

Traders Notes for April 24th 2008

Prepared by;

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Financials.... Another Leg Down Has Begun

We believe more write-downs are on the horizon

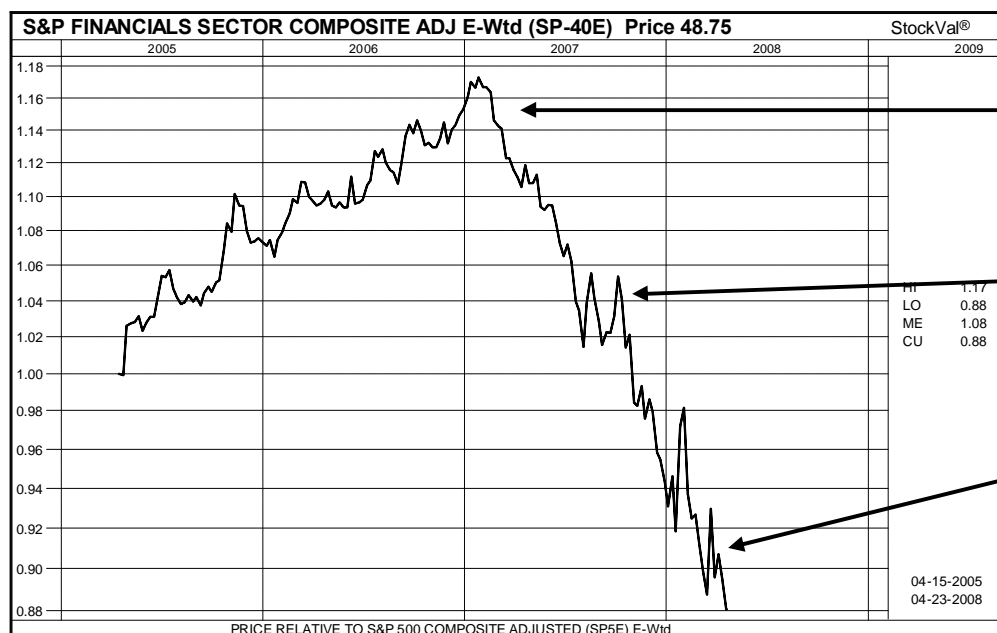
Michael Jones, Riverfront's Chief Investment Officer, warns that the credit crunch is not over, and a second round of bank write-downs is likely as the U.S. economy enters Recession. The first round of write-downs involved 'stupid underwriting' and, in our opinion, the banks have already served the majority of their penance on that charge. However, the second round based on a weakening economy, may be just as significant and we believe not yet fully discounted into earnings estimates or share prices.

Michael's full commentary can be viewed in his most recent *Strategic View* publication:

<http://www.riverfrontig.com/pdfs/strategic/SV042108.pdf>

The recent relative break-down by the financial sector endorses our forecast

From a fundamental perspective, we have high conviction in our belief that the virus affecting financial stocks has not yet been cured. We are becoming even more convinced that we are 'on the right track' when we watch the relative price action of the sector. The chart below shows the performance of the equally weighted S&P financial sector relative to the market. From the chart, one can see that technical break-downs over the past 12-months have served as important signals warning investors to trim their exposures. We believe the latest break-down is another important signal that should be heeded and send investors to the sidelines.



3/9/07: Relative Break-down led to 13% relative underperformance

10/26/07: Relative Break-down led to 10% relative underperformance

4/11/08: Relative Break-down signaling another major down-leg?

Charts Courtesy StockVal

Bottom Line: In our opinion, financials remain in a bear market and the bear market bounce they experienced in the first quarter is now over. We recommend investors position their portfolios to benefit from weakness in the financial sector. For most investors, this means underweighting the group in aggregate by 300-500bps. Additionally, we are less concerned about being whipsawed by an underweight because we believe future Fed rate cuts will be less potent as the reality of the true depth of this crisis sets in. In our recently published *Portfolio Navigator* we provided a game-plan for approaching the financial sector.

Positioning Strategy: We recommend a 12-14% financial weighting, well below the 17% the group represents within the S&P 500. Within financials we recommend underweight positions in banks, REITs and capital markets stocks. We would have a small overweight to the Insurance sub-sector.

Names we would continue to hold include: Aflac (AFL-N-\$65.08), US Bancorp (USB-N-\$33.42) and Nasdaq (NDAQ-O-\$37.37)

The full *Portfolio Navigator* Publication can be viewed:

<http://www.riverfrontig.com/pdfs/equity/Gameplan%20for%20April%2008.pdf>

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