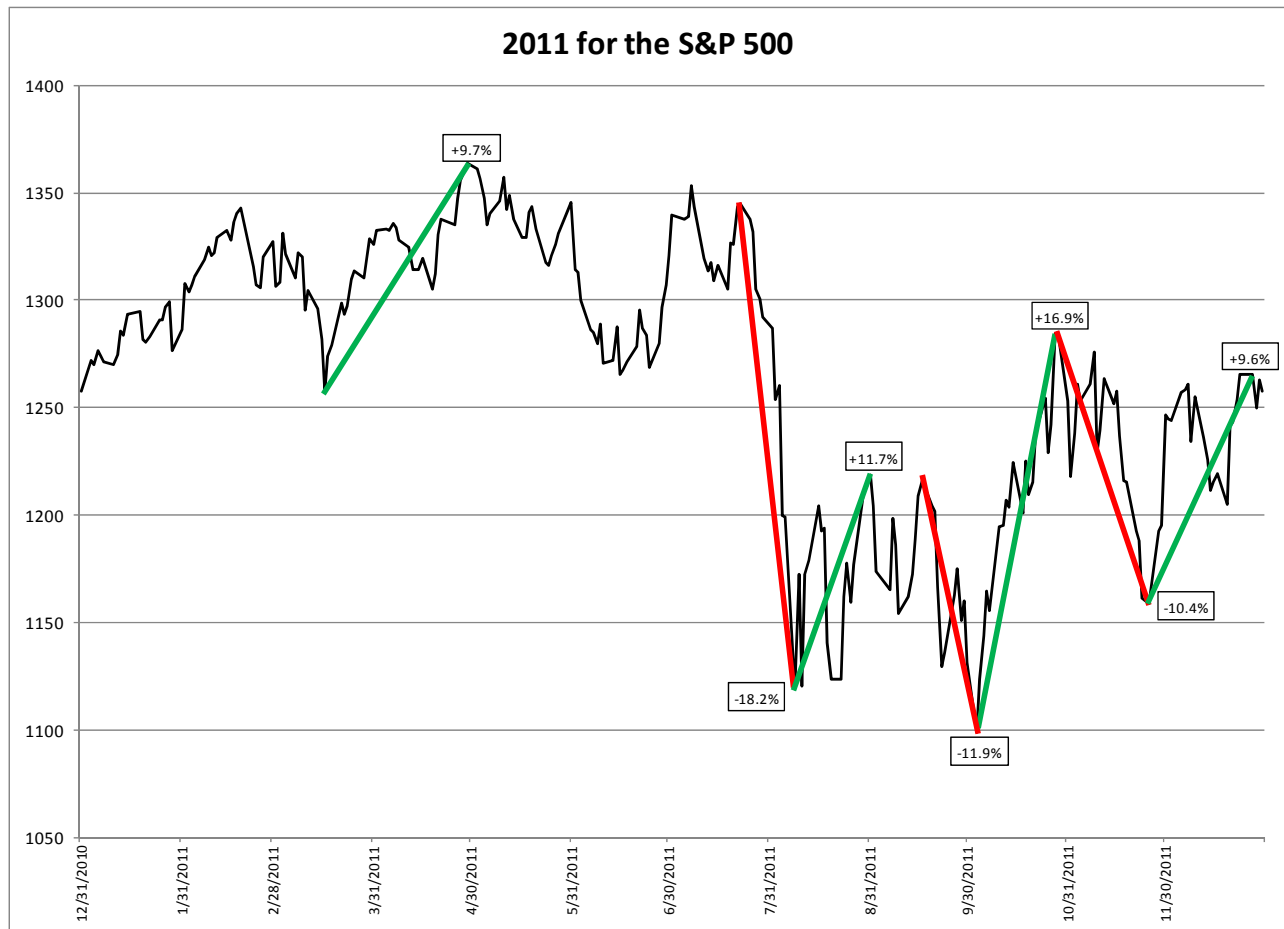


## 2011: Much Ado About Nothing

If all you knew about the stock market in 2011 was that the S&P 500 started the year at 1257.64 and ended the year at 1257.60, you might conclude that it was one of the most boring years on record. If only! World events drove unprecedented volatility with the Egyptian revolution, Japanese earthquake/tsunami, US credit downgrade, European sovereign crisis and Libyan coup among the headlines. As shown below, investors experienced three drops of more than 10% offset by four rallies. To put this in context, Dorsey Wright & Associates reports that there was **NOT ONE** drop of 10% or more for the S&P 500 during the bull run from 2003 to 2007.

