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Market Outlook Letter

July 13, 2009

INVESTMENT COMMENTARY & OUTLOOK

A massive leadership change is now underway as the second-quarter earnings' season approaches. The bad news is the second-quarter earnings for the S&P 500 will be down for the 11th quarter in a row. The good news is a *USA Today's* July 10th article reported that while most analysts expect that the S&P 500's earnings might decline 16.9% in the second quarter, there is a possibility that earnings could be significantly stronger than expected and be down only 12% to 14%, thanks to a weaker U.S. dollar, which boosts the earnings of multinational companies like Colgate-Palmolive and McDonald's. We expect that our growth portfolios will continue to post positive average sales (projected to be in excess of 11% in Q2) and average earnings growth (projected to be in excess of 22%). Additionally, the average growth stock in our portfolios is anticipated to post positive earnings surprises in excess of 10% in the second quarter. Companies with strong earnings surprises have the potential to send their stocks higher in the upcoming weeks.

The other good news is that easy year-over-year comparisons are fast approaching, which could help the overall stock market. Yardeni Research expects year-over-year S&P 500 earnings to decline 8.5% in Q3 and then rocket up 205.8% in Q4!

Nonetheless, economic anxieties have been mounting recently. Most notably, there was a surprising decline in consumer confidence and a rebound in job losses in June. These anxieties are causing fears of a double-dip recession, especially as the rising federal deficit drives Treasury yields higher and causes mortgage rates to rise, putting further pressure on the battered housing market. The mounting fiscal problems in many states are adding to the fears of a double-dip recession, especially after the June payroll report revealed that 52,000 government jobs were lost.

Due to the continuing unemployment problems, many observers are wondering when all the stimulus from the $787 billion spending/stimulus package that was passed back in February is coming. So far, thanks to all the complications with the federal paperwork associated with the stimulus money, less than 1% of the highway and infrastructure spending has been allocated. If it is not spent soon, many highway repairs might not happen until next summer, since many states cannot do roadwork in the winter. As such, many are asking, "Where's the beef?" and, "Where are the new jobs?" in the $787 billion spending/stimulus package.

There were many transfer payments to states in the $787 billion spending/stimulus package. However, as these transfer payments subside, the mounting state deficit problems become another anchor on the U.S. economic recovery. In fact, due to lingering unemployment problems and escalating state fiscal woes, there are increasing calls for an additional federal stimulus program before the bulk of the initial $787 billion spending/stimulus package gets spent.

What is essentially happening is that the "velocity" of money, which is how fast money changes hands, has ground to a halt. The federal government, apparently in an effort to not waste money, has been too slow to hand out the $787 billion, which is why infrastructure and roadwork has been held up by silly things, such as a requirement that signs must be displayed to show that government stimulus money is being utilized on road projects! Unfortunately, job losses seem to be re-accelerating, based on the June payroll report, which is adding further pressure on the White House to do something to create jobs.

State and local governments are facing deficit crises. Ten states now have budget deficits that are 20% to 30% of their respective state budgets. Ironically, with only a 26% budget deficit, California is only the third worst state, since Arizona and Nevada both have 30% budget deficits. Not surprisingly, the top three problem states are also at the epicenter of the housing crisis, where prices have tumbled 30%-50%. There may be little chance of help from the federal government. Treasury bond yields have already doubled this year and have risen at the fastest pace in 15 years. The federal government may have reached the end of its borrowing limit.

Investment in equity securities involves substantial risk and has the potential for partial or complete loss of funds invested.

