TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2011

Quarterly INSIGHTS

EXECUTIVE SUMMARY

Fourth Quarter 2010

In This Issue

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Our 2011 Forecast: Global Equity Markets Will Advance 8% to 10%

In 2011, we believe global equity markets will advance 8% to 10%. Positive market momentum will likely carry forward from Q4 2010, but we expect intermittent pullbacks. Bull markets historically average 43 months. The shortest bull market lasted 15 months. We are 21 months in. This bull market has room to move.

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 favorable, bonds and cash are not
- Investors are are starting to move off the sidelines
- Increased company stock buybacks are a bullish signal for stocks

We Will Shift The Portfolio To A Secular Growth Emphasis

Your portfolio was positioned in 2010 to benefit from the expansion phase of the business cycle. Our over-weights to the Cyclicals, Industrials and Technology sectors acted in tandem to drive portfolio out-performance. As the business cycle matures in 2011, we will shift to secular growth stocks. These are companies such as Apple whose earnings are not nearly as sensitive to the economy and will even continue to expand during a slowdown.

Our 2010 Equity Market Forecast Was Dead Accurate

We expected global equity markets would advance 12% to 16% in 2010 (2010 Market Forecast, Quarterly Insights, January, 2010). Our forecast was dead accurate (the S&P 500 Index rose 15.06% and the MSCI World Index rose 12.34%).

EXECUTIVE SUMMARY

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TriVant 2011 Portfolio Strategy

2011 Portfolio Strategy Considerations	2011 Portfolio Position (Anticipated)	2010 Portfolio Position (End of Year)
Equity		
Domestic versus Foreign	Maintain current weighting	85% Domestic, 15% Foreign
Sector Weighting	Reduce Industrials Reduce Cyclicals Increase Health Care	Over-weight (to S&P 500 Index) - Industrials - Cyclicals - Technology Under-weight (to S&P 500 Index) - Energy - Utilities
Average Market Cap	Maintain current level	Below S&P 500 Index level
Style (Growth versus Value)	Shift to secular growth stocks	Emphasis towards growth stocks
Portfolio Beta Level (Risk)	Lower the portfolio beta	Above market (greater than 1.0)
Fixed Income		
Desirable Securities	Maintain current position Let CDs mature	Certificates of deposit (CDs) Corporate bonds and Treasury Inflation Protected Securities (TIPS) Average duration = 4 years
Securities with Less Emphasis	Maintain current position	Treasury bonds

TRIVANT CUSTOM PORTFOLIO GROUP, LLC Fourth Quarter 2010 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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2011 Market Forecast

In 2011, we believe global equity markets will advance 8% to 10%. Positive market momentum will likely carry forward from Q4 2010, but we expect intermittent pullbacks. The S&P 500 Index has moved up tremendously in 21 months (+82.3% from March 10, 2009 through December 31, 2010). Bull markets historically average 43 months. The shortest bull market lasted 15 months. The market still has room to move.

Our 2011 Equity Market Prediction

"Global Markets Will Advance In The Range Of 8% To 10%."

RATIONALE				
Domestic Considerations		**Positive**	**Neutral**	**Negative**
Investor Sentiment	Investors are increasingly bullish. Considerable cash remains on the sidelines. Bond funds encountered the first quarterly outflow in three years.			●
Leading Economic Indicators	The LEI index has risen almost every month since March 2009. Most of the index components should continue to increase in 2011. So should the index.		●	
Monetary Policy	The Fed will not likely raise interest rates in 2011. Quantitative easing should help the economy.		●	
Fiscal Policy	Stimulus funding has improved the deficit as a percentage of GDP. With additional stimulus scheduled for 2011, fiscal policy should support an improving economy.		●	
History	Since 1890, the average bull market has been 43 months.	●		
Corporate Profitability	S&P 500 company operating earnings are projected to increase 13% in 2011.	●		
Equity Valuations	The S&P 500 stock price/operating earnings ratio is very attractive and lower than its historical average.	●		
Foreign Considerations				
Currency Translation	US interest rates, budget balance and current account balance all suggest a stable US Dollar.		●	
GDP Growth, Monetary & Fiscal Policy	Projected 2011 US GDP growth (2.6%) leads developed nations but not by a significant margin.		●	

Our 2011 Bond Market Prediction

"There will be continued volatility 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. However, we do not anticipate a rate hike in 2011.		●	
Inflation Rate Expectations	We anticipate a minimal inflation threat due to the combination of tame current inflation (1.5% for all of 2010) and our belief that commodity prices will fall.		●	

Global Equity Markets Should Rise in 2011

We predict that the global equity markets will advance between 8% to 10% in 2011. Our rationale is as follows:

Domestic Considerations

Investor Sentiment

Mutual funds are a good proxy for investor sentiment because more than three-quarters of fund assets are held by individuals. Since the start of 2009, two thirds of a trillion dollars has flowed into bond mutual funds (source: TrimTabs Investment Research). This is more money than all stock funds attracted during the Internet boom of 1998 through 2000. In our opinion, bearish investor sentiment was a bullish indicator.

