

Portfolio Navigator.... June 2, 2008

	<u>Fundamental</u>	<u>Valuation</u>	<u>Technical</u>	<u>S&P Weight</u>	<u>Recommended Weight</u>	<u>25 Stock Portfolio</u>	<u>Comments</u>	<u>ETFs</u>	<u>Best Ideas</u>	<u>Stocks</u>
Financials				17%	12%	3	Credit bubble: 'first shoe' to drop; U.S. recession may be 'second'. Favor industries with transparency, reasonable valuations, and likely to benefit from Fed cuts. Traditional banking and insurance fit best. Avoid 'financial-supermarkets' due to lack of transparency. Also, consider moving up capital structure to bank preferreds.	Powershares Preferred Port (PGX-A-\$19.22)		Aflac (AFL-N-\$67.03); US Bancorp (USB-N-\$33.17), Nasdaq (NDAQ-O-\$35.03)
Banks/Div. Financial	Neg	In-Line	Neut	8%	5%	1				
Insurance	Neut	In-Line	Neg	4%	3%	1				
Cap. Mkts	Neut	Below	Neg	4%	4%	1				
REITs	Neg	In-Line	Neut	1%	0%	0				
Technology				16%	18%	5	Technology is becoming a leader again for good reason. The tech sector is less reliant on bank lending, so their growth has not been hampered by the 'credit crisis'. They are only minimally affected by rising commodity prices. And, falling real estate prices in tech hotbeds, should put less upward pressure on wages.	iShares Software (IGV-N-\$51.73)		Factset Data Systems (FDS-O-\$64.52); Citrix Systems (CTXS-O-\$34.23), IBM (IBM-N-\$129.42); Texas Instruments (TXN-N-\$32.5)
Computer Hardware	Neut	In-Line	Neut	4%	3%	1				
Software & Services	Pos	In-Line	Pos	4%	6%	2				
Semiconductors	Pos	In-Line	Pos	3%	4%	1				
Networking	Neut	In-Line	Neut	3%	3%	1				
Internet	Neg	In-Line	Pos	2%	2%	0				
Energy				13%	17%	4	Valuations of drilling and service companies are most compelling, having lagged in recent months. Integrated also cheap with many trading at summer '07 prices despite doubling of oil prices.	SPDR Oil Service (XES-A-\$48.38)		Schlumberger (SLB-N-\$101.04); BJ Services (BJS-N-\$30.15)
Integrated/E&P's	Pos	In-line	Pos	10%	12%	2				
Equipment & Services	Pos	Above	Pos	3%	5%	2				
Healthcare				12%	12%	3	Big pharma accounts for over half of the sector...this figure is down from 75-80% level of a decade ago but we believe it can fall further. Medical device companies represent less than 20% of sector and have none of the patent expiration or political issues plaguing the drugs. Biotech also attractive riding strength in technology.	iShares Med Device (IHI-N-\$58.47), SPDR Biotech (XBI-N-\$59.95)		Express Scripts (ESRX-O-\$72.11); Wyeth (WYE-N-\$44.48)
Pharmaceuticals	Neut	In-Line	Neg	6%	4%	1				
Healthcare Equipment	Pos	Below	Neut	3%	5%	1				
Healthcare Services	Neut	Below	Neg	2%	0%	0				
Biotech	Pos	In-Line	Pos	1%	3%	1				
Industrials				12%	13%	3	Industrials have benefitted from the globe's immunity to U.S. weakness. However, few industrial stocks incorporate a 'recession-discount' and group is vulnerable if recession fears return. Defense has historically been less economically sensitive and should remain in favor with escalating oil prices fueling global unrest.	iShares Aero/Def (ITA-N-\$64.77)		Caterpillar (CAT-N-\$82.77); L-3 Comm. (LLL-N-\$107.39), United Tech (UTX-N-\$71.04)
Conglomerates	Pos	Above	Neg	4%	3%	1				
Aerospace & Defense	Pos	Below	Neut	3%	5%	1				
Transport	Neg	Above	Pos	3%	2%	0				
Machinery	Neut	In-Line	Pos	2%	3%	1				
Consumer Staples				10%	14%	3	With the economy not yet 'out of the woods' we view the staples group as a necessary ballast to every portfolio. We prefer the personal care segment where growth is the greatest.	Vanguard Staples (VDC-A-\$51.56)		Proctor & Gamble (PG-N-\$66.05); Church & Dwight (CHD-N-\$56.83)
Food & Beverage	Neut	Below	Neg	4%	5%	1				
Food & Staple Retailing	Pos	In-line	Pos	3%	4%	1				
Houshd. Product/Pers. Care	Pos	Below	Neut	3%	5%	1				
Consumer Discretionary				9%	6%	2	Avoid those areas that either represent the most discretionary spending (autos, restaurants, hotels), or are the least differentiated (multi-line retail, apparel). Media shows some promise... valuations cheap and catalysts like the Olympics and the election are on the horizon.	Powershares Media (PBS-A-\$14.00)		Jcrew (JCG-N-\$37.27); McDonalds (MCD-N-\$59.32)
Retail	Neg	In-line	Neut	3%	2%	1				
Media	Pos	In-line	Neut	3%	4%	1				
Leisure & Entertainment	Neg	In-line	Neg	2%	0%	0				
Homebuilding	Neg	In-line	Neg	1%	0%	0				
Utilities				4%	4%	1	With the threat of Recession looming, interest rates should stay low keeping a floor on utility stocks. Recommend at least a 'market weight' and would be comfortable with a 'slight overweight'.	Vanguard Utilities (VPU-A-\$85.69)		Dominion (D-N-\$46.30)
Electric Utilities	Pos	In-Line	Neut	4%	4%	1				
Materials				4%	3%	1	We prefer Metals and Mining stocks. Avoid shares of chemical companies since they are most at risk to rising energy costs.	Vanguard Materials (VAW-N-\$95.18)		Southern Corp. (PCU-N-\$110.23); Praxair (PX-N-\$94.96)
Chemicals	Neg	Above	Neg	2%	0%	0				
Precious Metals	Pos	Above	Neg	1%	0%	0				
Metals	Pos	Above	Pos	1%	3%	1				
Telecommunications Services				3%	1%	0	Telco trades at a 2 multiple point discount to utes, which we believe is reasonable and unlikely to change in near-term. Favor the large integrated service companies over pure-play wireless peers.	None		None
Wireline Services	Neg	In-Line	Neg	3%	1%	0				
				100%	100%	25				

