

Quarterly INSIGHTS

EXECUTIVE

SUMMARY

Our 2010 Forecast: Global Equity Markets Will Advance 12% to 16%

In 2010, we believe global equity markets will advance 12% to 16%. Positive market momentum will likely carry forward from Q4 2009, but we expect intermittent pullbacks. Bull markets historically average 43 months. The shortest bull market lasted 15 months. This market has room to move.

While 2009 was a nice rebound year for the stock market, we think it would be wrong to move out of the market at this point in time to “take profits”. Our strategy is to remain well-diversified and remain fully invested in the portfolio. Our rationale includes the following:

- A good portion of the bull market likely remains
- Equity valuations are attractive, bonds and cash are not
- Many investors are still on the sidelines
- Increased mergers and acquisitions are a bullish signal for stocks

Our 2009 Equity Market Forecast Was Close

We expected global equity markets would advance 18% to 22% in 2009 (2009 Market Forecast, Quarterly Insights, January, 2009). Our forecast was close (the S&P 500 Index rose 26.46% and the MSCI World Index rose 30.79%).

S&P 500 Index Rises For The Third Consecutive Quarter

In the Fourth Quarter, the domestic S&P 500 Index rose 6.04% while the MSCI EAFE Index (foreign) rose 3.51%. Areas of note for the quarter include:

- Foreign stock performance closely resembled US stock performance
- Technology (+10.45%), Cyclical (+8.59%) and Health Care (+8.53%) led the sectors
- Financials (-3.68%) was the only sector with negative performance
- Emerging Markets (+8.43%) were led by Brazil and India versus China
- US small cap stocks (+2.83%) lagged the large cap S&P 500 Index (+6.04%)

Fourth Quarter 2009

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EXECUTIVE SUMMARY*Continued from Page 1***TriVant 2010 Portfolio Strategy**

2010 Portfolio Strategy Considerations	2010 Portfolio Position (Anticipated)	2009 Portfolio Position (End of Year)
Equity		
Domestic versus Foreign	Maintain current weighting	85% Domestic, 15% Foreign
Sector Weighting	Reduce over-weight in Technology Increase over-weight in Health Care	Over-weight (to S&P 500 Index) - Industrials - Health Care - Technology Under-weight (to S&P 500 Index) - Energy - Utilities
Average Market Cap	Reduce current level	Below S&P 500 Index level
Style (Growth versus Value)	Maintain current position	Emphasis towards growth stocks
Portfolio Beta Level (Risk)	Increase current level	Above market (greater than 1.0)
Fixed Income		
Desirable Securities	Maintain current position Let CDs mature Consider Mortgage-Backed Securities	Certificates of deposit (CDs) Corporate bonds and Treasury Inflation Protected Securities (TIPS) Average duration = 5 years
Securities with Less Emphasis	Maintain current position	Treasury bonds

TRIVANT CUSTOM PORTFOLIO GROUP, LLC

Fourth Quarter 2009 Review

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented. Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.



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President



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2010 Market Forecast

In 2010, we believe global equity markets will advance 12% to 16%. Positive market momentum will likely carry forward from Q4 2009, but we expect intermittent pullbacks. Although the S&P 500 Index has moved up tremendously in 9 months (+67.2% from March 10 through December 31), bull markets historically average 43 months. The shortest bull market lasted 15 months. This market has room to move.

Our 2010 Equity Market Prediction

“Global Markets Will Advance In The Range Of 12% To 16%.“

RATIONALE				
Domestic Considerations		Positive	Neutral	Negative
Investor Sentiment	Investors are bearish. Considerable cash remains on the sidelines. In 2009, the cash that left the sidelines went mostly to bonds versus stocks.	●		
Leading Economic Indicators	The LEI index has risen every month since March 2009. The three components that comprise 70% of the index should continue to increase. So should the index.	●		
Monetary Policy	The Fed will likely raise interest rates by mid-2010 in the range of 50 to 100 basis points.			●
Fiscal Policy	Two-thirds of the designated stimulus funding has yet to be spent. Legislating additional stimulus through additional debt will be difficult in a mid-term election year.		●	
History	Since 1890, the average bull market has been 43 months while the shortest bull market has been 15 months.	●		
Corporate Profitability	According to Standard & Poor's, S&P 500 company operating earnings are projected to increase 36% in 2010.	●		
Equity Valuations	The S&P 500 stock price/operating earnings ratio is attractive but slightly higher than historical average.		●	
Foreign Considerations				
Currency Translation	US interest rates, budget balance and current account balance all suggest a weaker US Dollar.			●
GDP Growth, Monetary & Fiscal Policy	Projected 2010 US GDP growth (2.6%) leads developed nations. This should help the US Dollar.	●		

Our 2010 Bond Market Prediction
“There will be no significant change in bond yields”

RATIONALE				
Domestic Considerations		Positive	Neutral	Negative
Interest Rate Expectations	A return to normal GDP growth should allow the Fed to hike interest rates in the range of 50 to 100 basis points. In the event of a rate hike, we do not anticipate a steepened yield curve.		●	
Inflation Rate Expectations	We anticipate a minimal inflation threat due to the combination of tame current inflation (2.7%), a high unemployment rate and a potential Fed rate hike.	●		

Global Equity Markets Should Significantly Rise in 2010

We predict that the global equity markets will advance between 12% to 16% in 2010. Our rationale is as follows:

Domestic Considerations

Investor Sentiment

Mutual funds are a good proxy for individual investor sentiment because more than three-quarters of fund assets are held by individuals.

In 2008, \$245 billion was withdrawn from stock funds (source: TrimTabs Investment Research). Of the \$592 billion that moved out of money market funds in 2009, \$377 billion moved to bond funds. Investors pulled another \$14 billion from stock funds despite the S&P 500 Index rising 67.2% from March 10 through year-end.

