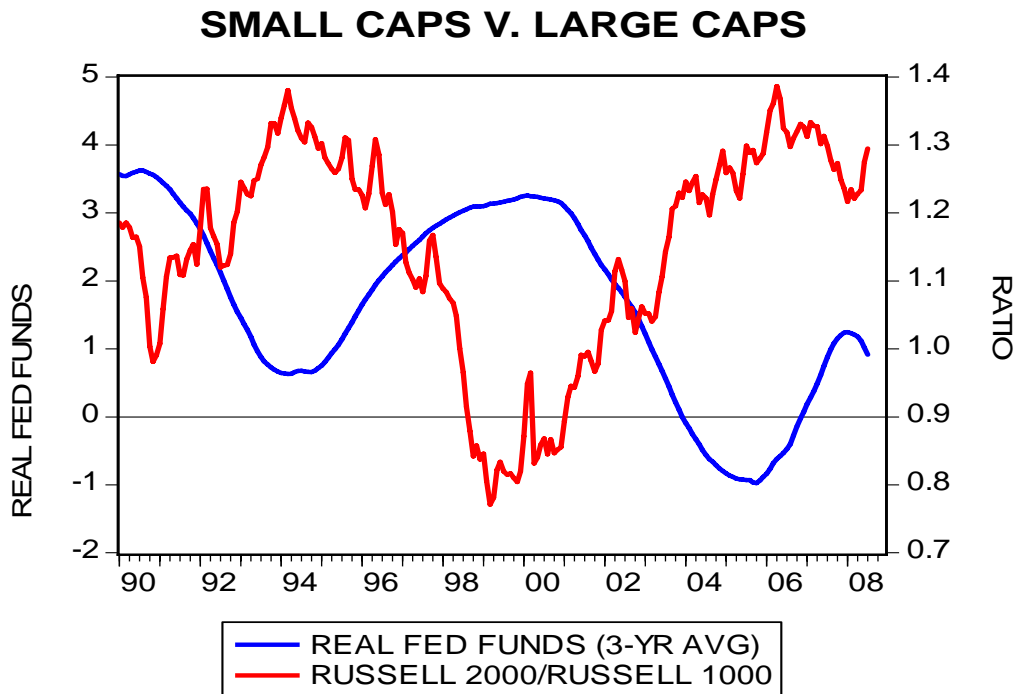


Tilting Toward Small Caps

- Small capitalization stocks have been performing relatively well. In comparing the Russell 2000 (small cap) to the Russell 1000 (large cap) the former has outperformed the latter by 8% year to date, with nearly all that relative gain coming since early July. In our tactical adjustments, we went from an underweight to an evenweight on July 14.
- Tighter credit usually works against small caps. The third quarter Federal Reserve Loan Officer Survey indicates that 65.3% of loan officers are indicating that they are tightening credit standards to small businesses. Usually when loan officers are reporting tighter standards, small caps underperform. That has not been the case thus far.
- There are three reasons why we believe small caps have been able to overcome the “drag” of tighter lending standards.
 - First, high oil prices appear to be shortening supply chains. There has been renewed interest in manufacturing items closer to distribution points due to increased transportation costs. This is likely why the ISM manufacturing index has remained near 50, a reading that suggests steady manufacturing activity. Usually in recessions, this number falls into the low 40's. Increasing manufacturing in the United States, to offset energy costs, is probably one reason that manufacturing data suggests the economy has avoided recession.
 - The second reason is likely tied to the rebounding dollar. Large companies tend to do more overseas business and benefit from a weaker dollar. Thus, a stronger dollar has the opposite effect. Although we don't expect the dollar's lift to actually affect large company earnings significantly in the short run, due to the long lags that currencies have on revenues and earnings, the equity markets have probably anticipated the impact of the rising dollar and moved to buy small caps.
 - Third, Federal Reserve rate cuts tend to boost relative performance of small caps and this relationship is our topic for the chart of the week.
- Due to the uncertainty surrounding the financial system and the economy, we want to maintain our tactical underweight in equities. However, due to our expectation of continued good performance from small caps, we want to overweight this sector. Thus, as we detail in our Asset Allocation table on page 3, we are further reducing our exposure in foreign developed equities and adding this allocation to small cap equities. The strong dollar should act as a headwind for foreign developed equities; we detailed this situation in the Mid-Year Outlook.

Please see pages 4-5 for important disclosures and definitions.

Chart of the Week:



*For illustrative purposes only. This does not reflect the performance of any specific investment.
Past performance is no guarantee of future results*

Sources: Haver Analytics, Federal Reserve, Wachovia Securities

In this chart, the relative performance of the Russell 2000 is compared to the Russell 1000, expressed as a ratio. When the line is rising, the Russell 2000 (representing small cap stocks) is outperforming the Russell 1000 (representing large cap stocks). The other line of the chart is the three-year moving average of inflation-adjusted fed funds.

As the chart indicates, there is an inverse relationship. When the general trend is for tighter monetary policy, seen by a rising real fed funds line, large caps tend to outperform. When monetary policy is easing, the opposite occurs. This is because small firms are more dependent upon outside funds and thus do better in a low interest rate environment.

The three year moving average suggests that the monetary policy impact on small caps works with a lag. Given that real fed funds turned negative in January, each month the moving average calculation will be trading a high reading for a low one, meaning the average will likely decline for the several more quarters. This would indicate the recent outperformance of small caps should persist for the next several quarters as well.