For the first time in three years, the Fourth Quarter saw a net cash outflow from bond mutual funds. Money has just recently started to move back to stock funds after three years of significant outflows.

The American Association of Individual Investors (AAII) Investor Sentiment Survey measures the percentage of individual investors who are bullish, bearish, and neutral on the stock market for the next six months. For the week ending January 5, 2011, investors were 56% bullish, 26% neutral, and 18% bearish. Nine months ago, investors were 32% bullish. The long-term survey average is 39% bullish, 31% neutral and 30% bearish.

We view increasingly bullish sentiment as a bearish (negative) indicator for the 2011 stock market.

Leading Economic Indicators

Since bottoming in March 2009, the Leading Economic Indicators (LEI) Index has risen steadily through 2009 and 2010. The index rose 0.6% in September, 0.4% in October, and 1.1% in November. Nearly all of the 10 components that comprise the index rose. The exception was Housing Permits, which fell. This is the result of continued weakness in the housing sector.

We expect the LEI Index to modestly rise in 2011.

Monetary Policy

The Fed has a dual mandate to control inflation and unemployment. While inflation is not a current threat, unemployment is at a high level.

The Fed Funds Rate continues to be targeted at 0% to 0.25%, a level intended to stimulate the economy. With reasonable US GDP growth (2.6%) in 2011 (source: The Economist), we anticipate the Fed will have the ability to raise interest rates in the range of 50 to 100 basis points by mid-year. However, until the housing market stabilizes, there will not likely be the desire by the Fed to raise interest rates.

We see no indicators that point to an improved housing market in 2011. Until there is an improvement in the housing market, we do not believe there will be a significant improvement in unemployment. Small business generates about 85% of new jobs. New business startups account for 20% of new jobs. Equity loans from homes generate significant operating capital for small businesses and new business startups. This capital source has dried up considerably as homes continue to depreciate.

With inflation around 1%, the Fed has been buying Treasury bonds from the private market ("quantitative easing') to combat the threat of deflation. By pumping money into the economy, the goal is to stimulate economic growth through more spending and lending. The net effects of quantitative easing include US Dollar depreciation, higher inflation, and higher interest rates. The ramifications of potentially higher interest and inflation are more detrimental to bonds than stocks.

We anticipate no change in the Fed Funds Rate in 2011. Monetary policy should support an improving economy.

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. 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.

The 2009 US federal deficit was initially projected to reach an alarming 13% of GDP (gross domestic product), a level not seen since the World War II years (1942 through 1945). However, the economic stimulus package was successful and the 2009 US federal deficit was 9.91% of GDP. The 2010 deficit is projected to be 10.64% of GDP (Source: usgovernmentspending.com).

With additional stimulus scheduled for 2011, fiscal policy should support an improving economy.

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 21 months so far. History suggests the market has much more room to move.

Corporate Profitability

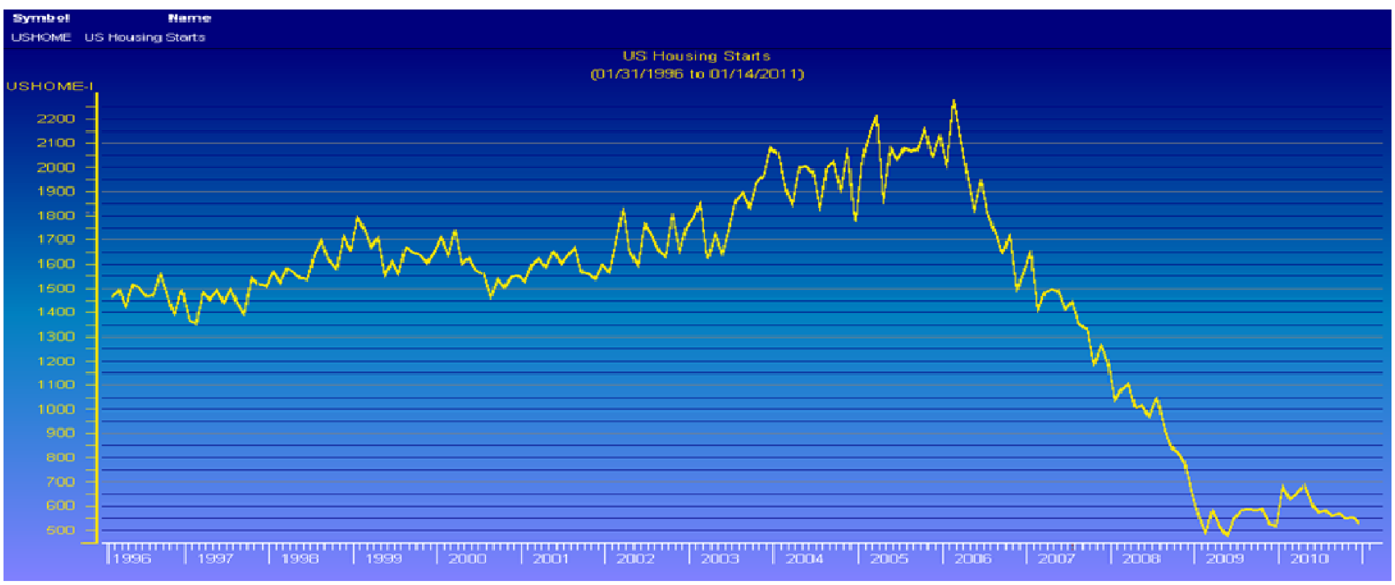
The S&P 500 Index operating earnings for 2010 were forecast to grow by a whopping 36.3%. Actual operating earnings exceeded these aggressive estimates and increased by 47.2%. This is one of the largest increases in history and is more evidence that we have a healthy economic recovery minus housing and employment. Earnings for 2011 are projected to be solid with 13.5% growth. However, earnings still have not quite recovered to 2006 levels though we expect to eclipse those levels this year.

