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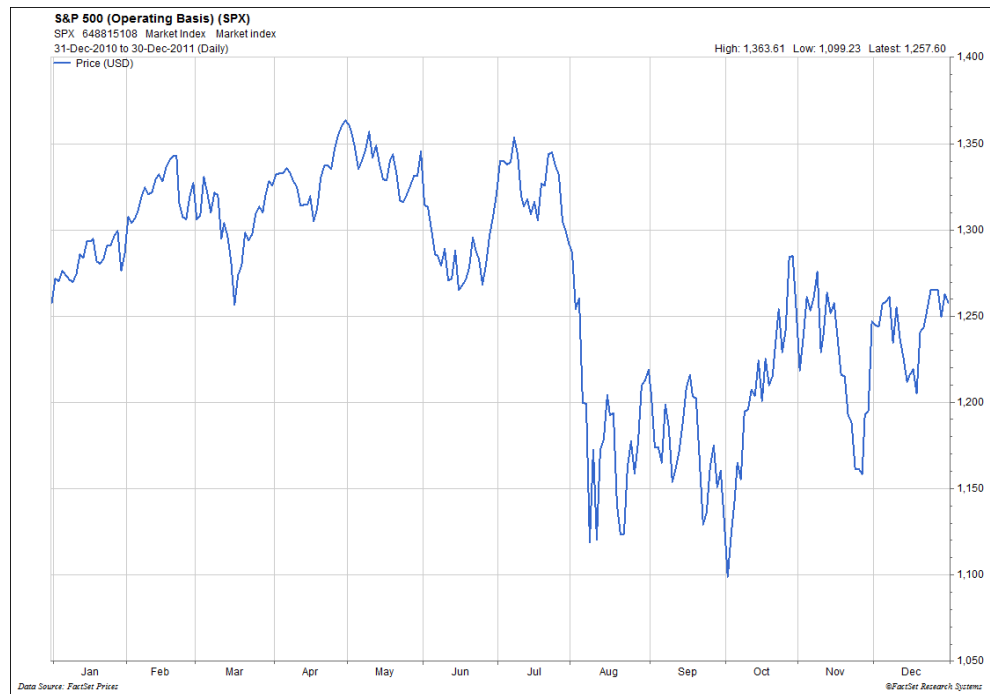
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2011, a ride on the Titan

Last Fourth of July, my wife convinced me it was time to visit our son at Texas Christian University in Ft. Worth in order to assess the health and well-being of our progeny. As an incentive for my sixteen year old daughter to accompany us, I promised her a day at Six Flags Over Texas. Both of our children love amusement park rides, especially roller coasters. Texas was experiencing one of the hottest summers on record and the temperature was already near 100 when we entered the park. Under the direction of my teenage guides, we proceeded directly to the Titan, a steel out and back roller coaster. My first warning came when my daughter asked if I was sure I wanted to ride this one. I've never been one to back down from a challenge, and I responded positively with, "it's just a roller coaster". For anyone unfamiliar with the Titan, it is what they call a Hyper coaster. The ride begins by lifting you up a 245-foot hill before plunging you 255-feet downward into a dark tunnel. Immediately after which you are taken through a large Carousel turn that I have since learned is famous for causing blackouts. Over the remainder of the 3 minute 30 second ride, you are thrust through a series of violent twists and turns while reaching a maximum speed of 85 mph with max G force of 4.5. At the conclusion of the ride, you reenter the station where the attendants spray water on the wheels in order to cool them before the next unsuspecting victims are seated on the train. I don't remember much about our ride after my near blackout in the Carousel turn. The nicest thing I can say is that we returned safely to where we started.

For investors, 2011 was much like a trip on the Titan, lots of highs and lows with violent twists and turns only to end where it started. The S&P 500 began the year at 1257.64 before climbing steadily early in the year hitting a high of 1361.22 on May 2nd. Then the wheels began to fall off. Gross Domestic Product (GDP) growth slowed sharply following a major earthquake and tsunami in Japan. The sovereign debt crisis in Europe began to spread beyond the peripheral countries. And in Washington, our political leaders waged war over raising the debt ceiling and ultimately decided to punt the deficit reduction ball to a Super Committee. That announcement was greeted by a downgrade of the U.S. Government's credit rating by Standard and Poor's. All of which led to an 18% correction in the stock market. Fortunately, the economy picked up steam as the year progressed. Real GDP grew a mere 0.3% in the first quarter, accelerating to 1.3% in the second quarter and 1.8% in the third quarter. The consensus estimate for fourth quarter GDP is 3.5% which would result in an anemic but positive 1.8% growth for the year. A steady stream of better-than-expected economic data came in throughout the fourth quarter, and in December, the European Central Bank helped ensure that banks have adequate funding by extending unlimited loans to European banks for up to three years. Markets rallied on the improving economic data and lowering of the risk of a banking crisis in Europe and the S&P 500 finished the year

at 1257.60 virtually where it began. For the year, the S&P 500 delivered a total return of 2.1% which was essentially all dividends.



