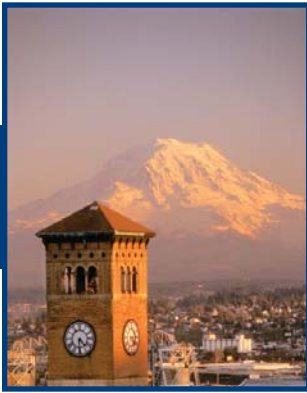


Portfolio Strategies, Inc.



1724 West Union Avenue, Suite 200 ■ Tacoma, WA 98405 ■ (800) 959-2001 ■ www.portstrat.com

Market Commentary

by Bill Whatmough, *Senior Portfolio Manager*

PSI Tactical MPT Portfolios

The PSI Tactical MPT Portfolios captured gains in 2011 at all risk levels, from conservative to growth. These portfolios are unique to the Pentegra platform in that they are the only multi-manager models. Why does this matter? We believe that every investment discipline has its strengths and weaknesses. By combining several different styles into each portfolio, we reduce *manager* risk. Furthermore, all the portfolios include several *absolute return* models as a portion of their allocations. The Tactical MPT Portfolios reduce the exposure to market volatility while producing consistent returns. If you are as concerned about the ride as you are the destination, consider all the PSI options on the Pentegra platform.

Market Recap

U.S. stocks' volatility soared in March, with the Dow gaining or losing in triple digit sessions on more days than not. Stocks plunged early in the month, shedding a bit over 5% to give up most of their January/February gains and then dug in near mid-month to recover most or all of the gains they gave up by month end. For the month and quarter small caps were again the leaders, with the Russell 2000 gaining 2.59% for the month and finishing the quarter up a heady 7.94%. The Blue Chip dominated Dow Jones 30 Industrial finished in second place among major indices, rising 0.91% for the month and up 7.07% in the first quarter. The S&P 500 Index and Nasdaq Composite were both virtually unchanged for the month, with the S&P 500 holding onto a 5.92% quarterly gain while the technology-heavy Nasdaq trailed with 5.02% gains through the end of the quarter.

The highlight of the recovery we have seen over the past five quarters has been manufacturing and consumers' willingness to ramp up spending and strong corporate earnings. However, with order backlogs declining in March for the second consecutive month, this strong growth may be slowing. While our economy is adding jobs, the pace of job growth is way below long-term average and points to a continuing below average recovery. Unfortunately, consumer sentiment and housing, two of the better predictors of economic growth, continue to signal trouble ahead. Sentiment has stalled and new building permits remain near the lowest level on record, a level that typically indicates that we are headed into another recession in the next several months.

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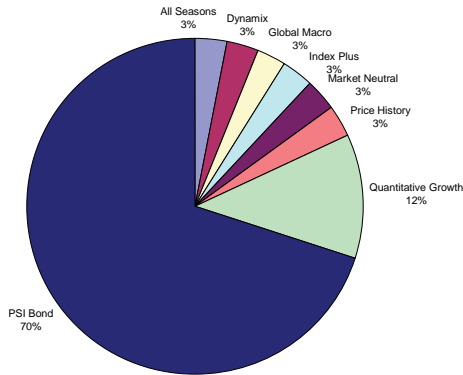
Looking Ahead

After over a year of lackluster recovery, we continue to believe the stock market has gone up way too fast in anticipation of a *normal* recovery (economic growth above 3%) in spite of the governments adding trillions to our debt. Unfortunately, all that new debt and printing of new money created under the stimulus programs has not spawned a normal recovery and has begun to spark inflation. We look for increased volatility and some *speed bumps* ahead as the markets sort out the chances of sustained recovery versus the potential for a fall back into recession and/or the prospect of higher inflation and higher interest rates.

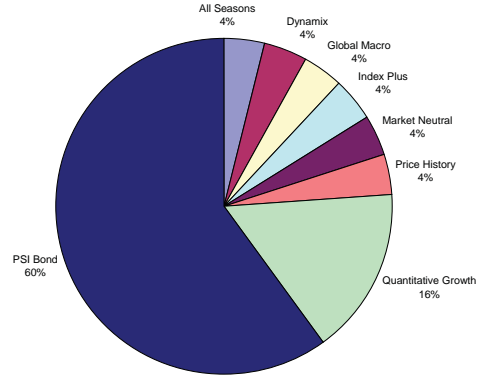
We believe that in these turbulent times, investors will be well protected by holding a solid position in low and non-market-correlated investments. Since 1982, Portfolio Strategies has provided our clients with alternative programs to buy and hold that smooth out that rocky road without sacrificing long term investment results. 🍷

