

**Executive Summary:
Multiple Asset Class Approach to Investing**

CIOVACCO
CAPITAL MANAGEMENT

Asset Allocation and Portfolio Management Statement of Purpose

To give CCM clients a reasonable probability of producing superior full-market cycle returns under varied market conditions while reducing volatility and providing numerous safeguards against the loss of purchasing power due to inflation and a weak U.S. dollar.

Managing Long-Term Risk Based On Individual Needs

For the sake of simplicity, we will explain the CCM approach to investing from the perspective of a growth investor. The same concepts can be applied with adjustments to more conservative as well as more aggressive investors. To meet the needs of each individual, we begin with a CCM Base Allocation. A CCM Base Allocation is one which performed well from 1970-2006 under various market conditions (see Table EX-A). Base allocations are developed for each client using both historical data (1970-2006) and future simulations based on historical data (1970-2006). Since the CCM Base Allocation is designed to perform well in a wide range of environments, we adjust it to best meet the needs of the current environment. The adjusted allocation is termed the CCM Current Allocation. The CCM Rebalancing Model is used to assist in the ongoing management of the client's CCM Current Allocation.

Table EX-A Periods Studied To Build Asset Allocations and Investment Simulator

1970-1981	High inflation, lackluster real returns for stocks & bonds, commodities strong
1982-1999	Low inflation, stocks and bonds lead, commodities lag
2000-2002	Bear market in U.S. stocks, bonds and commodities perform well
2003-2007	Fed policy helps propel almost all asset prices higher, creeping inflation

From 1970-2006, a sample CCM Base Growth Allocation offers a risk/reward profile which enables investors to have a realistic probability of outpacing inflation while reducing downside risk.

Table EX-B: Historical Risk/Reward 1970-2006	S&P 500 Total Return Large-Cap Stocks	Multiple Asset Class Strategy
Average Annual Return (1970-2006)	12.39%	13.40%
Standard Deviation Returns	16.80%	9.53%
68% Probability Range – Returns	- 4.41% to 29.19%	3.87% to 22.93%
95% Probability Range – Returns	- 21.21% to 45.99%	- 5.66% to 32.46%
Max Draw Down / Loss (1995-2006)	- 47.44%	- 12.50%

Past performance does not guarantee future returns

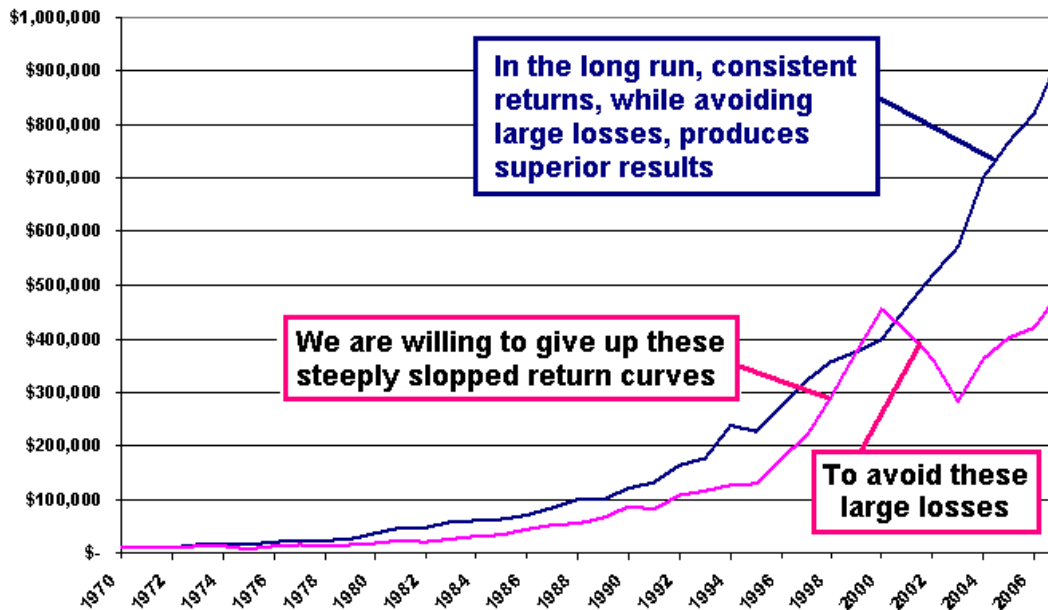
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Chart EX compares the historical return 1970-2006 of the S&P 500 to the CCM Base Allocation. The long-term benefits of avoiding large losses can easily be seen in Chart EX. Charts EX-1 and EX-2 help illustrate

the concepts of risk and reward, as well as the concept of variability of returns within an expected range based on your asset mix.

