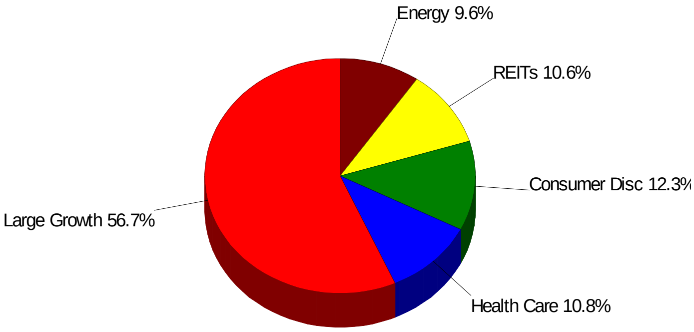
ANALYTICS INVESTMENT ADVISORS, LLC

Year-end Assessment 2011

Richard C. Hoyt
January 8, 2012

The weighted average allocation and yearly returns for the exchange traded funds (ETFs) held by Analytics Investment Advisors during 2011 are summarized in the chart and table below. It should be noted that the core ETF (QQQ) outperformed the S&P500 broad market index, and three of the four satellite ETFs (VNQ, XLY, & IHF) outperformed the core ETF.

2011 ETF Portfolio Allocation and Return



Sector	ETF	% Chg. 2011
Large Growth	QQQ	2.7%
Energy	XOP	-0.5%
REITs	VNQ	5.1%
Consumer Disc	XLY	4.6%
Health Care	IHF	9.3%
	Wt. Avg.	**3.6%**

It is my belief that the multiple advantages of ETFs, which are a hybrid between mutual funds and stocks, provide the ability to consistently outperform the overall market on a risk adjusted basis. The characteristics to which I am referring are: instant diversification, intraday trading, low expense ratios, low fees, passive investments, transparency, leverage and short selling, convenience, exposure to alternative and niche markets, and sound risk management through the timely use of stop and limit orders. A comparison of Analytics Investment Advisors market performance relative to the S&P 500 Index for recent operative time periods follows.

Time Frame*	AIA	S&P 500	Difference
2003-2005	+19.5%	+14.8%	+ 4.7%
2009	+51.9%	+26.5%	+25.4%
2010	+19.7%	+15.1%	+ 4.6%
2011	+ 3.6%	+ 0.0%	+ 3.6%

* When AIA was active as an independent entity.

The relatively few number of ETFs in clients' portfolios allows for quick comparisons and easy monitoring, while the highly structured nature of the ETFs selected provide both diversification and growth potential by virtue of a relatively few number of issues accounting for a large percentage of the holdings in the ETFs designed to replicate a particular indices. For example, 51.6% of the assets in PowerShares QQQ (QQQ) are accounted for by the top ten holdings. Similarly for Vanguard REIT Index ETF, (VNQ); Consumer Discretionary Select Sector SPDR, (XLY); and, IShares Dow Jones US Healthcare Provider, (IHF), the top ten companies comprise 44.6%, 45.0%, and 61.9% of the asset holdings, respectively.

Experience has shown that the modeling technique described above can be used effectively under varied market conditions as a means to anticipate changes in the business cycle and predict market trends. In this context, I offer the following perspective on the potential performance in 2012 for the sectors referenced above.

Large Growth should continue to outperform in 2012 as large companies are well capitalize, efficient, have strong balance sheets with cash for expansion and acquisition, and generate a large percentage of their revenues from exports. While emerging markets are expected to do better this year, investing in foreign markets through U.S. companies provides more transparency and predictability.

S&P 500 earnings are expected to grow 10.3% in 2012 to 107.31 in light of GDP expansion in the fourth quarter of 2.9% and projections for 2012 in the 2.5% range. While this is not sufficient to generate full employment, it is an improvement and a significant reason, along with an estimated 11.4 S&P 500 P/E ratio for 2012, for improving consumer and investor confidence.

Consumer Discretionary stocks will benefit from the increased return on capital to share holders through buy-backs and dividends. Also, the international expansion mentioned above will be a major contribution to revenue growth for larger and more diversified consumer discretionary companies, which will in turn be a source for increased contributions from Brazil, Russia, India, China, Latin America and Western Europe.

Continued improvement in consumer confidence (as measured, for example, by the Economic Optimism Index which increased 11% in January for the fifth straight month, the best reading since February 2011) suggests considerable risk for high-quality bond investors, puts in jeopardy the bull-run in gold, and implies that cyclical investing may be a preferred strategy over defensive tactics.

The **Health Care** sector performance in 2012 will be predicated to a large degree by the pending Supreme Court ruling on the constitutionality of the individual mandate. If the individual mandate is ruled to be unconstitutional, the elimination of the potential growth catalyst of 32 million additional customers will slow growth for managed health care providers. However, the resulting more efficient allocation of scarce resources through market driven solutions could enhance longer term productivity and profitability.

Real Estate Investment Trusts continue to be solid investments as REITs are able to hike rents and get new tenants as rental markets tighten. The nation's apartment vacancy rate for the fourth quarter fell to the lowest level since late 2001 (94.8%) as Americans favor renting amid reluctance to buy homes. Meanwhile new apartment construction in the first five months of 2011 fell 31%.

Vanguard REIT Index ETF (VNQ) is the lowest priced fund with broad exposure to publicly traded real estate investment trusts and is likely to continue to be part of the overall allocation in a typical ETF portfolio for the coming year.

Energy exploration and production is a capital-intensive, risky industry with returns largely determined by volatile crude oil and natural gas prices. Exploration projects are lengthy and prone to setbacks. However, if one is bullish on the prices of oil and natural gas, the SPDR S&P Oil and Gas Exploration & Production ETF (XOP) is a decent way to gain equities-based exposure to this energy sector. This ETF focuses on a narrow slice of the energy universe, holding only U.S. based companies that explore and produce oil and natural gas.

In summary, few changes have been made so far this year to the basic 2011 allocation model outlined above. Nevertheless, close attention will be given to sector and ETF relative strength statistics and economic fundamentals, with future commentaries advising clients and investors of potential modifications to the overall investment strategy and the rationale therefore.