



Global Tactical Asset Allocation – Q2 2010  
(Mutual fund investment strategy)

The first half of 2010 was a difficult period for the GTAA investment strategy. GTAA relies heavily on charting, money flows, and sector momentum. When you have a chaotic environment, where the market moves violently in one direction, and then several days later moves violently in the opposite direction, false buy and sell signals get triggered which hurt the performance of the investment portfolio. That is exactly the conditions we experienced in Q2, 2010.

We entered Q1, 2010 with a cautious investment posture, holding as much as 25% of portfolio assets away from the equity markets --- in either cash or hedged positions. As a result, our gains in Q1 were roughly half of the gains generated by the S&P 500. We entered Q2 more fully invested. The market suffered a pull back in Q2 and our portfolio suffered pretty much the same correction as the S&P 500, leaving our portfolios in a loss position for the six months ending 6/30/2010.

Economic conditions in the developed nations (US, Western Europe, & Japan) are uncertain. Although slowing, Emerging Market countries (China, India, Korea, Brazil, etc) still appear to have healthy economic growth. Pockets of investment opportunity appear to be in Technology, Communications, and Emerging Markets and we are over weighted in those areas. In addition, we are investing a portion of the portfolio in less volatile areas where we can collect a healthy dividend (Energy MLP's, REIT's, and High Yield Bonds). We are also holding a 10% position in funds that invest in Gold mining companies which should do very well if Gold goes up in value.

Going forward, the markets are likely to be nervous, choppy and erratic for the next 3-6 months and we certainly have our work cut out for us for the remainder of 2010. But as the economic conditions begin to stabilize, investment opportunities should arise and we will be quick to capitalize upon them.

We want to thank you for your confidence in allowing us to manage your investment assets and welcome any questions you may have.

Sincerely,

A handwritten signature in black ink that reads "Rudy Polanski". The signature is written in a cursive, flowing style.

Rudy Polanski  
Senior Portfolio Manager

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