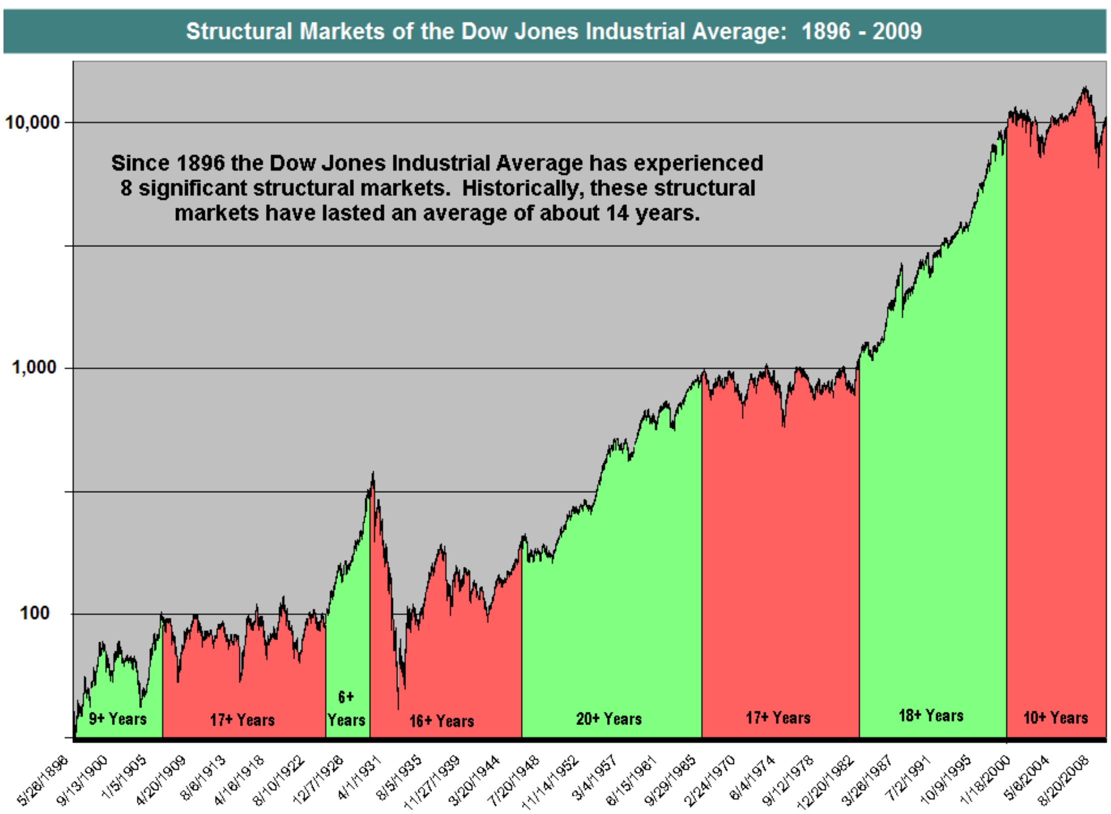
Why Tactical Portfolio Management?

A long-term perspective of the Dow Jones Industrial Average since 1896 reveals the reality that there are extended periods of time in which the US equity market will trend generally upwards, and also lengthy periods of time where the market will instead stagnate or move generally lower. There have been eight such alternating cycles since 1896, with each averaging 14 years in duration. Let's say an individual begins to accumulate meaningful wealth with which to invest around the age of 40, and has a life expectancy of about 85 years, he or she will likely experience three of these cycles during their investment lifespan. With this in mind, it is important to have at one's disposal strategies that are effective in both generally rising (bull) markets and falling (bear, or "fair") markets.