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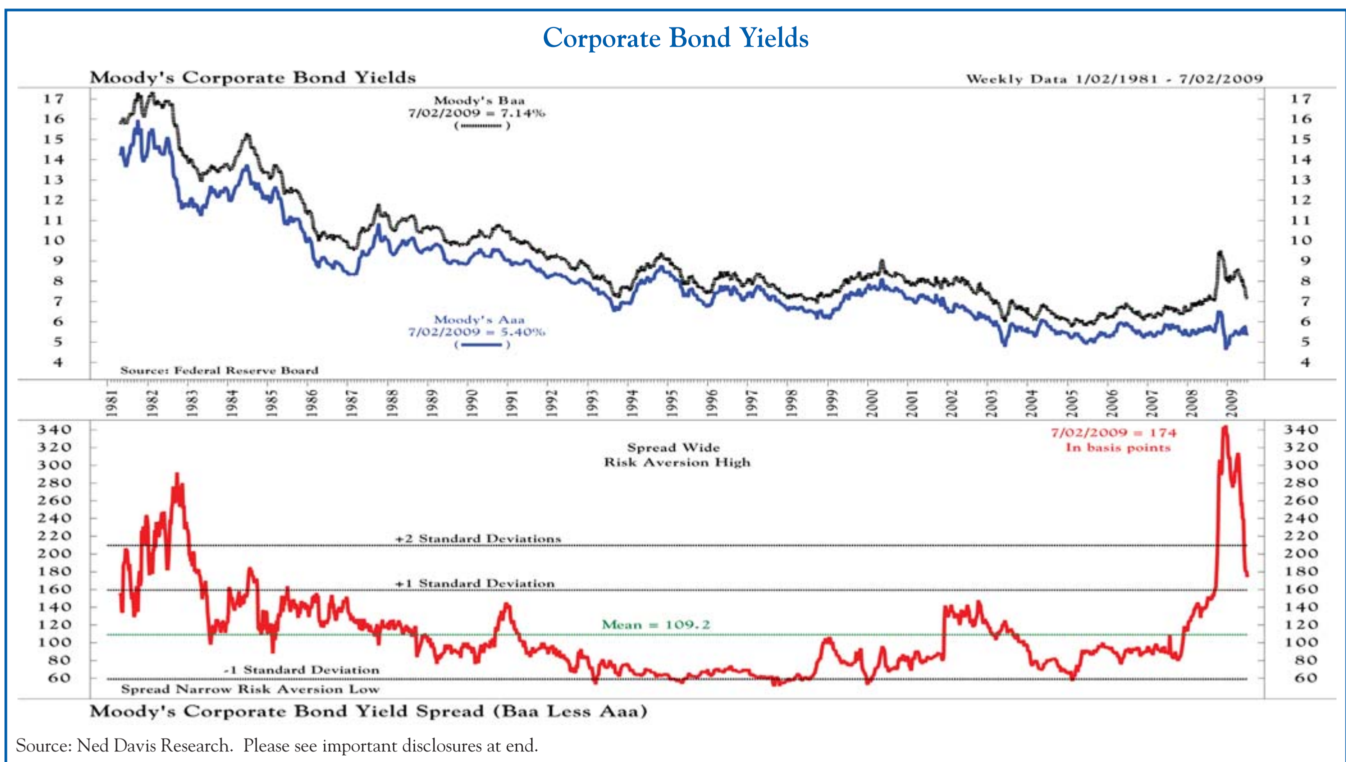
All this fiscal chaos on the state and federal level is obviously creating more economic headwinds. As a result, confidence in the U.S. dollar has eroded and our allies, like Brazil, China, and India, are calling for a new world-reserve currency. Meanwhile, other allies, like France and Germany, are lecturing us on our fiscal irresponsibility. There are also concerns that the U.S. is losing its influence in the world as its economic dominance shrinks. As a result, we expect the U.S. dollar to continue to falter in the upcoming months.

Ironically, a weaker U.S. dollar helps to boost corporate profits of many commodity-related and multinational companies that operate around the globe. As we mentioned, overall second-quarter earnings could be better than expected because of this. As such, the weaker the U.S. dollar gets, the stronger we expect that our Large Cap Growth and International Growth portfolios will get (as we highlighted in our June 1 letter). You could call it a “currency tailwind” since a weaker dollar inflates commodity prices (approximately 88% of commodities are priced in U.S. dollars), bolsters international stocks, and boosts the underlying earnings of U.S.-based multinational stocks.

STOCKS VERSUS CORPORATE BONDS

After the first two quarters this year, many articles have appeared stating that corporate bonds have been a better investment than stocks. Although we believe that our growth stocks will outperform corporate bonds in the long-term, we also recognize that corporate bonds are now at historically high yields, which presents compelling opportunities for investors. With that in mind, Navellier has been engaged by Advisors Asset Management, Inc. (“AAM”; www.aamportfolios.com) as a consultant for the identification and selection of investment grade bonds primarily rated BBB-/Baa3 for a series of Unit Investment Trusts (UIT) offered by AAM. AAM combines Navellier’s extensive stock research with Dial Capital Management, Inc.’s credit analysis and pricing expertise to select intermediate corporate bonds. The UIT format offers investors the opportunity to buy a larger pool of bonds that is usually available only to large institutional investors or mutual funds.

Corporate bonds have become attractive for a number of reasons. Last year, it is estimated that approximately $1 trillion of leveraged hedge funds were forced to abruptly liquidate, which forced the sale of at least $7 trillion to possibly over $12 trillion in municipal and corporate bonds. It was very common for these hedge funds to be leveraged up to 9 times in municipal bonds and up to 15 times in corporate bonds. Due to this massive “dumping” of municipal and corporate bonds between September and December, the yields soared to historically high levels, especially relative to equivalent term Treasury securities. The following chart illustrates how long-term corporate bond yields “spiked” last year and how they have been falling this year:



Source: Ned Davis Research. Please see important disclosures at end.