Despite its struggles, the U.S. market outpaced most foreign markets with European stocks declining 14.98% for the year while Emerging Markets fell even further down 20.6%.

What lies ahead for 2012?

2011 was a harsh reminder that credit bubbles can have long lasting effects. Fiscal problems in Europe and the United States proved difficult for policy makers to address. In addition, we experienced several unexpected events which turned a difficult year into an agonizing one. Looking forward to 2012, we believe the U.S. economy is likely to continue to muddle forward with slow but positive growth. The recent string of good economic data would indicate that the U.S. economy has held up well despite the slowdown in Europe. Our banking system is in much better shape than when we entered the recession of 2008 and corporations have very healthy balance sheets which should enable them to weather any potential economic downturn. The Federal Reserve is committed to an easy money policy and there is even a possibility of another round of quantitative easing should the economy slow again. Inflation and interest rates will remain low in the months ahead, and corporate America has demonstrated once again its ability to adapt to change and U.S. companies are projected to grow earnings 9-10% in the year ahead.

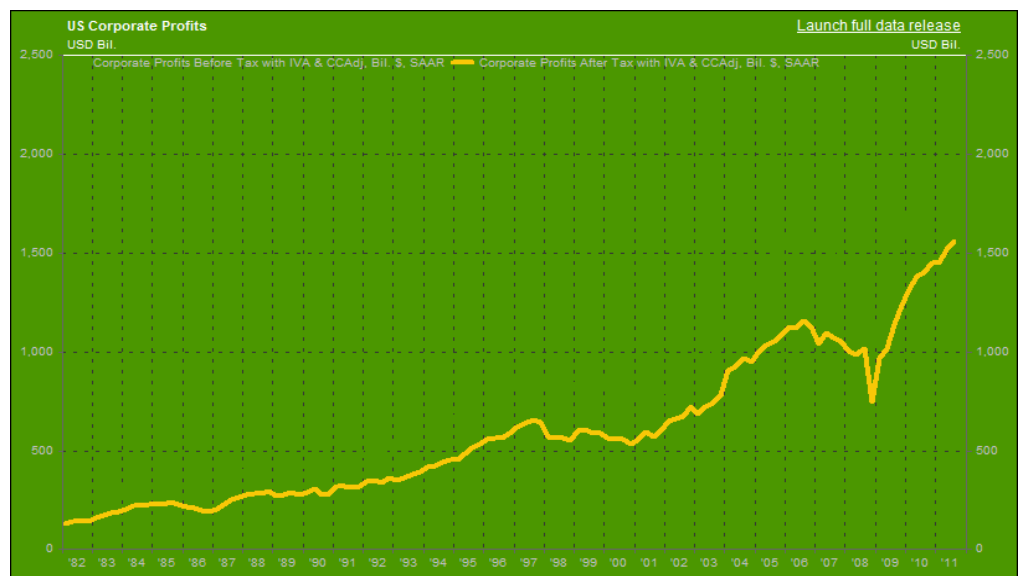
Europe remains the great unknown. How will the banking system be repaired? Will the



Euro survive in its current form? Europe's leaders believe they are making progress toward a true fiscal union. However, severe austerity measures are inevitable and most economists believe Europe is already in a recession. Eurozone governments must refinance more than 500 billion euros of debt in the first half of 2012 alone. The biggest risk facing investors in 2012 is the European debt crisis spinning out of control which could plunge Europe and the rest of the developed world into a deep recession.

Outlook for equities

Despite their poor performance in 2011, there is a good case for the long-term outlook for stocks. Earnings of the S&P 500 companies are projected to be \$98.82 for 2011 once the fourth quarter is reported, an increase of 16.9% over 2010. The earnings represent an all-time high for U.S. companies and the growth rate is well above the long term average.

