

# BEGINNINGS | ASSET ALLOCATION

## ECONOMIC AND FINANCIAL MARKET FORECAST

Below is a comparison of current economic and financial data with the panel's composite forecast for the next six months. (Through January 2011)

	Current Level <sup>1</sup>	Strategists' Predictions
STOCK MARKET (Dow Jones Industrials)	10024	10778
BOND MARKET (10-Year Treasury Note)	3.3%	3.8%
ECONOMIC GROWTH (Annual Growth of Real GDP)	3.0%	2.7%
INFLATION (Annual Increase in CPI)	2.2%	1.8%
SHORT-TERM RATES (Three-Month Treasury Bills)	0.15%	0.4%

(1) As of 6/1//10

## RECOMMENDED ALLOCATIONS FOR A BALANCED PORTFOLIO

The statistics below are a composite of results from our monthly poll of leading portfolio strategists and are designed for a balanced growth investor.

CURRENT COMPOSITE ALLOCATION			CHANGE FROM PRIOR MONTH'S ALLOCATION		
STOCKS	BONDS	CASH	STOCKS	BONDS	CASH
52.2%	37.5%	10.3%	+1.0%	0%	-1.0%

  

RANGE OF CURRENT ALLOCATIONS			12-MONTH TRENDS IN COMPOSITE ALLOCATIONS			
	LOW	HIGH	LOW	HIGH	CURRENT	
STOCKS	10%	63%	STOCKS	51.2%	56.3%	52.2%
BONDS	25%	80%	BONDS	31.3%	37.5%	37.5%
CASH	5%	20%	CASH	10.1%	13.7%	10.3%



### GARY SHILLING

A. Gary Shilling & Co.

STOCKS	10%	down 10%
BONDS	80%	up 20%
CASH	10%	down 10%



### GAIL DUDACK

Dudack Research Group

STOCKS	60%	
BONDS	20%	
CASH	20%	
(no change)		

### CASH HOLDINGS BELOW PANEL AVERAGE



### SAM STOVALL

Standard & Poor's

STOCKS	60%	down 5%
BONDS	25%	
CASH	15%	up 5%



### JEFFREY KLEINTOP

LPL Financial

STOCKS	60%	up 10%
BONDS	65%	down 10%
CASH	5%	



### MARK BALASA

The Alpha Group

STOCKS	63%	up 1%
BONDS	35%	
CASH	2%	down 1%

Portfolio strategists polled 6/1/10-6/4/10

## Behind the Numbers, with Sam Stovall

"WE'RE IN A correction mode right now. The market has declined 10% to 20% from the S&P 500's closing high of 1,217 on April 23. We are more than 12% below that level," says Sam Stovall, S&P Equity Research chief investment strategist. To explain the stock market's current volatility, Stovall points to the financial reform bill now working its way through Congress, environmental concerns about the oil spill in the Gulf, tensions in Asia centered around North Korea and South Korea, and European debt levels. This combination of factors may force the global economy to experience a double-dip recession, he says.

Turning to the financial sector's performance, Stovall notes that of the 10 sectors S&P covers, financials comprised the best-performing category at the market peak, rising more than 160% since the low of March 9, 2009. But, he added, because the group experienced the greatest loss in the 2007-2009 bear market, falling 83% as compared with the S&P 500's decline of 57%, it also had the most to give up due to such a sharp rally. As for investors, Stovall says, they are now obviously experiencing a lack of conviction as they have started to wonder whether this economic recovery might be falling into a repeat of 2008.

"Just substitute sovereign debt for subprime mortgages," he says. "Investors who are sitting on the sidelines may be less enthusiastic about committing fresh capital to the market in general and to a financial services company in particular, but I would like to make it clear that I have no company-specific opinion." —Joyce Hanson and James J. Green