optimism over the Europe's sovereign debt crisis, all helped push U.S. risk assets higher. Performance outside of the U.S. was even stronger. The MSCI Emerging Markets Index gained 11.4% in a month that saw Moody's lift Indonesia's credit rating to investment grade for the first time since the Asian sovereign debt crisis of 1994. Also helping emerging market equities was the lowering of interest rates from the central banks of Brazil (fourth consecutive month), Chile, Israel, Romania, the Philippines and Thailand. Investor concern over a "hard landing" from China's economy also faded in the wake of that country's fourth quarter real GDP growth rate of 8.9% from a year earlier and improvement in its January manufacturing data, both of which were ahead of expectations. Foreign developed markets also had a strong month as the MSCI EAFE Index gained 5.4% due, in part, to strong Japanese manufacturing data and growing complacency about Europe.

Stronger U.S. economic data, but more improvement is needed

The U.S. economy added 243,000 jobs in January, well ahead of expectations for 150,000. The extremely positive U.S. jobs report pushed the unemployment rate down to 8.3%, the lowest rate since February 2009. Weekly initial jobless claims fell to 355,000 last month, the lowest level since early 2008. Initial jobless claims that are below 400,000 and trending lower have been associated with an improving U.S. economy in the wake of the last three recessions. As we have mentioned previously, the global economy will be dependent on continued improvement from the U.S. and emerging market economies since Europe appears to have entered a recession. Despite the strong January jobs report, U.S. payroll growth remains below average for this stage of the recovery, having recouped only 3.2 million of the 8.8 million jobs lost during the last recession.

The U.S. Commerce Department reported that construction spending rose 1.5% in December, its fifth consecutive gain, and existing-home sales grew for their third consecutive month, which dropped housing inventory to its lowest level since March 2005. Inventory of both new and existing homes fell to 6.1 months at the end of December, a level historically associated with a balanced market. Unfortunately, home prices continued to decline as December existing-home prices fell 2.5% vs. December 2010 levels. U.S. manufacturing once again expanded in January as the Institute of Supply Management (ISM) Manufacturing Index rose to 54.1, its 30th consecutive reading above 50 and its highest in seven months (levels above 50 indicate expansion).

While the WSJ Survey of Economists shows consensus expectations call for the U.S. economy to grow 2.3% in 2012 after only 1.7% growth in 2011, how this projected growth will happen remains a question. Some of the concern focuses on the quality of the U.S. economy's fourth quarter GDP growth of 2.8%, when almost two-thirds came from inventory restocking, which may not continue to the same degree in the first half of 2012. Concern has also focused on December's U.S. retail sales which fell 0.3% vs. November and only grew 0.1% on a year-over-year basis. Although holiday sales were strong, consumers appeared to have started their holiday shopping earlier than usual in 2011. Since consumer spending accounts for 70% of the U.S. economy, future reports will be watched closely.

Europe: tenuous times ahead?

Eurozone economic data was mostly discouraging last month. Germany's annualized GDP growth rate fell to 1% during the fourth quarter of 2011, while eurozone unemployment hit a record high of 10.4%. The global economic outlook for 2012 will continue to be influenced by the length and depth of the eurozone's recession. The International Monetary Fund (IMF) recently projected that the global economy will expand 3.3% this year, down from 3.8% in 2011, provided Europe's recession is mild. They said the anticipated mild

recession out of Europe could worsen if eurozone leaders fail to halt the rise of state borrowing costs and the growing squeeze on bank credit. Inaction could cause the Eurozone's economy to shrink 4% in each of the next two years, which would take two percentage points off its global growth outlook.

"The world recovery, which was weak in the first place, is in danger of stalling", said Olivier Blanchard, IMF chief economist. "But there is an even greater danger, namely that the European crisis intensifies. In this case, the world could be plunged into another recession." The IMF is urging eurozone leaders to boost the size of the European debt-crisis firewall, implement pro-growth policies and further integrate the monetary union. If Europe quickly follows these recommendations, the fund projects the region's economy will contract by only 0.5% this year. Under its most optimistic scenario, the IMF expects growth to return to the region next year. Investors will once again have to monitor Europe's sovereign debt crisis in 2012 and pay close attention to its economic statistics. One of the few encouraging data points last month was the expansion of the eurozone's Purchasing Manager Index for the first time in five months, rising 2.1 points in January to a level of 50.4.

