

Market Outlook Letter

July 22, 2010

INVESTMENT COMMENTARY & OUTLOOK

Since May, our portfolios have performed well while the broad market has exhibited a fairly high degree of volatility. Technology stocks continue to lead the overall stock market since they are prospering from soaring semiconductor demand, which is still rising and continues to surprise the analyst community. It is clear that sovereign debt problems, the BP oil spill, and other “macro” distractions have nothing to do with the technology boom as flash memory, the iPad, and all the new smart phones continue to be bought at a frantic pace. Increasingly, technology is an easy way to play the global economic boom, since a growing middle class in Asia, India, Latin America, and elsewhere around the world is made up of voracious buyers of the new technology gadgets. This earnings season, we expect that technology stocks will lead the overall stock market.

Interestingly, 2010 is shaping up to be a great year for worldwide economic growth thanks to a growing middle class in many emerging markets, plus positive demographic trends in countries like Brazil and India with young populations and strong household formation that boost domestic consumption. Yet the stocks in many of the emerging markets with strong GDP growth have not performed very well this year, so increasingly investors are more interested in the big multinational companies like Apple, Amazon.com Inc., Colgate-Palmolive Company, Conagra Foods Inc., Dr. Pepper Snapple Group Inc., Ford Motor Company, Heinz (H J) Company, Nordisk A/S, Novartis AG, Priceline.com Inc., Reynolds American Inc., SanDisk Corporation, and Teva Pharmaceuticals, which are all naturally profiting from these economic “hotspots” for GDP growth all around the world.

In fact, here is what the analyst community is expecting for the Top 10 stocks in our Large Cap Growth Portfolio this earnings announcement season:

Large Cap Growth Top 10 Holdings

as of 7/20/2010 U.S. Dollar

Ticker	Security Name	Port. Ending Weight	Next Quarter Expected EPS Growth
BIDU	Baidu Inc. ADS	4.33%	85.56%
BRCM	Broadcom Corp.	3.60%	156.64%
NTAP	NetApp Inc.	3.24%	103.33%
DPS	Dr Pepper Snapple Group Inc.	2.98%	11.73%
IBM	International Business Machines Corp.	2.98%	14.68%
CTSH	Cognizant Technology Solutions Corp.	2.95%	9.98%
GOOG	Google Inc.	2.90%	13.79%
CRM	Salesforce.com Inc.	2.74%	61.37%
GIS	General Mills Inc.	2.72%	-1.23%
INFY	Infosys Technologies Ltd. ADS	2.71%	8.93%

Average: 46.48%

Source: Factset.

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The other factor that is helping many of our growth stocks is that the U.S. dollar has resumed its slide in recent weeks. What essentially happened is that after the G-20 meeting in Toronto a few weeks ago, the G-20 nations set goals for cutting their respective budget deficits in half by 2010, even though Japan, India, and the U.S. raised objections. The Obama Administration's budget for fiscal 2011 anticipates a budget deficit of \$778 billion in 2013, which is roughly half of the record \$1.6 trillion deficit the White House estimates for fiscal 2010. As the G-20 meeting adjourned, the Obama Administration said that it would work to reduce the U.S. fiscal deficit to 3% of GDP by 2015, which the White House argues will stabilize the U.S. debt-to-GDP ratio "at an acceptable level in that year." Despite these ambitious goals, President Obama and G-20 countries agreed to balance the need for continued growth in the short term and fiscal sustainability in the "medium term."

Just before the G-20 meeting, Treasury Secretary, Tim Geithner, told the BBC that the world "cannot depend as much on the U.S. as it did in the past." Geithner said that other major economies would have to grow more for the global economy to prosper and implied that emerging economies like China are now leading the worldwide economy.

Interestingly, Europe is increasingly looking at the U.S. with disdain, since we have not even discussed implementing our own austerity cuts to deal with our own ballooning budget deficit like Britain, France, Germany, and other European countries. In fact, the Royal Bank of Scotland (RBS) recently issued a report that told its clients to prepare for "monster" money printing by the Fed. The chief credit analyst at RBS, Andrew Roberts, is advising RBS clients that if you read a recent text of Fed Chairman Ben Bernanke's speech very closely you may conclude that the Fed is soon going to have to pull the lever on "monster quantitative easing." This European view of the U.S. may explain why the euro and other currencies have rallied strongly against the U.S. dollar recently. Softer economic news was also influencing the U.S. dollar; however, remember that a weaker U.S. dollar is good news for most technology and multinational stocks.