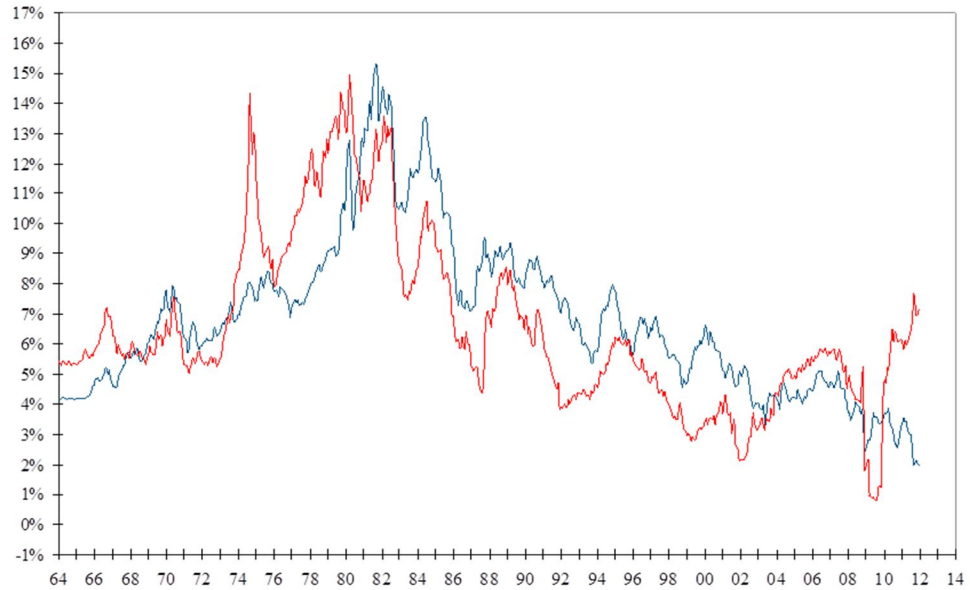


Source: FactSet

Valuations for stocks are extremely attractive with the S&P 500 trading at 13x earnings. More importantly, stocks look even more attractive when compared to bonds. Today, the 10-year U.S. Treasury yields 1.87%, while the earnings yield on the S&P 500 is 7.67%. This is the largest spread in history.



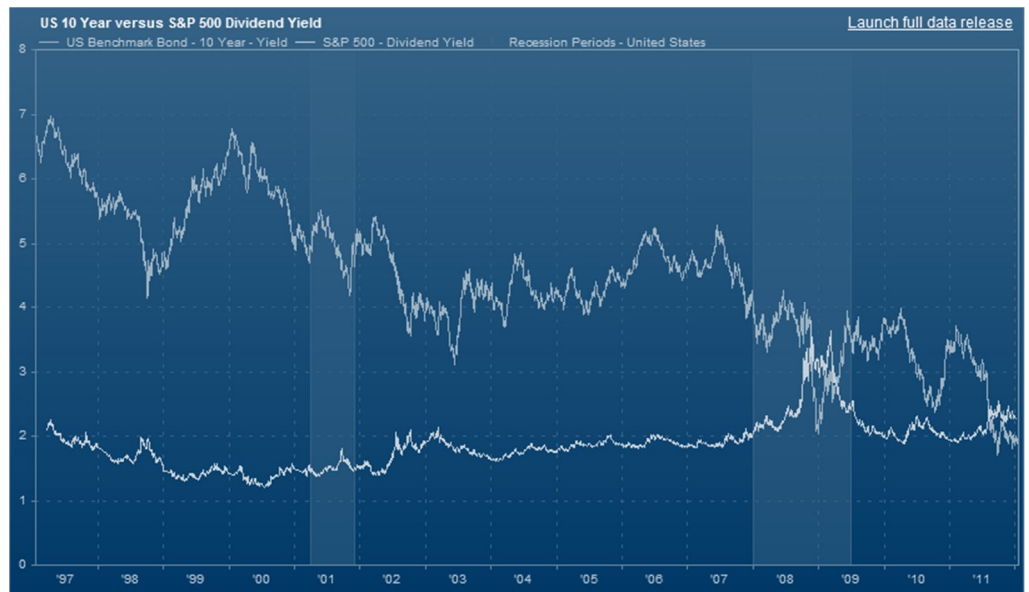
10 Year Treasury vs. S&P 500 Earnings Yield



Source: Stephens Capital Management

— 10 Year Treasury — S&P Earnings Yield

Furthermore, the dividend yield on the S&P 500 of 1.87% is higher than that of the 10-year U.S. Treasury. It is very rare for stocks to yield more than the 10-year treasury, in fact that has only happened 20 times since 1953.