Riverfront Investment Group owns shares of PGX, AFL, USB, NDAQ, IGV, FDS, CTXS, IBM, TXN, XES, SLB, BJS, IHI, XBI, ESRX, ITA, CAT, LLL, UTX, VDC, PG, CHD, JCG, MCD, VPU, D, VAW, PCU and PX

Playbook Explained

	Fundamental	Valuation	Technical	S&P Weight	Recommended Weight	25 Stock Portfolio	Comments	ETFs	Best Ideas	Stocks
Technology				16%	15%	3				
Computer Hardware	Neut	In-Line	Neg	4%	3%	0	Semiconductors likely to bounce but we do not believe it is a long-term investment opportunity. We continue to favor software over semis/hardware/networking due to their more predictable earnings.	iShares Software (IGV)		Microsoft (MSFT); Citrix Systems (CTXS)
Software & Services	Pos	In-Line	Neut	4%	6%	2				
Semiconductors	Pos	In-Line	Pos	3%	3%	0				
Networking	Neut	In-Line	Neg	3%	2%	1				
Internet	Neg	In-Line	Pos	2%	1%	0				

Our Fundamental View combines our long-term industry outlook with our shorter-term (6-month) cyclical outlook and expectations around potential catalysts.

For example: Industries where our long-term bias is negative, like semiconductors, we may raise our ratings to neutral if significant near-term catalysts exist. However, we would be unlikely to ever move our rating to Positive.

Our valuation rating is determined by measuring the sub-sectors price, Price/Earnings and Price/Cashflow ratios relative to the S&P 500. 'Above' ratings are given to sub-sectors trading one-standard deviation or more above their normal range and a rating of 'Below' is given to those one-standard deviation or more below.

Our technical rating is based on the long-term technical trend of the sub-sector. There are three ratings: 'Negative', 'Neutral', or 'Positive'.

We use a 'weight of evidence' approach to determine our recommended weightings. Sub-sectors with favorable fundamental, valuation and technical ratings are overweighted relative to the S&P and vice-versa.

In a 25 stock portfolio, we would allocate 3 positions to Technology... 2 to Software, 1 to Networking

Our advice can be implemented multiple ways. In these two columns we provide ideas for the ETF investor and for those building a traditional stock portfolio.

The specific securities identified do not represent all of the securities purchased, sold or recommended for client portfolios. Other securities mentioned may be considered by Riverfront Investment Group for purchase or sale in client portfolios in the future. Riverfront owns shares of GE in its discretionary Portfolios. The opinions expressed are current as of the date shown and are subject to change. They are not intended to be investment recommendations. Past performance is no guarantee of future results.