

Summary

- I From a historical perspective, the current market environment for domestic large cap equities, while extreme, is not unprecedented in duration or scope. To illustrate, we will examine where the current period ranks in terms of historical returns and corresponding expected volatility.
- I From a diversified portfolio perspective, however, this is an event that is outside the normal bounds of expectations.
- I Historically in rare times of severe market stress such as we are witnessing today, correlations among asset classes may temporarily move to +1.0. In these short-term periods, the benefits of diversification are temporarily marginalized.
- I This unusually difficult investing arena emerged forcefully in the second half of 2008, when most asset classes experienced negative performance.
- I This difficult investing condition is fairly unique within the context of portfolio management and we do not expect it to persist going forward. We illustrate this viewpoint by looking back at another similar correction (1973-1974).
- I While the past cannot guarantee the future, we believe that investors who commit new capital at these levels, or rebalance back to their strategic allocations when appropriate, may see significant opportunities for portfolio growth over the coming years. This is a time when we believe clients may be better served by remaining invested or even considering investing new capital, not liquidating or giving into fear. No strategy guarantees success, but we believe that once the current issues work through the system, asset classes will behave as expected, active managers will improve their performance relative to their benchmarks and diversified portfolios will begin to perform going forward as they have historically over the long-term.

Part I: How Does the Current Market Stack Up Against History:

The current market environment and broad economic credit issues have created anxiety and stress even for some of the most aggressive investors. From a historical perspective, how does this market correction compare to previous disruptions?

Table 1 below illustrates where this current correction ranks relative to the previous five most significant price corrections for both the Dow Jones Industrial Average (since 1928) and the S&P 500 Index (since 1950):

Table 1

Dow Jones Industrial Average (Since 1928)					S&P 500 Index (Since 1950)				
Rank	Peak Day	Trough Day	Approx. Duration	Cumulative Return	Rank	Peak Day	Trough Day	Approx. Duration	Cumulative Return
1	September 3, 1929	July 8, 1932	34 months	-89.2%	1	October 9, 2007	March 9, 2009	17 months	-55.3%
2	October 9, 2007	March 9, 2009	17 months	-53.8%	2	January 3, 1973	October 3, 1974	22 months	-48.2%
3	March 10, 1937	March 31, 1938	13 months	-49.1%	3	March 24, 2000	October 9, 2002	32 months	-47.4%
4	January 11, 1973	December 6, 1974	22 months	-45.1%	4	May 14, 1969	May 26, 1970	13 months	-34.7%
5	January 14, 2000	October 9, 2002	34 months	-37.9%	5	August 25, 1987	October 19, 1987	3 months	-33.2%
6	August 25, 1987	October 19, 1987	3 months	-36.1%	6	November 28, 1980	August 12, 1982	22 months	-27.1%

Source: Ibbotson Associates, Inc., Bloomberg, Callan Associates Past performance is not a guarantee of future results.

Put into perspective, the current market environment, while certainly painful and extreme, is not out of scale in both time and scope relative to past major market corrections.

Indices are unmanaged and cannot accommodate direct investments. An individual who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees and transaction costs which reduce returns.

Current Market Environment Perspective

Part II - Expected Volatility of the S&P 500:

The first step to developing any financial plan is to understand the investor's willingness and capacity to take risk. One way to quantify this is to determine the long-term return potential of the selected allocation and the expectations for return volatility around that mean.

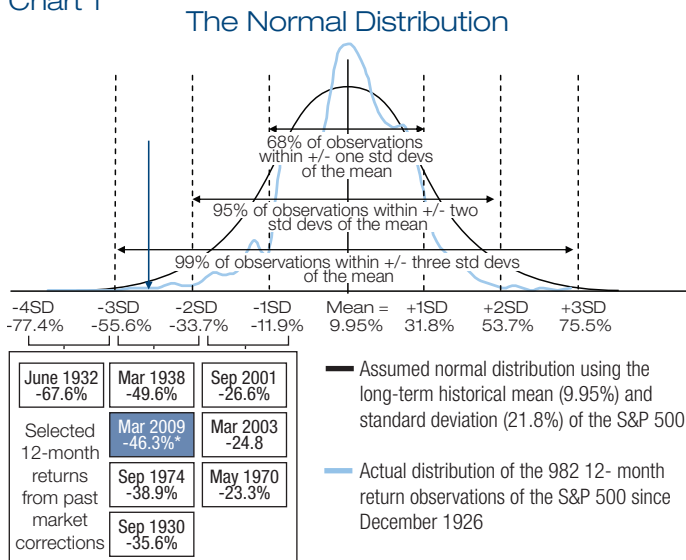
To illustrate, let's say a hypothetical investor's risk assessment directed them to invest 100% of their assets in the S&P 500 Index (Indices are not available for direct investment). For this example, we are obviously setting aside the principle of diversification for a moment. The average annual return and standard deviation of the S&P 500 from January 1926 through March 2009 is 9.95% and 21.8%, respectively. Using these figures as the expected return and volatility in a normal distribution, Chart 1 below illustrates where a representative selection of the S&P 500's worst 12-month periods since 1926 plot in terms of standard deviation.