Chart EX

Historical Growth of \$10,000 1970-2006
CCM Multiple Asset Class Approach vs. U.S. Large Cap Stocks



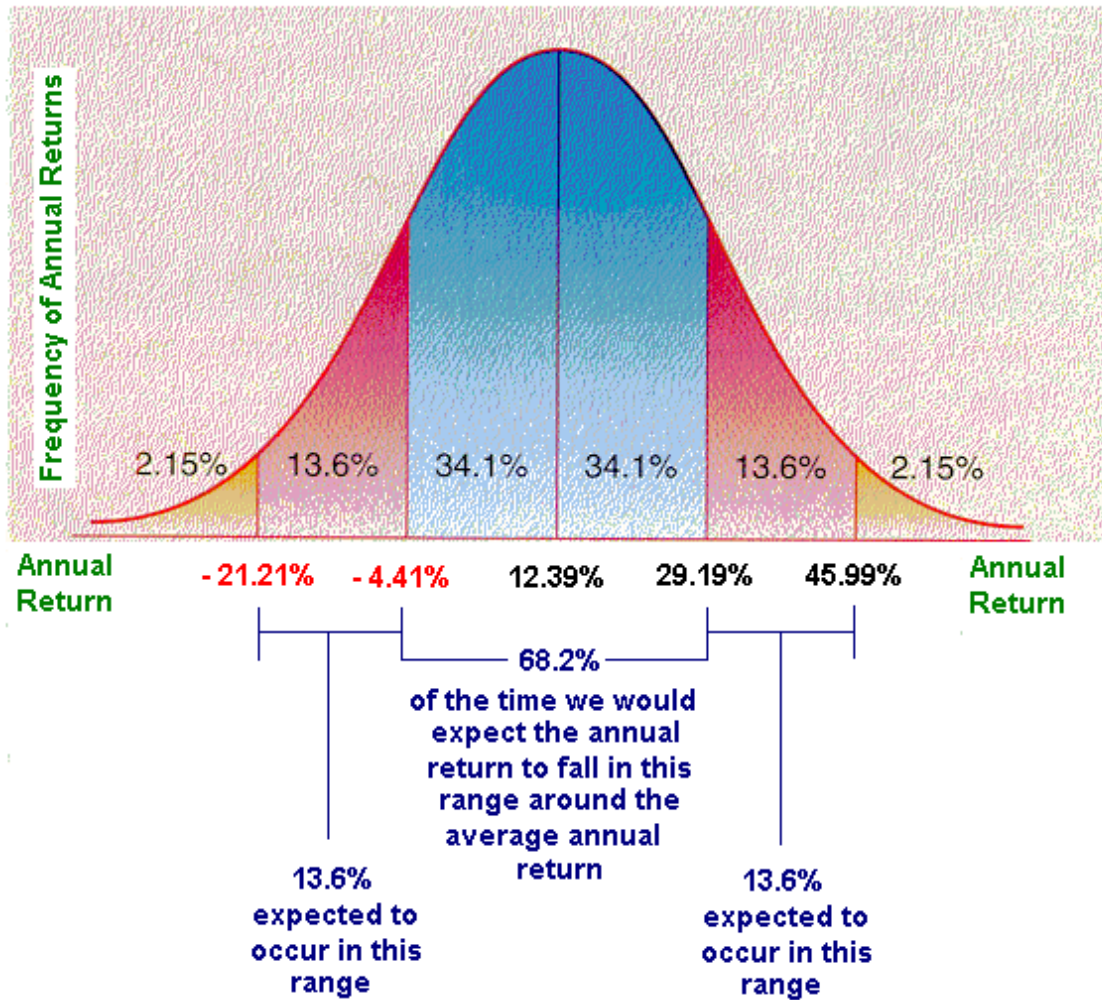
If an investor earned 10% in a large cap index fund (like an S&P 500 Index fund) and the CCM Base Allocation (Multiple Asset Class) earned 10% in the same year, you might ask, “Why bother with the multiple asset class approach?” The answer lies in the risk each investor took in order to make their 10% return. Using the average annual returns and standard deviation of those returns from 1970 through 2006 (see Table EX-B), Charts EX-1 and EX-2 show the range of expected returns an investor could expect in any given year. To earn their 10% return, the large cap mutual fund investor exposed their principal to an investment which had a maximum market-top-to-market-bottom loss of 47.44% (1995-2006). To earn their 10%, the CCM Base Allocation investor only exposed their principal to an investment which had a maximum market-top-to-market-bottom loss of 12.50% over the same period.