Clearly, investors remain bearish. Why do we view bearish investors as a positive indicator for the 2010 stock market? Individual investors have a long history of being wrong. They buy high and sell low.

Recent examples of bad timing by investors include 2002 and 2008. In the last half of 2002, investors pulled \$81 billion from stock funds and the S&P 500 Index subsequently increased 29% in 2003. In 2008, \$245 billion was withdrawn from stock funds and the S&P 500 Index subsequently rose over 26% in 2009.

Leading Economic Indicators

Since bottoming in March 2009, the Leading Economic Indicators (LEI) Index has risen for 8 consecutive months. Three of the 10 LEI components (Average Weekly Work Hours, M2 Money Supply, Interest Rate Spread) are heavily weighted, accounting for over 70% of the index (see Quarterly Insights April 2009, page 3).

Each of these three components has risen over the past several months and positively contributed to the index. We expect this trend to continue in 2010. The LEI Index should therefore continue to rise.

Monetary Policy

The Fed Funds Rate continues to be targeted at 0% to 0.25%, a level intended to stimulate the economy. With an estimated return to normal US GDP growth (2.6%) in 2010 (source: The Economist), we anticipate the Fed will have the ability and desire to raise interest rates in the range of 50 to 100 basis points by mid-year. A stabilized economy does not necessitate abnormally-low interest rates.

Rising interest rates are not good for the stock market as borrowing costs for business and investments go up.

Fiscal Policy

The \$700 billion TARP Program (Troubled Asset Relief Program) was approved in October, 2008 and the \$787 billion stimulus package was passed by Congress in February, 2009. Needless to say, there has been an unusual amount of government spending as of late.

Although the stimulus package was to be spent over 10 years, the bulk was budgeted for the first three fiscal years: \$185 billion in 2009, \$400 billion in 2010 and \$135 billion in 2011. By October 30, 2009, \$242 billion was spent. Approximately two-thirds of the designated stimulus funding has yet to be spent.

The 2009 US federal deficit, initially projected to reach \$1.2 trillion at the beginning of 2009, will end up in the range of \$1.8 trillion (source: usgovernmentsspending.com). This figure represents an alarming 13% of GDP (gross domestic product), a level not seen since the World War II years (1942 through 1945).

As the economy improves and spending related to the financial rescue and the economic stimulus package abates, the deficit is projected to gradually shrink. The 2010 deficit is projected to be \$1.2 trillion (9% of GDP).

We anticipate that fiscal policy will not greatly impact the equity market in 2010. Legislating additional stimulus through additional debt will be difficult in a mid-term election year. There is little room for the government to maneuver.

History

Since 1890, the average bull market has lasted 43 months while the shortest bull market has been 15 months. The current bull market started in March, 2009 and has lasted only 9 months so far. History suggests the market has much more room to move.

Corporate Profitability

The S&P 500 Index 2010 operating earnings is projected to rise 36.3% as compared to 2009. We believe this projection is overly optimistic because it is predicated on a very strong recovery to profitability in the Financials sector. Banks remain heavily exposed to risky commercial loans and mortgages.

Even if the operating earnings forecast proves to be optimistic in hindsight, we believe that 2010 operating earnings growth in the 15%+ range will be a stabilizing factor for market performance.

S&P 500 Index Estimated Operating Earnings By Economic Sector As Of December 31, 2009

S&P 500 Index Sector	Percentage Change 2009 (Preliminary Data)	Percentage Change 2010 (Forecast Data)
S&P 500 Index (Net)	12.7%	36.3%
Cyclicals	90.0%	41.7%
Energy	(65.4%)	91.5%
Materials	(17.2%)	72.1%
Industrials	(35.3%)	10.7%
Consumer Staples	4.6%	7.6%
Health Care	9.7%	14.5%
Financials	NM*	180.9%
Technology	0.9%	32.0%
Telecommunication	(8.4%)	4.3%
Utilities	(4.2%)	10.2%

* Not Measurable (due to negative operating earnings) Source: Standard & Poor's

Operating earnings are an important gauge of the health of a company but do not give a complete indication of future company prospects. Companies such as banks that have "toxic assets" on their balance sheets (non-performing commercial loans and mortgages) can show decent operating earnings, but may be prone to poor net earnings.

Companies that cannot or will not adapt to challenging economic conditions (by restructuring operations, shedding employees and other costs as needed) will also be prone to poor net earnings. Regarding portfolio stock selection, we seek companies with strong balance sheets that can maneuver tough conditions.

There were strong signs in the latter half of 2009 that companies are recovering. In the Third Quarter, a record 80% of S&P 500 companies beat analyst expectations, many by a wide margin.

It may appear that a projected 36.3% rise in S&P 500 company operating earnings in 2010 is incredulous given the economy remains challenged. Bear in mind that, even in the event this projection proves accurate, the S&P 500 companies would not quite recover to their 2007 operating earnings level. What we are seeing is a return to "normal" pre-recession operating earnings rather than an "economic boom".

Equity Valuations

A Price Operating Earnings (Operating PE) ratio is calculated as:

Stock Price / Company Operating Earnings (over the last 12 months)

The S&P 500 Operating PE Ratio is 20.38 (as of December 31, 2009). This figure is attractive from an investment standpoint but is slightly above the historical level.

S&P 500 Index Estimated Price / Operating Earnings Ratios By Economic Sector As Of December 31, 2009

S&P 500 Index Sector	2009 Trailing Price/Estimated Operating Earnings	2010 Forward Price/Estimated Operating Earnings
S&P 500 Index (Net)	20.38	14.95
Cyclicals	23.71	16.73
Energy	25.58	13.36
Materials	31.28	18.17
Industrials	18.14	16.39
Consumer Staples	15.38	14.30
Health Care	13.66	11.94
Financials	44.10	15.70
Technology	22.92	17.37
Telecommunication	15.04	14.41
Utilities	13.41	12.16

Source: Standard & Poor's

A bond PE ratio is the inverse of the bond yield. The 10-year Treasury has a yield of 3.83% and a bond PE Ratio of 26.11 (as of December 31, 2009).