Standard Deviation:

The volatility, or uncertainty, of future returns is a key concept of risk. Standard deviation is a statistic used to measure the volatility of returns around the portfolio's average return. The smaller the standard deviation, the tighter the band of return observations around the average return resulting in less historical return variability. Whereas a higher standard deviation indicates greater uncertainty regarding future returns.

While the current 12-month period ranks between a negative two and negative three standard deviation event, we can see that it is within the expected bounds of the normal historical distribution of the S&P 500 Index; albeit rare. In addition, 2008 is not unique; there have been previous 12-month periods which fall in this range. Table 2 below provides the number of 12-month observations that fell within the listed negative standard deviation ranges as well as the expected percentages based on a normal distribution of returns.

Chart 1



Source: Ibbotson Associates, Inc., Callan Associates, Bloomberg. Past performance is not a guarantee of future results.

*12-month return as of 3-9-09 which is the date of the lowest S&P 500 Index Price (676.53) since the correction beginning on 10-9-07.

Table 2

S&P 500 Index
Out of 982 12-month Returns
December 1926 - February 2009

Standard Deviations	From	To	# of 12 Month Periods	%	Expected Based on a Normal Distribution
-3 to -4	-55.6%	-77.4%	3	0.3%	0.5%
-2 to -3	-33.7%	-55.5%	23*	2.3%	2.0%
-1 to -2	-11.9%	-33.6%	86	8.7%	13.5%

*The 12-months ended 2-28-09 represents one of these periods.

Source: Ibbotson Associates, Inc., Callan Associates.

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Current Market Environment Perspective

The data shown in Chart 1 is based on historical returns from dated markets and economic policies. If we employ our forward-looking assumptions for geometric return and standard deviation for domestic large-cap equities of 9.4% and 18.0%, respectively, we can determine the impact of this current market relative to our current estimates. In doing this, we see that the current market correction plots just under a negative three standard deviation event, as shown in Chart 2.

What we can take away from this data, is that the current market environment is essentially a negative three standard deviation event -- not something that comes along every day.

Part III: Expected Volatility of a Diversified Portfolio

While Part II gives evidence that we are currently within the realm of expectations (albeit at the extremes) for the S&P 500 based on historical and forward looking returns, this section addresses whether this has held true for diversified portfolios.

Looking at a diversified equity portfolio², our long-term geometric return and risk expectations for this active model based on our forward-looking active capital market assumptions are 9.71% and 16.0%, respectively.

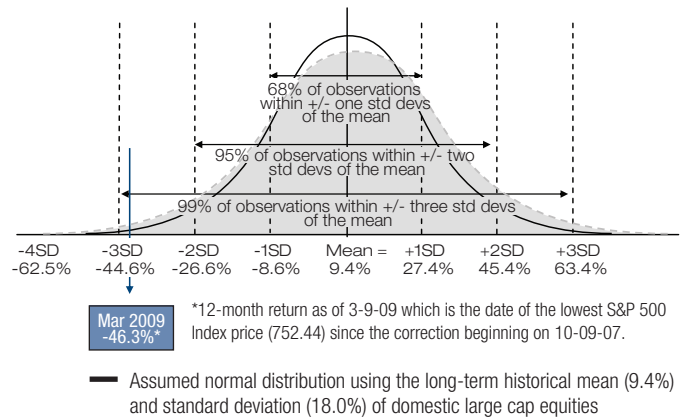
The industry standard is to assume the maximum expected loss of a portfolio to be two standard deviations to the down side. All data points greater than this level encompass 97.5% of the expected return observations. Conversely, only 2.5% of the return observations are expected to be worse than negative two standard deviations.

