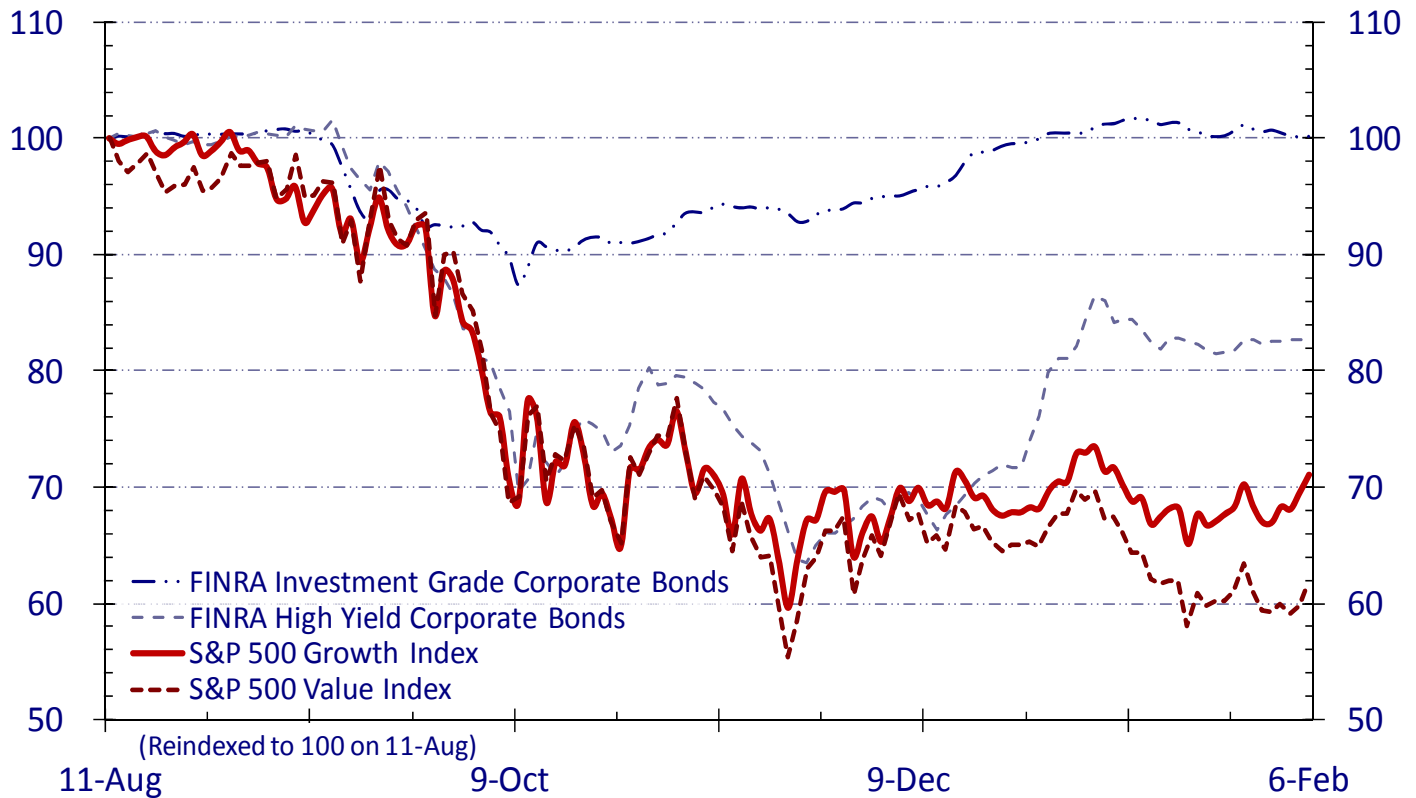


It's Not Too Late to Upgrade the Quality of Your Stock Portfolio

- We are hopeful, even optimistic, that the U.S. economy will bottom out sometime in the middle of this year and begin a new recovery. But the risks are rising that the recession may surprise the consensus in depth and duration. Should this occur, stocks could falter once again. Hopefully, this would only happen from higher levels.
- Nevertheless, we believe it still makes sense to upgrade the quality of your stock portfolios. The “core” of your equity portfolio should have a substantial exposure to the large capitalization growth sector of the market, and it makes sense to limit the exposure of “recovery beneficiaries” to a specific amount, say 5% to 10% for most investors. Some recovery beneficiaries could possibly double (or halve) with a good (or bad) surprise.
- Stocks in the value sector have fallen harder than those in growth (see discussion overleaf), but uncertainty still looms. Meanwhile, high quality growth companies are more attractively valued than we have seen in decades. So we are boosting the exposure to large capitalization growth stocks in a number of models. We are funding the boost by reducing exposure to 1) large capitalization value, and 2) high yield bonds. See the exhibit on page 3 for a complete listing of the exposure by model.
- One indication of the risk that negative surprises hold is how stocks behave when a dividend is cut. Last week, Standard & Poor’s announced that 62 companies in the S&P 500 index had cut their dividend payments in 2008, and that the total payout of the 500 could fall –13% in 2009. That would make 2009 the worst year for dividend growth since 1949, when the payout fell –16%.
- The financial sector has been the primary offender in terms dividend cuts; last year, 48 financial companies in the S&P 500 cut their dividends, and the trend is continuing this year. By now, even General Electric (NYSE: GE, \$12.68) — by far the biggest contributor to the S&P 500’s dividend total — is widely expected to reduce its \$1.24 annual dividend. Most of GE’s businesses are slowing, but it is their financial division that is most affected by the downturn, and the one most likely to benefit from GE not having to pay out another \$13B per year in dividends.
- Growth and value investment styles are often defined in terms of “factors” such as the rate and reliability of growth and valuation metrics such as dividend yield and book value. A switch to growth will reduce emphasis on financials, media, utilities and GE. It will increase emphasis on energy, technology, and other companies we have mentioned before, like Johnson & Johnson (NYSE: JNJ, \$58.50). Many companies have been able to show good sustained growth over the past several years, some will likely continue to grow despite the global recession, and most should benefit from a recovery when it occurs.