Market PE ratios (for operating earnings) are 15.0 X which is the lowest ratio since 1994. In fact, this is substantially lower than the average ratio of 19.2 X (1988-2010). Valuations are excellent, especially considering the forecast for growth. Market multiples are generally impacted by interest rates. Multiples tend to be low when interest rates are high and vice versa. With interest rates at 0% we think the multiple should be higher.

Some threats are on the horizon for corporate earnings including rising commodity prices. Oil price spikes in 2008 may not have caused the great recession but they helped to topple the economy. Rising commodity prices could limit earnings. More housing write-downs could pressure banks and lower access to credit.

Conversely, rising housing prices would have a very large and positive impact on earnings and the economy. Lack of construction activities as evidenced by low housing starts (see chart) have kept unemployment unusually high.

US Housing Starts - January 31, 1996 Through January 14, 2011



Housing price increases may be the missing catalyst to a robust recovery. Rising prices would help banks and individuals avoid foreclosures and likely lead to growing construction activity and lower unemployment. This in turn would spur the consumer, who accounts for over 70% of our economy. Presently, housing starts are too low for the natural population growth and replacement of older houses. We are not sure when the extra supply of homes will be completely absorbed but we believe we are approaching that critical point.

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 15.04 (as of December 31, 2010). This figure is very attractive from an investment standpoint as it is significantly below the average ratio of the last 22 years (19.2X).

S&P 500 Index Estimated Price / Operating Earnings Ratios By Economic Sector As Of December 31, 2010

S&P 500 Index Sector	2010 Trailing Price/Estimated Operating Earnings	2011 Forward Price/Estimated Operating Earnings
S&P 500 Index (Net)	15.04	13.57
Cyclicals	16.50	15.20
Energy	14.41	13.07
Materials	18.83	15.00
Industrials	16.98	15.55
Consumer Staples	15.70	14.26
Health Care	12.56	11.34
Financials	14.06	12.21
Technology	15.56	14.35
Telecommunication	16.82	15.33
Utilities	12.69	12.23

Source: Standard & Poor's

A bond PE ratio is the inverse of the bond yield. The 10-year Treasury has a yield of 3.33% and a bond PE Ratio of 30.30 (as of December 31, 2010).

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 instability in 2011. The wide gap between the PE ratios leads us to conclude that stocks still have considerable upside. We see Equity Valuations as a positive factor for 2011 market performance.

Foreign Considerations

We believe a Fed rate hike in 2011 is unlikely, that commodity prices will fall, and that the US will continue to enjoy steady economic growth. The US Dollar should trade within a narrow range in 2011.

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 (85%) because we believe it is the right risk/return tradeoff at this point in time.

Bond Yields Should Remain Volatile in 2011

The bond market was unusually volatile in 2010 and we expect the volatility to continue in 2011 (see Bond Market Review, page 16).

We anticipate the Fed rate will be unchanged in 2011. We also anticipate minimal inflation. The reason we expect bond market volatility has more to do with credit issues in both domestic and European markets.

The recent recession continues to put stress on state and local governments. According to the New York Times (January 21, 2011), "policy makers are working behind the scenes to come up with a way to let states declare bankruptcy and get out from crushing debts". It is likely that we will have bankruptcies and bond defaults in the Municipal Bond market this year.

In addition, the European "PIGS" (Portugal, Ireland, Greece, Spain) may continue to add stress to Europe regarding their creditworthiness. If there are any problems with the PIGS (as was the case with Greece not that long ago), this would add "headline risk" in terms of bond market fears. The bond yields would become quite volatile almost immediately.