We should add that a recent International Monetary Fund (IMF) report essentially told the U.S. government to get its act together, and said, "The central challenge is to develop a credible fiscal strategy to ensure that public debt is put ... and is seen to be put ... on a sustainable path without putting the recovery in jeopardy." There is some hope, since President Obama's debt and deficit commission, which is co-chaired by former Republican Senator Alan Simpson and Clinton Chief of Staff Erskine Bowles, called current budgetary trends a cancer "that will destroy the country from within" unless checked by tough action in Washington D.C. Overall while the federal government's debt cancer spreads, a weak U.S. dollar will likely persist and represents great news for many of our multinational and technology stocks, since more than 50% of their earnings are generated outside the U.S.

Interestingly, it appears that the Obama Administration is finally trying to give the appearance that it is getting serious about the federal budget deficit, since the former head of the Office of Management and Budget (OMB) under President Clinton, Jack Lew, has been nominated to become the new White House Budget Director to replace Peter Orszag. Orszag reportedly left to "get married," but the beltway gossip is that he was frustrated that the Obama Administration refused to tackle the escalating federal budget deficit more aggressively.

SHOULD YOU BE AFRAID OF AUGUST?

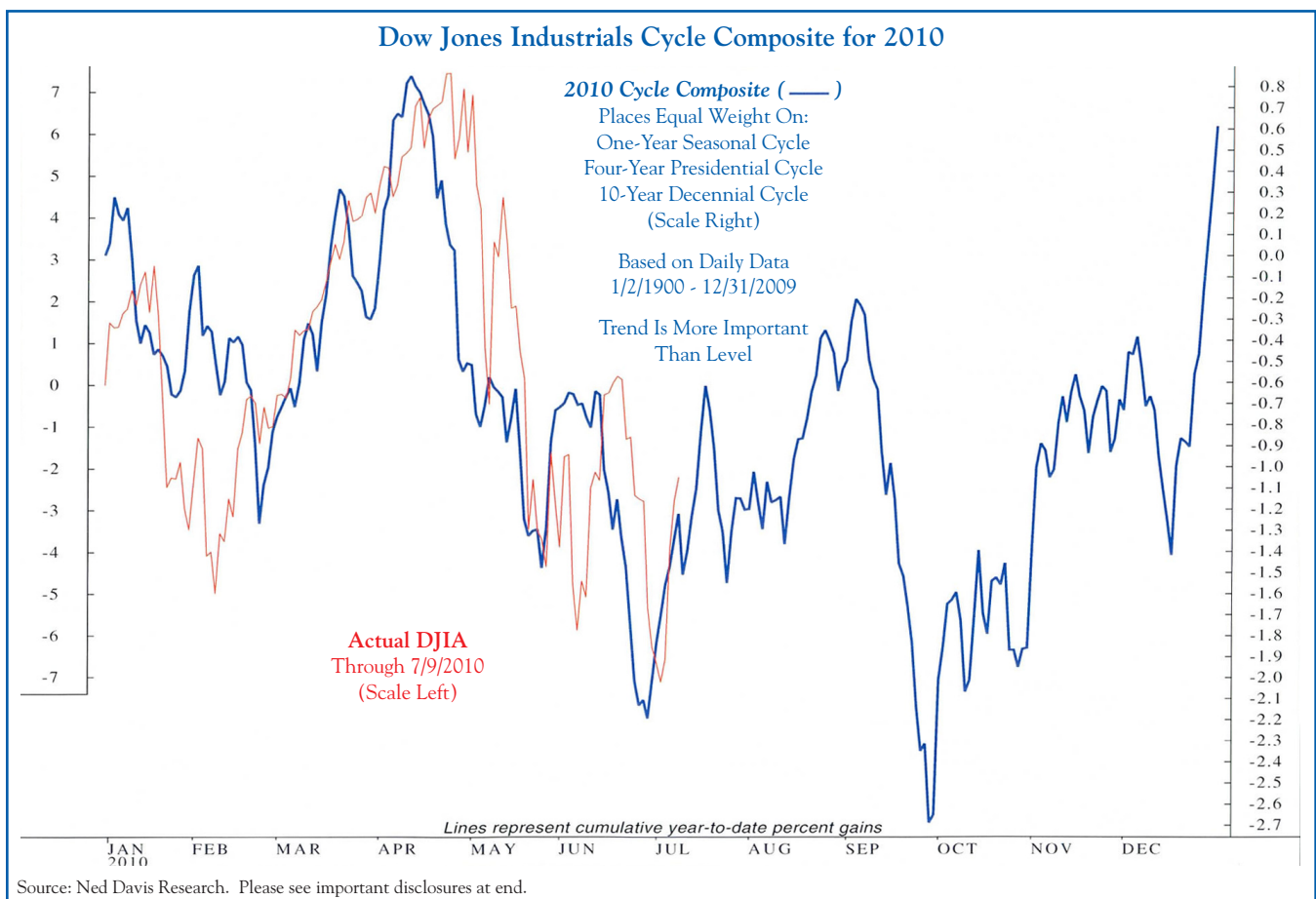
Our friends on Wall Street think they are European and like to take the entire month of August off. As a result, light trading volume and profit taking as the second-quarter earnings announcement season winds down is common. A year ago, there was a massive short-covering rally in August that propelled Fannie Mae and Freddie Mac over 200% higher, so we have to be prepared for surprises in August. At least now that Fannie Mae and Freddie Mac have both been delisted by the NYSE, we probably do not have to worry about similar low quality stocks capturing the spotlight in August.