- Of course, financial companies have already been savaged in this downturn, and their common and preferred shares have been the most severely affected by the bear market. As a portion of the S&P 500, financial companies have fallen by half — to 10.8% of the index, from nearly 23% of the index just 2 years ago. The last group to undergo such a massive “de-weighting” was the technology sector from 1999 through 2002.
- After falling from 30% of the S&P 500 to only 14% in the space of just three years, the technology sector still represents only 16% of the index today. Many of the top technology companies have strong balance sheets and a diversified business mix, without too much exposure to over-stretched consumers. Meanwhile, the energy sector fell sharply from a position of market leadership as recently as July 2008, and seems to be reasserting itself again, despite continuing weakness in near-term oil futures contracts.
- It is important to recognize that growth and value indexes are an imperfect approximation of the growth and value investment styles. Plenty of companies offer both growth and value, and we continue to encourage our portfolio managers to own shares of those with strong balance sheets and stable, diversified cash flows.

Bond Market Has Been Rewarding Quality Over Risk, and Now Stocks are Doing So, Too



Note: Past performance is not a guarantee of future results. An index is not investable. Source: Bloomberg, FINRA, Standard & Poor's. High yield bonds, commonly known as junk bonds, are subject to greater risks of loss of principal and interest, including default risk, than higher rated bonds. The price of these bonds may be volatile, and they are generally only suitable for aggressive investors.

During the steep decline in September and October, the market was focused intently on the extraordinary risks faced by companies in the headlines, i.e. the failure or near-failure of a number of financial services companies. The resulting downdraft did not discriminate between the “direct victims” of the economic recession and the “innocent bystanders.” Now the market has begun to stabilize, and the process of distinguishing between these groups has begun in earnest.

One measure of the market's rotation into companies with stronger finances and more stable-than-average cash flows is the outperformance of the S&P 500 growth index as compared to the S&P 500 value index shown here. Note also how high quality corporate bonds (represented above by the FINRA Investment Grade Bond index) hit bottom first — in late October — and enjoyed an outstanding run back to levels last seen just before the height of the crisis. Meanwhile, lower quality bonds continued to drop in November, but have since recovered.

Even the highest quality companies — many of these are represented in the S&P 500 growth index — have lost ground relative to their own company bonds since October, but this is where we see good value. We feel quality growth should continue to outperform while the economy struggles to find an uptrend. Once the recovery is firmly in place, growth stocks will probably lag, but there is no shame in that. Investors should focus first on protecting their capital and purchasing power. They should not be dissatisfied with trailing a rising market as long as they are participating in a responsible way.

