

# JANNEY UPDATE

## PRESIDENT'S MESSAGE TO CLIENTS

The summer season is often a time to refresh and relax. It may also offer a valuable opportunity to consider—and revisit—your financial goals, investment portfolio and overall financial plan before the busy fall season arrives. At Janney, we are always here to assist you with solutions-based advice—now or whenever it is convenient for you.

Our conversation with you, our clients, is what matters most to us. We seek to understand what is important to you; then build a plan to help accomplish that—whether for your retirement years, current financial needs, education, or wealth transfer objectives. We pride ourselves on offering comprehensive advice delivered through a thoughtful process of dialogue and planning. By completing a financial plan with your Financial Advisor, supported by our Wealth Planning specialists, you can gain a clearer picture of your future. You may gain the peace of mind of knowing that your plan is on track—or have an opportunity to take action today to help achieve your goals tomorrow. Either way, talking to your Financial Advisor about a new or refreshed financial, investment, estate or retirement income plan can be a timely and critical step in meeting your future financial goals.

As noted by Mark Luschini, our Chief Investment Strategist, in his enclosed *Economic Outlook*, the U.S. economy has experienced some comparatively softer conditions in recent weeks. We believe that some of the weakness has been contributed by transitory events that, upon passing, should allow for improving economic activity in the year's second half. Although the equity markets have been a bit unsettled as a result, corporate profitability remains healthy and global growth is still intact. I suggest you take a moment to review Mark's perspective on the economy included here as well as the commentary from all of our strategists available from your Financial Advisor and on our web site, [www.janney.com](http://www.janney.com).

As economic and financial market conditions change, it is helpful to remain focused on what you can control—and manage risk and investment opportunity through diversification and wise investing choices—while consulting regularly with your Financial Advisor to ensure your portfolio best addresses your current goals and financial market opportunities. Janney continually enhances and expands its investment platform and solutions, and as a result, a conversation with your Financial Advisor may inform you of new and beneficial choices available to you today. Janney offers a wide range of professionally-managed investment accounts, alternative investments, fixed income and equity securities, annuities and other solutions that can assist you in further diversifying your portfolio and moving toward your financial objectives, as appropriate given your needs.

Finally, Janney is able to remain focused on providing the best solutions and service for our clients because of our stability for nearly 180 years—and in large part due to the consistent support and strength of our parent company, The Penn Mutual Life Insurance Company. Penn Mutual continues to be a steadfast partner with healthy insurance ratings as recently reaffirmed in May 2011 with an A+ (Superior) rating from A.M. Best. We value the support of Penn Mutual as a key factor in our current and future operating stability and strength.

As we navigate the economic and legislative changes of 2011, we remain committed to guiding our Private Client and Capital Markets clients toward the achievement of their specific goals, through integrated and sophisticated service, advice and insights. Thank you for your continued relationship and support. Enjoy the remainder of your summer. ■

Sincerely,



Timothy C. Scheve  
*President and Chief Executive Officer*

### CONTENTS

- 2. Annual Disclosure Statement to Accounts Approved for Margin
- 4. Economic Outlook
- 4. Account Fees
- 4. Account Information Verification

THE HIGHEST STANDARD OF SUCCESS  
IN FINANCIAL RELATIONSHIPS

WWW.JANNEY.COM • © 2011 JANNEY MONTGOMERY SCOTT LLC  
MEMBER: NYSE, FINRA, SIPC • JUNE 2011 • JANNEY UPDATE • PAGE 1

**Janney**  
Trusted Advisors for Generations

# ANNUAL DISCLOSURE STATEMENT TO ACCOUNTS APPROVED FOR MARGIN

Janney is providing this disclosure to inform you of some basic facts about purchasing securities on margin and to alert you of the risks involved with trading securities in a margin account. Before trading securities in a margin account, you should carefully review the margin agreement provided by Janney. Consult your Financial Advisor or contact Janney regarding any questions or concerns you may have with your margin account(s).

When you purchase qualified securities, you may pay for the securities in full or you may borrow part of the purchase price from Janney. If you choose to borrow funds, you must open a margin account. The securities purchased, as well as other securities in your margin account, are Janney's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, we can take action, such as issuing a margin call and/or selling securities or other assets in any of your accounts held at Janney in order to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

**You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to Janney to avoid the forced sale of those securities or other securities or assets in your account(s).

**Janney can force the sale of securities or other assets in your account(s).** If the equity in your account falls below the maintenance margin requirements or Janney's higher "house" requirements, the firm can sell the securities or other assets in any of your accounts held at Janney to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.

**Janney can sell your securities or other assets without contacting you.** Some investors mistakenly believe that a firm must contact them for a margin call to be valid and that the firm cannot liquidate securities or other assets in their accounts to meet the call unless the firm has contacted them first. This is not the case. Janney will attempt to notify our clients of margin calls, but we are not required to do so. However, even if Janney has contacted a client and provided a specific date by which the client can meet a margin call, we can still take necessary steps to protect our financial interests, including immediately selling the securities without notice to the client.

**You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.** Because the securities are collateral for the margin loan, Janney has the right to decide which security to sell in order to protect our interests.