Due to its higher expected future earnings, we believe the S&P 500 Operating PE ratio should theoretically exceed a bond PE Ratio. There are three possible ways to interpret why this is currently not the case:

1. Bonds are over-priced
2. Stocks are under-priced
3. A combination of the above two points

We anticipate bond price stability in 2010. The Consumer Price Index has risen 2.7% (1.8% excluding food and energy). This is a reasonable level. The wide gap between the PE ratios leads us to conclude that stocks still have considerable upside.

We see Equity Valuations as a neutral factor for 2010 market performance because we view the Standard & Poor's 2010 operating earnings estimate (+36.3%) as overly optimistic. Taking our 2010 stock market prediction (12% to 16%) and our 2010 operating earnings growth projection (15%) into account, the S&P 500 Operating PE ratio should not change in 2010 (when calculating the ratio, the numerator will change at the same rate as the denominator).

Foreign Considerations

Low US interest rates combined with a high budget deficit and current account balance suggests a weaker US Dollar. Projected 2010 US GDP growth (+2.6%) leads the developed nations, which should help the US Dollar. We anticipate these factors will neutralize each other. The US Dollar should be stable in 2010.

Consequently, we do not currently view the US Dollar as an important factor to determine US versus foreign equity exposure. For the moment, we will maintain our level of US equity exposure because we believe it is the optimal risk/return tradeoff at this point in time.

Bond Yields Should Remain Steady in 2010

The overall bond market was mixed in 2009. Treasury bond yields rose (prices fell). The Barclays Capital U.S. Government/Credit Bond Index rose 4.53% for the year, indicating some strength in corporate bonds.

Investors continued to embrace bonds in 2009 despite a rapidly-rising stock market (see Investor Sentiment, page 4). The investor “flight to safety” that started in 2008 did not subside as we had anticipated.

We continue to view Treasuries as unattractive. Interest rates are low and the government is issuing more debt. An investor is receiving low returns for some risk.

The yield spread between Moody’s AAA (highest quality) and BBB (lowest investment grade) corporate bonds is an indicator of how the market assesses risk; the higher the spread, the higher the risk. The yield spread has fallen considerably since the start (March 10) of the stock market recovery (see Quarterly Insights, October 2009, page 4). As market fears have subsided, companies are able to issue bonds at lower rates and still attract investors. Corporate bonds are not as attractive now as they were a year ago.

The Administration may stop buying mortgages at the end of March, so yields could rise. Stricter bank under-writing standards have made new mortgages higher quality loans. There is certainly a stigma attached to mortgage-backed-securities (MBS) given what has happened in the past, but the MBS market may present a good risk/return tradeoff in the next few months.

We believe that inflation expectations will eventually start to factor into longer-term interest rates, which would put downward pressure on bond prices. However, there is no significant inflation threat at this time. The shift of funds from bonds to stocks in response to a rising stock market (which would put downward pressure on bond prices) has yet to take place. These factors point to an uneventful 2010 bond market.

2010 Portfolio Strategy

2009 was a nice rebound year for the stock market. While the market run from March 10 through year-end was phenomenal (+67.2% for the S&P 500 Index), we think it would be wrong to pull out of the market at this point in time to “take profits”. We believe the market has more room to move upward. Our strategy is to remain well-diversified and remain fully invested in the portfolio. There are four reasons why we think this is the best course of action:

1. A Good Portion Of The Bull Market Likely Remains

Since 1890, the average bull market has lasted 43 months while the shortest bull market has been 15 months. The current bull market started in March, 2009 and has lasted only 9 months so far. History suggests the market has much more room to move.

2. Equity Valuations Are Attractive, Bonds and Cash Are Not

The 2010 S&P 500 Operating PE ratio should fall below 20, a level we consider attractive (see page 7). We foresee an uneventful 2010 bond market. There are negligible returns for staying in cash.

3. Many Investors Are Still On The Sidelines

Despite the rapid rise in the stock market, many investors stayed on the sidelines in 2009. If a portion of these investors decide to move from cash / bonds to stocks, there will be plenty of momentum to push the stock market higher. Even without these investors, we believe the market will go higher.

4. Increased Mergers & Acquisitions Are A Bullish Signal For Stocks

According to Sanford C. Bernstein, mergers and acquisitions (M&A) activity may rise 35% in 2010 and 23% in 2011. Increased M&A shows that executives are growing more bullish about profits and stocks even after the biggest rally for the S&P 500 Index in 73 years. It also reflects the strong liquidity positions that many US companies currently enjoy, which we believe is a positive factor for future growth in equity values.

The average premium in M&A in which US companies were the buyer and seller rose to 56% in 2009 from 47% in 2008 (source: Bloomberg). Higher takeover premiums may help drive gains in the stock market.

Our 2010 outlook is more optimistic for the equity market than the fixed income market. We believe that the portfolio is properly positioned for a continued rise in the stock market. Other than various stock-specific adjustments (please see client portfolio updates), we will maintain our current portfolio strategy at this time and adjust accordingly when deemed appropriate.