One methodology that has existed since the late-1800's and been proven effective in both kinds of markets is that of the Point & Figure methodology. The first proponent of the methodology was Charles Dow, also the original editor of the *Wall Street Journal*. Charles Dow was a fundamentalist at heart, yet he appreciated the merits of recording price action and understanding the supply and demand relationship in any investment. The Point & Figure methodology has developed over the past 100+ years, but remains at its core a logical, organized means for recording the supply and demand relationship in any investment vehicle. As both consumers and investors we are innately familiar with the forces of supply and demand; it is after all the first subject introduced in any ECONOMICS 101 class, and we experience its impact regularly in our daily lives. We know why tomatoes in the winter don't often taste particularly good, don't have as long a shelf life, and are paradoxically more expensive than those sent to market in July. What many investors are slow to accept is that the very same forces that cause price movement in the supermarket also trigger price movement in the financial markets. When all is said and done in a free market of any kind, if there are more buyers than sellers willing to sell, the price will move higher. If there are more sellers than buyers willing to buy, the price must move lower. If buying and selling are equal the price will remain the same. By charting this price action in an organized manner we hope to ascertain who is winning that battle, sellers or buyers, supply or demand. By having the ability to evaluate changes in the market we have taken the first step toward also becoming responsive to both bullish and bearish periods.



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Broaden Your Investment Scope

Many investors equate investing to buying stocks. But over the last ten years the access to other asset classes traditionally only available to large institutional investors has become available to a much wider segment of the population. By broadening the places for investment from just US stocks to other asset classes like international stocks, commodities, currencies, fixed income and even cash alternatives gives you greater flexibility in your investments when US Equities are not in favor. As you can see from the graphic or "quilt" below, asset classes tend to rotate in and out of season just like the produce in the supermarket does. Over the last ten years, no one asset class has held the top spot for performance in each and every year. Sometimes US equities were at the top, sometime they were at the bottom. Sometime Commodities found their way to the top in terms of performance while in other years it was Fixed Income or Cash Alternatives. Just as a chef will seasonally adjust his menu offerings based upon the freshest produce available, investors should be willing to shift their portfolio focus based upon what asset class is in season.

December 31, 1999 - June 30, 2010

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2000 - 2010
Fixed Income 15.09%	Money Market 3.33%	Commod. 23.04%	Int'l Stocks 35.28%	Int'l Stocks 17.59%	Commod. 22.54%	Int'l Stocks 23.47%	Commod. 20.56%	Fixed Income 19.14%	Commod. 33.43%	Fixed Income 10.51%	Commod. 129.78%
Commod. 11.06%	Fixed Income -3.08%	Fixed Income 10.97%	US Stocks 26.38%	Commod. 11.21%	Int'l Stocks 10.87%	US Stocks 13.62%	Int'l Stocks 8.66%	Money Market 1.33%	Int'l Stocks 26.36%	Money Market 0.06%	Fixed Income 40.25%
Money Market 5.91%	Foreign Currency -5.33%	Foreign Currency 9.75%	Foreign Currency 14.93%	US Stocks 8.99%	Money Market 3.01%	Commod. 13.51%	Foreign Currency 7.62%	Foreign Currency -10.06%	US Stocks 23.45%	Commod. -2.69%	Money Market 30.22%
Foreign Currency -6.65%	US Stocks -13.05%	Money Market 1.58%	Commod. 8.86%	Foreign Currency 6.27%	US Stocks 3.00%	Foreign Currency 6.93%	Money Market 4.36%	Commod. -23.74%	Foreign Currency 8.93%	Foreign Currency -4.52%	Foreign Currency 17.33%
US Stocks -10.12%	Commod. -16.34%	Int'l Stocks -17.52%	Money Market 0.98%	Fixed Income 2.98%	Fixed Income 1.56%	Money Market 4.74%	Fixed Income 3.87%	US Stocks -38.49%	Money Market 0.21%	US Stocks -7.57%	Int'l Stocks -23.40%
Int'l Stocks -15.21%	Int'l Stocks -22.61%	US Stocks -23.37%	Fixed Income -2.97%	Money Market 1.40%	Foreign Currency -7.99%	Fixed Income -2.41%	US Stocks 3.53%	Int'l Stocks -44.77%	Fixed Income -16.34%	Int'l Stocks -14.31%	US Stocks -29.85%

Legend:

Fixed Income = US 30 Year Bond (US/)
Commodities = Continuous Commodity Index (UV/Y)
Money Market = 13 Week T-Bill Total Return (MNYMKT)
Foreign Currency = Dorsey, Wright Foreign Currency Index (DWAFXI)
US Stocks = S&P 500 Index (SPX)
Int'l Stocks = MSCI EAFE Index (EAFE)

Source:

Reuters calculated by Dorsey, Wright & Associates

Performance displayed represents past performance, which is no guarantee of future results. The indices do not reflect any management fees, transaction costs or expenses. The benchmark indices are unmanaged and may not be available for direct investment.