Tactical MPT Models

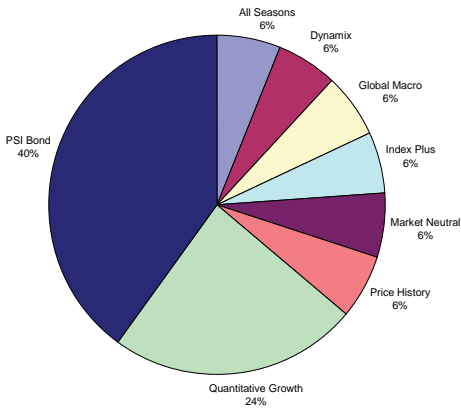
PSI Program Allocations



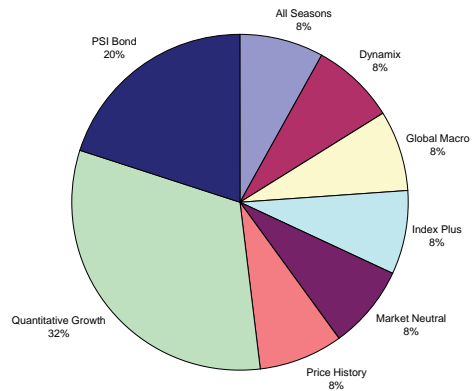
Conservative



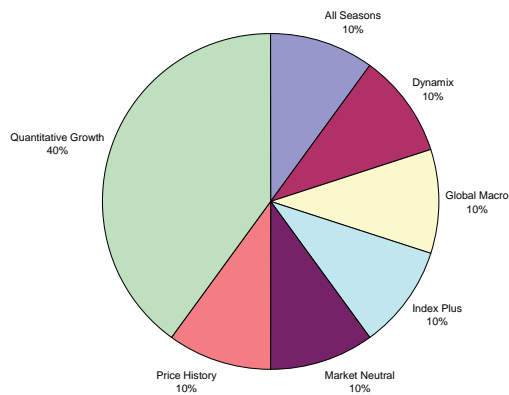
Moderate Conservative



Moderate



Moderate Growth



Growth

PSI Tactical MPT Models

Investment Strategy

The Tactical MPT Models provide investors with a combination of money managers in one account. The goal of the models is to achieve a blend of managers within different investment strategies within the same risk level to allow for a higher degree of diversification.

The Tactical MPT Models offer five variations tailored to a client's comfort with portfolio risk. Manager performance in each risk-adjusted model is monitored regularly. Inclusion in the Tactical MPT Models is based on a history of adding value to a client's account at the chosen risk level.

By combining multiple managers, the Tactical MPT Models attempt to create portfolios that offer consistent investment performance, achieving long-term results while reducing the likelihood of uncomfortable short-term surprises. The models use a combination of Modern Portfolio Theory (MPT) and a variety of active management techniques to reallocate assets in response to market change. The Tactical MPT Models seek to closely match benchmark performance in up markets while lessening the impact of down markets allowing for faster investment recovery.

Below are the investment strategy descriptions of the PSI programs that make up the Tactical MPT Models:

All Seasons

All Seasons' strength lies in our proprietary research showing markets have patterns that have historically tended to repeat themselves throughout the year. All Seasons seeks to invest in historically favorable market segments in proportions reflective of current market conditions. All Seasons relies on historical data from the past 20+ years (past performance is not indicative of future results) that identifies two calendar based cycles that are used to determine its daily portfolio positions:

- A weekly stock rotation cycle that identifies sectors or market indices likely to out-perform the market and is used to determine where to invest.
- A monthly cash flow cycle that identifies market strength caused by changes in cash flow into the market and helps to determine how much to invest.

Dynamix

Dynamix employs three models to seek returns:

- Calendar effects: Makes investments only during those periods our research shows institutional investors are most likely to be active in the market.
- Long-term trend-following model: Gauges the major underlying trend of the market and invests accordingly. Uses proprietary measures to monitor the institutional participation in various market sectors on the belief that institutional investment follows a regular pattern. When institutional investments are rising, the program will invest in the market. When institutions are exiting the market, the program will invest in money market.
- Market-neutral sector and index rotation model: Attempts to capture profit from the spread between favored sectors or indices and unfavored sectors or indices.