TriVant 2010 Portfolio Strategy

2010 Portfolio Strategy Considerations	2010 Portfolio Position (Anticipated)	2009 Portfolio Position (End of Year)
Equity		
Domestic versus Foreign	Maintain current weighting	85% Domestic, 15% Foreign
Sector Weighting	Reduce over-weight in Technology Increase over-weight in Health Care	Over-weight (to S&P 500 Index) - Industrials - Health Care - Technology Under-weight (to S&P 500 Index) - Energy - Utilities
Average Market Cap	Reduce current level	Below S&P 500 Index level
Style (Growth versus Value)	Maintain current position	Emphasis towards growth stocks
Portfolio Beta Level (Risk)	Increase current level	Above market (greater than 1.0)
Fixed Income		
Desirable Securities	Maintain current position Let CDs mature Consider Mortgage-Backed-Securities	Certificates of deposit (CDs) Corporate bonds and Treasury Inflation Protected Securities (TIPS) Average duration = 5 years
Securities with Less Emphasis	Maintain current position	Treasury bonds

Equity

Domestic versus Foreign

We are maintaining our current domestic equity exposure (85%) and foreign equity exposure (15%) because we believe it is the optimal risk/return tradeoff in an economy that is coming out of a recession. Projected 2010 US GDP growth (+2.6%) leads the developed nations. Regarding foreign equity regional exposure, we will:

- Maintain minimal exposure in Japan
- Limit Emerging Markets exposure to China and India
- Maintain minimal exposure in Europe

For detailed discussion, see Portfolio Strategy Considerations, page 14.

Sector Weighting

We continue to over-weight Industrials, Health Care and Technology, and under-weight Energy and Utilities. The remaining sectors are neutrally-weighted (to the S&P 500 Index sector weights). We anticipate raising the Health Care exposure and lowering the Technology exposure in the near future. For detailed discussion, see Sectors: Portfolio Strategy Considerations, page 15.

Average Market Cap

We anticipate continuing to lower the average market cap of our equity portfolios during the first few months of 2010. This will serve to increase portfolio risk in anticipation of a rising equity market. For detailed discussion, see Market Cap: Portfolio Strategy Considerations, page 16.

Style (Growth versus Value)

We continue to weight our equity portfolio towards growth stocks because:

- Growth stocks have more attractive fundamentals versus value stocks at this time
- We anticipate unfavorable earnings announcements in the banking sector
- Tentative investors will likely seek growth companies with solid historical earnings and balance sheets

Under normal market conditions, we would normally shift towards value stocks (which are more cyclical in nature). Value stocks usually lead the way off bear market bottoms. The financial crisis we experienced would not be considered normal market conditions. We do not believe the pain has subsided. As we did in 2009, we continue to avoid significant exposure to banks, and hence our value stock weighting is reduced.

Portfolio Beta Level (Risk)

We have a current portfolio beta above the market (greater than 1.0) and anticipate raising portfolio beta* further in 2010.

Fixed Income

We will maintain our fixed income strategy. The average duration of the portfolio is 5 years. **

We anticipate the current Fed target interest rate (0% to 0.25%) will increase by 50 to 100 basis points in 2010.

* The beta of an individual stock is a measure of its risk in relation to the market. By definition, the market has a beta of 1.0. Portfolio beta describes the relative volatility of an individual securities portfolio, taken as a whole, as measured by the individual stock betas of the securities making it up.

** Duration measures the sensitivity of bond prices to a 1% change in interest rates. As interest rates increase (decrease), bond prices decrease (increase). For example, the average duration of 5 years would mean that if interest rates decrease by 1%, the bond portfolio value would be expected to increase by 5%.

Equity Market Review

S&P 500 Index Shows Strong Gains For The Third Consecutive Quarter

In the Fourth Quarter, the domestic S&P 500 Index rose 6.04% while the MSCI EAFE Index (foreign) rose 3.51%. This followed an S&P 500 Index rise of 15.61% in the Third Quarter, which was its largest quarterly gain since 1998. Japan was the only market that did not have Fourth Quarter gains.

From March 10 (the start of the market rebound) through December 31, the S&P 500 Index rose 67.2%. The S&P 500 Index rose 26.46% in 2009. At the beginning of the year, we predicted “global equity markets will advance in the range of 18% to 22%” (First Quarter 2009, 2009 Market Forecast, page 9). We were close. Areas of note for the quarter include:

- Foreign stock performance closely resembled US stock performance
- Technology (+10.45%), Cyclical (+8.59%) and Health Care (+8.53%) led sector performance
- Financials (-3.68%) was the only sector with negative performance
- Emerging Markets (+8.43%) were led by Brazil (+10.01%) and India (+12.21%) versus China (+2.93%)
- US small cap stocks (+2.83%) lagged the large cap S&P 500 Index (+6.04%)

Equity Index Performance

Index	Q4 2009	2009
S&P 500 (Domestic)	6.04%	26.46%
MSCI EAFE (Foreign)**	3.51%	32.46%
MSCI World	6.04%	30.79%
MSCI Emerging Markets	8.43%	78.65%
Russell 2000 (Small Cap)*	2.83%	27.17%
MSCI Japan	(0.26%)	6.39%
MSCI UK (United Kingdom)	5.62%	43.37%
MSCI EMU (European Monetary Union)	4.48%	32.79%

* Performance data does not include dividends

** Europe, Australia and the Far East

We Continue To Shift The Portfolio Towards An Increased Small Cap Emphasis

During the Fourth Quarter, we continued a shift towards increased small cap emphasis that we initiated in the two previous quarters. We added four stocks to the portfolio in exchange for four stocks. Our average portfolio market cap value was further reduced.

Improved GDP and LEI data suggests the market has further room to appreciate. Real gross domestic product (GDP) - the output of goods and services produced by labor and property located in the USA - is projected to increase 2.6% in 2010 (source: The Economist). This tops all developed nations. The Leading Economic Indicator (LEI) Index has risen for 8 consecutive months and we believe it will continue to rise.

We expect to see stronger signs of an improving economy going forward. Small cap stocks should outperform during the expansion phase of the business cycle. To best position the portfolio, we anticipate further increasing our small cap emphasis through an additional series of adjustments over the next few months.

Currency, Country, Sector & Market Cap Performance at a Glance

The US Dollar

The US Dollar appreciated versus the Japanese Yen, appreciated versus the Euro, and depreciated versus the British Pound in the Fourth Quarter. The Federal Reserve Board Funds Rate was maintained at a target 0% to 0.25%. The European Central Bank (ECB) maintained its rate at 1.00%. Oil prices rose from approximately US \$67 to US \$79 per barrel over the quarter (an increase of 19%) in spite of a rising US Dollar.