What we will be looking for in August is whether or not the flight to quality that picked up in May will continue to persist, since August is notorious for profit taking. Ironically, we are now in an environment where the stock market is getting "smart" and money is chasing fewer stocks. We will be especially watching stocks that are sustaining strong earnings momentum as the overall stock market earnings decelerate due to more difficult year-over-year comparisons and moderating economic growth. Frankly, we expect that the stock market's breadth and power will decelerate a bit as the second-quarter earnings season winds down, but there might be some surprises in store.

Probably the biggest potential surprise in August will occur on Friday, August 6, when the July payroll report will be announced. Wall Street now has very low expectations for job creation, especially since many Census workers are expected to be laid off in July. However, there has been a silver lining in recent payroll reports that have been tarnished by government layoffs. This silver lining has been that the private sector job creation has steadily improved in the past two months. Specifically, the private sector created 83,000 jobs in June, up from a revised 33,000 in May, so at least private sector job creation is rising and will be closely watched on August 6 for further improvement.

If the private sector does create more jobs in July, say another 100,000 or more, we expect that Wall Street will rally strongly, since it will be indicative that the private sector is increasingly driving the economic bus as government layoffs persist. On the other hand, if the private sector creates fewer jobs in July than it did in June, say 75,000, then we believe Wall Street will start to obsess over “double dip” fears and a slowing economy. The truth of the matter is that the U.S. economy needs to create 150,000 jobs a month to keep unemployment stable. We are far from the U.S. economy hitting on all cylinders, so even though we expect August to be volatile in the wake of the July payroll report, we want you to know that good news is right around the corner thanks to the impending mid-term elections.

