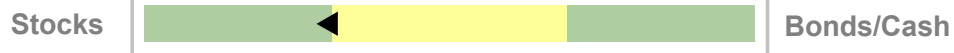
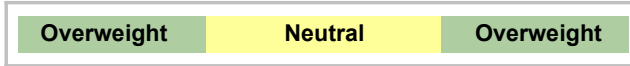


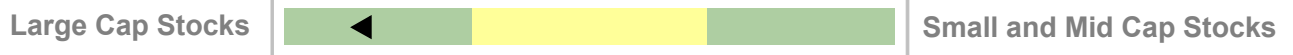
Sub-Asset Class

Versus

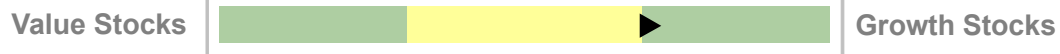
Sub-Asset Class



Stock market valuations have risen back toward long-term averages, suggesting that return prospects for the stock market should be along the lines of the long-term averages of 8-10%. Cash and Treasury bonds, however, are currently priced for below-average returns given the low level of interest rates.



Using rolling 5-year relative valuations, large caps are the cheapest they have been versus small cap stocks in decades. Larger companies also tend to be higher quality in terms of more consistent profitability and higher dividend yields.



Growth stock valuations are also the most attractive they have been relative to value stocks in decades. Growth stocks were also relatively cheap versus value stocks in the early 1990s -- just before a multi-year stint of significant outperformance.



International stock markets, in general, still look relatively cheap versus the U.S. market. A lot of the relative value advantage, however, comes from developed markets such as Europe and Japan.



It can not be refuted that the emerging market economies have had the better growth of late, nor that they have the best growth prospects moving forward. The problem, however, is that valuations may already capture these growth expectations.



Despite a tremendous run last year in high yield bond prices, it appears that corporate high yield bonds are still modestly attractive. Within the high yield asset class, the higher quality bonds appear more attractive.



Though interest rates did drop in January and the Federal Reserve still appears to be on hold for the foreseeable future, we are retaining our mildly defensive stance regarding longer-maturity bonds.