We believe there is much more potential downside than upside for the 2011 bond market. Although we view short-term interest rates as stable, long-term Interest rates have nowhere to go but up (which will hurt bonds). Inflation is tame in the short term, but has nowhere to go but up in the long-term because the Fed has effectively taken out the threat of deflation with quantitative easing.

2011 Portfolio Strategy

2010 ended up being a good year for the stock market after a very strong Fourth Quarter. We believe the market has more room to move upward in 2011. 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 21 months so far. History suggests the market has much more room to move.

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

The 2011 S&P 500 Forward Operating PE ratio is at 13.57, a level we consider very attractive (see page 7). We foresee a 2011 bond market that has more downside than upside potential. There are negligible returns for staying in cash.

3. Investors Are Starting To Move Off The Sidelines

For the first time in three years, the Fourth Quarter saw a net cash outflow from bond mutual funds. Money has just recently started to move back to stock funds after three years of significant outflows. New investor support should push the stock market higher.

4. Increased Company Stock Buybacks Are A Bullish Signal For Stocks

The combination of low interest rates and investor pessimism created a “perfect storm in 2010” for companies to issue debt and buy back its shares (see Cheap Debt Fuels Earnings Growth, October 2010, page 3). The end result is a higher company earnings per share (EPS). A higher EPS usually translates to a higher future stock price.

Our 2011 outlook is more optimistic for the equity market than the fixed income market. The portfolio was positioned in 2010 to benefit from the expansion phase of the business cycle. We over-weighted the Cyclicals, Industrials, and Technology sectors. As the business cycle matures in 2011, we anticipate shifting to secular growth stocks. These are companies whose earnings are not nearly as sensitive to the economy.

TriVant 2011 Portfolio Strategy

2011 Portfolio Strategy Considerations	2011 Portfolio Position (Anticipated)	2010 Portfolio Position (End of Year)
Equity		
Domestic versus Foreign	Maintain current weighting	85% Domestic, 15% Foreign
Sector Weighting	Reduce Industrials Reduce Cyclicals Increase Health Care	Over-weight (to S&P 500 Index) - Industrials - Cyclicals - Technology Under-weight (to S&P 500 Index) - Energy - Utilities
Average Market Cap	Maintain current level	Below S&P 500 Index level
Style (Growth versus Value)	Shift to secular growth stocks	Emphasis towards growth stocks
Portfolio Beta Level (Risk)	Lower the portfolio beta	Above market (greater than 1.0)
Fixed Income		
Desirable Securities	Maintain current position Let CDs mature	Certificates of deposit (CDs) Corporate bonds and Treasury Inflation Protected Securities (TIPS) Average duration = 4 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 2011 US GDP growth (+2.6%) leads the developed nations. Regarding foreign equity regional exposure, we will likely:

- Continue to avoid Japan
- Reduce Emerging Markets exposure
- Increase European exposure

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

Sector Weighting

We plan to shift the portfolio from economically-sensitive stocks to secular growth stocks (see page 12). This would lower our exposure to Cyclicals and Industrials (the sectors that drove our 2010 out-performance). Two prime areas of secular growth are Health Care and Technology. For detailed discussion, see Sectors: Portfolio Strategy Considerations, page 15.

Average Market Cap

We anticipate maintaining the average market cap of our equity portfolios during 2011 as we shift to secular growth stocks. This will serve to lower portfolio risk in our anticipation of a rising yet more subdued equity market as compared to 2010.

Style (Growth versus Value)

We will add further emphasis 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
- Investors will likely seek secular growth companies with solid historical earnings and balance sheets

Value stocks usually lead the way off bear market bottoms. We are 21 months past the bottom. It is time to shift even further to growth stocks.

Portfolio Beta Level (Risk)

We have a current portfolio beta above the market (greater than 1.0) and anticipate a lower portfolio beta* in 2011 as we shift from economically-sensitive stocks to secular growth stocks.

Fixed Income

We will maintain our fixed income strategy. The average duration of the portfolio is 4 years. **
We anticipate the current Fed target interest rate (0% to 0.25%) will remain intact in 2011.

* 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 Has Double-Digit Gain In The Fourth Quarter

In the Fourth Quarter, the domestic S&P 500 Index rose 10.76% while the MSCI EAFE Index (foreign) rose 6.65%. Europe and the United Kingdom continued to considerably lag as they did throughout 2010. Emerging Markets tailed off in the Fourth Quarter, although its overall 2010 performance was strong. Small cap stocks flourished in the improving economy. All global regions had positive Fourth Quarter returns.