Source: FactSet

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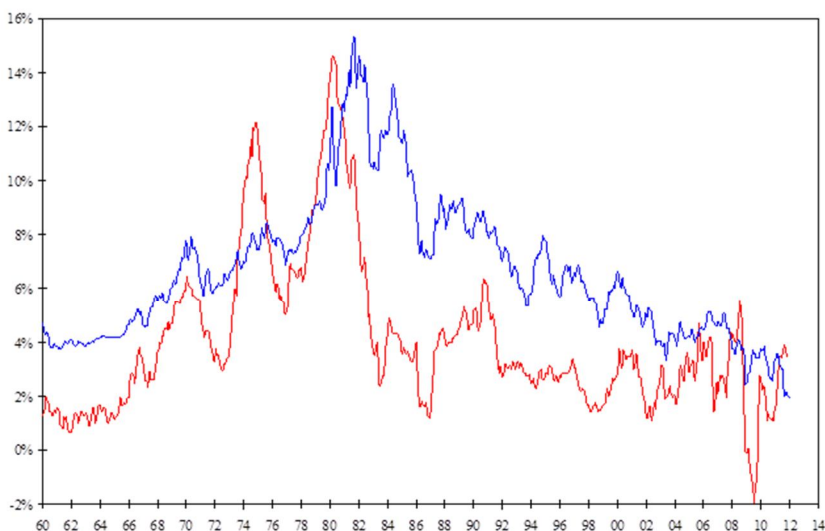
Source: Stephens Capital Management



Outlook for bonds

Our view of the bond market has not changed substantially. As investors sought shelter from the storm in 2011, yields on U.S. Government bonds were pushed near historic lows. With the rate of inflation higher than the interest rate they are receiving, investors are apparently willing to accept a negative real rate of return simply for the return of their principal.

Inflation vs. 10-Year Treasury Yield



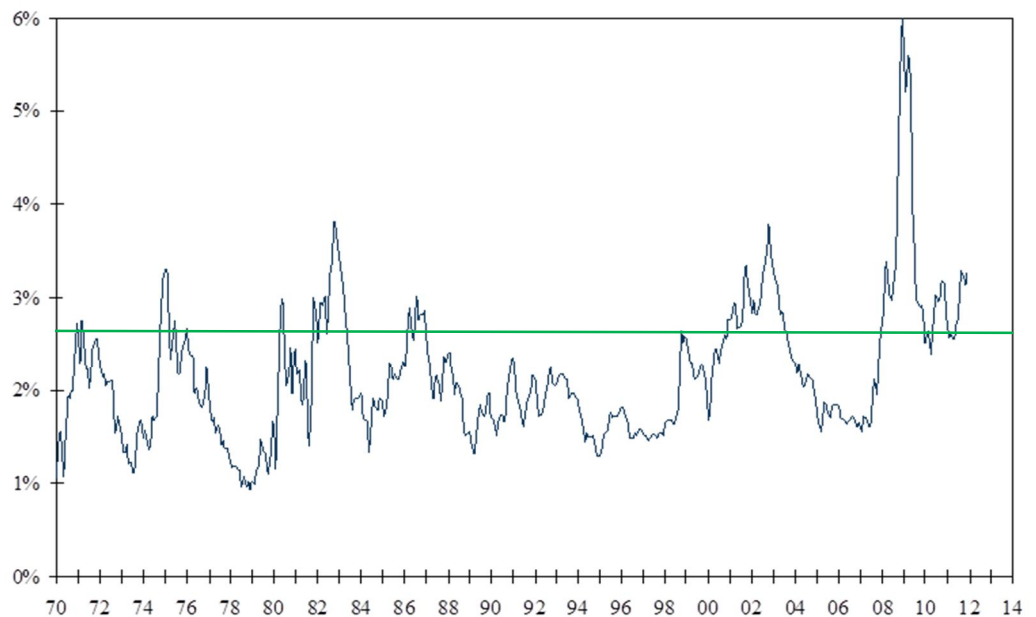
Since 1960 the 10 year rate has exceeded inflation 90% of the time by an average of 363 basis points.

Source: Stephens Capital Management

— CPI — 10-Year Bond

We believe we are at the end of a 30 year bull market for bonds, and that rates are at or near their lows for the current interest rate cycle. We favor investment grade corporate bonds over safe haven U.S. Government bonds as the spreads remain very attractive. We do not believe investors are being rewarded for extending maturities into the long end of the market.

RISK PERCEPTION
Baa - 10 Yr. Treasury



Source: Stephens Capital Management

Conclusion

Stock valuations are very attractive, but investors must brace themselves for more volatility ahead. It is estimated that High Frequency Trading (HFT) currently accounts for approximately 60% of daily trading volume. High-frequency trading involves the rapid and automated placement of orders by computers, many of which are immediately updated or canceled. Regulators have been slow to respond to the rapid rise of HFT and until new rules are formulated to curb their use, major swings in the markets on daily news events will be the norm. Bonds will continue to provide very low returns and negative real rates of return for the foreseeable future. We believe that 2012 will be different from 2011 when many asset classes were highly correlated.

As President Abraham Lincoln once said, "With high hope for the future, no prediction is ventured". Maintaining the appropriate asset allocation with the discipline to ignore short-term disruptions to the market will be the key to success in the year ahead.



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