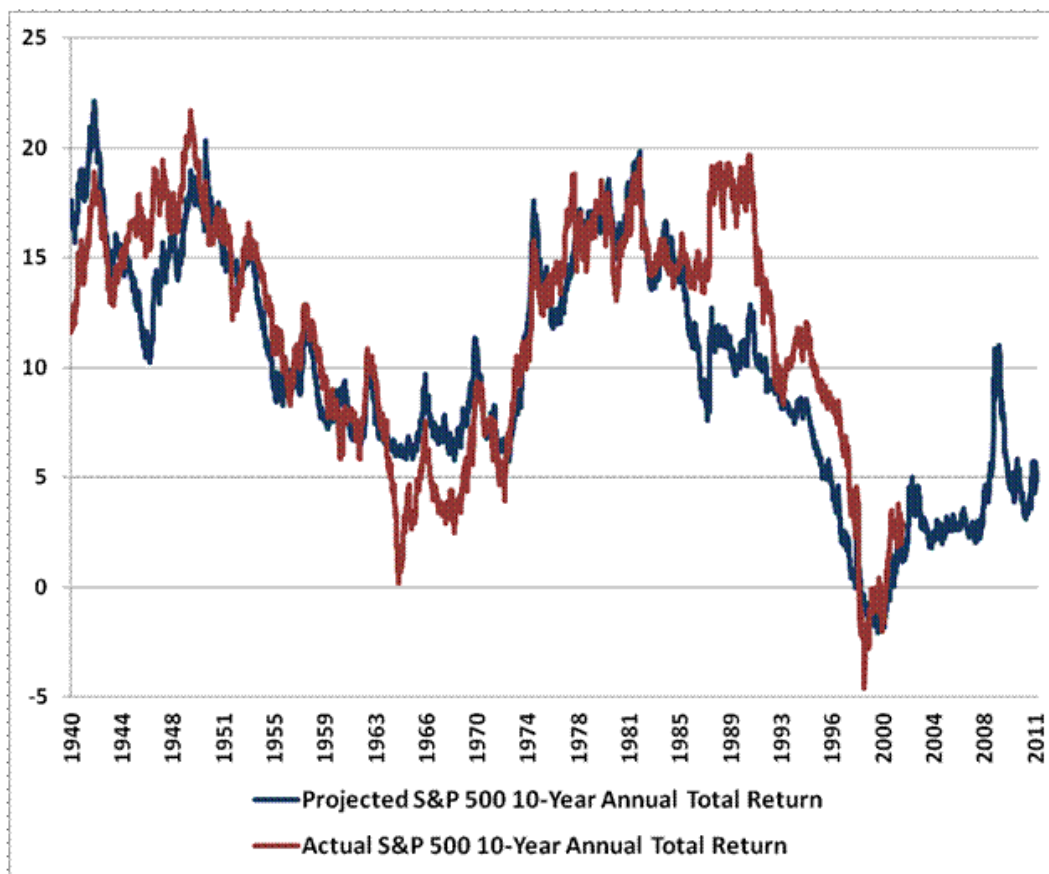


Based on the severity of the ups and downs, most investors were lucky to make money in 2011. Hedge Fund Research is reporting that its Equity Hedge Index was down about 19% for the year. Ouch! Several high profile hedgies will end the year down between 20% and 40%. 16 of 21 Morningstar Domestic Mutual Fund categories were in the red for 2011 (the best category was utilities; financials were worst). All 14 international categories were negative in 2011 and the best showed a loss of almost 8%. As we saw in 2008, diversification didn't really help. Oddly enough, the absolute best place to be was in long maturity US government bonds that returned more than 30% for the year. However, this was a very contrarian place to be when the year started, with the world's largest bond manager (Bill Gross at PIMCO) telling everyone that he was selling out of Treasuries and actually taking a short position. Interestingly, our Risk Managed Strategies started buying long-term Treasuries in June and owned them most of the second half of the year. This was a major contributor to the nicely positive performance of the two strategies as reported on the attached summary. But that's all history now.....