Global Macro

Global Macro makes investment decisions based on macro U.S. and global economic trends. The strategy attempts to combine fundamental and technical analysis in seeking to profit from trends, market biases, and future expectations regarding specific countries, regions, industries, and companies. Investments can be made in sectors that show growth potential with low volatility, or that show low price points relative to value.

Index Plus

Index Plus seeks to identify historically recurring cycles of market gains. These periods are selected for their relationship to long-established patterns in the activity of institutional investors—what we call Institutional Pressure (IP) days. These IP days correspond with periods when institutions tend to move large sums of money into the market. Examples of IP days include 401(k) and pension investments, tax periods, seasonal fluctuations, and holidays. By investing only during IP days, the program attempts to increase the chances of a positive return while avoiding market volatility during the remainder of the year.

Market Neutral

Market Neutral employs a market neutral trading model designed to exploit market anomalies (calendar biases) that have historically caused a predictable pattern of leadership rotation among major stock indices and sectors that has been repeated month after month. Unlike typical investment strategies that are correlated to the markets and may suffer significant declines during periods of adverse market volatility, Market Neutral seeks modest and consistent positive returns regardless of market direction.

Price History

Price History makes investment decisions based on moving averages, which determine entry and exit points to and from the market. Investments are made in a broad spectrum of sectors and major U.S. and global stock market indices. All investments have a stop-loss point in an effort to help control losses in any one specific position the strategy owns. In volatile or downward markets, Price History will try to add value in the overall portfolio by taking hedged or defensive positions.

Quantitative Growth

Quantitative Growth seeks to create a portfolio that remains fully invested in the market while decreasing overall risk through diversification.

Quantitative Growth focuses its investment decisions on two econometric inputs: interest rates and economic growth. While the portfolio is designed to mirror the overall market, the manager seeks additional benefit from overweighting by buying higher percentages of certain asset classes to take advantage of potential opportunities.

PSI Bond

The PSI Bond Program seeks to provide conservative growth using primarily fixed-income investments. It seeks additional return by taking advantage of asset class dispersion (i.e., the tendency of stock and bond prices to move in opposite directions).

PSI Bond attempts to mitigate risk by monitoring interest rates, market volatility, and credit spreads using proprietary mathematical models, resulting in hedges and purchases against fixed-income and equity investments. Tools used include:

- Traditional allocation: A diversified batch of investments, primarily bonds.

PSI Tactical MPT Model – Program Breakdown

	Conservative	Moderate Conservative	Moderate	Moderate Growth	Growth
All Seasons	3%	4%	6%	8%	10%
Dynamix	3%	4%	6%	8%	10%
Global Macro	3%	4%	6%	8%	10%
Index Plus	3%	4%	6%	8%	10%
Market Neutral	3%	4%	6%	8%	10%
Price History	3%	4%	6%	8%	10%
Quantitative Growth	12%	16%	24%	32%	40%
PSI Bond	70%	60%	40%	20%	0%



PORTFOLIO *Strategies*
INVESTMENT MANAGERS

PSI Tactical MPT Models
INVESTMENT POLICY STATEMENT

Prepared by:
Portfolio Strategies, Inc.
1724 West Union Avenue, Suite 200
Tacoma, WA 98405



Money Managers Since 1982

INVESTMENT POLICY STATEMENT

INTRODUCTION

This Investment Policy Statement (IPS) provides information about the **PSI Tactical MPT Models** offered by Portfolio Strategies, Inc. (PSI).

This IPS serves as a guide to help you understand your model selection. Your **PSI Tactical MPT Model** selection was constructed based upon your investment time horizon, risk tolerance, investing objective, and personal financial profile. The IPS summarizes your investment goals and describes how PSI will use professional, active money managers and specific portfolios to assist you in the effort to achieve those goals.

The investment process described in the IPS should be ongoing, reflecting changes in your financial situation. Descriptions in this IPS should reflect your current philosophy regarding the investments in the model. Your objectives should be reviewed periodically in order to assure that the investments adequately reflect any changes which may have occurred in your preferences, financial capability, and/or risk tolerance.

It is extremely important to realize that the results of the IPS are intended to help you identify what your optimal model may be. It is not intended as a complete investment profile or proposal. Please be sure to discuss and review these results with your representative before investing.

ASSET ALLOCATION: RE-DEFINED

Is your model allocation appropriate for current market conditions? This is a fundamental question asked by PSI money managers every day.