Incremental Shifts Away From Losses and Toward Gains

CCM uses a proprietary asset allocation rebalancing model to give clients the opportunity to participate in investment gains produced by asset classes in long-term up trends, while minimizing the underperformance or losses produced by asset classes in long-term down trends. The model calls for small incremental shifts to avoid overreacting to what may turn out to be a short-term trend or false signal. Our objective as investors is to be over-weighted in the better performing asset classes and underweighted in the lagging asset classes.

Chart EX-1

Expected Range of Annual Returns For U.S. Large Cap Stocks Based on Total Return Data 1970-2006

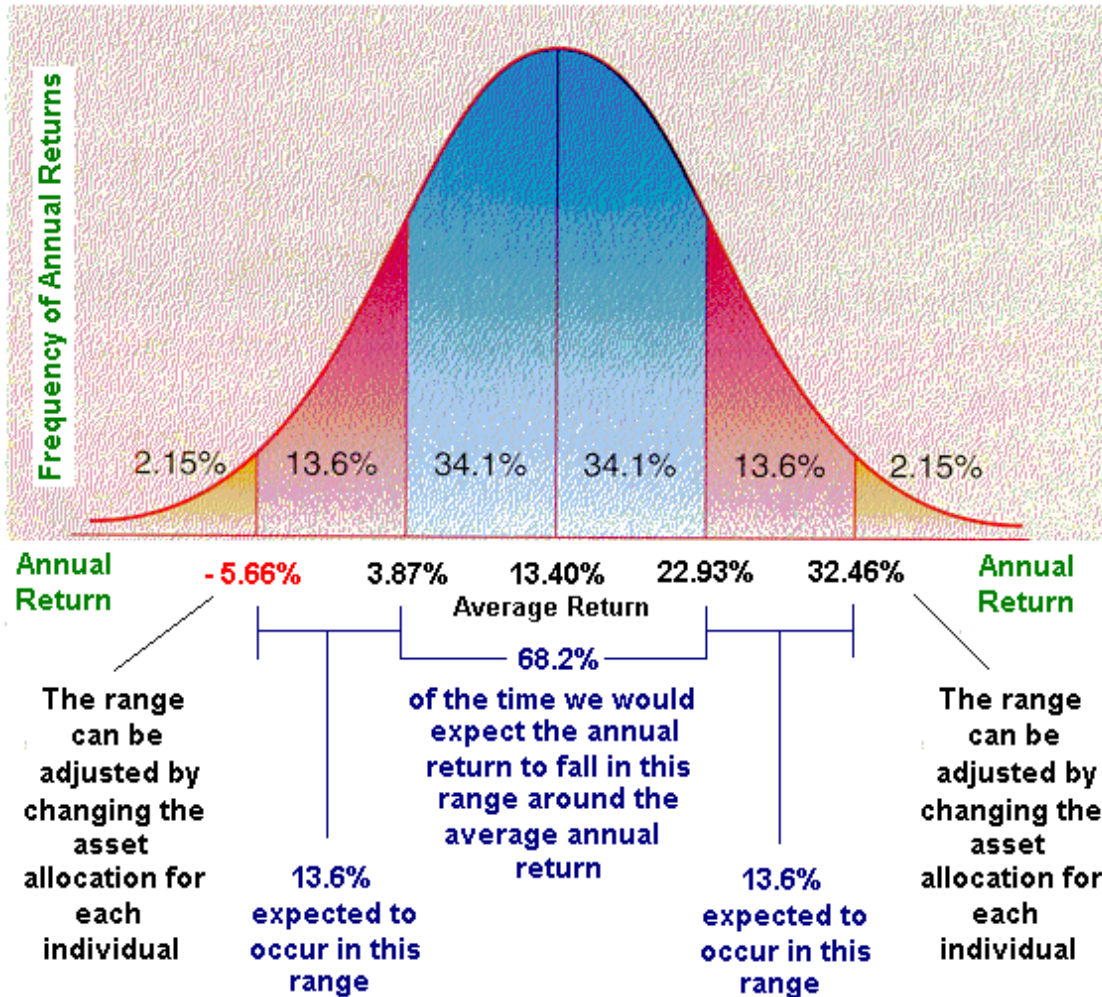


While investment returns do not fit neatly into a normal distribution, we can illustrate the concept of standard deviation and expected frequency of annual returns around the mean return of 12.39% in the figure above.