Janney can increase "house" maintenance margin requirements at any time, and we are not required to provide you with advance written notice. These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause Janney to liquidate or sell securities in your account(s).

You are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to clients under certain conditions, you do not have a right to the extension.

Janney is required to send clients with margin accounts the preceding information on an annual basis. We believe the following additional information will assist our clients in understanding the various aspects of margin borrowing, especially the risks.

## How Does Margin Work?

When you use margin, you are employing leverage—using borrowed money to fund the purchase of investments. However, leverage is a double-edged sword. When the price of a margined security declines, leverage will increase the risk of loss. Consider an example:

	Using Cash Only	Using Margin
Value of Purchase	\$10,000	\$10,000
Investor's Cash Payment	\$10,000	\$5,000
Margin Loan from Janney	0	\$5,000
<b>Assume Value Increase of \$1,000</b>		
New Value	\$11,000	\$11,000
Profit	\$1,000	\$1,000
Cash Investment	\$10,000	\$5,000
Return on Investment	10%	20%
<b>Assume Value Decrease of \$1,000</b>		
New Value	\$9,000	\$9,000
Loss	\$1,000	\$1,000
Cash Investment	\$10,000	\$5,000
Return on Investment	-10%	-20%

The example shows that an investor who makes a cash purchase either loses or gains 10%, while the margined investor loses or gains 20%. For this reason, investors who employ margin usually have a more aggressive approach to investing with a willingness to take larger risk. Investors who use margin will also be charged interest on the borrowed amount, as explained in the section titled "Margin Interest." Before choosing to invest using margin, you should consult your Janney Financial Advisor to determine if the risk is appropriate for your investment objectives and tolerance for risk.

## Initial Margin Requirements and Maintenance Requirement

The initial margin requirement is the percentage amount required as initial equity from the investor. Federal Reserve Board Regulation T establishes a minimum equity value for margin transactions. For most equity securities, which meet standards as defined in the regulation, this requirement is 50%—the investor must have 50% of the security’s value on deposit. Some securities, including many U.S. Treasury issues, have lower margin requirements. Your Janney Financial Advisor can provide further information upon request.

When an investor borrows on margin, there is an ongoing minimum equity requirement called the maintenance requirement, usually 30%. In some cases, Janney may have a “house” requirement that is above 30%. For example, Janney has a maintenance requirement of 75% on certain stocks and 100% on others (100% means these securities are not eligible for margin). As another example, when a stock’s price falls below \$4 per share, Janney applies a 100% maintenance requirement.

If the value of the securities in a margin account falls so that the equity is below the maintenance requirement, a margin call will be issued requiring the client to deposit cash or securities into the margin account to bring the equity value up to the required maintenance level. As noted earlier, Janney can change maintenance requirements at any time without prior notification.

Consider the table below showing a decline in value. The example assumes that the maintenance level on all securities in the account is 30%. When the value of the securities in the account falls below \$7,000, the equity falls below 30%, which will trigger a margin call.

Impact of Decrease in Value				
Account Value	\$10,000	\$9,000	\$8,000	\$7,000
Margin Loan	\$5,000	\$5,000	\$5,000	\$5,000
Equity (value minus loan)	\$5,000	\$4,000	\$3,000	\$2,000
Equity Percent (equity divided by value)	50%	44%	38%	29%

When equity falls below the maintenance requirement, and a margin call is issued, Janney will try to contact the client. As noted in the required disclosures listed in the beginning of this document, however, Janney can sell securities to meet a margin call at any time, without notice. Janney can also change the maintenance requirements at any time without prior notification.

## Margin Interest

Janney will charge interest to margin accounts based on the Janney Base Rate. The Janney Base Rate is an internally calculated rate established by Janney that changes from time to time, based on Janney’s cost of funds and Janney’s assessment of the rates charged in the financial markets.

The interest rate you will be charged for borrowing on margin will increase or decrease as the Janney Base Rate increases or decreases. The Janney Base Rate is published on Janney’s web site and is subject to change without prior notice to you. We encourage you to check our site frequently to be sure you are aware of the current Base Rate at all times. The Janney Base Rate as of June 15, 2011 is 6.50%.

To determine your margin account’s interest rate, we will use the following schedule, which reflects the annual interest rate being charged on all margin loan balances as of June 15, 2011:

If the Debit Balance is:	Percentage of Interest Charged:
Less than \$25,000	Janney Base Rate Plus 2.625%
Between \$25,000 & \$49,999	Janney Base Rate Plus 2.00%
Between \$50,000 & \$99,999	Janney Base Rate Plus 1.50%
Between \$100,000 & \$249,999	Janney Base Rate Plus 1.00%
Between \$250,000 & \$499,999	Janney Base Rate Plus 0.75%
Between \$500,000 & \$999,999	Janney Base Rate Plus 0.50%
Between \$1,000,000 & Up	Janney Base Rate Plus 0.25%

For example, a margin client with a debit balance or margin loan of \$300,000 will pay an interest rate of 7.25%. As the Janney Base Rate changes, so does the rate charged to the margin borrower. If you have any questions, please contact your Janney Financial Advisor.

