

However one chooses to describe 2008, one thing is certain: It's over. There's a new administration running the federal government; new legislators in Congress; different names at the top of many iconic businesses and a new paradigm for the financial industry landscape is quickly developing.

At Asset Management Services, we have been busy factoring in new elements to the changing capital market equation while remaining committed to the task you've assigned us – working to achieve superior risk-appropriate returns over the long-term.

The AMS Investment Committee is contemplating asset allocation changes in 2009 to position portfolios for a return to more typical market behavior. We strongly suggest that financial advisors and clients review and when appropriate adjust financial plans to do the same. In order to achieve long term goals, many investors will require their assets to be invested in the markets. Why not take advantage of what we believe is a very opportunistic period in the investment cycle?

To help get this process started, AMS is providing a short recap of the extraordinary events in 2008, followed by an equally concise description of what we believe is next. It is not our intention to stew on last year's difficulties, but rather provide some explanation so you can be prepared for a recovery.

Part I: 2008

Most capital markets around the world experienced almost unprecedented obstacles in 2008, a condition exacerbated as credit locked up. Still, putting 2008 into perspective is a valuable exercise in order to confidently move forward.

Last year, most markets had either their worst calendar year or came very close to it, often only running second to the declines experienced during the Great Depression. The S&P 500, an index representing 500, primarily large-cap, U.S. stocks and a gauge of the U.S. stock market, lost 37% in 2008, resulting in its second worst calendar year ever. The S&P 500's worst calendar year was in 1931 when it lost 43%; its third worst year saw a decline of 35% in 1937. High-yield bonds did not emerge from 2008 unscathed either. The Barclays Capital High Yield Index, (formerly the Lehman Brothers High Yield Index), lost over 26% last year, its worst calendar year aside from 1931 (-31%). According to Ibbotson, U.S. small-cap stocks experienced larger losses than those of 2008 in only five other calendar years; four of those years were during the Great Depression.

The international equity markets felt the impact of 2008 to a relatively greater degree than U.S. markets. The MSCI EAFE, a measure of developed international equity markets, lost approximately 45% last year, its worst year since its introduction in 1970 and nearly twice as bad as it experienced in 1974 when it declined 25.5%.

The REIT, or real estate investment trusts, asset class also saw its largest decline in 2008, losing 39%. Like international equity, the

| | Asset Class | 2008 | Rankings of Worst Year |
|-------------------------|------------------------|-------|------------------------|
| S&P 500 | U.S. Large Cap | -37.0 | 2 |
| Russell 2000 | U.S. Small Cap | -33.8 | 1 |
| MSCI EAFE | Intl. Equity | -43.8 | 1 |
| MSCI EAFE Small Cap | Intl. Small Cap | -47.0 | 1 |
| MSCI EM | Emerging Market Equity | -54.5 | 1 |
| DJ Wilshire REIT | U.S. REITs | -39.2 | 1 |
| DJ Wilshire Global REIT | Global REITs | -44.7 | 1 |
| BC High Yield | U.S. High Yield | -26.2 | 2 |
| DJ AIG Commodity | Commodities | -35.7 | 1 |

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index for REITs, FTSE NAREIT, was introduced in 1970 and its second worst year was also 1974, bringing a loss of 21%.

What does all of this mean? 2008 will likely be remembered as the perfect storm for the global markets. Factors such as the impact of subprime loans on mortgage-backed securities, rapidly declining home prices and the failure of large legacy banks converged to create what we believe is a rare, once-in-a-generation event driving down the world market by nearly 40%.

Simply stated, there were few adjustments an investor could make to avoid the damage. Most equity classes performed more poorly than the S&P 500 composite. If an investor held a diversified equity portfolio rather than simply U.S. large cap stocks, they would have experienced losses greater than the -37% the S&P 500 returned in 2008. However, U.S. small caps, as measured by the Russell 2000,

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was one of the few equity asset classes that performed better than the S&P 500. For balanced portfolios, fixed income did not provide the type of diversification benefit it typically does in a declining market, with the exception being U.S. Treasuries.

While the majority of asset classes underperformed the S&P 500 and the Barclays Aggregate Bond Index in 2008, AMS asset allocation models have experienced positive contributions from many of these asset classes over time. The excess return of these asset classes over the S&P 500 and the Barclays Aggregate Bond Index returns are shown in the table below:

| Equity Excess Return vs. S&P 500 | Asset Class | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|--|---------------------------------|-------|-------|-------|-------|------|------|-------|-------|-------|
| Russell 2000 Index | U.S. Small Cap | 3.2 | 7.1 | 2.6 | -0.4 | 7.5 | 18.6 | 1.6 | 14.4 | 6.1 |
| Russell Midcap Index | U.S. Mid Cap | -4.5 | 0.1 | -0.5 | 7.7 | 9.3 | 11.4 | 5.9 | 6.3 | 17.4 |
| MSCI: EAFE US\$ | Intl. Equity | -6.4 | 5.7 | 10.6 | 8.6 | 9.4 | 9.9 | 6.2 | -9.6 | -5.1 |
| MSCI: EAFE Small Cap | Intl. Small Cap | -10.0 | -4.1 | 3.5 | 21.3 | 19.9 | 32.7 | 14.3 | -0.6 | 1.5 |
| Dow Jones AIG Commodity | Commodities | 1.4 | 10.7 | -13.7 | 16.5 | -1.7 | -4.8 | 48.0 | -7.6 | 40.9 |
| FTSE EPRA/NAREIT Global Real Estate | Global Real Estate | -10.7 | -12.4 | 26.5 | 10.4 | 27.1 | 12.0 | 24.9 | 8.1 | 23.0 |
| DJ Wilshire REIT | Domestic REITs | -2.2 | -23.0 | 20.2 | 8.9 | 22.3 | 7.5 | 25.7 | 24.1 | 40.1 |
| Fixed Income Excess Return vs. BC Aggregate Bond | Asset Class | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
| BC: Gbl Aggr ex US | Non-U.S. Fixed Income | -0.9 | 4.1 | 3.8 | -11.1 | 4.1 | 4.3 | 6.3 | -0.53 | 1.6 |
| BC: High Yield Credit | U.S. High Yield Corporate Bonds | -31.4 | -5.1 | 7.5 | 0.3 | 6.8 | 24.9 | -11.7 | -3.2 | -17.5 |
| BC: US TIPS Index | U.S. TIPS | -7.6 | 4.7 | -3.9 | 0.4 | 8.2 | 15.2 | 12.1 | -12.2 | -15.5 |

Past performance is not a guarantee of future results. Indices are unmanaged and cannot accommodate direct investments. Please note that positive chart values do not necessarily represent positive total returns for a period. An index with a total return of -5% will appear as 2% when compared to a benchmark that returned -7% over the same period.

As illustrated, several equity asset classes used in AMS portfolios have outperformed the S&P 500 most years, which means they have positively contributed to the returns of those portfolios. A similar result is found in the fixed income asset classes. The AMS Investment Committee believes that these asset classes will continue to enhance investors' returns both in the near future and long term.

Part II: What next?

2008 provided valuable lessons from which to refine strategies and processes. Yet, as stated, it was a rare event. Therefore, 2008 events should not be the catalyst for radical change or dismissal of solid investment fundamentals that have provided significantly greater positive results over time than negative results.

Throughout history, the asset classes outperforming during market recoveries have varied. Each event of the past is unique to that point in time, so using history as the only investment tool could prove hazardous. Understanding this, it is necessary to incorporate the events and lessons from 2008 and continue to look to the future as markets renormalize.

While there is no guarantee on the timing of economic or market recovery, it is the Investment Committee's belief that several things can and should be done in the interim. At a minimum, investors should consider rebalancing back to their long-term target allocations. This process means, in most cases, that it may

be necessary to sell a portion of what has held up the best and buy what has recently underperformed. Understandably, investors may greet this proposal with a sense of anxiety. Even though it is not known when the stock market will turn, it will. And once it does, it is prudent that investors be positioned appropriately.

Based on the premise that a market recovery is nearly impossible to predict or time, we suggest investors take advantage of the benefits of dollar-cost averaging. In doing so, they could be better positioned to reap the rewards of a recovering market. The Investment Committee views this to be a good time to begin investing in asset classes based on recovery and not on continued losses. It does not mean the recovery will happen immediately or that losses won't continue, but rather that it is time to begin positioning portfolios for a recovery. This could prove to be a historic opportunity to deploy capital to areas of the market that may have been overvalued prior to 2008, yet have declined

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dramatically since. Because we believe some asset classes are undervalued, it's our belief that they stand to recover strongly once the markets return to a positive sentiment.

Similar steps mentioned are being taken by the AMS Investment Committee. The Committee is in the process of restructuring portfolios by deploying capital to asset classes believed to have the best long-term potential for investors. In addition, the Committee is enhancing the allocation process by working with Mercer Investment Consulting to establish more intermediate capital market assumptions to complement the long-term forward-

looking assumptions they currently provide.

When investing for the long term, good and bad markets will be encountered. It is important to learn from both and remain disciplined enough to stave off the urge to overreact and change a proven process. Adhering to a disciplined, diversified institutional investment approach, like the one employed by Asset Management Services, has proven to be more effective over the long-term across various market environments than more reactive investment tactics based on emotion and short-term market events.

- High-yield (below investment grade) bonds are not suitable for all investors.

- International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.

- Investing in small-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. •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.

This commentary reflects the thoughts and opinions of Raymond James Asset Management Services and is subject to change without notice. Presentations are for information purposes only and should not be construed as a recommendation regarding any security. Investing involves risk and you may incur a profit or a loss. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will be successful.

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.

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Raymond James & Associates, Inc. | Member New York Stock Exchange/SIPC

880 Carillon Parkway | St. Petersburg, FL 33716 | 800.248.8863

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