Based on these forward-looking expectations, we can plot the range of return observations using a normal distribution as illustrated in Chart 3 to the right.

What we find is that the current 12-month return of the diversified equity portfolio is well beyond the normal realm of what we would expect for a diversified portfolio – close to a negative four standard deviation event.

Chart 2

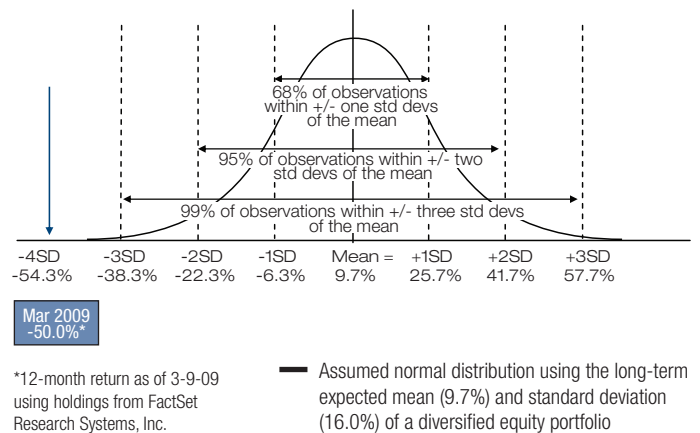
The Normal Distribution



Source: Mercer Investment Consulting, AMS Institutional Research, Ibbotson Associates, Inc., Bloomberg. Past performance is not a guarantee of future results.

Chart 3

The Normal Distribution



Source: Mercer Investment Consulting, AMS Institutional Research. Past performance is not a guarantee of future results.

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Current Market Environment Perspective

Further, there are specific periods (although rare) when there is so much systemic stress on the global capital markets that correlation among asset classes essentially moves close to +1.0. In these short-run periods, the benefits of diversification are temporarily marginalized. What we are seeing today is one of those periods, as evident by the various asset class returns in Table 3 to the right.

In the short-run, we believe that few opportunities to reduce volatility exist. This difficult investing condition emerged forcefully in the second half of 2008, when most asset classes experienced negative performance. History tells us that this relatively short time period of market stress is fairly unique within the context of portfolio management and we do not expect this to persist going forward.

How do we expect asset classes to behave in market corrections?

Table 4

Asset Class	Cumulative Returns for the 3 Years Ending March 31, 2003	Cumulative Returns for the Year Ending September 30, 1988	Cumulative Returns for the Year Ending March 31, 1982
Domestic Large Cap Equity	-40.9%	-12.4%	-13.1%
Domestic Small Cap Equity	-29.5%	-10.7%	-4.7%
International Equity	-47.9%	-0.8%	-14.2%
Real Estate (REITs)	49.8%	4.8%	-2.5%
Domestic Fixed Income	32.4%	13.3%	9.8%
High Yield Fixed Income	7.7%	12.1%	7.7%
Commodities	27.0%	n/a	n/a

Source: Ibbotson Associates, Inc., Callan Associates. Past performance is not a guarantee of future results.

When the equity markets correct, we expect other diversifying asset classes to perform better.

What is another example of a correlation breakdown similar to 2008?

Table 5

Asset Class	Cumulative Returns for the 2 Years Ending December 31, 1974
Domestic Large Cap Equity	-37.3%
Domestic Small Cap Equity	-44.7%
International Equity	-34.7%
Real Estate (REITs)	-58.0%
Domestic Fixed Income	10.4%
High Yield Fixed Income	-11.6%
Commodities	n/a

Source: Ibbotson Associates, Inc., Callan Associates. Past performance is not a guarantee of future results.

Table 3

As of 3-9-09

Index	12-month Return
S&P 500	-46.9%
Russell 2000 Index	-47.1%
MSCI EAFE	-52.8%
MSCI Emerging Markets	-55.3%
DJ Wilshire REITs	-61.9%
Barclays Capital Aggregate Index	3.3%
Barclays Capital High Yield Index	-24.8%
DJ AIG Commodity Index	-50.8%

Source: FactSet Research Systems, Inc., Frank Russell, Barclays, MSCI Barra, Dow Jones, Standard and Poor's. Past performance is not a guarantee of future results.

Certainly, there are many differing economic aspects between the 1973-1974 period and the current period, but it highlights what can happen in times of severe stress.

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Current Market Environment Perspective

Part IV: What does this mean going forward?