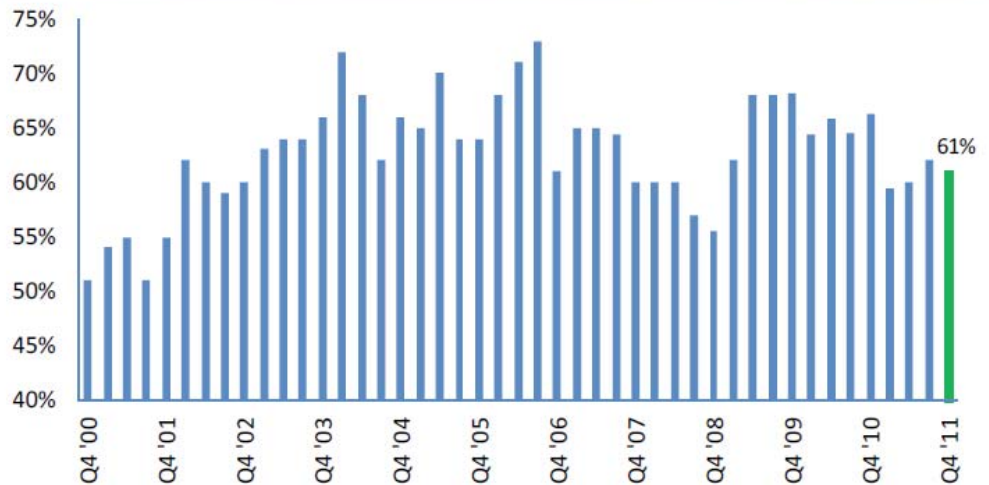
Investors remain focused on Greece's debt restructuring and the potential deal that would force Greek sovereign debt holders to take a 50% haircut on more than €200 billion of debt in exchange for Greek debt being governed under English law. English law would allow creditors to acquire Greek assets in case of default. Germany and France warned that the next Greek bailout payment of €130 billion hinges on the ability of Greece and its creditors to restructure the terms of its debt payments. Greece is scheduled make payments of €14.5 billion to bondholders in March and is at high risk of default if it is unable to secure the next tranche of the bailout.

Fourth-quarter earnings picked up pace

After starting on a rough note, U.S. fourth quarter earnings reports improved toward the end of January. As the first chart shows, 61% of U.S. companies that have reported earnings this season have beaten analyst estimates. This is still below the reading from last quarter,

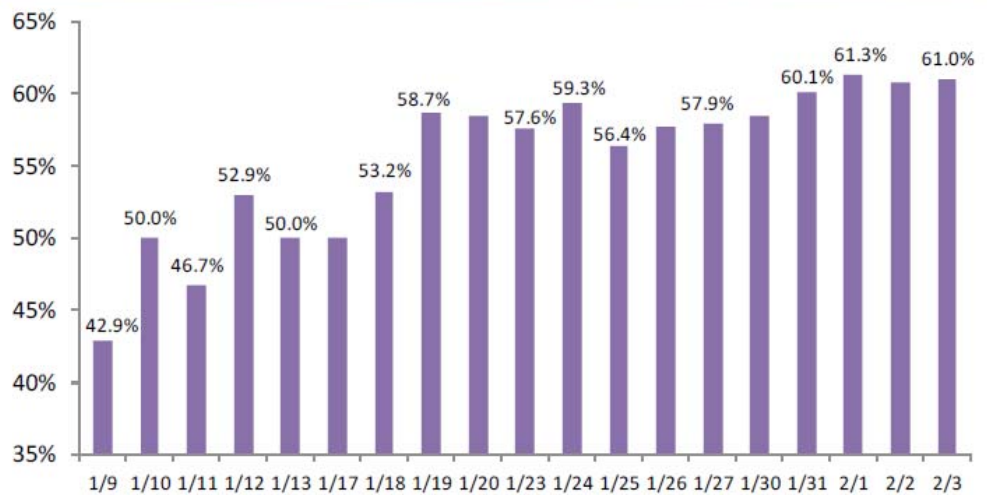
but it is much better than the mid-50s reading reported early in the earnings season, which would have been a multi-year low. The second chart shows the earnings "beat rate" on a daily basis as earnings season has progressed.

% of Companies Beating Earnings Estimates by Quarter: 2000-Present



Source: Bespoke Investment Group

% of Companies Beating Earnings Estimates by Day This Season



Source: Bespoke Investment Group

To get a sense of global equity valuations, we track a number of metrics for the broad MSCI equity indices compared to their 25-year averages. The metrics in the following table are all shown on a yield basis, meaning that a positive number represents undervaluation and a negative number overvaluation. As shown, the MSCI U.S. Index remains undervalued on three of the four metrics, with dividend yield being the exception. However, the U.S. equity market has generally been overvalued for the majority of the past 25 years compared to earlier time periods and our longer-term measures show it moderately above fair value but not yet significantly overvalued. The MSCI World ex. U.S. Index shows a more significant

degree of undervaluation on all four metrics we follow. So, even after January's robust equity market gains, global equities continue to appear reasonably valued. In other words, earnings have caught up to price, so to speak, which may be supportive of higher equity prices worldwide over time.

