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CHIEF INVESTMENT STRATEGIST

Cash Raised as Risk Metrics Turn Cautious

Our risk team has been very proactive throughout the recent rally in raising the levels at which we would reduce risk. As we have mentioned several times over the last few months, we believe the technical situation in the world's stock markets has deteriorated. However, we have argued each time that the outlook for 2016 does not warrant a bear market, and that is still our fundamental view.

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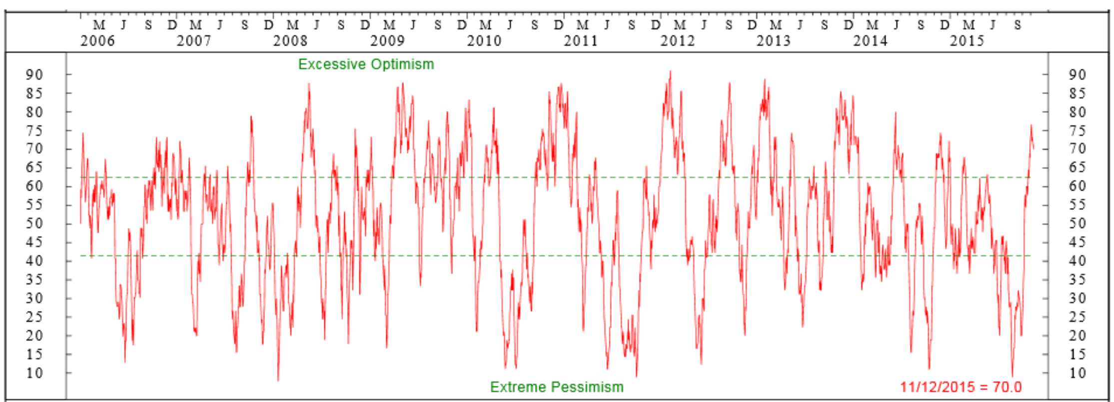
In late August and early September, we judged that excessively bearish sentiment made the probability of a bounce likely (see chart below), and indeed the bounce in stocks worldwide was impressive within many developed markets in local currency terms, as many regained at least two-thirds of their early August levels and the S&P 500 regained about 90%.

During the rally, the risk team continued to raise the level at which they would raise some cash, in order to prevent giving back the absolute and relative gains made from the August lows. Last Tuesday, the risk and equity teams acted to raise cash in the portfolios to their current levels, which range from 9 to 13%.

SENTIMENT HAS REBOUNDED SHARPLY



(DAVIS265) NDR Daily Trading Sentiment Composite

The chart above shows how quickly short-term sentiment has gone from record pessimism in late August to high, if not record optimism today. When this is combined with our other tactical model – which uses a combination of the Relative Strength Index (RSI) and the slope of the 200-day moving average – we judge that moving back towards a more neutral position is prudent. For our definition of RSI, see the disclosure section below.

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As shown by the Weekly Chart below, the recent decline began last year. From May 2014 to March 2015, the euro fell from 1.40 dollars per euro to just 1.05, a dramatic decline by the standards of any major currency. Since March, the euro has traded in a range between 1.05 and 1.15 and last week closed at 1.077. We should also not lose sight of the fact that the euro hit 1.60 prior to the financial crisis in July 2008. The trend of the euro remains down, and with the European Central Bank talking about further quantitative easing and the Fed poised to raise rates in December, we believe that a significant rise in the euro seems unlikely. To reiterate, our conviction about the magnitude of further euro weakness has diminished – Price Matters®. We believe euro weakness adds stimulus to the eurozone economies, and dollar strength is a headwind for both the US economy and earnings. The majority of our non-US positions remain currency hedged after this move, just to a lesser degree.

THE WEEKLY CHART: THE EURO – A DRAMATIC DECLINE

Source: Fullertreacymoney.com. Past performance is no guarantee of future results.

Important Disclosure Information

Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

The Relative Strength Index (RSI) compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

RiverFront's Price Matters® discipline compares inflation-adjusted current prices relative to their long-term trend to help identify extremes in valuation.

Using a currency hedge or a currency hedged product does not insulate the portfolio against losses.

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Index Definitions

It is not possible to invest directly in an index.

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 75% of the total US equities market.