As demonstrated, the severity of the current market environment is rare but certainly possible. While this year has been painful, we believe the future presents significant opportunities for long-term growth.

As an example, let's examine the effect of diversification on a hypothetical portfolio during and after the bear market of 1973-1974. Using two hypothetical portfolios to illustrate, Portfolio A is a broad portfolio comprised of 65% S&P 500 and 35% Barclays Capital Aggregate Bond Index. Portfolio B has the same overall equity to fixed income allocation (65% / 35%), but is further diversified into small cap equities, international equities, REITs and high yield fixed income³.

Table 6 above shows the hypothetical returns of these two portfolios during the 1973-1974 bear market. Similar to what we are experiencing today, the broad Portfolio A performed better on the downside because the additional diversifying asset classes of Portfolio B are performing worse and not providing the reduction in portfolio volatility as expected. So why bother diversifying if it didn't help this time around?

How did it play out over the ensuing years (i.e. after the market bottom)?

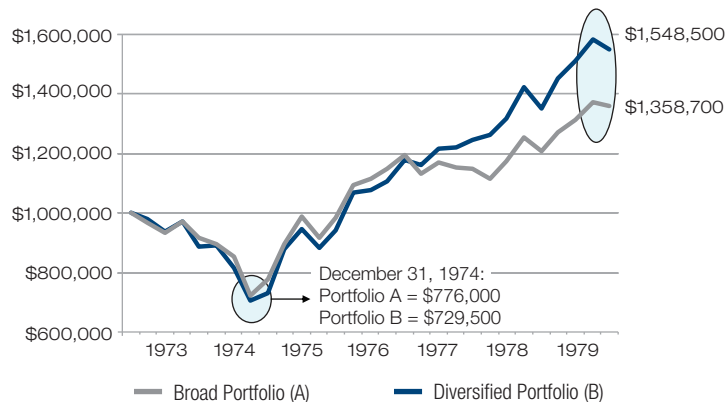
Table 7 below shows the hypothetical cumulative returns of the two portfolios over the next 1, 3 and 5 years from December 31, 1974:

Table 7

Asset Class	Cumulative Returns for the 1 Year Ending December 31, 1975	Cumulative Returns for the 3 Years Ending December 31, 1977	Cumulative Returns for the 5 Years Ending December 31, 1979
Portfolio A (Broad)	27.0%	48.2%	75.1%
Portfolio B (Diversified)	29.2%	70.9%	112.3%
Difference	+2.2%	+22.7%	+37.2%

Source: Ibbotson Associates, Inc., Callan Associates. Past performance is not a guarantee of future results. Diversification does not ensure a profit or protect against a loss.

Chart 4



Source: Ibbotson Associates, Inc., Callan Associates. Past performance is not a guarantee of future results. Diversification does not ensure a profit or protect against a loss.

Table 6

Portfolio	Cumulative Returns for the 2 Years Ending December 31, 1974
Portfolio A (Broad)	-22.4%
Portfolio B (Diversified)	-27.1%
Difference	-4.7%

Source: Ibbotson Associates, Inc., Callan Associates. Past performance is not a guarantee of future results. Diversification does not ensure a profit or protect against a loss.

By utilizing the diversified portfolio allocation, the hypothetical investor would have experienced 37.2% more in cumulative return over the ensuing five years, which is 4.4% more annually. Chart 4 to the left illustrates this impact through the growth of an invested dollar beginning on December 31, 1972.

While past performance does not guarantee future results, this example offers evidence that a diversified portfolio can be beneficial following a correction.

Indices are unmanaged and cannot accommodate direct investments. An individual who purchases an investment product which attempts to mimic the performance of an index will incur expenses such as management fees and transaction costs which reduce returns.

Current Market Environment Perspective

Conclusion

We believe that when appropriate, investors who commit new capital at these levels, or even rebalance back to their strategic allocations may create opportunities for portfolio growth over the coming years.

Depending on investment goals, risk tolerance, and time horizon we believe that this is a time when clients should be investing, not liquidating or giving into fear. We believe that once the current issues work through the system, asset classes will behave as expected, active managers performance will improve and diversified portfolios will begin to perform going forward as they have historically over the long-term. This already appears to be the case when we look at the few large one-day surges that the market has experienced over recent weeks.