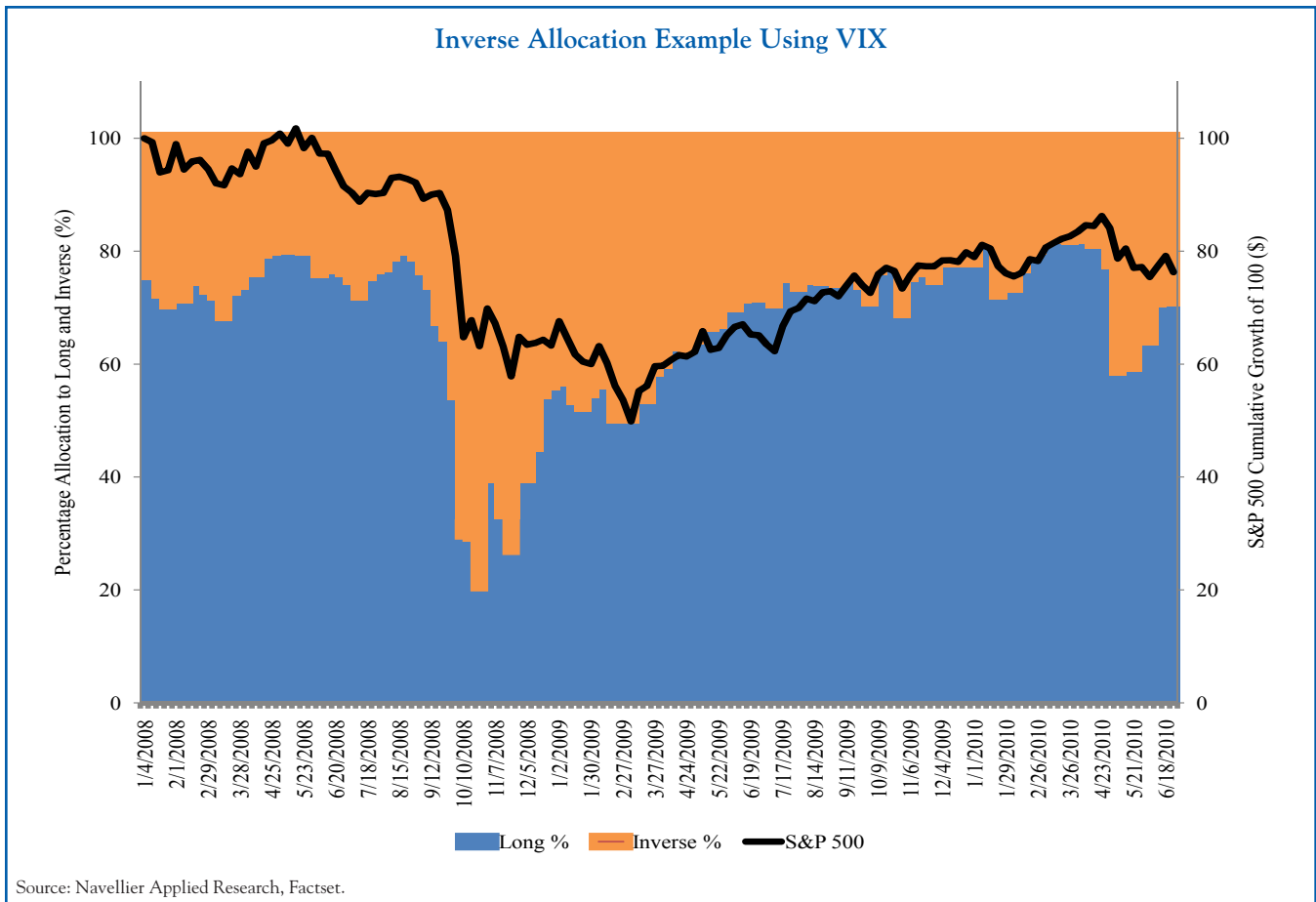
The Presidential Election cycle is one of the most influential and predictable events that affect the stock market. Historically, Wall Street celebrates Washington D.C.’s gridlock and rallies in late September in anticipation of the mid-term elections, which typically bring even more gridlock to the third and fourth years of a Presidential election term. Essentially, the stock market has historically rallied from late September of the second year Presidential election term all the way until the next Presidential election. So if history repeats, we should have a 26-month rally in the overall stock market thanks to the Presidential Election cycle, as the following chart illustrates:



INTRODUCING INVERSE ETF OVERLAYS

We should add that even though we expect a strong surge in the stock market as the Presidential Election cycle heat ups, if the day-to-day volatility bothers you, we finally have a solution, which is to overlay a dynamic allocation of inverse ETFs to substantially reduce the day-to-day volatility. Our dynamic allocation of inverse ETFs is based on (1) the VIX index volatility, (2) the correlation of the stocks in your portfolio, and (3) will essentially vary from a 10% to 40% allocation. We will naturally increase the allocation to inverse ETFs as the VIX volatility increases and decrease the allocations as volatility decreases.

