



# JANNEY UPDATE

## PRESIDENT'S MESSAGE TO CLIENTS

History is a great teacher. The basic lessons the markets have taught all of us over the years are consistent ones—the value of portfolio diversification to manage risk and return, remaining focused on the longer-term plan, making prudent adjustments while staying the course, capitalizing upon opportunities, and, most importantly, ensuring frequent communication between our advisors and our clients.

As we enter the fourth quarter of the year, we have used what we've learned from history to pragmatically address market volatility and uncertainty. At the same time, we've made strategic investments to build and strengthen our platform for the future. We are expanding our investment platform of solutions to address more sophisticated investor needs. Our approach remains to act nimbly while providing you the security and stability in your relationship with us as a Firm and as stewards of your wealth.

As markets have been volatile in recent months, this is a good time to review your portfolio and investment strategy—as well as your financial or business plan—with your Financial Advisor. I encourage you to read the enclosed article on investing in volatile times, which offers specific insights and strategies you can consider in 2011 and future years. I also encourage you to read the enclosed Economic Outlook from Mark Luschini, our Chief Investment Strategist. As a reminder, our Strategist commentary and other insights are always available to you at [www.janney.com](http://www.janney.com).

As Mark indicates in his Economic Outlook, lackluster conditions in the U.S. economy, along with continuing concerns about the European sovereign debt crisis, have been the primary issues weighing on the financial markets. While the risks of a recession have risen, and default by fiscally-challenged countries in the European Community cannot be ruled out, global growth is expected to continue to be led by the emerging countries from Asia to Latin America. That should exert a positive influence on our

country's economy as well as those of other developed markets struggling to avert a contraction in economic activity. As noted, equity markets have been turbulent, reflecting the headlines from Washington to Brussels on policy makers' efforts to promote constructive solutions for the fiscal and economic challenges we face today. While markets will likely remain unsettled until there is more certainty of the success of these efforts, it is important to remain focused on the long-term, ensure adequate diversification and refrain from abandoning strategies designed to achieve your long-term goals.

We're pleased to inform you of two recent accolades. First, on September 17, 2011, Janney was named to *Barron's* list of Top 40 Wealth Management Firms in America. We're proud to be recognized by *Barron's* as we continue our dedication to comprehensive investment and financial management. Second, our Parker/Hunter Asset Management division received the highest PSN "Top Guns" ratings for two investment strategies for periods ended June 30, 2011—as well as a PSN Top 10 Manager of the Decade rating for December 31, 2010. The PSN database is comprised of 2,000 investment managers and more than 20,000 investment products. Parker/Hunter's All Cap Core Equity Strategy received the December, 2010 Top 10 Manager of the Decade rating, while its Equity Income and Active Index Strategies received five and six star Top Guns ratings, respectively, for periods ended June 30, 2011.

As we move towards year-end 2011, Janney remains focused on delivering the best advice, service and resources needed to assist you in achieving your financial goals. All of us at Janney thank you for your continued relationship and trust. ■

Sincerely,



Timothy C. Scheve  
*President and Chief Executive Officer*

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# INVESTING IN VOLATILE TIMES

When markets are volatile—as they have been in recent months—it can be challenging to be an investor. Volatile market conditions can make it hard to focus on investing for the future—and cause us to think short-term rather than long-term. If you have these concerns, you are not alone. Yet volatile market conditions can be managed for the best long-term result—by talking with your Financial Advisor to determine the appropriate course of action.

## INVESTOR BEHAVIOR IN VOLATILE MARKETS

The field of Behavioral Finance analyzes investor behavior—and has found that volatile times may cause investors to move “together” to sell investments—through group dynamics. Yet often, a market will quickly reverse course. As a result, investors can make decisions that are not optimal for long-term investment performance. Recent studies have found that emotional trading can potentially cost investors up to 20% or more in returns over a decade.<sup>1</sup>

<sup>1</sup> Source: Barclays Wealth Management/Cass Business School and Dalbar.

## WHAT ACTION CAN AN INVESTOR TAKE?

Here are some approaches to dealing with volatile markets that you may find helpful.

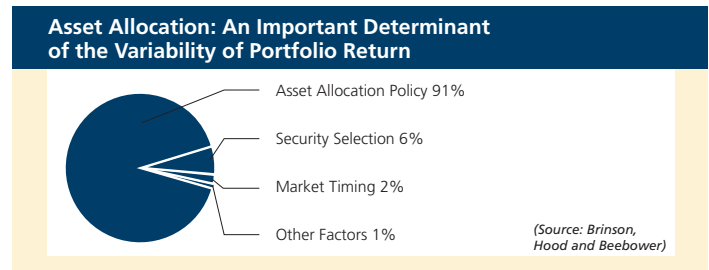
### Talk With Your Financial Advisor

In volatile markets, your Janney Financial Advisor can play an important role in helping you to put market events into perspective. Using historical data, your Financial Advisor can review where we are in the current economic cycle and how this market may—or may not—compare to markets of the past. Together, you can discuss market conditions and refine your long-term investment strategy as needed.