Dynamic Asset Level Investing (DALI)

Tactical decisions are made utilizing the research and evaluation techniques of Dorsey, Wright & Associates who has extensive expertise in a technique known as Point & Figure charting. This type of analysis attempts to evaluate the supply and demand forces of particular asset classes and ranks the asset classes from strongest to weakest based upon relative strength (RS). We feel asset classes can be ranked similar to the way one might rank sports teams. If you think about your favorite sport, they rank teams based upon how well they perform against their opponents. The more games, matches or races won, the higher in ranking the team will go. We believe the same thing can be done in the investment markets. In the financial markets, a "game" is played each day and it consists of comparing the daily performance of one asset class to another. Each day we compare asset classes to one another to determine which asset classes are the strongest or weakest compared to one another. The ranking process is comprised of the following 4 steps given the name Dynamic Asset Level Investing or DALI for short.

Step 1:

A roster is established for each asset class. For instance, in the international equity space, all areas of the world are represented from Europe to Latin America to Canada to Australia and Asia- Pacific. The process of determining the roster is essential so that no one segment within an asset class has too great of an influence.

Step 2:

A relative strength calculation is compiled for each member of the roster versus every other member of the evaluation set. In essence, a very large arm wrestling tournament is held. After all individual calculations are computed and charted on a Point & Figure basis, each member now has its number of RS "wins."

Step 3:

The total number of "wins" for each individual member of the asset class is added together to get a composite score for the entire asset class. The asset classes are then ranked from 1 to 5. The asset classes ranked are as follows:

Domestic Equities
International Equities
Commodities
Currencies
Fixed Income

Step 4:

The top two asset classes are eligible to be deemed as Emphasized in DALI, but they must pass one last hurdle. The asset class is compared to Cash on a Point & Figure relative strength basis. If Cash is stronger, Cash takes its spot as Emphasized in DALI. Cash is the only asset class that can occupy both of the Emphasized Asset Class spots.

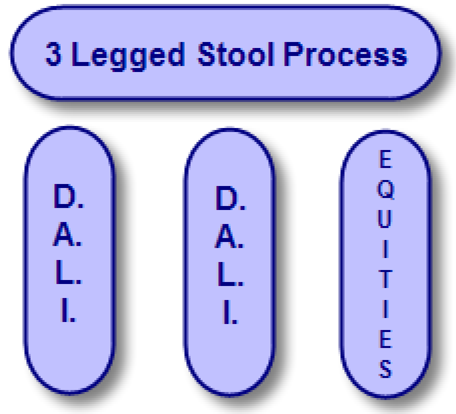
Each day, thousands of calculations are done to support the DALI process and determine which asset classes have emerged as the leaders according to this methodology. As the asset classes fluctuate in strength, emphasized asset classes in DALI will also change reflecting current market trends.

Days Each Asset Class was Emphasized in DALI Level One

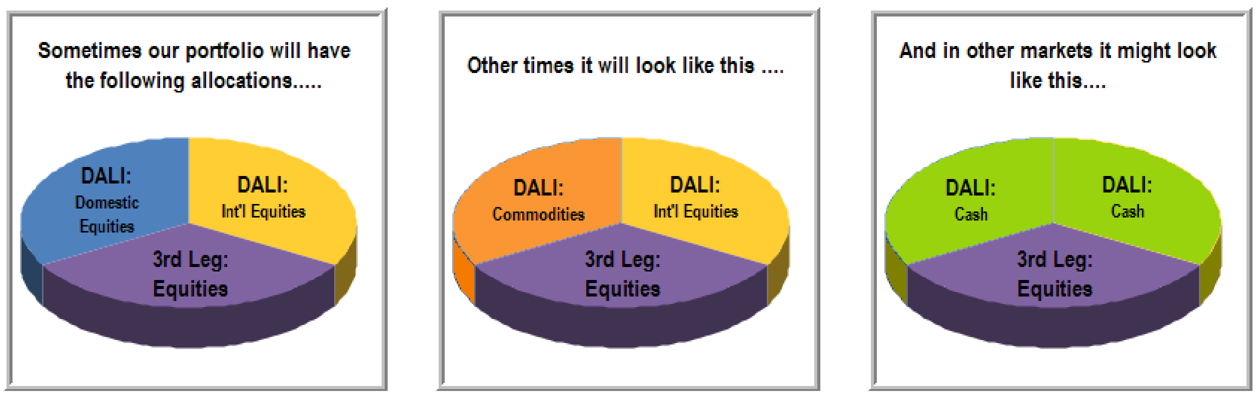
Asset Class	January 2000 to June 2003	June 2003 to January 2008	January 2008 to March 2009	March 2009 to June 2010
Domestic Equities	137.00	616	-	254
Int'l Equities	-	1,555	12	332
Commodities	777.00	1,008	201	145
Foreign Currencies	-	-	203	-
Fixed Income	851.00	-	148	66
Money Market	735.00	171	316	139
Total Days for Period	1250	1675	440	468