The S&P 500 Index rose 15.06% in 2010. At the beginning of the year, we predicted "global equity markets will advance in the range of 12% to 16%" (First Quarter 2010, 2010 Market Forecast, page 3). We were dead accurate. Areas of note for 2010 include:

- European stock performance was negative (-3.42%), a sharp contrast to other global regions
- Cyclicals (+25.72%), Industrials (+23.92%) and Materials (+19.92%) led sector performance
- Health Care (+0.71%) was barely positive and a considerable sector laggard
- Emerging Markets (+19.20%) was led by India (+ 20.95%) versus China (+4.83%) and Brazil (+6.81%)
- US small cap stocks (+25.30%) led the large cap S&P 500 Index (+15.06%) by a wide margin

Equity Index Performance

Index	Q4 2010	2010
S&P 500 (Domestic)	10.76%	15.06%
MSCI EAFE (Foreign)**	6.65%	8.21%
MSCI World	9.06%	12.34%
MSCI Emerging Markets	7.36%	19.20%
Russell 2000 (Small Cap)*	15.91%	25.30%
MSCI Japan	12.13%	15.59%
MSCI UK (United Kingdom)	6.05%	8.80%
MSCI EMU (European Monetary Union)	2.16%	(3.42%)

* Performance data does not include dividends ** Europe, Australia and the Far East

We Will Shift The Portfolio From Economically-Sensitive To Secular-Growth Stocks

Positive stock market momentum continued to be driven by improving economic data. Third Quarter GDP increased 2.6% and November Retail Sales jumped 0.8% (source: Department of Commerce). The Leading Indicator Index (LEI) moved up 1.1% in November (source: Conference Board).

Your portfolio was positioned in 2010 to benefit from the expansion phase of the business cycle. Our over-weights to the Cyclicals, Industrials, and Technology sectors acted in tandem to drive out-performance as compared to the S&P 500 Index benchmark. We made minimal portfolio adjustments during the year.

Stocks in the Cyclicals and Industrials (economically-sensitive) sectors, such as Caterpillar and Borg Warner, had a nice run in 2010 and tend to be strongest at the beginning of an expansion phase. As the business cycle matures in 2011, we will shift to secular growth stocks. These are companies such as Apple whose earnings are not nearly as sensitive to the economy and will even continue to expand during a slowdown.

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

The US Dollar

The US Dollar appreciated versus the Euro, appreciated versus the British Pound, and depreciated versus the Japanese Yen in 2010. 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 $79 to US $89 per barrel over the year (an increase of 12%) in spite of a rising US Dollar. Even as investors piled money into commodities, the US Dollar held its ground.

US Dollar Appreciation Versus Foreign Currencies

Currency	Q4 2010	2010	2009	2008
US Dollar/Euro	1.95%	7.06%	0.00%	5.88%
US Dollar/Japanese Yen	(2.77%)	(12.63%)	2.18%	(18.37%)
US Dollar/British Pound	(0.72%)	3.55%	(10.14%)	44.00%
US Dollar Index*	0.37%	1.45%	(4.24%)	6.20%

* The Dollar compared with a weighted basket of currencies Source: Telemet

In Q4 2010, the dollar rose 0.37% against a basket of diversified currencies. It rose 1.45% for the year.

As was the case in 2009, the reported demise of the US Dollar during 2010 was greatly exaggerated! We anticipate the US Dollar will trade within a narrow range in 2011 for the following reasons:

1. With low inflation and a high unemployment rate, the Fed will likely continue it course of quantitative easing. Under this scenario, a Fed rate hike would probably be deferred for at least several months. Even if a rate hike were to be announced in 2011, it would likely be minimal versus consequential. A steady US interest rate should translate to a steady US Dollar.

2. We anticipate commodity prices will fall in 2011. Falling commodity prices should at the very least stabilize (and more likely strengthen) the US Dollar.

3. The US economy continues to grow at a steady rate, which should benefit the US Dollar.

The US Dollar: Portfolio Strategy Considerations

To attain the most favorable risk/return tradeoff, our portfolio usually ranges anywhere from 70% to 90% US exposure. We anticipate a stable US Dollar in 2011. Given our further belief that US companies are relatively well-positioned and attractively valued, our current target domestic portfolio weighting is 85%.

Emerging Markets

Emerging Markets pulled back (+7.36%) relative to other global regions in the Fourth Quarter, although it led for the year (+19.20%). We attribute Russian performance strength to strong commodity prices. Brazil was not propped by commodity prices by nearly the amount of past years because future economic growth was tempered by rising interest rates (from 8.75% to 11.25%). Brazilian GDP growth is estimated to fall to 4.5% in 2011 from 7.5% in 2010 (source: The Economist).

India had a stellar year in the market (+20.95%), but tailed off considerably in the Fourth Quarter (+2.21%). The current inflation rate is very high (+9.8%). In an effort to thwart the threat of further inflation, the Indian government raised interest rates by 2% last year to a current rate of 7.19%. Rising interest rates will slow an economy. India's GDP growth is estimated to fall to 8.6% in 2011 from 8.8% in 2010 (source: The Economist).