## 2012 and Beyond: Same or Different?

First of all, you'll get no market predictions out of me. Search Google for Byron Wien, Bob Doll, Richard Bernstein or Doug Kass if you need a numbered list of prognostications for 2102. Having said that, the probabilities appear pretty binary. Historically, a year that ends unchanged is never followed by another flat year. According to The Wall Street Traffic Light web site, there have been 9 years since 1928 in which the S&P 500 finished between -5% and +5% (2011 is the tenth). The average return for the next year was 26%. Sounds good and it might happen again. However, I expect that the market in 2012 will be defined by the same headline risks we saw in 2011 (European sovereign crisis, Middle East unrest, and US politicking), any one of which could send us into a serious tailspin. Therefore, we seem destined to have a really good year or a really bad year. Big help, right? No, but it suggests that a flexible approach to the market may have a better chance of success than a one-sided wager in one direction or the other.

Longer term, investors still face significant headwinds in trying to achieve the long-term equity market average of a 10% return. John Hussman ([www.hussmanfunds.com](http://www.hussmanfunds.com)) has developed a valuation framework that's done a very good job of projecting the 10-year annual total return of the S&P 500. The following chart shows how the projected return (blue line) has tracked the actual return (red line). The red line stopping in 2002 at about 3% reflects the annualized return you would have today had you invested ten years ago. According to Hussman's calculations, investing in the S&P 500 today should give you an average annual return of 4.9% over the next ten years. Not bad when compared with the past ten years, but probably not what most investors have in mind as they save for retirement. Nevertheless, this is what you should expect from a passive, buy-and-hold investment approach. Not to mention more of the insane volatility we've seen the past few years. And that's exactly why I prefer strategies that are active, tactical and risk-managed. Good luck in 2012 and feel free to contact me with any questions or comments.

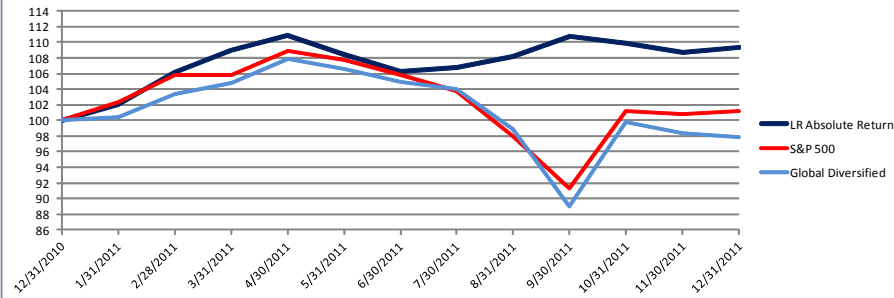


Source: [www.hussmanfunds.com](http://www.hussmanfunds.com)

# Summary of LongRun Risk-Managed Strategies (12/31/2011)

## LongRun Absolute Return Strategy

The Absolute Return strategy generally holds the top 4 of 14 constituent asset classes (see table below) ranked by trailing 3-month total return. The portfolio is rebalanced monthly. If one or more of the top 4 assets has a negative three-month or one-month return, that allocation moves to cash. Therefore, the strategy can be 100% in cash under adverse market conditions.