## Conclusion

While investors who use margin may increase the profit potential of investing, there are significant risks to margin borrowing which should be understood before embarking on a margin strategy. Your Janney Financial Advisor can provide you with further information and help guide you in making good investment decisions. For more information on margin borrowing, there are several web sites with valuable information, including:

- Securities and Exchange Commission  
<http://www.sec.gov/investor/pubs/margin.htm>
- Financial Industry Regulatory Authority  
<http://www.finra.org>

As always, we welcome any comments or questions. Please contact your Janney Financial Advisor or write to us at:

Margin Department/Disclosure Information  
Janney Montgomery Scott LLC  
1801 Market Street • Philadelphia, PA 19103 ■

Mark Luschini, Chief Investment Strategist

The financial markets have spent the better part of May and June digesting a swath of mushy economic data. While indicators still point to the two year old expansion continuing, it is the recent moderation in the pace of it that has been disappointing. The derisking process by market participants that has been underway is a manifestation of concerns that this slowdown may not be transitory. We hold that it will pass, but the transition will create some turbulence.

After nonfarm payroll job growth was tracking on a 220,000 per month basis, the Bureau of Labor Statistics reported that just 54,000 new jobs were created in May. As we have stated before, the key to a self-sustaining economy is job growth. It not only stokes spending from the newly employed; it also emboldens those already holding a job to be more confident—which leads to continued if not increased consumption. With the consumer driving 70% of our country's economic activity, the confidence to buy a house, go out to eat, buy a shirt or car, etc. is a necessary ingredient usually found in a strengthening job market.

Improving financial markets help on that front. Household net worth has increased because stock prices have roughly doubled in the last two and one-quarter years. Home prices, on the other hand, have so far failed to respond—with values recently trending lower after initially stabilizing. The housing market has begun to offer some faint sign of light that could lead to some improvement in prices later in the year if job growth gets back on track. With mortgage rates at five decade lows and prices that offer a buyer an entrée at levels last seen almost a decade ago, residential real estate offers a compelling investment opportunity.

It is difficult to ascertain the precise contribution exogenous events, such as the first quarter's spike in oil prices, the Japanese tragedy, and the unsettled weather conditions, made to slow the economy's inertia so far this year. We suspect it was not inconsequential, and therefore expect the pace of activity to quicken over the next several quarters. High unemployment, fiscal imbalances and problems occurring away from our shores which nonetheless have global repercussions are among the risks we are mindful of in making assertions about the capital markets.

Market participants have been discounting equity prices as concerns over the economic soft patch have risen. And yet, profit growth remains healthy and corporate America is in great shape. From an asset allocation standpoint, high quality companies that offer rich dividends continue to present a compelling choice for both growth of capital and income. Global growth remains intact, and the economy should muddle through this period without endangering the expansion. This means income-producing investments, including dividend-paying stocks and corporate and municipal bonds, should be preferred as long as there is little chance much higher yields will be found in government bonds or cash equivalents anytime soon. ■

### Janney Montgomery Scott LLC

1801 Market Street, Philadelphia, PA 19103 • 1.800.JANNEYS • www.janney.com

This information is for informative purposes only and in no event should be construed as a representation by us or as an offer to sell, or solicitation of an offer to buy any securities. Neither Janney Montgomery Scott LLC nor its Financial Advisors are tax advisors. Please consult your tax advisor before implementing any tax-related strategies mentioned in this publication. The information given herein is taken from sources that we believe to be reliable, but is not guaranteed by us as to accuracy or completeness. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors.

### Important Information about Account Service Charges

Janney offers a variety of account types and services which may have associated charges and/or fees. You may request a Schedule of Account Service Charges from your Financial Advisor or you can view our full Schedule of Account Service Charges at any time on our web site at [www.janney.com/accountservicecharges](http://www.janney.com/accountservicecharges). The information provided below supersedes any prior pricing information and is subject to change upon notice.

The following changes are effective August 19, 2011:

- The Inactive Account Service Fee of \$95.00 will be eliminated.
- An Account Maintenance Fee of \$125.00 will be charged annually (in December) to certain accounts in households with values less than \$50,000 (*specific criteria and exceptions apply; visit [www.janney.com/accountservicecharges](http://www.janney.com/accountservicecharges) to view our complete Schedule of Account Service Charges, see application and exception criteria*).

If you have any questions, please contact your Financial Advisor. ■

### ACCOUNT INFORMATION VERIFICATION

Janney is required by the Securities and Exchange Commission (SEC) to verify certain account information such as client name, address, investment objective, income and net worth—to help keep our records up-to-date.

Please review the account information provided on an additional page that has been added to your enclosed, June 2011 statement, make any necessary changes and return the updated form to the Janney New Accounts Department at the address provided. If your information is correct, you are not required to send the form back. If you have any questions, please contact your Financial Advisor. ■

THE HIGHEST STANDARD OF SUCCESS  
IN FINANCIAL RELATIONSHIPS

WWW.JANNEY.COM • © 2011 JANNEY MONTGOMERY SCOTT LLC  
MEMBER: NYSE, FINRA, SIPC • JUNE 2011 • JANNEY UPDATE • PAGE 4