The Chinese government has implemented a similar restrictive monetary policy to that of India. Faced with an inflation rate of 5.1%, it raised interest rates to 5.81% and also increased the bank reserve requirements (how much money banks have to keep in reserve from deposits) to slow down lending. China's GDP growth is estimated to fall to 8.9% in 2011 from 10.2% in 2011 (source; The Economist). It is interesting to note that in the midst of all the hype that China is the place to invest given its rapid expansion, it returned only 4.83% in 2010.

Emerging Markets Performance By Country

Country	Q4 2010	2010
Brazil	3.55%	6.81%
Russia	16.50%	19.40%
India	2.21%	20.95%
China	0.70%	4.83%

Source: MSCI

Emerging Markets: Portfolio Strategy Considerations

In the Fourth Quarter, the S&P 500 Index return (+10.76%) outpaced Brazil, India, and China. We do not want to fight the central bank policies (raising interest rates) of these countries. The governments are trying to slow economic growth. This may soon lead us elsewhere in terms of our Emerging Markets exposure.

Europe

Europe was negative(-3.42%) for the year and barely positive (+2.16%) for the quarter. Most of this under-performance was due to relatively weak European Monetary Union (EMU) economies and the instability of the Greek and Irish banks.

The banking system and government bond markets have begun to stabilize. European Central Bank (ECB) President Jean Claude Trichet has recently stated the ECB will fight inflation (be "hawkish") in the Euro zone.

Europe: Portfolio Strategy Considerations

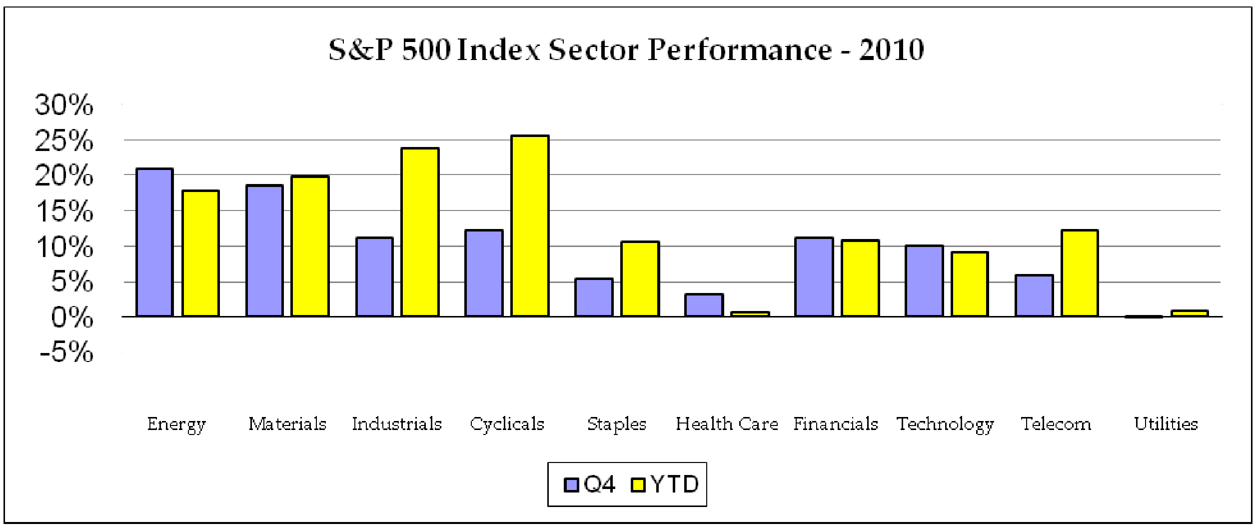
GDP growth for the EMU is estimated at 1.4% for 2011 (source: The Economist). There are no indications right now that European business prospects are better than those in the United States. We maintain minimal European exposure as we see no factors that point to out-performance. Assuming the European market continues to stabilize, there will likely be a time during 2011 when we will increase our European exposure.

Sector Performance

The recovery from the recession has been orderly. Four sectors out-performed the S&P 500 Index (+15.06%) in 2010. Cyclicals (+25.72%) and Industrials (+23.92%) led the market higher. This is what we expect in the beginning of a new economic cycle. Materials (+19.92%) benefited from rising commodity prices and the economic recovery. Energy (+17.86%) saw all its gains in the Fourth Quarter.

The remaining six sectors lagged the S&P 500 Index in 2010. Health Care (+0.71%) and Utilities (+0.86%) were the worst sectors. We were quite surprised that clarity in health care reform did not boost the sector. Technology (+9.13%) was flat for the first three quarters of the year, but picked up momentum near the end. The same pattern was followed by Financials (+10.83%), although this sector exhibited much greater volatility as the true balance sheet exposure to sub-prime mortgages remained unclear.

Staples (+10.67%) under-performed, which should not be surprising in an economic recovery. Telecom (+12.30%) also under-performed.



Source: Standard & Poor's

Sectors: Portfolio Strategy Considerations

Our sector weightings helped the portfolio out-perform in 2010. We were over-weight to Cyclicals (consumer discretionary) and Industrials, the two leading sectors. A Technology over-weight and Health Care neutral-weight did not help performance since these sectors lagged.

