BEGINNINGS | ASSET ALLOCATION

ECONOMIC AND FINANCIAL MARKET FORECAST

Below is a comparison of current economic and financial data with the panel's composite forecast for the next six months. (Through October 2011)

	Current Level[1]	Strategists' Predictions
STOCK MARKET (Dow Jones Industrials)	12090	12045
BOND MARKET (10-Year Treasury Note)	3.5%	3.5%
ECONOMIC GROWTH (Annual Growth of Real GDP)	2.8%	3.2%
INFLATION (Annual Increase in CPI)	1.6%	2.2%
SHORT-TERM RATES (Three-Month Treasury Bills)	0.11%	0.3%

(1) As of 3/7/11

RECOMMENDED ALLOCATIONS FOR A BALANCED PORTFOLIO

The statistics below are a composite of results from our monthly poll of leading portfolio strategists and are designed for a balanced growth investor.

CURRENT COMPOSITE ALLOCATION

STOCKS	BONDS	CASH
53.4%	34.6%	12.4%

CHANGE FROM PRIOR MONTH'S ALLOCATION

STOCKS	BONDS	CASH
0%	0%	0%

RANGE OF CURRENT ALLOCATIONS

	LOW	HIGH
STOCKS	20%	60%
BONDS	20%	60%
CASH	2%	20%

12-MONTH TRENDS IN COMPOSITE ALLOCATIONS

	LOW	HIGH	CURRENT
STOCKS	50.2%	53.4%	52.4%
BONDS	34.6%	38.8%	35.6%
CASH	10.2%	12.4%	12.4%

GAIL DUDACK
Dudack Research Group

STOCKS	60%
BONDS	20%
CASH	20%

(no change)

GARY SHILLING
A. Gary Shilling & Co.

STOCKS	20%
BONDS	60%
CASH	20%

(no change)

CASH HOLDINGS BELOW PANEL AVERAGE

SAM STOVALL
Standard & Poor's

STOCKS	60%	down 5%
BONDS	25%	up 5%
CASH	15%	

JEFFREY KLEINTOP
LPL Financial

STOCKS	58%
BONDS	37%
CASH	5%

(no change)

MARK BALASA
The Alpha Group

STOCKS	64%
BONDS	36%
CASH	2%

(no change)

Portfolio strategists polled 3/7/11-3/11/11

Behind the Numbers with Sam Stovall

IF OIL PRICES don't go above $150 per barrel, it could be a good year, with mid- to high-single-digit growth in the S&P. Additionally, the Fed could initiate a tightening program, and we expect at least another pull-back, if not another correction. We're going into the third year emphasizing cyclical sectors because those are hurt least by increasing interest rates. Materials may do well, as long as oil prices stay down. We recently downgraded the consumer discretionary sector. That sector is slightly cyclical so we're not enthusiastic about utilities. Drug pipelines and austerity measures in Europe could be a challenge to health care.

Don't think diversification failed us. Our memories and expectations failed us. In a bear market, there's no place to hide but cash and Treasury bonds. It doesn't matter the style, size or region of equity markets, they'll go into a tailspin. In modern portfolio theory, you want to try to maximize returns and minimize risk, not eliminate risk entirely. Some people were too far out on the risk curve. People forgot that old adage that your stock risk should equal 110 minus your age. Many people did not have time to make up their losses. Always remember that if you have five years or less to retirement, you should focus on return *of* your money. If you have more than five years, you should focus on return *on* your money.