What inspired the research team at Navellier to devise this overlay of inverse ETFs was the 5-minute “flash crash” on May 6th. Essentially, the stock market went from very low volatility in late April to extremely high volatility on May 6th. Clearly, with such rapid changes in volatility, the allocation in inverse ETFs should change accordingly, which is why we are so proud that we have tied our dynamic allocation in inverse ETFs to the VIX index as the following chart illustrates:



Thanks to these inverse ETFs, you can now invest more confidently and profit when the stock market gets nervous. In fact, we anticipate a lot of “double alpha” months when both our growth stock portfolios and these inverse ETFs will make money during sloppy stock market conditions. For further information, please feel free to call us at Navellier. We strongly recommend that you talk to Michael Garaventa or Tim Hope, who both worked diligently on testing and developing our dynamic allocation in inverse ETFs.

SUMMARY

We expect that July will be spectacular as technology stocks lead the overall stock market higher on better than expected earnings and positive earnings guidance. Then we expect that as earnings season winds down, August will get a bit bumpy, especially if the July payroll report shows that private sector job creation is decelerating. But

then hold your horses, since the Presidential Election cycle kicks into gear in late September before the mid-term elections and a 26-month rally typically ensues as Wall Street celebrates gridlock in Washington D.C. All that Wall Street wants is for the private sector, rather than the government sector to be driving the economic bus.

The truth of the matter is that the Washington D.C. spending machine is winding down since the rating agencies have threatened to downgrade Treasury debt from AAA to AA unless the U.S. comes up with a credible deficit reduction package in January, just like Europe has had to implement their own austerity cuts. Coincidentally, January is when President Obama's debt and deficit commission will be making their recommendations. Considering that a The Wall Street Journal editorial reported a while back that to balance the federal budget deficit, everyone above \$75,000 would have to be taxed at 100%, the alternative options are grim, which may be why within the beltway a value added tax (VAT) continues to be leaked. Ever since France invented the VAT back in the 1950s, every government that has imposed a VAT has been subsequently voted out of office. Since a VAT is political suicide, taxing businesses via financial reform, new energy taxes, etc. seems to be the Obama Administration's new priority.

Interestingly, businesses are now mad as hell and are suddenly pushing back, as GE's Jeff Immelt recently did against the Obama Administration. Now that there are fears that the pace of U.S. economic growth is slowing, all kinds of experts are coming out of the woodwork and pointing fingers. Recently, Dallas Fed President, Richard Fisher boldly stated that the U.S. economy has to "grow faster than 3%" for employment to recover and essentially painted a picture of a jobless U.S. recovery. In a clear dig at the Obama Administration, Fisher said that businesses "don't know where they're going to be in terms of health-care costs," and added, "Until that's clarified ... it's very hard for business to plan." Normally, Fed Presidents do not provide political commentary, but apparently if you are the Texas Fed President, you can say what you want.

Speaking of politics, Congress went on its summer vacation a week early and the stock market has coincidentally been doing much better. Congress is scheduled to return in mid-September and will likely be a lame duck due to the impending mid-term elections in November. One of the most predictable economic cycles is the President Election cycle that heats up in late September, and then a 26-month rally ensues as gridlock rules the roost and the U.S. economy is less constrained by the federal government. The fact that this time around, the Dow Industrials' dividend yield exceeds the yield of the 30-year Treasury bond is even more encouraging and indicative of the fact that the stock market is poised to stage an impressive rally. Investors are frustrated with low interest rates and are expected to increasingly turn to stocks.

The low interest rate environment that we are now in will likely persist for several years. If the Fed significantly raised key interest rates, the interest on the federal deficit, which the outgoing White House Budget Director forecasted to soon be \$900 billion per year, could soar to \$2 trillion or more in the upcoming years. As a result, the Fed has its hands tied and will not be raising key interest rates anytime soon. This low interest rate environment is a godsend for the stock market and we are on the verge of a historic rally that should commence no later than late September when the Presidential Election cycle should kick into gear.