A neutral weight to Financials neither helped nor hindered portfolio performance because our exposure to banks was low. At the beginning of 2010, we stayed away from heavy bank exposure because we felt commercial real estate markets were under pressure and had the potential to be "the next shoe to drop".

The poor performance of Health Care was probably our biggest strategy disappointment in 2010. We were neutral-weight to Health Care, and in hindsight, wished we were significantly under-weight. Our sector under-weights in Energy and Telecom were favorable for all but the last quarter of the year.

We plan to shift the portfolio from economically-sensitive stocks to secular growth stocks (see page 12). This would lower our exposure to Cyclicals and Industrials (the sectors that drove our 2010 out-performance). Two prime areas of secular growth are Health Care and Technology. Therefore, we will likely maintain our considerable weighting to these sectors despite 2010 under-performance.

Bond Market Review

The Fed interest rate was maintained in the Fourth Quarter as part of an effort to stimulate US economic growth. The Barclays Capital U.S. Government/Credit Bond Index fell 2.17% in the Fourth Quarter but was +6.59% for the year.

Key US Interest Rates	Dec. 31, 2010	Sept. 30, 2010	Change
Federal Reserve Boards Funds Rate	0.25%	0.25%	no change
2-Year Treasury (Constant Maturity)	0.60%	0.42%	+18 basis points
5-Year Treasury (Constant Maturity)	2.02%	1.28%	+74 basis points
10-Year Treasury (Constant Maturity)	3.33%	2.53%	+80 basis points

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

The bond market provided too much excitement for fixed income investors in 2010. The 10-Year Treasury began the year at a 3.83% yield and ended the year at 3.33%, which doesn't seem too dramatic. The drop in the 10-year yield increased the value of the investments. The bonds appreciated in value and, combined with their interest payments, provided a nice total return.

However, this year-end summary does not provide a very accurate picture of the craziness of the bond market. In October, the 10-year yield dropped all the way to 2.38%, which meant that Treasury bonds and many other high-quality corporate bonds had appreciated approximately 20% from the start of the year. Then by the end-of-the-year, they had given back most of the appreciation.

These types of swings are more common in the stock market. Investors are not always prepared for great volatility with their fixed income investments, especially "safe" Treasury bonds. This volatility was caused by a "flight to safety" into Treasuries and then back to commodities or stocks after the crisis.

The higher yield year-end is closer to a normal yield historically and we are hopeful that it indicates a return to better yields and a stronger economy in 2011.

Bond Market: Portfolio Strategy Considerations

The bond market could be more volatile than the stock market again in 2011. Treasury bonds may continue to depreciate in value. We also are worried about additional credit issues in European markets. The recent recession continues to put stress on state and local governments. It is likely that we will have bankruptcies and bond defaults in the Municipal Bond market this year.

The majority of our bond portfolio is in corporate debt. Corporations have emerged from the recession ahead of other institutions and we believe their debt has better support than government debt. We have short-term corporate bonds in your portfolio and we have high-yield corporate debt as well. We continue to hold TIPs, (Treasury Inflation Protected Securities). In 2010, your TIPs appreciated along with other Treasury bonds. Since we started purchasing TIPs, inflation has not been a significant factor in the economy. However as we look into the economic horizon, we still believe TIPS provide worthwhile protection.

Closing Thoughts

There has now been two consecutive years in which the stock market has advanced. After a mediocre first 9 months, 2010 proved to be a great year. Hopefully your confidence continues to climb after an historically difficult 2008. We will shift the portfolio from an economically-sensitive stock emphasis to a secular growth stock emphasis in anticipation of a maturing business cycle.

In 2011, we believe global equity markets will advance 8% to 10%. 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 these past two years 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,

TRIVANT

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"It's never paid to bet against America. We come through things, but it's not always a smooth ride."

Warren Buffett

Our 2010 Report Card

In this section, we re-visit our 2010 Market Forecast and Portfolio Strategy. How accurate was our forecast? How successful were our strategy decisions?

Our 2010 Equity Market Prediction

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

RATIONALE				
Domestic Considerations		**Correct**	**Neutral**	**Incorrect**
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 1980, 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/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." INCORRECT

RATIONALE				
Domestic Considerations		**Correct**	**Neutral**	**Incorrect**
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 and a high unemployment rate.	●		

Our 2010 Portfolio Strategy Considerations **CORRECT**

PORTFOLIO POSITIONING				
Equity		**Correct**	**Neutral**	**Incorrect**
Domestic versus Foreign	At the beginning of 2010, we maintained 85% domestic exposure and 15% foreign exposure. During the year, foreign exposure was maintained at 15%.	●		
Sector Weighting	Over-weight (to S&P 500 Index) - Industrials - Health Care - Cyclicals - Technology Under-weight (to S&P 500 Index) - Energy - Utilities		●	
Average Market Cap	Reduce level as at beginning of 2010.	●		
Style (Growth versus Value)	Maintain emphasis in growth stocks.	●		
Portfolio Beta Level (Risk)	Increase level as at beginning of 2010.	●		
Fixed Income				
Desirable Securities	Certificates of Deposit (CDs) Corporate Bonds and Treasury Inflation Protected Securities (TIPS) Average Duration = 4 years	●		
Securities with Less Emphasis	Treasury Bonds	●		