The problem with traditional asset allocation, which we call *strategic asset allocation*, is that it is less able to adapt to current market conditions. Although this problem is seemingly masked by a rising market, because most of the portfolio could be making gains, it leaves you completely exposed to market losses which can quickly take away profits. Regardless of how diversified you may be in various asset classes, you may still have exposure in areas that are not currently favorable.

Tactical asset allocation is a response by money managers to identify rising, falling, and sideways market trends and to attempt to re-allocate your model to be better positioned to deal with market losses and to participate in market gains. Tactical money management can come in many forms. PSI provides multiple programs with distinct money management disciplines. By using one or more of these programs, you can enjoy professional money management inside your **PSI Tactical MPT Model** account giving you the flexibility to be better positioned in all types of markets.

INVESTMENT OBJECTIVES DEFINED

PSI makes portfolio recommendations based on quantitative research. PSI keeps two major objectives in mind: efficiency and investor preferences. The proposed allocations are designed to provide the highest return for a given level of risk, while taking into consideration the investor's long-term needs and comfort level with risk. The following are objective descriptions of the five investment categories:

- **Conservative:** The conservative range is designed for an investor with a low risk tolerance and/or a short time horizon, such as 0 to 3 years. It is targeted toward the investor seeking investment stability and liquidity from his/her investable assets. The main objective of the individual in the conservative risk range is to preserve capital. Historically, fluctuations in similar portfolios have been minor under ordinary market conditions. Even so, the possibility of abnormal fluctuations within these portfolios does exist and is not without precedence.
- **Moderate Conservative:** The moderate conservative risk range is appropriate for the investor who seeks both modest capital appreciation and income from his/her portfolio. The portfolio may be appropriate for the investor with a time horizon of at least 3 to 5 years (a short- to intermediate-time horizon) and a risk profile of at least a moderately conservative level. While this range is still designed to preserve the investor's capital, fluctuations in the values of these portfolios may occur from year to year.
- **Moderate:** This range will best suit an investor who seeks relatively stable growth from his/her investable assets with a low level of income return. This portfolio may be appropriate for the investor with a time horizon of at least 6 to 10 years (an intermediate-time horizon) and a risk profile of at least a moderate level. The main objective of an individual within this range is to achieve steady portfolio growth while limiting fluctuations to less than those of the overall stock market.
- **Moderate Growth:** The moderate growth range is designed for an investor with a relatively high tolerance for risk and a relatively longer time horizon (at least 10 years). This investor has a low need for current income and seeks above-average growth from his/her investable assets. The main objective of this risk range is capital appreciation, and an investor placed in this range is able to tolerate moderate fluctuations in his/her portfolio values.
- **Growth:** This range is appropriate for an investor who has both a high tolerance for risk and a long investment time horizon, such as 12 years or more. The main objective of the aggressive risk range is to provide high growth for the investor's assets with very low current income. Portfolios in this range may experience substantial fluctuations in value from year to year, making this category suitable for an investor who has an extended investment horizon and the ability to withstand market-like volatility.

TIME HORIZON

Knowing one's time horizon helps an investor to determine his/her ability to absorb risk. It identifies how long a client expects to keep money invested as well as the number of years a client has available to invest.

Two factors are relevant when determining a time horizon:

1. Time until the investor makes withdrawals. This is the time until the investor reaches his/her financial goal, such as retirement.
2. Time during which the investor expects to make withdrawals from investment portfolio.

Time horizon is a necessary constraining variable, especially for an investor with a short time horizon. An investor who has a short time to accumulate portfolio wealth may not be able to recoup losses that an aggressive portfolio may experience. Therefore, it is necessary to restrict an investor with a short time horizon from investing in a portfolio that has a high probability of experiencing short-term declines. If a client has a longer time horizon, he/she can afford a higher level of investment risk. The longer the money is invested, the higher the chance to recover from market downturns.

RISK TOLERANCE

Investor risk tolerance is another essential factor in determining what portfolio is appropriate for the investor. Risk tolerance is a measure of the investor's attitudes and perceptions towards the uncertainties associated with investing. More specifically, risk tolerance can be defined as a person's willingness to accept portfolio losses.

A risk-averse investor requires greater certainty of portfolio returns (places more emphasis on the importance of protecting the portfolio against loss, rather than to capture high portfolio returns if it means taking more risk to get those returns), while a risk-tolerant investor is willing to accept higher volatility of returns in exchange for potentially higher average returns. A risk-averse investor becomes anxious when his/her portfolio declines in value by even a small percentage. A risk-tolerant investor is able to endure market fluctuations and to focus on the expected end result.