Tom McManus

ASSET ALLOCATION MODELS

Tactical Tilt as of 2/10/09 (last adjusted on 2/10/09)

	CONSERVATIVE			MODERATE			LONG-TERM			
	New BM	Tactical	Difference	New BM	Tactical	Difference	New BM	Tactical	Difference	
INCOME	CASH	10.0%	7.0%	-3.0%	2.0%	2.0%	0.0%	2.0%	2.0%	0.0%
	TRADITIONAL FIXED INCOME	80.0%	84.0%	4.0%	57.0%	60.0%	3.0%	32.0%	35.0%	3.0%
	Short-term Inv Grade	40.0%	44.0%	4.0%	20.0%	23.0%	3.0%		3.0%	3.0%
	Intermediate Inv Grade	40.0%	40.0%	0.0%	23.0%	25.0%	2.0%	16.0%	18.0%	2.0%
	Long-term Inv Grade				14.0%	12.0%	-2.0%	16.0%	14.0%	-2.0%
	ALTERNATIVE INCOME	10.0%	7.0%	-3.0%	26.0%	20.0%	-6.0%	46.0%	35.0%	-11.0%
	Hi-yield	7.0%	4.0%	-3.0%	18.0%	14.0%	-4.0%	30.0%	21.0%	-9.0%
	Emerging Market Debt	3.0%	3.0%		8.0%	6.0%	-2.0%	16.0%	14.0%	-2.0%
	REITs									
	COMMODITIES									
	STOCKS				15.0%	15.0%	0.0%	20.0%	20.0%	0.0%
	LargeCap Value				10.0%	6.0%	-4.0%	10.0%	8.0%	-2.0%
	Large Cap Growth		2.0%	2.0%		9.0%	9.0%	5.0%	17.0%	12.0%
	Mid Cap Blend									
	Small Cap Blend									
International				5.0%	3.0%	-2.0%	5.0%	3.0%	-2.0%	
Emerging Market										
GROWTH AND INCOME	CASH	2.0%	2.0%		2.0%	2.0%		2.0%	2.0%	
	TRADITIONAL FIXED INCOME	48.0%	50.0%	2.0%	27.0%	30.0%	3.0%	10.0%	13.0%	3.0%
	Short-term Inv Grade	14.0%	18.0%	4.0%	7.0%	11.0%	4.0%		4.0%	4.0%
	Intermediate Inv Grade	26.0%	27.0%	1.0%	15.0%	16.0%	1.0%		1.0%	1.0%
	Long-term Inv Grade	8.0%	5.0%	-3.0%	5.0%	3.0%	-2.0%	10.0%	8.0%	-2.0%
	ALTERNATIVE INCOME	14.0%	12.0%	-2.0%	21.0%	18.0%	-3.0%	21.0%	18.0%	-3.0%
	Hi-yield	10.0%	9.0%	-1.0%	15.0%	14.0%	-1.0%	15.0%	14.0%	-1.0%
	Emerging Market Debt	4.0%	3.0%	-1.0%	6.0%	4.0%	-2.0%	6.0%	4.0%	-2.0%
	REITs									
	COMMODITIES		0.0%	0.0%		0.0%	0.0%		0.0%	0.0%
	STOCKS	36.0%	36.0%	0.0%	50.0%	50.0%	0.0%	67.0%	67.0%	0.0%
	LargeCap Value	20.0%	10.0%	-10.0%	20.0%	10.0%	-10.0%	20.0%	10.0%	-10.0%
	Large Cap Growth	5.0%	15.0%	10.0%	8.0%	18.0%	10.0%	11.0%	21.0%	10.0%
	Mid Cap Blend	3.0%	4.0%	1.0%	6.0%	7.0%	1.0%	13.0%	14.0%	1.0%
	Small Cap Blend	2.0%	4.0%	2.0%	4.0%	6.0%	2.0%	10.0%	12.0%	2.0%
International	5.0%	2.0%	5.0%	10.0%	7.0%	-3.0%	10.0%	7.0%	-3.0%	
Emerging Market	1.0%	1.0%		2.0%	2.0%		3.0%	3.0%		
GROWTH	CASH	2.0%	2.0%		2.0%	2.0%		2.0%	2.0%	
	TRADITIONAL FIXED INCOME	35.0%	36.0%	1.0%	15.0%	16.0%	1.0%		0.0%	0.0%
	Short-term Inv Grade	15.0%	18.0%	3.0%	6.5%	9.5%	3.0%		0.0%	0.0%
	Intermediate Inv Grade	16.0%	18.0%	2.0%	7.0%	6.5%	-0.5%			
	Long-term Inv Grade	4.0%	0.0%	-4.0%	1.5%	0.0%	-1.5%			
	ALTERNATIVE INCOME	3.0%	2.0%	-1.0%	3.0%	2.0%	-1.0%			
	Hi-yield	3.0%	2.0%	-1.0%	3.0%	2.0%	-1.0%			
	Emerging Market Debt									
	REITs									
	COMMODITIES	2.0%	2.0%	0.0%	3.0%	3.0%	0.0%	3.0%	3.0%	0.0%
	STOCKS	58.0%	58.0%	0.0%	77.0%	77.0%	0.0%	95.0%	95.0%	0.0%
	LargeCap Value	11.5%	10.0%	-1.5%	13.0%	10.0%	-3.0%	16.5%	11.0%	-5.5%
	Large Cap Growth	13.5%	15.0%	1.5%	15.0%	18.0%	3.0%	17.5%	23.0%	5.5%
	Mid Cap Value	4.5%	4.5%	0.0%	7.0%	7.0%	0.0%	9.0%	9.0%	0.0%
	Mid Cap Growth	4.5%	5.5%	1.0%	7.0%	8.0%	1.0%	9.0%	10.0%	1.0%
Small Cap Value	3.0%	3.5%	0.5%	5.5%	6.0%	0.5%	7.0%	7.5%	0.5%	
Small Cap Growth	3.0%	4.5%	1.5%	5.5%	7.0%	1.5%	7.0%	8.5%	1.5%	
International	15.0%	12.0%	-3.0%	20.0%	17.0%	-3.0%	24.0%	21.0%	-3.0%	
Emerging Market	3.0%	3.0%		4.0%	4.0%		5.0%	5.0%		