US Dollar Appreciation Versus Foreign Currencies

Currency	Q4 2009	2009	2008	2007
US Dollar/Euro	2.94%	0.00%	5.88%	(9.59%)
US Dollar/Japanese Yen	3.49%	2.18%	(18.37%)	(6.43%)
US Dollar/British Pound	(1.59%)	(10.14%)	44.00%	(1.01%)
US Dollar Index*	1.62%	(4.24%)	6.20%	(8.47%)

* The Dollar compared with a weighted basket of currencies

Source: Telemet

In Q4 2009, the dollar rose 1.62% against a basket of diversified currencies, but it fell 4.24% for the year.

The reported demise of the US Dollar has been greatly exaggerated!

There have been numerous commentaries in the media that have struck fear in investors regarding the US Dollar. We believe this fear is unfounded. Over the last five years, the US Dollar has held up relatively well against the other major currencies. We believe it will continue to hold up well going forward.

US Dollar Appreciation Versus Foreign Currencies

Currency	January 1, 2005 through December 31, 2009
US Dollar/Euro	(5.41%)
US Dollar/Japanese Yen	(9.49%)
US Dollar/British Pound	19.24%
US Dollar Index	(3.77%)

The US Dollar: Portfolio Strategy Considerations

US interest rates, as well as the budget and trade deficits ("the twin deficits"), all suggest a weaker US Dollar. Projected 2010 US GDP growth (+2.6%) leads the developed nations, which should help the US Dollar. We anticipate these factors will neutralize each other. The US Dollar should not move much in 2010.

Our current target domestic portfolio weighting is 85%. This target is for sector and market cap considerations, not currency considerations.

Japan

Japan considerably lagged other foreign regional performance in 2009. According the January 2010 Tankan Report (Bank of Japan), five of the nine Japanese regions reported slightly higher economic activity in the Fourth Quarter. Private consumption remains weak in seven of the nine regions.

Japan: Portfolio Strategy Considerations

Japan provides a degree of portfolio risk control since it is lowly correlated to US performance. We reduced our Japanese exposure last year and maintain a very small portfolio position at this time.

Emerging Markets

Emerging Markets was the leading global area (+8.43%) in the Fourth Quarter and for the year. We attribute Brazilian and Russian regional performance strength to commodity prices and the “flight to risk” with funds earmarked for stocks. India and China have benefited from considerable potential economic growth.

Emerging Markets Performance By Region

Country	Q4 2009	2009
Brazil	13.05%	128.62%
Russia	10.47%	104.91%
India	7.70%	102.81%
China	9.56%	62.63%

Source: MSCI

Emerging Markets: Portfolio Strategy Considerations

We have avoided direct exposure to Brazil and Russia because our commodity exposure is located elsewhere in the portfolio. Instead, we have limited our Emerging Markets exposure to India and China. The Indian and Chinese economies are expanding and represent an important aspect of portfolio diversification.

Our overall international exposure is around 15% of the portfolio. We may consider raising this exposure, and if so, would likely increase Emerging Markets versus Japan or Europe.

Europe

Europe (+4.48%) lagged the S&P 500 Index (+6.04%) for the quarter. Most of this under-performance was due to currency depreciation. There are no indications that European business prospects are better than those in the United States for 2010. According to The Economist, the US leads developed markets in estimated GDP growth for 2010 (+2.6%).

There continues to be European reluctance to provide fiscal stimulus measures. We anticipate the European Central Bank (ECB) will maintain its interest rate at 1.00% for the near term.

Europe: Portfolio Strategy Considerations

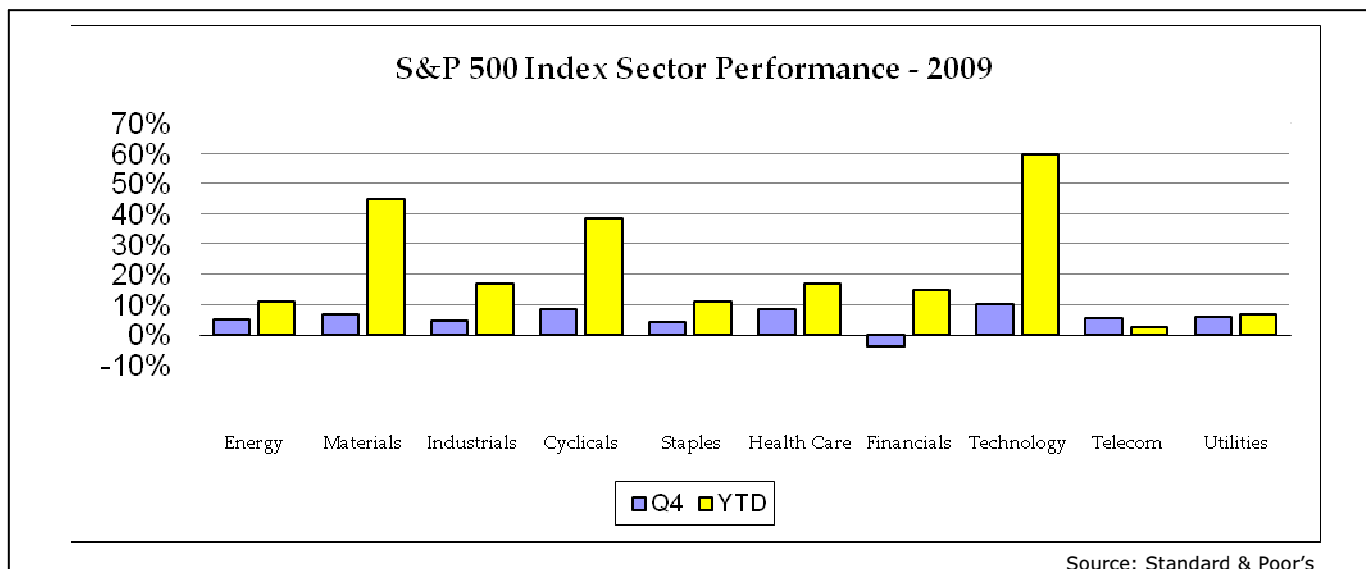
We maintain minimal European exposure as we see no factors that point to out-performance.