INVESTOR PROFILE QUESTIONNAIRE

Emotions can play a significant role in how investment assets are allocated and portfolio managers are selected. The Investor Profile Questionnaire responses help to identify the level of risk an investor is willing to accept.

An investor's time horizon and risk tolerance combine to establish his/her investment objective and should be matched with a financial profile to help determine the appropriate portfolio. See the Portfolio Strategies Investor Profile Questionnaire. It will serve as a guide to help you understand which **PSI Tactical MPT Model** may be most appropriate for you. Our models are designed to help you maintain a disciplined investment strategy. It is your decision as to whether to invest more conservatively or more aggressively than your profile would suggest.

***PSI Tactical MPT Models* INVESTMENT MONITORING**

The on-going monitoring of investments is a regular and disciplined process. It is the mechanism for revisiting the investment option selection process and confirming that the criteria originally satisfied remain so. While frequent change is not expected, the process of monitoring investment performance relative to specified guidelines is an on-going process.

Monitoring will occur on a regular basis by the PSI Investment Advisory Board appointed by Portfolio Strategies, Inc., and will use the same criteria that were the basis of the investment selection decision.

PSI monitors the selected models to ensure consistency with their stated strategies. At least annually, PSI will perform a review of the individual models to ensure continued correlation with investment goals and efficiency in their respective combinations. Changes to the composition of your model will be considered and implemented when market conditions and/or shifts in performance make it necessary. Such changes will take place to ensure that your investments are properly aligned with your stated investment objectives. Changes to either the model composition and/or its respective allocations may be made in this review process.

If overall satisfaction with the investment option is acceptable, no further action will be taken. If areas of dissatisfaction exist, PSI will take steps to remedy the deficiency by adjusting the model composition to underweight or remove the respective allocation.

Your financial representative will contact you annually to review your investment objectives. The questionnaire process you have just completed should be repeated during this time to measure your investment preferences, financial capacity, and risk tolerance. Changes indicated from the review process should be implemented as required.

Important Disclosure Information

Please remember that different types of investments involve varying degrees of risk, and that past performance may not be indicative of future results. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Portfolio Strategies, Inc.) will be profitable. Please remember to contact Portfolio Strategies, Inc. if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you want to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

PORTFOLIO STRATEGIES, INC.



Portfolio Strategies, Inc. is located in Tacoma, Washington. Since its formation in 1982, the firm has been dedicated to serving investors who realize the importance of market-responsive, professional money management.

About Portfolio Strategies, Inc.

Portfolio Strategies is dedicated to serving investors who realize the importance of market-responsive, professional money management.

Since its formation in 1982, the firm has grown to manage assets for individuals, endowments, foundations, and corporations. While things change by the minute in the financial world, the guiding principles behind the success of Portfolio Strategies have remained constant.

Portfolio Strategies' mission is to pursue solid and steady growth, and to contain risk and volatility. The company combines innovative approaches to money management with teams of seasoned portfolio managers. Portfolio Strategies offers a range of investment options spanning the needs of today's investors. Each investment program has its own distinct character and objectives to help provide maximum diversity in approach, while retaining the company's core commitments to capital preservation and growth.

Assisting investors on a one-to-one level are independent financial advisers, whose expertise lies in aligning the investor's profile and objectives with specific program offerings. The highly personalized nature of this service is what allows Portfolio Strategies to deliver consistent investment management, for large and small investors alike.

Integrity and exemplary customer service are more than just the qualities that have defined Portfolio Strategies since its beginning, they are at the heart of the company's promise to each and every investor it is proud to serve.