### Revisit Your Asset Allocation in Light of Future Goals and the Current Market Environment

Asset allocation (the percentage mix of stocks, bonds and other investments in your portfolio) accounts for

over 90% of the variation in return of an investment portfolio (Brinson, Hood and Beebower). It may be the most important aspect of your portfolio to evaluate. Your Financial Advisor can help you take a fresh look at your asset allocation given your risk tolerance, future goals, and current market conditions.



### Keep the Long-Term In View

Stock markets are cyclical, and have risen and fallen dramatically over the years—through both bull and bear market cycles. Often, large increases in value follow major downturns—and the upside move can be short-lived and dramatic. While it may be challenging to “stay the course,” historical data shows that over the long-term, having some allocation to the equity markets makes sense for most investors.

### Don't Try to Time the Market

While it may be tempting to sell investments for cash when markets are declining, timing the market is not a strategy that works well. A study of performance from December 31, 1996 to December 31, 2006 found that:

- Investors who stayed invested achieved an average return of 8.42%
- Investors who missed the best five days during the period had a lower return, of only 5.67%
- Investors who missed the top 10 days had a return of only 3.42%
- Investors who missed the top 20 days had a negative return, of -0.36%.

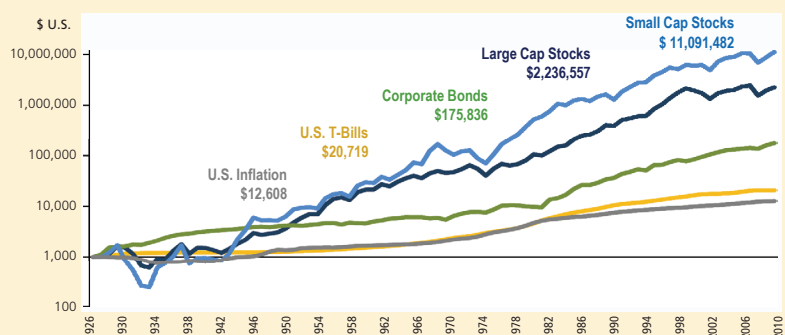
Source: Standard & Poor's

## Historical Growth of Investments: 1926–2010 (Based on a \$1,000 Investment in 1926)

Value of \$1,000 in 2010 (invested in 1926)	
Small Cap Stocks	\$11,091,482
Large Cap Stocks	\$2,236,557
Corporate Bonds	\$175,836
U.S. T-Bills	\$20,719
U.S. Inflation	\$12,608

(Source: Janney ISG, Bloomberg, Barclays, Standard and Poor's, Russell and BEA)

Past performance is not a guarantee of future results, and investor returns may vary.



## Review and Reevaluate Your Holdings

Ask your Financial Advisor to review your holdings and overall portfolio. It is important to understand why you hold your investments and how changing market conditions may affect them. You may find that you are comfortable with the assets and areas of the market in which you are invested—or, you can make adjustments in your portfolio, working with your advisor.

Topics for discussion may include:

- Your asset allocation and sector weightings – Are the mix of stocks, bonds and other investments in your portfolio ideal for your goals and in these markets?
- The quality of the investments you hold – Are you comfortable with the credit ratings and other fundamental characteristics of your investments?
- Your risk tolerance – Is your portfolio still aligned with your goals and comfort level? Should any adjustments be made?

## Complete a Financial Plan

When markets are volatile, you may be even more interested in the answers that a new or updated financial plan can offer you. Your Financial Advisor can help you to determine when you may be able to retire and how your assets may last in retirement, how you can transfer wealth, and how to position your investments for the future.

## STRATEGIES FOR VOLATILE MARKETS

### Dividend-Paying Equities

In volatile or “flat” markets, dividends can provide income that may become the major portion of a stock’s investment return. Adding equity investments with solid dividend yields to portfolios can make sense when markets are volatile.

### Investing in “Non-Correlated” Assets

You can help to reduce volatility in your portfolio by including “non-correlated” assets or those with lower correlation to other investments you hold. Correlation measures how two investments move in relation to each other—and ranges from 1.0 to –1.0. Assets with a correlation of 1.0 have perfect positive correlation. Assets with a correlation of –1.0 have perfect negative correlation. Assets

with low or negative correlations effectively diversify each other. When one investment is experiencing challenges, another can offer positive market dynamics. For example:

- Many bonds have low or negative correlation to stocks—and typically move in a different direction than stocks do.
- Many commodities have low correlations with stocks.
- Alternative investments, like hedge funds and managed futures, can also offer low correlation with other assets.

## The Potential Downside Protection of an Annuity

Certain types of annuities can offer significant downside protection that can be useful to investors. In addition to providing guaranteed lifetime income, an annuity can include both an investment value that can increase or decrease based on the markets—and a guaranteed benefit amount that will not decrease when markets decline, and will increase by a specified percentage each year. The guaranteed benefit amount is calculated based on a specific return on the investor’s retirement assets for a 10 year period or longer. A guaranteed benefit amount is only the value used to calculate the annual lifetime income amount. Though it helps you generate stable income, it is not available for a lump sum withdrawal.