Numbers in **bold black** indicate a tactical tilt higher than the benchmark. Numbers in **bold blue** indicate a tactical tilt lower than the benchmark. Blank fields indicate a value of zero.

Asset Class Definitions

(The definitions below are consistent with the asset classification used by the firm's Envision™ planning tool. Please contact your Financial Advisor for further information about this product.)

Short-term Fixed Income: Fixed Income instruments that mature in 1 to 6 years.

Intermediate Term Fixed Income: Fixed Income instruments that mature in 6 to 12 years.

Long Term Fixed Income: Fixed Income instruments whose maturities are greater than 12 years.

High Yield: Non-investment grade fixed income securities (rated Ba1 or lower by Moody's and/or BB+ or lower by S&P). These investments are considered to be speculative and are subject to a higher degree of risk.

High-yield bonds, commonly known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher rated bonds. The prices of these bonds may be volatile, and they are generally only suitable for aggressive investors.

International; Financial markets in developed economies outside of the U.S.

Emerging Markets: Financial markets in countries with developing economies. These markets are typically immature compared to those of the world's major financial centers, but are becoming increasingly sophisticated and integrated into international markets; they provide potentially higher returns but are intensely volatile.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater asset price volatility

REITs: Real estate investment trusts (REITs) trade on the major exchanges and invest in real estate directly, either through properties or mortgages.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Large Cap Growth: Stocks that have a market cap greater than \$8 billion and a price-to-book ratio greater than 3.3.

Large Cap Value: Stocks that have a market cap greater than \$8 billion and a price-to-book ratio less than or equal to than 3.3.

Mid-Cap Growth: Stocks that have a market cap between \$2.4 - \$8 billion and a price-to-book ratio greater than 3.3.

Mid-Cap Value: Stocks that have a market cap between \$2.4 - \$8 billion and a price-to-book ratio less than or equal to 3.3.

Small-Cap Growth: Stocks that have a market cap less than \$2.4 billion and a price-to-book ratio greater than 3.3.

Small-Cap Value: Stocks that have a market cap less than \$2.4 billion and a price-to-book ratio less than or equal to 3.3.

The prices of small-cap and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Commodities: Basic goods used in commerce that are generally interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services.

Buying commodities allows for a source of diversification for those sophisticated persons who wish to add commodities to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any purchase represents a transaction in a non-income-producing commodity and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio.