2010 Equity Market Prediction - How We Fared

Our overall prediction of an 12% to 16% advance in equity market growth proved to be dead accurate. Investor sentiment considerations were accurate. We were right in believing that individual investors would be hesitant to shift a considerable amount of cash to the stock market. Up until the Fourth Quarter, there was a three year net cash outflow from mutual funds. In spite of the outflow, the market spiked.

The Leading Economic Indicators (LEI) Index continued to rise, albeit modestly, in 2010. We were correct with our expectation that a rising LEI Index would help the market.

We were wrong in anticipating that the Fed would raise interest rates (the target rate stayed at 0% to 0.25% during 2010). However, a steady interest rate was good for the stock market.

As we anticipated, fiscal policy was a significant market factor in 2010. Benefits from the stimulus package started to be reflected in improved GDP and job creation. The rising 2010 stock market is a forward indicator of an improving 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, 2009 through December 31, 2010 (+82.3%), we were correct in predicting that there was historical precedence for strong bounces.

We correctly anticipated that corporate profitability would improve in 2010. In fact, S&P 500 company operating earnings increased 47% versus an initial estimate of 36%.

At the beginning of 2010, we stated that equity valuations were attractive (a Price/Earnings ratio of 19) but slightly higher than its historical average. With the large increase in 2010 earnings (the denominator in the PE ratio), the PE ratio is now at 15. This is below its historical average and bodes well for potential stock price appreciation (the numerator in the PE ratio).

The US Dollar appreciated more versus the Euro in 2010 (+7.06%) than we had anticipated, although it depreciated considerably versus the Japanese Yen (12.63%). Currency translation was not an important factor in our 2010 portfolio performance, given the we had no Japanese exposure and minimal European exposure.

2010 Fixed Income Market Prediction - How We Fared

We were wrong in anticipating the Federal Reserve Board would hike interest rates in the range of 50 to 100 basis points.

The yield curve was literally unchanged from year-end 2009 to year-end 2010. However, there was considerable bond market volatility within 2010. Inflation did not significantly factor into longer term interest rates.

2010 Portfolio Strategy Considerations - How We Fared

From a portfolio strategy standpoint, 2010 was a tale of quarters. The market started off well in the First Quarter, but was negative for the year after the Second Quarter. It was in the last half of 2010 where the market made its gains. In hindsight, the Second Quarter was the quarter to avoid. However, it is literally impossible to perfectly navigate fast-moving markets and we were right to stay fully invested.

Equity

We were quite successful regarding our equity strategy and selection. Our equity composite exceeded the S&P 500 Index in 2010. Since inception, our portfolio has significantly out-performed the S&P 500 Index. In our opinion, 2010 was a year where equity strategy and selection decisions had a huge potential impact on performance. Performance varied considerably through world regions. Only four out of 10 S&P 500 Index sectors out-performed the index. 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 2010 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 maintained our foreign exposure at 15%. We had exposure in Emerging Markets (China, Brazil and India), minimal exposure in Europe, and no exposure in Japan. Of these areas, only India out-performed the S&P 500 Index.

The portfolio would have benefited from less foreign exposure. However, our overall 2010 performance would not have been much enhanced because at the most, we would have considered dropping foreign exposure by 5% (an overall 10% weighting versus 15%).

Sector Weighting

In 2010, our portfolio was over-weighted to Industrials, Cyclicals and Technology. It was under-weighted to Energy and Utilities. The neutral-weight sectors were Health Care, Financials, Materials, Staples and Telecom. Only four sectors out-performed the S&P 500 Index (+15.06%) in 2010: Cyclicals (+25.72%), Industrials (+23.92%), Materials (+19.92%), and Energy (+17.86%). The significant laggards were Health Care (0.71%) and Utilities (+0.86%). The portfolio would have benefited if we had less exposure to Health Care and Technology. Overall, we were more right than wrong.

Average Market Cap

We continued to lower our average market cap in 2010 through gradual portfolio adjustments. The large cap S&P 500 Index (+15.06%) did not do nearly as well as the small cap Russell 2000 Index (+25.30%). Lowering the average market cap had positive portfolio impact, although in hindsight we should have been even more aggressive in lowering the cap.

Style: Growth versus Value

We maintained a growth bias in our portfolio (over-weights to the Cyclicals, Industrials and Technology sectors). 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 and 2010 was a good move.

Our 2010 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 4 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 later on.

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.