Sector Performance

Technology was the best-performing sector (+10.45%) in the Fourth Quarter and for the year (+59.92%). Its leadership was likely due to increasing corporate capital expenditures, a rebounding world economy, continued innovation and a drive towards efficiency. Materials (+45.23%) and Cyclical (+38.76%) were the next best performing sectors in 2009. Cyclical benefited from better inventory controls and cost-cutting. Higher commodity prices and the economic recovery helped Materials.

The remaining seven sectors lagged the S&P 500 Index (+26.46%) in 2009. Telecom (+2.63%) and Utilities (+6.80%) were the worst sectors. Health Care (+17.07%) was a laggard for the first half of the year, but picked up momentum as it became clear that it would not be hurt by health care reform. Financials (+14.80%) lost momentum in the second half of the year after a strong bounce off the bottom.

Despite a rise in oil prices, Energy (+11.29%) under-performed. It was not as surprising that the defensive Staples sector (+11.20%) lagged in the midst of a considerable market rally.



Sectors: Portfolio Strategy Considerations

We remain under-weight to Energy and Utilities. Crude oil inventories remain high. Utilities are pressured by falling electricity demand and aging infrastructure.

In Financials, we are leery of changing our neutral-weight position to an over-weight position. Commercial real estate markets are under pressure and have the potential to be "the next shoe to drop". We sold a regional bank position in the Fourth Quarter. Only one bank remains in the portfolio.

We continue to over-weight Technology, although we anticipate our over-weight position will become less pronounced. This sector has solid balance sheets with good cash positions. We expect increased spending on Technology from businesses in order to increase efficiency and productivity.

We anticipate increasing our over-weight position in Health Care. It has become evident that this sector will not be threatened (and indeed should benefit) no matter which direction health care reform may take. An aging population, an increasingly obese nation, additional coverage to the uninsured and a higher rate of drug approvals should help the sector. Given the very high levels of cash held by many companies, there is a high likelihood of increased mergers and acquisitions activity.

Cost Efficiency. Customization. Service

Market Cap Performance

Small cap US stocks fared better than large cap US stocks in the Fourth Quarter. Small cap foreign stocks fared worse than large cap foreign stocks. During the quarter, we continued to reduce average market cap.

Bear in mind that there are different measurements of small cap performance. While the MSCI US small cap performance was +39.73% in 2009, the Russell 2000 (small cap) was +27.17%. Our continuing shift to small cap portfolio emphasis had minimal performance impact in 2009.

Market Cap Performance	Q4 2009	2009
Large Cap Performance		
World	6.04%	30.79%
Foreign	3.51%	32.46%
USA	8.13%	27.14%
Small Cap Performance		
World	7.11%	44.75%
Foreign	0.78%	47.32%
USA	11.78%	39.73%

Source: MSCI

Market Cap: Portfolio Strategy Considerations

Small cap stocks should out-perform during the expansion phase of the business cycle. To best position the portfolio, we anticipate further increasing our small cap emphasis through a series of adjustments over the next few months.

Style Performance

US Growth stocks led US Value stocks in the Fourth Quarter. This was due to the two leading sectors. Technology (+10.45%) drove growth stocks and Financials (-3.68%) held back value stocks .

Style Performance	Q4 2009	2009
US Growth	9.67%	37.51%
US Value	7.59%	20.31%
Foreign Growth	4.06%	31.30%
Foreign Value	2.36%	36.55%

Source: MSCI

Style: Portfolio Strategy Considerations

For the moment, we will maintain a slight growth bias due to our expectation of continuing challenges in the Financials sector (commercial loans). An expanding economy should benefit the Technology sector.

Bond Market Review

The Fed interest rate was maintained in the Fourth Quarter as part of a globally coordinated effort to stimulate economic growth. The Barclays Capital U.S. Government/Credit Bond Index fell 0.21% in the Fourth Quarter but was +4.53% for the year.

Key US Interest Rates	Dec. 31, 2009	Sept. 30, 2009	Change
Federal Reserve Boards Funds Rate	0.25%	0.25%	no change
2-Year Treasury (Constant Maturity)	1.08%	0.88%	+20 basis points
5-Year Treasury (Constant Maturity)	2.64%	2.20%	+44 basis points
10-Year Treasury (Constant Maturity)	3.83%	3.19%	+64 basis points

Note: 100 basis points (bp) = 1.00% Source: Bloomberg

In 2009, investors moved cash to bonds versus stocks in the midst of a rapidly rising stock market. We observed a scenario where Treasury bond prices fell (yields increased), corporate bond prices rose (yields decreased) and stock prices rose. Since there is still considerable cash on the sidelines that we expect will be deployed, there should be inherent bond price stability.

The yield curve, which compares the 2 year Treasury rate versus the 10 year Treasury rate, became slightly steeper as the 10 year yield rose at a greater rate than the 2 year yield. Normally a steepened yield curve benefits banks because lending becomes more profitable. In the tough current lending environment, a slightly steepened yield curve is somewhat inconsequential.

A return to normal GDP growth should allow the Fed to hike interest rates in the range of 50 to 100 basis points sometime in 2010. In the event of a rate hike, we do not anticipate a steepened yield curve.

Core inflation is reasonable. On a seasonally adjusted basis, the CPI (Consumer Price Index) increased 2.7%, (1.8% excluding food and energy). * We anticipate a minimal inflation threat, a high unemployment rate and a potential Fed rate hike.

Bond Market: Portfolio Strategy Considerations

We did not hold Treasury bonds in 2009 and do not anticipate holding them in 2010.