In the meantime, many growth stocks we follow are leading the overall stock market and are expected to have a spectacular earnings announcement season. Even though earnings are now decelerating for the overall stock market, a weak U.S. dollar should help boost the underlying profits for many of our multinational and technology stocks, since more than 50% of their earnings are outside the U.S. Ironically, 2010 is already shaping up to be a great year for worldwide economic growth thanks to a growing middle class in many emerging markets, plus positive demographic trends in key countries with young populations and strong household formation that boost domestic consumption. Investors are increasingly concluding that the safest way to prosper from the strong growth in emerging markets is to buy multinational companies, where the majority of their sales are derived from outside the U.S.

Overall, we remain especially bullish on our growth stock portfolios, since we are now in the midst of another stunning earnings season and a weak U.S. dollar will help boost corporate profits even further. The technology boom that we are riding cannot be stopped by a sovereign debt crisis, an oil spill, or whatever the latest crisis that the financial news media likes to report. The mainstream news media, led by The New York Times has become

even more dire recently and warned that we are in the early stages of a depression, similar to 1932, unless the federal government can spend more money. The fact of the matter is that the private sector is now increasingly driving the economic bus as government runs out of money. Wall Street is expected to celebrate the resurgence of the private sector which we expect will be propelled by: (1) a strong earnings announcement season, (2) gradually improving private versus government job creation, (3) the impending mid-term elections, and (4) the start of the 26-month rally associated with the Presidential election cycle.

Sincerely,



LOUIS G. NAVELLIER



SHAWN PRICE



MICHAEL J. BORGEN



MICHAEL GARAVENTA



JAMES O'LEARY, CFA

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NAVELLIER LARGE CAP GROWTH WRAP COMPOSITE

Reporting Currency U.S. Dollar | June 30, 2010

Year	Total Firm Assets (\$ Millions)	Total Composite Assets (\$ Millions)	Percentage of Firm Assets	Accounts at Year-End	Pure Gross Annual Return (%)	Net Annual Return (%)	Russell 1000® Growth Index Annual Return (%)	S&P 500 Index Annual Return (%)	Annual Composite Dispersion (%)
2009	2,643	568	21%	3,933	26.87	24.68	37.21	26.46	0.81
2008	2,678	501	19%	4,794	-41.31	-42.37	-38.44	-37.00	0.87
2007	4,712	899	19%	4,719	28.52	26.66	11.81	5.49	0.68
2006	4,376	488	11%	2,203	-2.96	-4.32	9.07	15.79	1.02
2005	4,065	367	9%	1,518	17.87	16.02	5.26	4.91	0.64
2004	2,385	154	6%	734	19.10	17.25	6.30	10.88	0.66
2003	2,683	109	4%	569	36.57	34.57	29.75	28.68	1.38
2002	2,623	64	2%	478	-22.99	-24.24	-27.88	-22.10	1.01
2001	4,317	70	2%	463	-24.39	-25.70	-20.42	-11.89	2.28
2000	5,991	73	1%	428	-12.74	-14.32	-22.42	-9.10	5.65

Wrap performance beyond 10 years available upon request.

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3. Composite Description – The Navellier Large Cap Growth Wrap Composite includes all discretionary Large Cap Growth equity accounts that are charged a wrap fee and are managed with similar objectives for a full month, including those accounts no longer with the firm. The composite does not include any accounts or assets that are traded by third parties utilizing the Navellier Large Cap Growth Model. There is no minimum account size for inclusion in the composite. Performance is calculated on a “time-weighted” and “asset-weighted” basis. Performance figures that are net of fees take into account advisory fees and any brokerage fees or commissions that have been deducted from the account. “Pure” gross-of-fees returns do not reflect the deduction of any trading costs, fees, or expenses, and are presented only as supplemental information. Therefore, actual returns will be reduced by advisory and other expenses incurred. Performance results are total returns and include the reinvestment of all income, including dividends. There have been no significant firm events that would affect the performance of the composite. The composite was created March 31, 2005. Valuations and returns are computed and stated in U.S. Dollars. Portfolio valuation sources are IDC, Factset, and Thompson. Performance is calculated using the “Modified Dietz Method.” At any given time, the composite may hold up to 15% in American Depositary Receipts

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