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**Expected Range of Annual Returns For Multiple Asset Class Portfolio Based On Ciovacco Capital Management Approach
Using Total Return Data 1970-2006**



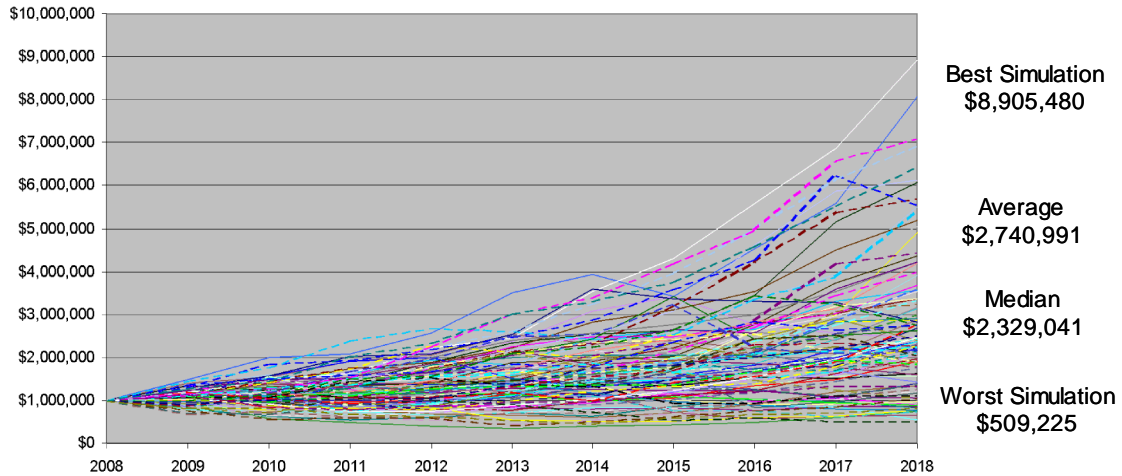
While investment returns do not fit neatly into a normal distribution, we can illustrate the concept of standard deviation and expected frequency of annual returns around the mean return of 13.40% in the figure above.

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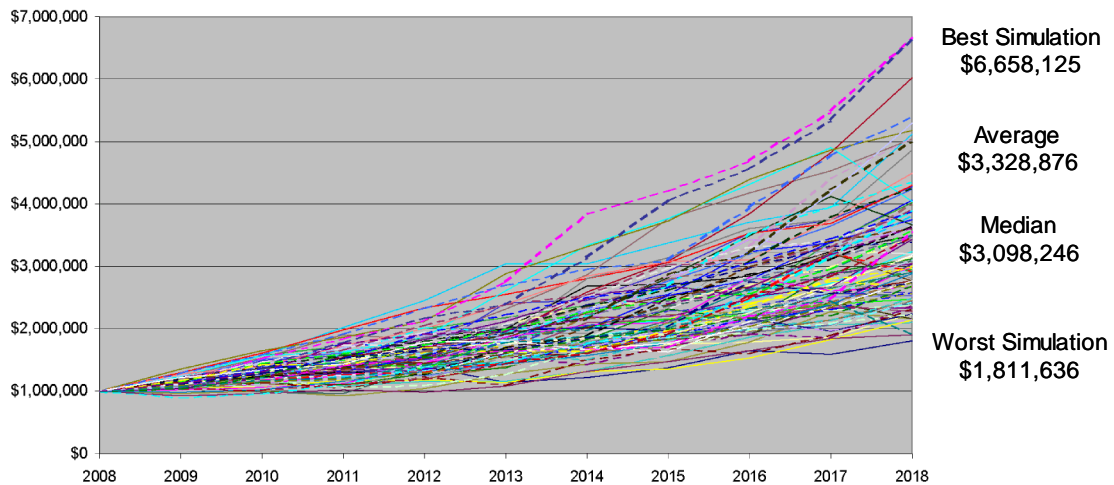
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Graphs EX-3 and EX-4

**Ten-Year Simulation Results - Nominal Dollars
Assumes \$1M Invested in S&P 500 Index
100 Simulated Future Investment Paths Shown**



**Ten-Year Simulation Results - Nominal Dollars
Assumes Investment \$1M in CCM Base Allocation / Multiple Asset Class
100 Simulated Future Investment Paths Shown**



Large cap stock returns used above are based on actual total returns for the Vanguard 500 Index Fund and Ibbotson Large Cap Stocks. Historical returns for specific investments typically implemented by CCM clients were used in the Multiple Asset Class calculations whenever available. When data was not available for specific investments, reasonable proxies were used. Mutual fund and ETF annual operating fees are included in the return figures quoted above. Multiple Asset Class returns are reduced by 0.65% annually, which is the approximate annual CCM management fee for the asset allocation used in this example. Actual client fees may be higher or lower based on their particular needs and allocation. Custodian trading costs, such as commissions for transactions are not included in the figures presented above. These figures are presented for illustrative purposes only. Use this graph at your own risk. Attached legal disclaimers apply in the paper, article, or Internet posting apply.