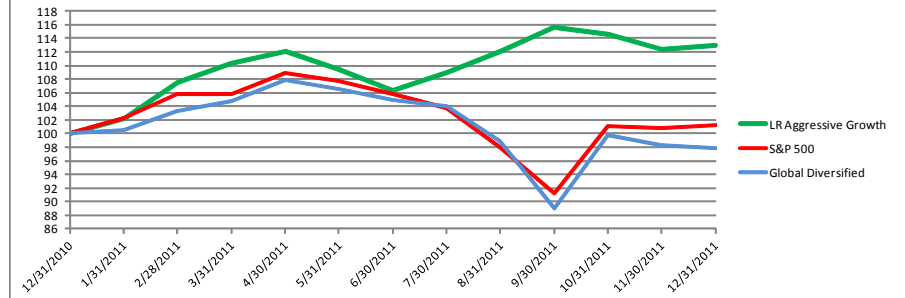


	2011 Returns (%)												YTD	Rel Perf
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
LR Absolute Return	2.0	4.0	2.7	1.8	-2.2	-2.1	0.5	1.4	2.3	-0.7	-1.1	0.6	9.3	Perf
S&P 500 (SPY)	2.3	3.5	0.0	2.9	-1.1	-1.7	-2.0	-5.5	-6.9	10.9	-0.4	0.4	1.2	8.2
Global Diversified <sup>1</sup>	0.5	2.9	1.4	3.0	-1.2	-1.6	-0.8	-5.0	-10.0	12.1	-1.4	-0.5	-2.0	11.4
Strategy Holdings	IWM	CASH	IWM	IWM	IWM	CASH	CASH	EMB	CASH	CASH	CASH	CASH		
	MDY	MDY	MDY	MDY	MDY	EMB	CASH	HYG	EMB	CASH	CASH	CASH		
	XLE	XLE	XLE	XLE	VGK	TLT	CASH	LQD	LQD	LQD	EMB	XLE		
	XME	XME	XME	XME	XLE	VNQ	EMB	TLT	TLT	TLT	LQD	TLT		

<sup>1</sup> See Important Disclosures for a description of this benchmark

## LongRun Aggressive Growth Strategy

The Aggressive Growth strategy always holds the top 3 of 14 constituent asset classes (see table below) ranked by 3-month total return. The portfolio is rebalanced monthly. Unlike the Absolute Return strategy, Aggressive Growth has no explicit downside protection feature, relying only on relative strength to position the portfolio.



	2011 Returns (%)												YTD	Rel Perf
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
LR Aggressive Growth	2.2	5.2	2.6	1.6	-2.4	-2.8	2.4	2.9	3.2	-0.9	-2.0	0.6	13.0	Perf
S&P 500 (SPY)	2.3	3.5	0.0	2.9	-1.1	-1.7	-2.0	-5.5	-6.9	10.9	-0.4	0.4	1.2	11.8
Global Diversified <sup>1</sup>	0.5	2.9	1.4	3.0	-1.2	-1.6	-0.8	-5.0	-10.0	12.1	-1.4	-0.5	-2.0	15.0
Strategy Holdings	IWM	MDY	MDY	MDY	MDY	EEM	EMB	EMB	EMB	EMB	EMB	SPY		
	XLE	XLE	XLE	XLE	VGK	TLT	TLT	LQD	LQD	LQD	LQD	XLE		
	XME	XME	XME	XME	XLE	VNQ	VNQ	TLT	TLT	TLT	TLT	TLT		