¹ Source: Ibbotson Associates, Inc

² Source: Mercer Investment Consulting and AMS Institutional Research. Based on forward-looking active management expectations for the following asset allocation: Large-cap equity, 28.0%; Small to Mid Cap Equity, 21.0%; International Equity, 21.0%; Real Estate (REITs), 7.0%; Commodities, 5.0%; Cash Equivalents, 2.0%.

³ Source: Ibbotson Associates, Inc. The following allocation was used and rebalanced quarterly: S&P 500, 31%; Ibbotson SBBI Small Cap Stock, 10.0%; MSCI EAFE, 12.0%; Ibbotson NAREIT Index, 12.0%, BC Aggregate Bond Index, 28.0%, BC High Yield Index, 7.0%.

The thoughts and opinions expressed within are those of Raymond James Asset Management and are subject to change without notice.

The information within should not be construed as a recommendation of any security outside of a managed account.

Past performance is not a guarantee of future results.

Diversification does not ensure a profit or protect against a loss.

All investing involves risk and you may incur a profit or a loss.

- ▮ *International investing involves special risks, including currency fluctuations, different financial accounting standards and possible political and economic volatility.*
- ▮ *Investing in small- and mid -cap stocks generally involves greater risks, and therefore may not be appropriate for every investor.*
- ▮ *Commodities trading is generally considered speculative because of the significant potential for investment loss. *Commodities are volatile investments and should only form a small part of a diversified portfolio.*
- ▮ *Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.*
- ▮ *Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments.*
- ▮ *Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.*

Current Market Environment Perspective

Index Descriptions:

Dow Jones Industrial Average: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, technology, retail, entertainment and consumer goods. The index represents approximately 23.8% of the US market, and is price weighted (component weightings are affected by changes in the stocks' prices).

Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 75% of the investable US equity market.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smallest securities in the Russell 3000 Index. Represents approximately 10% of the total market capitalization of the Russell 3000 Index.

MSCI EAFE (Europe, Australasia, Far East): A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States & Canada. As of June 2007 the MSCI EAFE Index consisted of the following 21 developed market countries: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets: A free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets. As of June 2007 the MSCI Emerging Markets Index consisted of the following 25 emerging market countries: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Dow Jones Wilshire REIT: The Dow Jones Wilshire Real Estate Investment Trust (REIT) Index is a subset on the Dow Jones Wilshire Real Estate Security Index (RESI) and includes only those REIT components of the DJW RES. The Dow Jones Wilshire Real Estate Investment Trust (REIT) Index is designed to serve as a proxy for real estate investment by institutions. The Dow Jones Wilshire Real Estate Indexes are designed to provide measures of real estate securities that serve as proxies for direct real estate investing, and measure the performance of the publicly traded real estate securities with readily available prices. To be included, a company must be both an equity owner and operator of commercial and/or residential real estate, have a minimum total market capitalization of at least \$200 million at the time of its inclusion, and at least 75% of the company's total revenue must be derived from the ownership and operation of real estate assets. The real estate indexes are weighted by float-adjusted market capitalization.

Barclays Capital US Aggregate: Covers the US investment grade fixed rate bond market and consists of components for government and corporate, mortgage pass-through, and asset-backed securities. Must be rated investment grade or higher by at least two of the following: Moody's, S&P, or Fitch, have at least 1 year left to maturity and an outstanding par value of at least \$250 million. Security representation would be those that are SEC-registered, taxable, dollar denominated, non-convertible, and fixed rate.

Barclays Capital High Yield US Corporate: Covers the universe of fixed rate, non-investment grade debt, which includes corporate (Industrial, Utility, and Finance, which include both US and non-US corporations), and non-corporate sectors. Also includes, Canadian and Global Bonds-(SEC registered, and issuers in non emerging market countries), original issue zeroes, step-up coupon structures, and 144-As. Exclusions are Pay-in-kind bonds, Eurobonds, debt issues from emerging market countries, structured notes with embedded swaps or other special features, private placements, and floating rate securities. Must be publicly issued, dollar denominated, non-convertible, rated high-yield or lower by at least two of the following: Moody's, S&P, or Fitch. Unrated bonds, although a small number, are included but must have previously held a high yield rating or been associated with a high yield issuer, and must trade accordingly. As well, there must be at least 1 year left to maturity, and an outstanding par value of at least \$150 million.

Dow Jones AIG Commodity: The Dow Jones AIG Commodity Index is composed of futures contracts on 19 physical commodities (including precious metals, energy and livestock) traded on US exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The index serves as a diversified and highly liquid benchmark for the commodity futures market.

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