Implementation: 3 Legged Stool

After discussions with each individual investor, risk tolerances are determined to guide us to an appropriate percentage of a client's assets to be allocated toward a tactical approach. The implementation of the tactical strategy, whose cornerstone of guidance is DALI, takes place in what can be best described as a 3 Legged Stool. The 3 Legged Stool process allows the composition of an investment portfolio to change over time. The 3 Legged Stool process is designed to adapt to the market just as we adapt our wardrobe to the changing seasons. The first two legs of the stool are determined by having exposure to the two strongest asset classes among Domestic Equities, International Equities, Commodities, Foreign Currencies, Fixed Income and Cash Alternatives based upon the DALI calculations. The third leg of the stool is constant managed exposure to the equity markets. As you can see in the graphic below, the 3 Legged Stool process is designed to be a robust and adaptive strategy. The composition of the portfolio will change over time. Sometimes the portfolio can be very skewed toward equities and other times the portfolio may have an emphasis on non-traditional asset classes like commodities and yet other times the portfolio will be very under invested, or defensive.



3 Legged Stool Strategy



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The analysis within the 3 Legged Stool process doesn't end with determining which asset class should have a position in the portfolio. The same relative strength strategy that has asset classes arm wrestling against each other is used to determine what to buy *within* each asset class. Take the Domestic Equity area for instance. Here sectors such as Energy, Utilities, Healthcare, Technology, etc. are compared to one another on a relative strength basis and then ranked from strongest to weakest versus each other to determine where within the Domestic Equity space the strategy suggests exposure should be allocated. Below is an example of some of the analysis done for each asset class and where investments can be directed to.

Sample Rotation Areas with Asset Classes

Domestic Equities	International Equities	Commodities	Currencies
Basic Materials	Latin America	Gold	US Dollar
Energy	Europe	Silver	Euro
Healthcare	Japan	Agriculture	Canadian Dollar
Technology	Canada	Oil	Australian Dollar
Utilities	Australia	Base Metals	Swiss Franc

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Asset allocation does not guarantee a profit or protect against loss. Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Buying commodities allows for a source of diversification for those sophisticated persons who wish to add commodities to their portfolios and who are prepared to assume the risks inherent in the commodities market. Any purchase represents a transaction in a non-income-producing commodity and is highly speculative. Therefore, commodities should not represent a significant portion of an individual's portfolio. Bond prices fluctuate inversely to changes in interest-rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment.· Technology and Internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Technical analysis is based on the study of historical price movements and past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the future. Dorsey Wright and Associates developed the indicators described above. They have been prepared without regard to any particular investor's investment objectives, financial situation and needs. Accordingly, investors should not act on any recommendation (express or implied) or information in this report without obtaining specific advice from their financial advisors and should not rely on information herein as the primary basis for their investment decisions.

Continuous Commodity Index: A broad grouping of 17 different commodity futures, which is a benchmark of performance for commodities as an investment. The index was developed in 1957.

13 Week T-Bill Total Return: Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and fixed principal value.

Dorsey, Wright Foreign Currency Index: An equal weighted index comprised of eight foreign currencies. The index is rebalanced on a daily basis and measured by pricing all currencies against the US Dollar.

S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

MCSI EAFE Index: The Morgan Stanley Capital International Europe, Australasia and Far East ("MSCI EAFE") Stock Index is an unmanaged group of securities widely regarded by investors to be representations of the stock markets of Europe, Australasia and the Far East. Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

Dow Jones Industrial Average: The Dow Jones Industrial Average is an unweighted index of 30 "blue-chip" industrial U.S. stocks.

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