<sup>1</sup> See Important Disclosures for a description of this benchmark

## Asset Class Returns and Dispersion

Asset Class	ETF	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
US Large Cap	SPY	2.3	3.5	0.0	2.9	-1.1	-1.7	-2.0	-5.5	-6.9	10.9	-0.4	0.4	1.2
US Mid Cap	MDY	1.9	4.5	2.6	2.6	-0.9	-2.6	-3.5	-7.2	-10.5	13.5	-0.2	-0.6	-2.1
US Small Cap	IWM	-0.4	5.6	2.5	2.6	-1.8	-2.4	-3.4	-8.9	-11.2	15.1	-0.4	0.5	-4.4
AsiaPac ex Japan	EPP	-1.4	2.0	2.3	4.7	-3.0	-1.4	-1.6	-4.7	-17.7	16.1	-1.7	-4.9	-13.7
Europe	VGK	3.7	3.1	-1.0	8.3	-2.8	-2.1	-4.6	-9.3	-12.2	12.4	-2.9	-2.3	-11.6
Latin America	ILF	-4.6	1.7	3.0	0.7	-3.3	0.0	-4.1	-5.0	-17.4	17.0	-4.1	-0.9	-18.5
Emerging Markets	VWO	-3.5	-0.2	5.5	3.4	-2.9	-1.0	-0.6	-9.1	-18.4	15.9	-1.7	-4.2	-18.8
US Real Estate	VNQ	3.3	4.7	-1.6	5.7	1.3	-3.3	1.6	-5.6	-10.9	14.3	-3.8	4.9	8.5
Energy	XLE	7.2	7.4	1.9	0.9	-4.2	-1.9	1.5	-10.2	-14.4	19.1	1.7	-2.1	2.8
Metals/Mining	XME	0.3	3.9	3.8	1.8	-5.0	-3.3	-4.0	-12.1	-23.3	22.7	-1.3	-9.4	-28.2
Inv Grade Corp Bonds	LQD	0.0	1.1	-0.5	2.5	1.3	-0.8	2.4	0.3	0.4	2.5	-3.2	3.1	9.4
High Yield Bonds	HYG	1.7	1.4	0.1	1.6	0.1	-0.6	0.4	-2.7	-5.3	8.5	-2.4	3.9	6.2
Emerging Mkts Bonds	EMB	-1.0	-0.1	1.6	1.7	1.5	0.6	2.0	0.5	-4.8	5.2	-1.3	1.5	7.2
20+ Yr Treasuries	TLT	-3.1	1.7	0.0	2.4	3.4	-2.3	4.4	9.7	13.2	-3.8	2.0	3.1	33.6
Dispersion (best-worst)		11.8	7.5	7.1	7.6	8.4	4.0	9.0	21.7	36.5	26.5	6.1	14.3	61.7

## Commentary

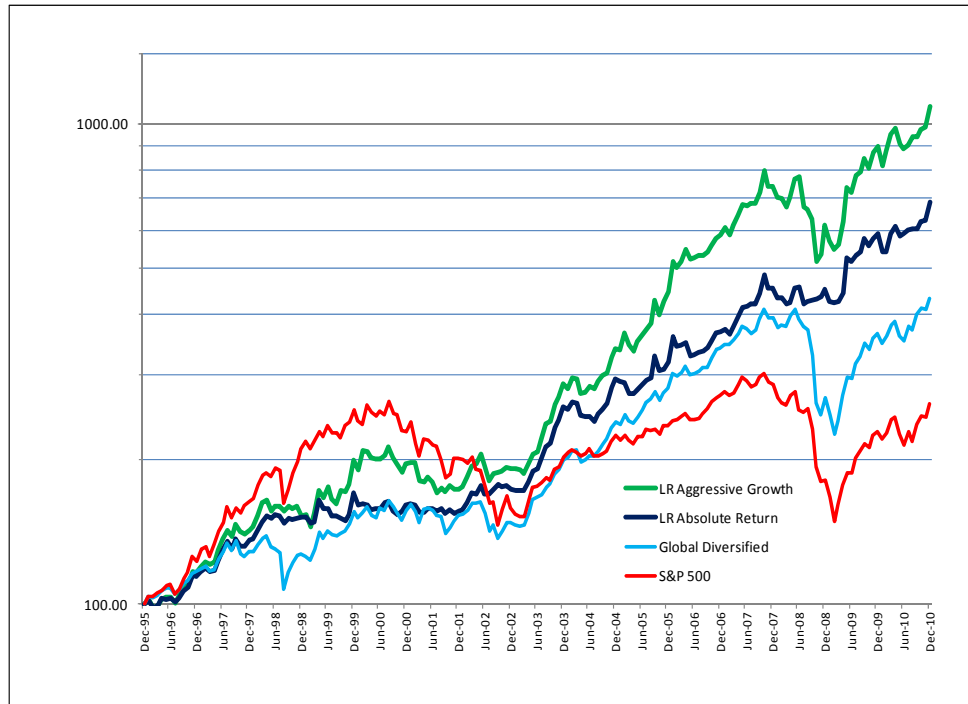
December provided a fairly quiet ending to a rollercoaster year. Investors continued to show preference for things with yield. Across our 14 representative asset classes, those most associated with income (VNQ, LQD, HYG, EMB and TLT) averaged a return of 3.3% for the month vs. a loss of 2.6% for the nine equity-oriented ETFs. Both of our strategies had positive Decembers and finished the year with strong outperformance. Absolute Return was up 9.3% during 2011, beating the S&P 500 (SPY) by more than 8% and Global Diversified by more than 11%. Aggressive Growth finished the year up 13%, ahead of the benchmarks by almost 12% (SPY) and 15% (GD). Given the outperformance of yield-oriented investments, we will enter 2012 with somewhat contrarian positioning. Absolute Return will hold 50% cash, 25% US Small Cap (IWM) and 25% US Real Estate (VNQ). Aggressive Growth will be equal-weighted across IWM, VNQ and Energy (XLE). If history is any guide, the S&P 500 will not repeat its "flat" performance in 2012 but no one knows which direction it will go. As in 2011, happenings in Europe will be a critical factor. We will continue to manage risk a month at a time and try to capture the best return we can. With luck, we'll be as smart as Dan Quayle. Happy New Year!