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As the chart on the previous page illustrates, yields on most municipal and corporate bonds have been falling, so many municipal bond funds have appreciated up to almost 20% this year, while some high yield corporate bond funds have appreciated more than 30% this year. As a result, many in the financial media, such as MarketWatch and Forbes, have noted that many bond funds, especially high-yield corporate bond funds, have outperformed stocks for the first half of 2009 and the implication is that they may continue to outperform stocks in the second half of 2009 and beyond.

Navellier worked with Dial Capital Management, Inc., managed by T. Ole Dial, to select intermediate corporate bonds for AAM's first UIT series, which closed June 24, 2009. The first series, the Advisors Corporate Trust - Navellier/Dial High Income Opportunities Portfolio, Series 1, consisted of 18 corporate bonds, with maturities between 2.7 and 5 years, with a 7.44% yield to maturity:

Navellier-Dial High Income Opportunities

Issue	Coupon	Maturity	YTM	C YLD
BLACK & DECKER CORP	8.950	4/15/14	6.55%	8.16%
BRINKER INTL INC	5.750	6/1/14	7.54%	6.20%
CBS CORP NEW	8.200	5/15/14	7.63%	8.02%
DONNELLEY & SONS (RRD)	4.950	4/1/14	8.24%	5.67%
DOW CHEM CO	7.600	5/15/14	6.90%	7.39%
ENERGY TRANSFER PRTNRS L P	8.500	4/15/14	5.50%	7.55%
FORTUNE BRANDS INC	6.375	6/15/14	6.42%	6.39%
INGERSOLL-RAND	9.500	4/15/14	7.04%	8.65%
INTERNATIONAL PAPER	7.400	6/15/14	7.31%	7.37%
JEFFERIES GROUP INC NEW	7.750	3/15/12	7.64%	7.73%
LEXMARK INTL INC	5.900	6/1/13	6.52%	6.03%
NATIONAL SEMICONDUCTOR CORP	6.150	6/15/12	6.91%	6.28%
NEWELL RUBBERMAID INC	5.500	4/15/13	6.40%	5.67%
REYNOLDS AMERICAN INC	7.250	6/1/13	6.52%	7.07%
TIME WARNER	9.125	1/15/13	5.89%	8.28%
WHIRLPOOL CORP SERA MTN BE	8.600	5/1/14	7.66%	8.29%
WYNDHAM WORLDWIDE CORP	9.875	5/1/14	10.07%	9.95%
XEROX CORP	8.250	5/15/14	7.26%	7.93%
	7.791		**7.44%**	**7.63%**

Source: Navellier & Associates, Inc.

AAM is the only underwriter we know of that has set up a series of UITs to buy BBB-rated bonds. We will be working with AAM to roll out series after series of these BBB-rated UITs until yields drop and the opportunity is no longer attractive. Our view is that the opportunity will remain attractive for at least several months, and perhaps well over twelve months, depending on how fast corporate bond yields fall. As it currently stands, corporate bond yields remain extraordinarily high relative to equivalent Treasury securities, as the chart on the following page illustrates:

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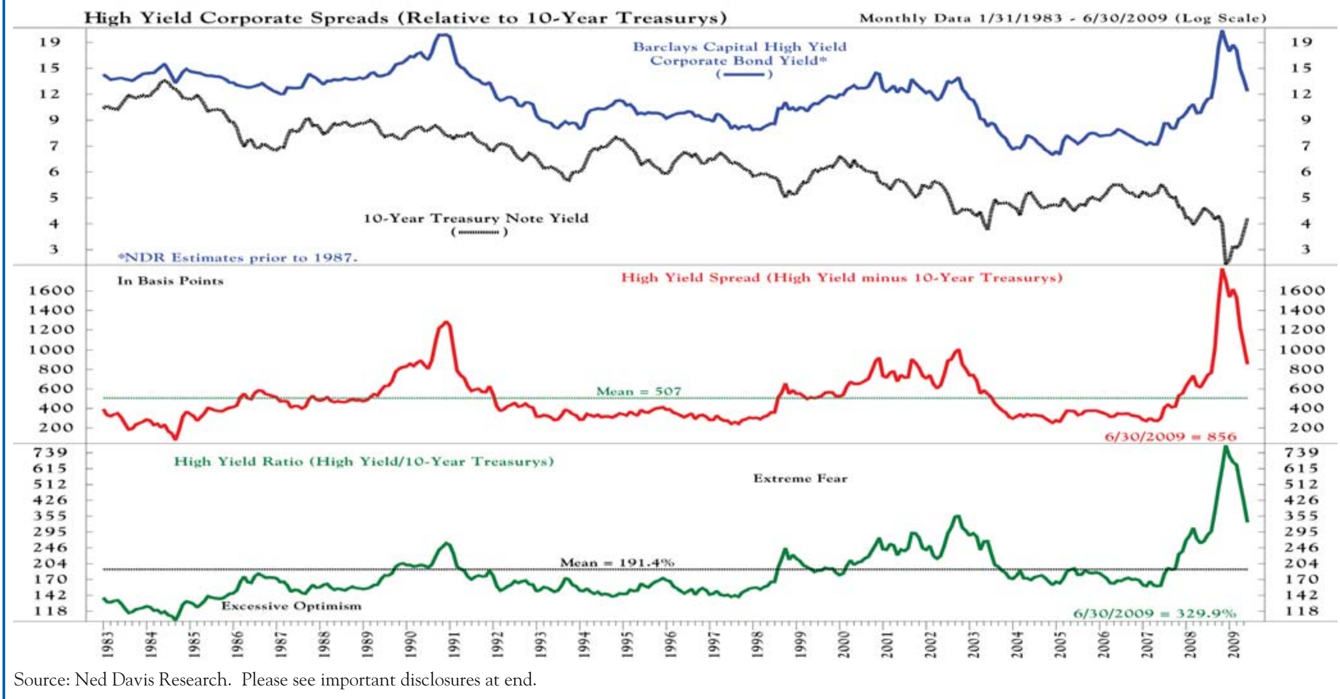
High Yield Corporate Bond Yields Relative to 10-Year Treasuries



Source: Ned Davis Research. Please see important disclosures at end.

The second UIT series, the Advisors Corporate Trust - Navellier/Dial High Income Opportunities Portfolio, Series 2 (ADT 397), is scheduled for deposit July 17, 2009.

In the interests of full disclosure: Navellier is not an expert in unit investment trusts. Your financial advisor or the team at Advisor's Asset Management have this expertise, and investors should rely on them for advice about unit investment trusts. Having said that, UITs are investment vehicles in which the underwriter (AAM in this case) buys the securities, opens the unit trust, deposits the securities into the trust, which then collects the interest payments and holds the securities to maturity. Note that the unit investment trust is not actively managed: after formation, it just holds the purchased securities. The BBB-rated corporate bonds that we are helping to select for AAM's unit trusts are often callable and have different maturity dates. As the bonds are called or mature, the cash proceeds are passed through to the unit investment trust holders as they are received. Interest income, generally received monthly, is also collected and passed through to the investors. The unit investment trusts also come with a right to redeem at the current net asset value, and there is often a secondary market created by the underwriter.

We think there are compelling opportunities in the intermediate corporate bond space, and we're very excited to work with AAM on their UIT offerings.

SUMMARY

The environment for investors remains uncertain, as fears of a "double dip" recession spread. Even though there are very serious problems with consumer confidence and unemployment, easy year-over-year earnings comparisons in the coming months should help the overall stock market, especially if there are positive economic headlines.

This recession is already longer than the average recession and economists expect U.S. GDP to pick up by August. As spending from the $787 billion spending/stimulus gathers momentum in the upcoming months, the activity should help economic growth. Both the stock and bond markets are recovering from their liquidity meltdowns. Since January, we see some evidence of a return of investor confidence as money has been pouring into bond mutual funds and steadily rising. Indeed, the recent market rally is an even stronger indicator of investor confidence as investors began adding money to equity mutual funds taking advantage of beaten down stock prices. In other words, liquidity has been improving as investor confidence has returned. Due to the

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improving liquidity in the corporate bond market, we have teamed up with AAM to take advantage of the extraordinary yields now available in the corporate bond market.

The weak U.S. dollar is now helping to restore the earnings of multinational companies which are improving quickly thanks to the fact that when they get paid in foreign currencies, they reap profits from appreciating foreign currencies. Foreign companies love to set up shop in the U.S., since the U.S. consumer is still the strongest economic engine in the world. This is good news for our Large Cap Growth and International Growth stocks.

We remain optimistic about the longterm prospects for the U.S. economy and firmly believe that the best way to repair the damage to investor portfolios is through a well balanced portfolio of fundamentally superior stocks!

Sincerely,

LOUIS G. NAVELLIER

SHAWN PRICE

MICHAEL J. BORGEN

MICHAEL GARAVENTA

JAMES O'LEARY, CFA

PHILLIP MITTELDORF

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