ASSET ALLOCATION MODELS

Tactical Tilt as of 9/2/2008 (last adjusted on 9/2/08)

| | | 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% | 9.0% | -1.0% | 26.0% | 25.0% | -1.0% | 46.0% | 45.0% | -1.0% |
| | Hi-yield | 7.0% | 6.0% | -1.0% | 18.0% | 17.0% | -1.0% | 30.0% | 29.0% | -1.0% |
| | Emerging Market Debt | 3.0% | 3.0% | | 8.0% | 8.0% | | 16.0% | 16.0% | |
| | REITs | | | | | | | | | |
| | COMMODITIES | | | | | | | | | |
| | STOCKS | | | | 15.0% | 13.0% | -2.0% | 20.0% | 18.0% | -2.0% |
| | LargeCap Value | | | | 10.0% | 8.0% | -2.0% | 10.0% | 8.0% | -2.0% |
| | Large Cap Growth | | | | | 2.0% | 2.0% | 5.0% | 7.0% | 2.0% |
| | 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% | 51.0% | 3.0% | 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% | 6.0% | -2.0% | 5.0% | 3.0% | -2.0% | 10.0% | 8.0% | -2.0% |
| | ALTERNATIVE INCOME | 14.0% | 13.0% | -1.0% | 21.0% | 20.0% | -1.0% | 21.0% | 20.0% | -1.0% |
| | 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% | 4.0% | | 6.0% | 6.0% | | 6.0% | 6.0% | |
| | REITs | | | | | | | | | |
| | COMMODITIES | | 0.0% | 0.0% | | 0.0% | 0.0% | | 0.0% | 0.0% |
| | STOCKS | 36.0% | 34.0% | -2.0% | 50.0% | 48.0% | -2.0% | 67.0% | 65.0% | -2.0% |
| | LargeCap Value | 20.0% | 20.0% | | 20.0% | 20.0% | | 20.0% | 20.0% | |
| | Large Cap Growth | 5.0% | 5.0% | 0.0% | 8.0% | 8.0% | 0.0% | 11.0% | 11.0% | 0.0% |
| | Mid Cap Blend | 3.0% | 3.0% | 0.0% | 6.0% | 6.0% | 0.0% | 13.0% | 13.0% | 0.0% |
| Small Cap Blend | 2.0% | 3.0% | 1.0% | 4.0% | 5.0% | 1.0% | 10.0% | 11.0% | 1.0% | |
| International | 5.0% | 2.0% | -3.0% | 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% | 40.0% | 5.0% | 15.0% | 20.0% | 5.0% | | 4.0% | 4.0% |
| | Short-term Inv Grade | 15.0% | 20.0% | 5.0% | 6.5% | 11.5% | 5.0% | | 4.0% | 4.0% |
| | Intermediate Inv Grade | 16.0% | 18.0% | 2.0% | 7.0% | 8.5% | 1.5% | | | |
| | Long-term Inv Grade | 4.0% | 2.0% | -2.0% | 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% | 0.0% | -2.0% | 3.0% | 1.0% | -2.0% | 3.0% | 1.0% | -2.0% |
| | STOCKS | 58.0% | 56.0% | -2.0% | 77.0% | 75.0% | -2.0% | 95.0% | 93.0% | -2.0% |
| | LargeCap Value | 11.5% | 11.5% | | 13.0% | 13.0% | | 16.5% | 16.5% | |
| | Large Cap Growth | 13.5% | 13.5% | 0.0% | 15.0% | 15.0% | 0.0% | 17.5% | 17.5% | 0.0% |
| | 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% | 4.5% | 0.0% | 7.0% | 7.0% | 0.0% | 9.0% | 9.0% | 0.0% | |
| 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% | 3.5% | 0.5% | 5.5% | 6.0% | 0.5% | 7.0% | 7.5% | 0.5% | |
| 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 3 years.

Intermediate Term Fixed Income: Fixed Income instruments that mature in 3 to 10 years.

Long Term Fixed Income: Fixed Income instruments whose maturities are longer than 10 years.

High Yield: Non-investment grade fixed income securities (rated Ba1 or lower by Moody's and/or BB+ or lower by S&P). *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.*

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 share 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 \$1.87 - \$8 billion and a price-to-book ratio greater than 3.3.

Mid-Cap Value: Stocks that have a market cap between \$1.87 - \$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 \$1.87 billion and a price-to-book ratio greater than 3.3.

Small-Cap Value: Stocks that have a market cap less than \$1.87 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 commodity based investments 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.

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.

Bill O'Grady

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 S&P 500 is an unmanaged, weighted index of 500 stocks providing a broad indicator of price movement. The Russell 1000 Index consists of the 1,000 largest securities in the Russell 3000 Index. This large capitalization (market-oriented) index represents the universe of stocks from which most active money managers typically select. The Russell 1000 is highly correlated with the S&P 500 Index. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The Russell 2000 Index consists of the smallest 2,000 securities in the Russell 3000 Index. This is the Frank Russell Company's small capitalization index that is widely regarded in the industry as the premier measure of small capitalization stocks. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization. The Reuters-CRB Continuous Commodity Index is an unweighted geometric average of 17 individual commodity prices. Individual investors cannot directly purchase an index. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that these movements or trends can or will be duplicated in the future.

Additional Information Available Upon Request

Wachovia Securities is the trade name used by two separate, registered broker-dealers and nonbank affiliates of Wachovia Corporation providing certain retail securities brokerage services: Wachovia Securities, LLC, Member NYSE/SIPC, and Wachovia Securities Financial Network, LLC, Member FINRA/SIPC 0808-97264

| 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 |