Our Asset Allocation Model Benchmarks

Traditionally, asset allocation models have focused primarily on the needs of growth investors. We believe that our asset allocation models fill the gap by defining a more comprehensive set of client objectives. As a result, our new models include allocations specifically tailored for Income and Growth & Income objectives as well as Growth.

In the past, investors requiring cash flow have sometimes been encouraged to make systematic withdrawals from a growth-oriented portfolio. We think this can be dangerous because systematic withdrawal strategies are subject to significant risks in a volatile market environment. When asset prices decline, systematic withdrawal may result in selling at depressed prices, requiring the liquidation of a larger amount of assets to meet cash flow needs. Assets sold near market cycle lows will not participate when the market recovers. Repeating this process through several market cycles could significantly erode portfolio value. Thus, investors may fail to meet their goals even if assets' average returns are close to expectations.

We believe that a growing number of our clients will need comprehensive income strategies in the coming years. Given the potential risks we perceive in systematic withdrawal plans, we believe that income clients should be able to use portfolio-generated interest and dividends to provide a significant proportion of their cash flow needs. Since we believe an income investor's optimal asset allocation is different from the optimal asset mix for a growth investor, we designed asset allocation models that are optimized for the specific needs of three different investor objectives:

Income: Income investors need the maximum amount of income given their risk tolerance from their portfolio and are willing to forgo a portion of capital appreciation and growth of income in order to seek maximum current income.

Growth & Income: Growth & Income investors need to receive current income, but they are equally concerned that income and capital grow over time. These investors are typically willing to forgo a portion of current income in order to provide for longer term growth.

Growth: Growth investors generally have little need for account income. These investors seek the maximum capital appreciation consistent with their risk tolerance.

We recognize that investors with similar investment objectives may have substantially different risk tolerances. Although all investments involve some degree of risk, including the potential loss of principal, some securities, such as emerging market equities and high yield bonds, have more risks than other alternatives. Higher risk investments have a greater potential for losses, but usually offer the potential for higher long-term returns. Investors with lower risk tolerance give up some of the potential for higher returns in exchange for lower risk. Investors with a higher risk tolerance pursue higher returns through investment in higher risk securities. Consequently, our new asset allocation models provide allocation recommendations for investors across three degrees of risk tolerance — Conservative, Moderate and Long-term — for each of our three investment objectives (Income, Growth & Income, and Growth).

Our asset allocation models are detailed in the table above. Moving left to right or down the table shows allocation recommendations with higher levels of portfolio risk and correspondingly higher levels of expected return.

Asset Categories

Traditionally assets were allocated between Stocks, Bonds and Cash. Since our models are tailored to better serve the needs of income-oriented investors with differing levels of risk tolerance, we segregated Traditional Fixed Income, which includes all investment-grade debt, from a new category called Alternative Income. Alternative Income includes Hi-Yield Debt, Emerging Markets Debt and REITS. These three assets classes offer greater income potential, but they also entail higher levels of investment risk. Historically, they have tended to have some degree of correlation with both the stock and bond markets, but are not closely correlated with either. Portfolios that require income and can tolerate greater risk have higher Alternative Income weightings in our models. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater asset price volatility. High-yield bonds, commonly known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher rated bonds. The prices of these bonds may be volatile, and they are generally only suitable for aggressive investors. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Tactical Allocations

Our model portfolio benchmarks incorporate our strategic capital market assumptions for each asset's five- to ten-year return and risk characteristics. Thus these benchmarks already reflect our strategic preference for stocks over bonds and small/mid caps over large caps. Against these benchmarks we make tactical tilts that reflect our current preference for certain assets.

Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. The Standard & Poor's indexes are unmanaged, weighted indexes of stocks providing a broad indicator of price movement. Individual investors cannot directly purchase an index. Dividends can be increased, decreased or totally eliminated at any point without notice.

Additional Information Available Upon Request

Wachovia Securities is the trade name used by two separate registered broker-dealers: Wachovia Securities, LLC, and Wachovia Securities Financial Network, LLC, Members SIPC, non-bank affiliates of Wells Fargo & Company.

Securities and Insurance Products		
Not Insured by FDIC or Any Federal Government Agency	May Lose Value	Not a Deposit of or Guaranteed by a Bank or Any Bank Affiliate