Future Simulations Based On Historical Data Help Us Manage Risk

The CCM Investment Simulator is a detailed investment allocation simulator which helps us better understand the realistic range of possible future outcomes, both favorable and unfavorable, for a particular asset allocation. The model simulates the future using over 75,000 historical records of returns, inflation, and taxes dating back 37 years (1970-2006).

The CCM Investment Simulator allows us to examine multiple future simulated investment paths based on varied market conditions, annual rates of return, and inflation. Graphs EX-3 and EX-4 show simulation results for the S&P 500 Index and the CCM Base Allocation.

Our Allocations Can Address Inflation

Investments which perform well in an inflationary environment are quite different from those that perform well during long-term deflation. Therefore, investors should first determine if they believe the bursting of the housing bubble will lead to long-term, widespread deflation. Japan's deflationary experience of 1990-2007 shows the difficulty policy makers face once a deflationary spiral begins. The U.S. economy is highly dependent on rising asset prices creating the wealth effect or the good feeling consumers get when the value of their home or stock portfolio increases. These good feelings lead to greater consumption and more borrowing. The extension of credit allows for even more consumption by consumers which accounts for roughly 70% of U.S. GDP.

The U.S. government is faced with large budget deficits and enormous future entitlements in the form of Medicare and Social Security. In an inflationary environment, the government's real debt burden decreases because debts will be paid back with devalued dollars. Conversely, if we slip into long-term, widespread deflation, the government's debt burden in terms of purchasing power would increase. It is difficult, if not near impossible, to imagine the U.S. government favoring any policy which would increase the burden of the national debt, Social Security, and Medicare. As a result, the U.S. government has strong motivation to favor inflationary policies and an even greater motivation to avoid long-term deflation. Japan's experience has shown deflation can increase the burden of debt and destroy the wealth effect.

In the long run, we can expect the Federal Reserve and U.S. government to go to great lengths in an effort to prevent deflation. At this stage of the game, they really have no choice. The alternative of long-term deflation could lead to a global recession or even a depression. As a result, a long-term deflationary outcome is extremely unattractive for politicians who must seek reelection. With the "modern equivalent of the printing press" (an expression used by Federal Reserve Chairman Ben Bernanke) and published consumer inflation still low on a historical basis, we can expect the Federal Reserve and U.S. government to continue to encourage more borrowing, more speculation, and more spending. When push comes to shove, policy makers will put anti-deflationary policies ahead of concerns about the strength of the U.S. dollar and rising consumer prices. At some point in the future, the policy maker's efforts will fail and the current credit cycle will end, most likely resulting in long-term deflation. For the time being, the odds heavily favor more inflation over widespread deflation. As a result, your investment strategy should continue to favor inflationary and weak dollar outcomes.

From an allocation perspective, we have exposure to several asset classes which can protect our purchasing power from inflation and a weakening U.S. Dollar. In addition to traditional U.S. stocks and bonds, our allocations include foreign stocks, foreign commercial real estate, foreign bonds, physical

gold and silver, physical commodities, commodity stocks, precious metals stocks, and Treasury Inflation Protected Securities (TIPS).

Risks and Limitations to the CCM Approach

While the CCM approach to investing can reduce risk from a historical and simulated perspective, it can by no means eliminate risk. While examining historical returns and simulating future returns is beneficial, both rely on historical correlations between asset classes which change over time. Several factors have contributed to an environment where stocks, bonds, and commodities have all performed well from 2002-2007. This is an unusual situation which points towards changing correlations between asset class price movements. As a result, the risks in the current market are most likely higher than the historical data suggests. As asset managers, we must be prepared to adjust to an ever changing investment landscape. Obviously, investing in the asset markets will be difficult going forward for all participants, including those who utilize the CCM multiple asset class approach and models. However, the concepts presented here should help investors improve their odds of protecting and growing their assets on an inflation-adjusted basis. All market based investment portfolios are subject to principal loss, including a multiple asset class portfolio.

NOTE: Chart EX was produced using annual returns, which does not take into account intra-year volatility. Graphs using daily performance data would show intra-year price volatility which is more indicative of the real world. Since returns are not produced in straight lines from year to year, an investor's experience in both the S&P 500 and CCM Multiple Asset Class Approach has been more volatile than what is depicted in Chart EX.

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