**"We are ready for any unforeseen events that may or may not occur." - J. Danforth Quayle, former Vice President of the United States**

*See "Important Disclosures Regarding LongRun Capital Risk-Managed Strategies" for additional information that should be considered before making any investment*

## Backtest of LongRun Risk-Managed Strategies

The results shown below represent a backtest of the LongRun Aggressive Growth and Absolute Return strategies from January 1, 1996 through December 31, 2010. Additional information is available upon request. Please review the important disclosures below and on the next page.



	S&P 500 (SPY)	Global Diversified <sup>1</sup>	Aggressive Growth <sup>2</sup>	Absolute Return <sup>3</sup>
Compound Annual Return <sup>4</sup>	6.6%	10.3%	17.2%	13.7%
Ending Value per \$1 <sup>5</sup>	\$2.62	\$4.34	\$10.84	\$6.84
Multiple of S&P 500	NA	1.7	4.1	2.6
Standard Deviation <sup>6</sup>	16%	15%	18%	13%
Maximum Drawdown <sup>7</sup>	-51%	-45%	-35%	-13%
Overall Correlation <sup>8</sup>	100%	85%	56%	46%
Up Market Correlation <sup>9</sup>	100%	84%	56%	53%
Down Market Correlation <sup>9</sup>	100%	88%	47%	21%
Up Capture <sup>10</sup>	100%	90%	107%	74%
Down Capture <sup>10</sup>	100%	76%	59%	37%
Up/Down Ratio <sup>11</sup>	1.0	1.2	1.8	2.0
Percent Positive Ratio <sup>12</sup>	62%	86%	91%	94%
Positive Monthly Returns	60%	64%	64%	68%
Batting Average <sup>13</sup>	NA	58%	60%	56%

- Global Diversified is a benchmark that equally weights the 14 ETFs used in the risk-managed strategies, resulting in a global portfolio that is a 70/30 mix of equity and fixed income
- Aggressive Growth is a risk-managed strategy designed to achieve higher long-term returns for clients able to tolerate a significant amount of risk
- Absolute Return is a risk-managed strategy designed to strictly limit investment risk while producing attractive expected returns
- Annualized compound return from January 1, 1996 through December 31, 2010
- The estimated value of \$1 invested on January 1, 1996 through December 31, 2010
- Standard deviation is a statistical measure of the dispersion of investment returns around the average return; a higher standard deviation is commonly viewed as indicative of greater risk
- Drawdown is a measure of the worst peak to trough decline in portfolio value over a measured period; a higher drawdown is indicative of greater risk
- Correlation measures the degree to which one set of returns moves up and down in sync with a benchmark set of returns; the S&P 500 is used as the benchmark for this analysis
- Upmarket correlation analyzes only periods when benchmark returns are positive; downmarket vice versa; upmarket correlation higher than downmarket correlation indicates better risk-adjusted returns
- Up capture measures the degree to which an investment matches benchmark returns in an upmarket and vice versa for down capture
- An Up/Down Ratio greater than 1 indicates risk-adjusted outperformance versus the benchmark; a ratio of 2 or more indicates significant risk-adjusted outperformance
- Percent Positive Ratio measures the percentage of all holding periods from six months to five years that produced positive returns
- Batting average measures the percentage of months that the particular investment outperformed the benchmark (S&P 500)