We continue to hold investment-grade corporate bonds and certificates of deposit (CDs). The CDs were purchased in late 2008 at a time when banks sought to raise funds quickly and offered excellent rates for FDIC-insured deposits. We took advantage of the opportunity.

We also continue to hold Treasury Inflation Protected Securities (TIPS) as part of a diversified bond portfolio. TIPS act as a hedge against inflation. Right now, TIPS are priced to anticipate just over 2% annual inflation during the next 10 years. If inflation increases, TIPS become more valuable because the bond price and coupon payments are adjusted for inflation. This is good insurance for investors who require income.

Looking ahead, we may consider exposure to higher quality mortgage-backed-securities (see page 8).

*Source: Bureau of Labor Statistics

Closing Thoughts

There has now been three consecutive quarters in which the stock market has advanced. After starting out badly, 2009 proved to be a great year. Hopefully this should give you some increased confidence after an historically difficult 2008. We continue to shift the portfolio towards an increased small cap emphasis in anticipation of an improved economic outlook.

In 2010, we believe global equity markets will advance 12% to 16%. The market ascent will not likely be smooth. We anticipate intermittent market corrections that may indeed test your patience and confidence.

If and when this happens, we will not panic, and we hope you will not panic. The same discipline we maintained this past year in staying the course regarding your appropriate asset allocation should again be rewarded.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

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"Nothing gives a person so much advantage over another as to remain always cool and unruffled under all circumstances."

Thomas Jefferson

Disclaimer: The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision. A risk of loss is involved with investments in stock markets.

Our 2009 Report Card

In this section, we re-visit our 2009 Market Forecast and Portfolio Strategy. How accurate was our forecast? How successful were our strategy decisions?

Our 2009 Equity Market Prediction

"Global Markets Will Advance In The Range Of 18% To 22%." CORRECT

RATIONALE				
Domestic Considerations		Correct	Neutral	Incorrect
Investor Sentiment	There is nearly \$9 trillion in cash on the sidelines (source: St. Louis Federal Reserve). We expect a considerable amount to come back into the market.			●
Leading Economic Indicators	The index will continue to fall in the first half of the year due to slowing economic growth and negative sentiment, but will improve near the end of the year.		●	
Monetary Policy	The Fed has no further ability to lower interest rates, which will be a negative factor for the equity market.			●
Fiscal Policy	The new Administration's fiscal policy (Troubled Asset Relief Program, infrastructure stimulus, tax cuts) will be aggressive and should help the equity market.	●		
History	There is historical precedence for strong bounces off bear market bottoms.	●		
Corporate Profitability	Profitability will improve in the second half of 2009 as companies adapt to the changing economy.	●		
Equity Valuations	The current dividend yield and equity price/operating earnings ratio are attractive.		●	
Foreign Considerations				
Currency Translation	Exchange rates will stabilize. The US Dollar will continue to modestly appreciate versus the Euro.		●	
GDP Growth, Monetary & Fiscal Policy	Relative to the US, foreign GDP growth and deficit levels are comparable. This will be a neutral factor in the market.		●	

Our 2009 Bond Market Prediction

"Longer-term Bond Yields Will Increase." **CORRECT**

RATIONALE				
Domestic Considerations		Correct	Neutral	Incorrect
Interest Rate Expectations	The yield curve will become more "normal". The Federal Reserve Board cannot lower the current level of interest rates.	●		
Inflation Rate Expectations	Future inflation expectations will eventually be discounted into the longer maturity bond yields.	●		

Our 2009 Portfolio Strategy Considerations **CORRECT**

PORTFOLIO POSITIONING				
Equity		Correct	Neutral	Incorrect
Domestic versus Foreign	At the beginning of 2009, we maintained 90% domestic exposure and 10% foreign exposure. During the year, foreign exposure was raised to 15%.		●	
Sector Weighting	Over-weight (to S&P 500 Index) - Industrials - Health Care - Technology Under-weight (to S&P 500 Index) - Energy - Materials - Utilities	●		
Average Market Cap	Slightly below S&P 500 Index level		●	
Style (Growth versus Value)	Emphasis towards growth stocks	●		
Portfolio Beta Level (Risk)	Above market (greater than 1.0)	●		
Fixed Income				
Desirable Securities	Certificates of Deposit (CDs) Corporate Bonds and Treasury Inflation Protected Securities (TIPS) Average Duration = 5 years	●		
Securities with Less Emphasis	Treasury Bonds	●		

2009 Equity Market Prediction - How We Fared

Our overall prediction of an 18% to 22% advance in equity market growth proved to be accurate. Investor sentiment considerations were inaccurate. We were wrong in believing that individual investors would shift a considerable amount of cash to the stock market. In fact, there was a net cash outflow from mutual funds. In spite of the outflow, the market spiked.

The Leading Economic Indicators (LEI) Index did not fall through the first half of 2009. It followed the pattern of the stock market, falling to a low in March and rising every subsequent month through year-end.

We correctly anticipated the Fed would maintain interest rates (the target rate stayed at 0% to 0.25% during 2009), but wrongly assumed that the interest rate floor would be a negative factor for the stock market. It did not inhibit the market at all.

As we anticipated, fiscal policy was a significant market factor in 2009. The \$700 billion TARP Program (Troubled Asset Relief Program) was approved in October, 2008 and the \$787 billion stimulus package was passed by Congress in February, 2009. There is ample evidence to suggest that without the TARP, there could have been a global financial meltdown. Benefits from the stimulus package are gradually starting to be reflected in improved GDP and job creation. The rising 2009 stock market was a forward indicator the economy.

Prior to 2009, we stated that for the last 10 bear markets, the average S&P 500 Index 12-month bounce off the bottom has averaged over 30% (Quarterly Insights, October 2008, page 13). Given the magnitude of the market bounce from March 10 through year end (+67.20%), we were correct in predicting that there was historical precedence for strong bounces.