MSCI Index Valuation (% from 25-Year Rolling Moving Average) a/o 01/31/2012	Earnings Yield	Dividend Yield	Book Yield	Cash Flow Yield
U.S.	30.0	-8.0	22.9	12.4
World ex. U.S.	58.2	52.2	55.4	25.3
EAFE ex. Japan	35.1	27.6	34.9	12.5
Europe Ex. U.K.	42.1	49.2	41.8	6.1
U.K.	27.2	-2.2	31.5	24.7
Japan	114.2	136.2	115.2	64.5
Pacific ex. Japan	27.3	22.6	12.2	15.4

January Fund Allocator Positioning

Fund Allocator accounts jumped right out of the gates in January, posting positive returns as accounts benefited from our positioning regarding U.S. economic resilience and a strong start to the year. Our international exposures boosted performance as positions in emerging markets and Australia were the month's top performers. As concerns over Europe faded somewhat last month, investors re-focused on the emerging economies' stronger fiscal situations and higher growth rates, two of the reasons we favor emerging over developed economies. The weakest equity performance came from our defensive dividend-paying, equity-income holding which was up slightly as investor money flowed into more economically sensitive or cyclical asset categories.

While we were positioned for strength in equity markets, we now believe the risks in Europe are being underestimated and the high level of complacency will likely lead to volatility in the next few months. As a result, we made a number of moves in January to begin to reduce risk and raise cash. In the middle of the month, we sold a tactical position in industrials after a nice gain and run up in the markets. We still believe the U.S. economy will continue to improve, and large industrial companies should benefit from this trend, but cyclicals were first on our exit list as we move toward the 1350-1370 level on the S&P 500, a price level we have identified as potential resistance. We also reduced exposure in large cap U.S. stocks and developed international stocks for the same reasons. We ended the month with above-average cash balances of approximately 8% but will look to re-invest some of this exposure should the market correct its short-term overbought condition and

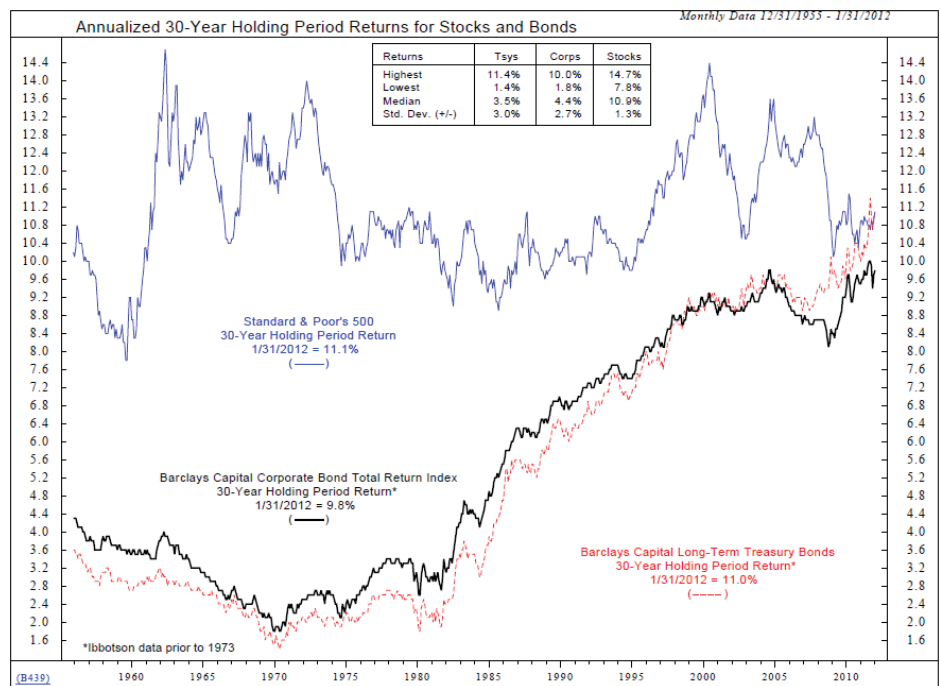
our macro models remain bullish.

Looking forward, technology is high on our radar list. We believe many relatively new technologies such as cloud computing and wireless smart technologies are still in the early stages and have strong growth potential. As the market reaches our target valuations, we will consider making this addition to our portfolios.

Longer-term Outlook:

We will close with a longer-term perspective on stock and bond returns. The accompanying chart shows annualized 30-year holding period returns for U.S. stocks (blue line), U.S. corporate bonds (black line) and U.S. Treasury bonds (red dashed line).

A few observations stand out. First, over any 30-year holding period dating back to 1955, U.S. stock investors have realized positive, nominal returns. As of January 2012, the 30-year holding period return for the S&P 500 was 11.1% which included the dismal decade of the 2000s. Second, U.S. Treasury bonds over the past 30 years have returned 11% and there was even a period last year when their 30-year holding period return exceeded that of the S&P 500 — for the first time since the Civil War! Given the incredible bull market run in U.S. Treasury bonds over the past 30 years (yields peaked at 14.8% in 1981 and fell to 2.5% in 2008), a repeat performance from bonds is unlikely over the next 30 years. Another way of looking at the chart is to see that the S&P 500's 30-year holding period return is currently toward the middle of its 56-year history while 30-year holding period returns from U.S. Treasury bonds is at its maximum, outlier edge, suggesting greater potential for mean reversion.



Source: Ned Davis Research

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