**See "Important Disclosures Regarding LongRun Capital Risk-Managed Strategies" for additional information that should be considered before making any investment**

## Important Disclosures Regarding LongRun Capital Risk-Managed Strategies

- Strategies:** Absolute Return and Aggressive Growth (the “Strategies”) are disciplined, rules-based tactical allocation strategies developed by LongRun Capital based on a quantitative methodology known as relative strength. Relative strength involves ranking a selected universe of potential investments based on recent rate of return and then allocating a portfolio to a subset of investments at the top of the performance ranking. The Strategies use a universe of 14 exchange-traded funds (ETFs). These 14 ETFs are ranked on 3-month total return. Absolute Return will hold the top 4 of the 14 ETFs unless one or more of those top 4 has a negative 3-month or 1-month return, in which case that allocation will be held in a cash-equivalent money market fund. This defensive rule may cause Absolute Return to be 100% in cash under adverse market conditions. Aggressive Growth will always hold the top 3 of the 14 ETFs. Holdings for each strategy are reviewed monthly based on 3-month relative strength rankings using month-end performance data. Any changes to the Strategies based on revised rankings are implemented on the first trading day of each month.
- ETF universe:** The 14 ETFs that serve as the selection menu for the Strategies were selected as representative of the global equity and fixed income asset classes that would commonly be used to construct a prudently diversified portfolio. These 14 ETFs will be held constant unless one or more cease trading in the future, in which case we will seek to use a reasonable substitute representing the same asset class. In addition, we may occasionally substitute an equivalent ETF as part of a tax loss harvesting strategy or to reduce transaction expenses. Clients will incur direct expenses associated with the purchase and sale of ETFs as well as the indirect expenses associated with management of the ETFs by their sponsors (e.g. iShares).
- Global Diversified Benchmark:** The S&P 500 is a benchmark commonly used as a proxy for the US equity market. As an alternative, we developed the Global Diversified benchmark to measure the performance of a portfolio that includes all 14 of the ETFs used in the models underlying each of the Strategies. The Global Diversified Benchmark assigns an equal weighting to each of the asset classes represented by the 14 ETFs and rebalances those weightings each month. The resulting portfolio is approximately 70% equity and 30% fixed income with approximately 40% allocated to US equities and 30% allocated to international equities.
- Backtest:** LongRun Capital constructed a backtest of the Strategies using a combination of the 14 ETF universe and mutual funds representing the same asset classes for time periods prior to the inception of the ETFs currently being used. The rule-sets used to determine the month-to-month holdings of the Strategies were applied consistently for the entire backtest period. As a result, there was no manager discretion involved in portfolio management. Backtest returns reflect the deduction of a 1% per annum management fee and an expense ratio of 0.15% per annum designed to approximate the transaction expenses associated with implementation of the Strategies. Underlying data has been obtained from sources believed to be reliable and we are not responsible for errors or omissions. The results achieved in actual accounts may vary from those that would be indicated from backtest results. Backtest performance of the strategies provides no guarantee of future results.
- Composite Results:** LongRun Capital is an independent investment advisory firm that manages assets on a discretionary basis. Clients may elect to have their assets managed on a customized basis and may utilize the Strategies for some or all of their assets managed by LongRun Capital. Unaudited composites for each of the Strategies were started on January 1, 2011, representing the performance of actual accounts assigned to the Strategies. Composites include those accounts with a value of at least \$250,000 fully invested in one of the Strategies. Composite returns are presented net of investment management fees and transaction expenses. LongRun Capital’s top management fee tier is 1% per annum. Internal fees and expenses associated with the ETFs are reflected in the price of each ETF. Dividends, income and capital gains are reinvested on a monthly basis when allocation changes are made. Past performance is no guarantee of future results. Information regarding LongRun Capital’s management fees and the value of assets included in the composite results is available upon request. In addition, LongRun Capital’s disclosure document, Form ADV Part 2A, is available online at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or upon request.