There is investment risk associated with variable annuities and, upon redemption, the value of an annuity may be worth more or less than the original investment. Any annuity guarantees are subject to the claims-paying ability of the issuing insurance company.

## FOR MORE INFORMATION

If you have any questions or would like to receive more information, please contact your Janney Financial Advisor, who will be pleased to assist you.

*Some of the investment concepts and products discussed may be highly illiquid and may only be offered to clients who meet specific eligibility requirements, including minimum net worth, income tests and investment experience. All investors should carefully review any offering materials and prospectus(es) which will contain the information needed to evaluate a potential investment and provide important disclosures regarding the investment’s strategies, risks, fees and expenses. Asset allocation and diversification do not guarantee investment returns and do not eliminate the risk of loss. Past performance is not a guarantee of future results, and investor returns may vary.*

Asset Class Correlations: Long-term correlations as of 12/31/2010

	Large Cap	Small Cap	Developed Markets	Emerging Markets	Bonds	High Yield	Emerging Market Debt	Commodities	REITs
Large Cap	1.00	0.94	0.92	0.87	-0.36	0.72	0.66	0.42	0.71
Small Cap		1.00	0.86	0.83	-0.39	0.66	0.57	0.33	0.77
Developed Markets			1.00	0.90	-0.24	0.70	0.62	0.51	0.69
Emerging Markets				1.00	-0.23	0.77	0.71	0.53	0.60
Bonds					1.00	-0.08	0.12	-0.22	-0.02
High Yield						1.00	0.83	0.48	0.64
Emerging Market Debt							1.00	0.41	0.58
Commodities								1.00	0.36
REITs									1.00

(Source: Standard and Poor’s, Russell, Barclays Capital Inc., MSCI Inc., Dow Jones, UBS, Janney ISG)

Definitions: Large Cap: S&P 500 Index, Small Cap: Russell 2000, Developed Markets: MSCI EAFE, Emerging Markets: MSCI Emerging Markets, Bonds: Barclays Capital Aggregate Bond Index, High Yield: Barclays Capital Corporate High Yield, Emerging Market Debt: Barclays Capital Emerging Market, Commodities: Dow Jones UBS Commodity Index, REITs: NAREIT Equity REIT Index.

Correlations are calculated using quarterly return data from 12/31/00 – 12/31/10.

## Economic Outlook

Mark Luschini, Chief Investment Strategist

The U.S. economy continues to be challenged by the lingering effects of the Great Recession. High unemployment, a weak housing market, debt-impaired consumers and dampened confidence levels are all part of the aftermath that has contributed to the tepid nature of this recovery. Policy makers are diligently searching for the right formula to jump-start activity via liberal monetary policy and recently announced fiscal initiatives. An improvement in some of the aforementioned variables has already occurred, but the time period over which conditions will revert to something akin to normal—few have the patience to endure. That is why the Federal Reserve is aggressively implementing programs that may serve to entice business activity and restore employment to capacity. In addition, we have new policies being presented which Congress will be charged with debating and possibly enacting that may also help to accelerate economic activity.

In a vacuum, these efforts would likely be viewed favorably by the financial markets—particularly when corporations are achieving near-record profitability and valuations supporting stock prices are very reasonable. Instead, concerns of a global slowdown are imparting doubts among market participants that the earnings growth currently projected for the coming quarters is achievable. However, trumping almost all else is the long-running saga being played out in Europe. The recession exposed the fiscal weaknesses within a number of members of the European Community. The situation became acute more than a year ago, and since then, efforts to stem its potential impact have mostly been temporary band-aids. Today, Greece is at a tipping point, and Italy, a much larger threat because of its economic size and level of outstanding debt, is looming as a not-too-distant problem. Policy officials in Europe are assembling to stem the prospects of defaults occurring. Unfortunately, the process has been slow in developing, and there is yet no clear and finite solution.

These troubles have caused the financial markets to move sometimes violently in either direction. The trend in the equity market has been lower as investors anticipate worsening global economic conditions, especially in the developed markets of the U.S. and Euro Zone. Clearly, global growth has slowed, but the International Monetary Fund still expects world economic activity to expand by at least 4% next year. Of course, this growth is going to be pulled by the emerging markets which account for 49% of global GDP—so attention is tuned to China, the world's second largest economy and a driver for emerging market trade. In the meantime, partially due to the Fed's influence, government bond yields are near historic lows, and consequently offer payment that is negative after adjustment for inflation. Cash equivalents offer yields that are almost imperceptible to the naked eye and will likely continue to be so for several more years to come.

We expect further turbulence in the markets, as there is no magic dust that can be cast over these macro issues to provide an immediate cure. At the same time, however, authorities in the U.S. and Europe—and trading partners around the world—are vested in a positive outcome. As we consider options for investment under these conditions, we hold the expectation that income—whether the source is high quality, dividend-paying stocks, U.S. corporate and municipal bonds, or emerging market sovereign debt—will play a meaningful role in total return. We also encourage the use of alternative investments and non-correlated strategies to promote risk management. We believe these offer appeal for the immediate prospect of inclement weather, but also for the brightening conditions that inevitably lie beyond. ■

### Janney Montgomery Scott LLC

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