ANALYTICS INVESTMENT ADVISORS, LLC

Tactical Asset Allocation

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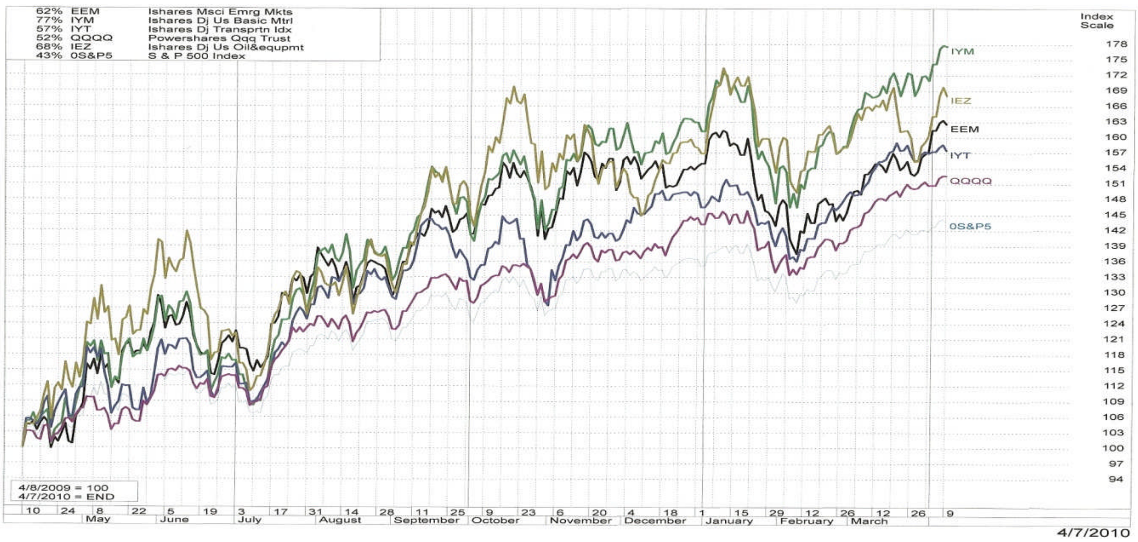
Tactical Asset Allocation is an active management portfolio strategy that rebalances the percentage of assets held in various categories in order to take advantage of market pricing anomalies or *strong market sectors.* This methodology allows one to create extra value by taking advantage of changes in the business cycle by selecting sectors that have the potential to outperform the overall market.

It is generally accepted that the U.S. economy is cyclical in nature, constantly moving through periods of contraction and expansion. At the beginning of an economic recovery the mood is one of despair with high unemployment and low consumer and industrial demand. In an attempt to raise consumer confidence the Federal Reserve Board will typically lower interest rates to make it easier for consumers to purchase goods and services and businesses to finance their operations. As confidence in the future improves, consumers start spending again, which in turn increases industrial output and the need for more employees, who in turn demand more goods and services.

What is significant about this cyclical behavior is that particular industries and sectors typically demonstrate a pattern of outperforming the overall market during phases of both expansion and contraction. This is depicted in the chart below for the most recent twelve months where emerging growth, basic materials, transportation, energy, and technology sectors have outperformed the broader market. These sectors are represented in our clients' portfolios in the form of Exchange Traded Funds (ETF's).



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As the U.S. and world economies continue to expand, corporate earnings are improving. While comparison will be more difficult as the year progresses, earnings will be robust and the sectors listed above should continue to outperform. For the economy as a whole Standard & Poors expects 37% earnings growth in Q2, 30% earnings growth in Q3, and 25% earnings growth in Q4.

Revenue growth, which will in most cases drop to the bottom line because cost cutting has given companies significant operating leverage, has been powered by consumers beginning to pry open their wallets. Retail sales are expected to rise at a annual rate of 3% or better, up from the 2.2% in the second half of 2009. This proclivity is evident in spite of 10% unemployment due to the wealth effect of a rising stock market and an improvement in home prices increasing the proclivity to spend. Other contributions to growth are coming from investment in equipment and software which surged at an annual rate of 18% in the fourth quarter of 2009, as well as banks loosing credit as profits improve.

Revenue growth for the *energy* sector for the first quarter is expected to increase 34% primarily due to higher year-over-year oil prices. The *basic materials* sector should also swell amid rising prices for cooper, steel, iron ore and other commodities. *Technology* profit growth is projected to deliver 16% revenue growth and 56% profit growth due to a new personal computing cycle stemming the smart phone revolution, good news regarding Windows 7, Apple Computer's continued successful innovations, good values in the semiconductor group, and cyclical growth in the data storage area. Companies also tend to invest heavily in technology in slow markets to increase productivity by substituting capital for labor in order to maintain or improve profits. *Emerging markets* with rapid growth of the middle class and less burdensome debt structures typically lead recoveries and thus provide good growth potential.

Predicting the pace of a recovery is not easy, but there are several reasons why deep recessions generally lead to strong recoveries. One, recessions get rid of the inappropriate investment behavior and decision making that produced the downturn in the first place. In other words, the longer the treatment, the better the remedy once improvement has begun. Secondly, and more important, is the deeper the decline in production and consumption the greater the pent-up demand to replace what has disappeared. In this context an annual growth of 4% for the first half of 2010 and a slower 3% through the remainder of the year seems reasonable. While the first half of the year should continue to benefit from inventory reduction, the consumption and business investment referenced above should soon begin to play a larger role.

In conclusion, the historical and anticipated aspects of the current business cycle are holding true to form in terms of both macroeconomic modeling and sector rotation. In particular the inventory cycle has followed a conventional script for a deep recession. Business satisfied final sales by drawing down inventories rather than producing. As the result the shortfall in production, inventory reduction contributed significantly more to the downturn than the decline in production. In the present recovery the inventory decline has reversed and business has begun to satisfy far more sales from domestic production, a tangible sign of improving confidence. At some point domestic production will rise high enough to satisfy all final sales plus a rebuilding of inventories. Since this process is still in progress indicates that the present expansion still has momentum and further longevity (the average length of the 11 expansive business cycles since 1950 has been 50 months). Astute observation and analysis should be able to identify significant trend changes and suggest appropriate corrective action. In the meantime, however, all of our portfolios employ active and objective risk management in the form of stop/loss orders to protect against potentially destructive non-random market movement.