We correctly anticipated that corporate profitability would improve in the second half of 2009. S&P 500 Index estimated operating earnings rose 12.3% last year as compared to 2008 (see page 6).

At the beginning of 2009, we stated that equity valuations were attractive and would positively impact the market. Certainly the market did very well, but the S&P 500 Operating PE Ratio is 20.38 (as of December 31, 2009). This figure is attractive from an investment standpoint but is slightly above the historical level.

Exchange rates stabilized in 2009, although the US Dollar did not appreciate versus the Euro as we had anticipated (it was flat). Currency translation was not an important factor in our 2009 portfolio performance, given the flat Euro and that we only modestly raised our foreign exposure during the year (from 10% to 15%). We were correct in anticipating that relative US GDP growth versus other developed nations would be a non-factor in the market. However, Emerging Markets (with higher relative GDPs to the US) out-performed.

2009 Fixed Income Market Prediction - How We Fared

We anticipated the Federal Reserve Board would maintain its target interest rate (0% to 0.25%). Given no significant threat of inflation and the need to stimulate the economy, this was not a tough call to make.

The yield curve became more "normal" as the 10-Year Treasury yield rose 1.62% (from 2.21% to 3.83%). Inflation did not significantly factor into longer term interest rates.

2009 Portfolio Strategy Considerations - How We Fared

From a portfolio strategy standpoint, 2009 was a highly unusual year in which timing mattered a lot. Financials were terrible in Q1 (-29.49%), phenomenal in Q2 (+35.08%) and a laggard for the year (+14.80%). Emerging Markets was the worst place to be in 2008 (-53.18%) but a high flier in 2009. China was great in the first half of 2009, but not the second half. It is literally impossible to perfectly navigate fast-moving markets.

Equity

We were quite successful regarding our equity strategy and selection. Our equity composite exceeded the S&P 500 Index in 2009. Since inception, our portfolio has significantly out-performed the S&P 500 Index. In our opinion, 2009 was a year where equity strategy and selection decisions had a huge potential impact on performance (this was not the case in 2008). Strategy considerations included the following factors:

- Domestic versus foreign weighting
- Sector weighting
- Average market cap
- Style (growth versus value) weighting
- Portfolio beta level (risk)

Overall, we assess our 2009 decisions in the above areas to be correct.

Domestic versus Foreign

The S&P 500 Index is the appropriate equity benchmark for a US-based investor to gauge portfolio success. To get the highest return per unit of risk, we advocate a 10% to 30% foreign weighting in an equity portfolio. The specific amount of foreign weighting at a given time will depend on our market outlook (Quarterly Insights, July 2009, page 6, Gauging The Success Of Your Portfolio).

During the year, we raised our foreign exposure from 10% to 15%. The added exposure was in Emerging Markets (China and India), the highest performing global region in 2009. Net of currency considerations, the US slightly lagged other developed markets for the year with the exception of Japan.

The portfolio would have benefited from a higher foreign exposure, especially during the Second Quarter. However, our overall 2009 performance would not have been much enhanced.

Sector Weighting

In 2009, our portfolio was over-weighted to Industrials, Health Care, Cyclical and Technology. It was under-weighted to Energy and Utilities. The neutral-weight sectors were Financials, Materials, Staples and Telecom. Only three sectors out-performed the S&P 500 Index (+26.46%) in 2009: Technology (+59.92%), Materials (+45.23%), and Cyclical (+38.76%). The significant laggards were Telecom (+2.63%) and Utilities (+6.80%). All other sectors (Energy, Industrials, Staples, Health Care, and Financials) ranged from +11% to +17%.

The portfolio benefited from its three under-weights (which all lagged the S&P 500 Index) and Technology over-weight (which was the sector leader in 2009). The portfolio would have benefited if we had raised our neutral weights in Materials and Cyclical to over-weights. Overall, we were more right than wrong.

Average Market Cap

We continued to lower our average market cap in 2009 through gradual portfolio adjustments. The large cap S&P 500 Index (+26.46%) and small cap Russell 2000 Index (+27.17%) had nearly identical 2009 performance. Lowering the average market cap had negligible portfolio impact.

Style: Growth versus Value

US Growth Stocks (+37.51%) significantly out-performed US Value Stocks (+20.31%) in 2009. Technology (+59.92%) significantly out-performed Financials (+14.80%). Because we over-weighted Technology and under-weighted Financials, our portfolio had a growth bias. This helped performance.

Portfolio Beta Level (Risk)

The beta of an individual stock is a measure of its risk in relation to the market. By definition, the market has a beta of 1.0. Portfolio beta describes the relative volatility of an individual securities portfolio, taken as a whole, as measured by the individual stock betas of the securities making it up.

Starting at a portfolio beta above 1.0 at the beginning of the year, we continued to gradually raise it as we lowered the portfolio average market cap. Increasing the beta (risk) of the portfolio in a rising market was a favorable move.

Fixed Income

The fixed income component of our portfolio performed reasonably well in relation to the overall bond market. In the latter part of 2008, we concluded that Treasuries had peaked and we sold them. Staying out of Treasuries in 2009 was a good move as prices fell.

Our 2009 fixed income position included certificates of deposit (CDs), corporate bonds and Treasury Inflation Protected Securities (TIPS). The average duration of the holdings was less than 5 years.

The CDs performed well because we had previously locked in to favorable rates during the market crisis. At the time, banks sought to raise funds quickly and offered excellent rates for FDIC-insured deposits. We took advantage of the opportunity.

Corporate bonds yielded better results earlier in the year and became less attractive as the spread between AAA (highest quality) bonds and BBB (lowest investment grade) bonds narrowed.

The TIPS had moderate performance because inflation was modest.

We could have theoretically benefited from higher risk (and hence higher yield) bond exposure, but our clients' bond exposure is in place for risk control, not risk assumption. In our view, there is a much better risk/return tradeoff in stocks versus risky bonds.