PSI Investment Methodology

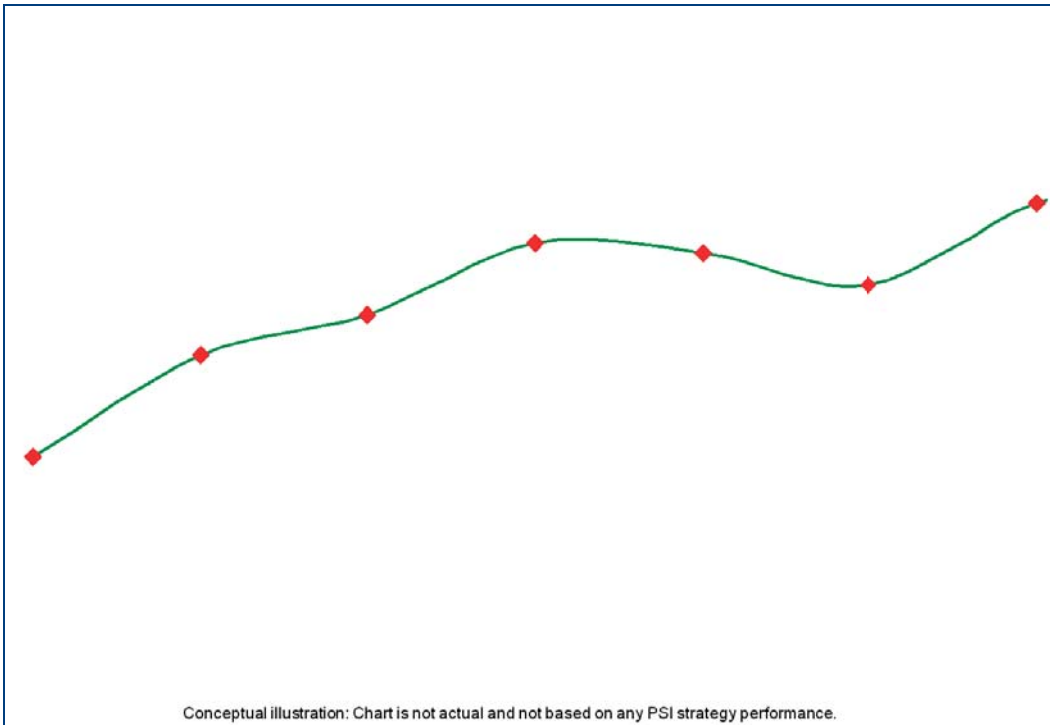
Portfolio Strategies offers an alternative to buy and hold or passive only investment approaches by incorporating tactical (active) asset allocation into portfolios to lower risk and provide smoother, more consistent returns.

Tactical management means that a portion of your account is actively managed and monitored on a daily basis. There are several different strategies available. Each is managed by an independently owned management firm located throughout the U.S. The manner in which a strategy approaches risk management is what gives each its own independent character.

Every decision made by Portfolio Strategies is influenced by our belief in the necessity of risk management. In essence, this means that while we seek to provide the best returns possible, our primary concern is preserving your principal.

Portfolio Strategies' Goal for Investors

Provide a smoother, more consistent investment experience.

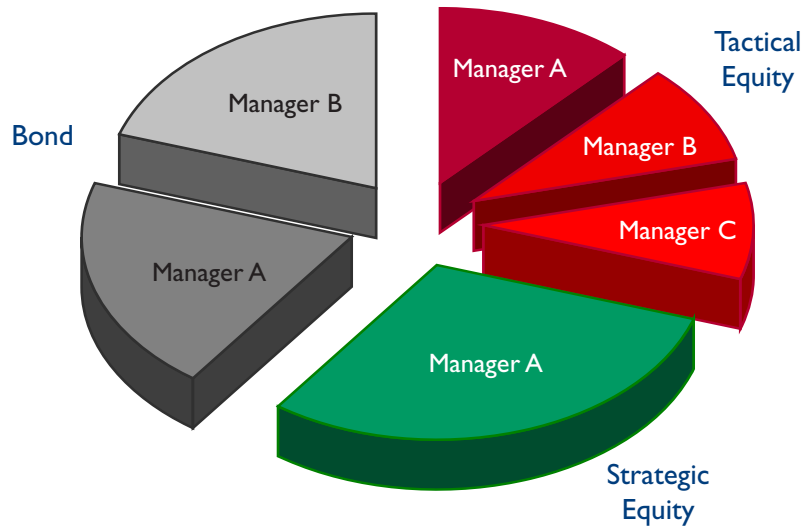


Key Value of Incorporating Tactical Management

No one can turn back the clock to the moment before a hard-won gain was lost. For many investors, the time required to sit through an extended down cycle followed by the time required to rebuild from a major loss is neither an appealing prospect nor a practical possibility. Minimizing losses results in less return and time required to make-up for those losses and a smoother, more consistent investment experience.

By choosing Portfolio Strategies, you choose to manage risk and keep that time on your side. Working with your financial advisor, we offer several strategies to select from and the ability to combine multiple strategies in your portfolio to achieve the optimal blend of growth and risk management.

Sample Portfolio



Historical Stock Market Trends

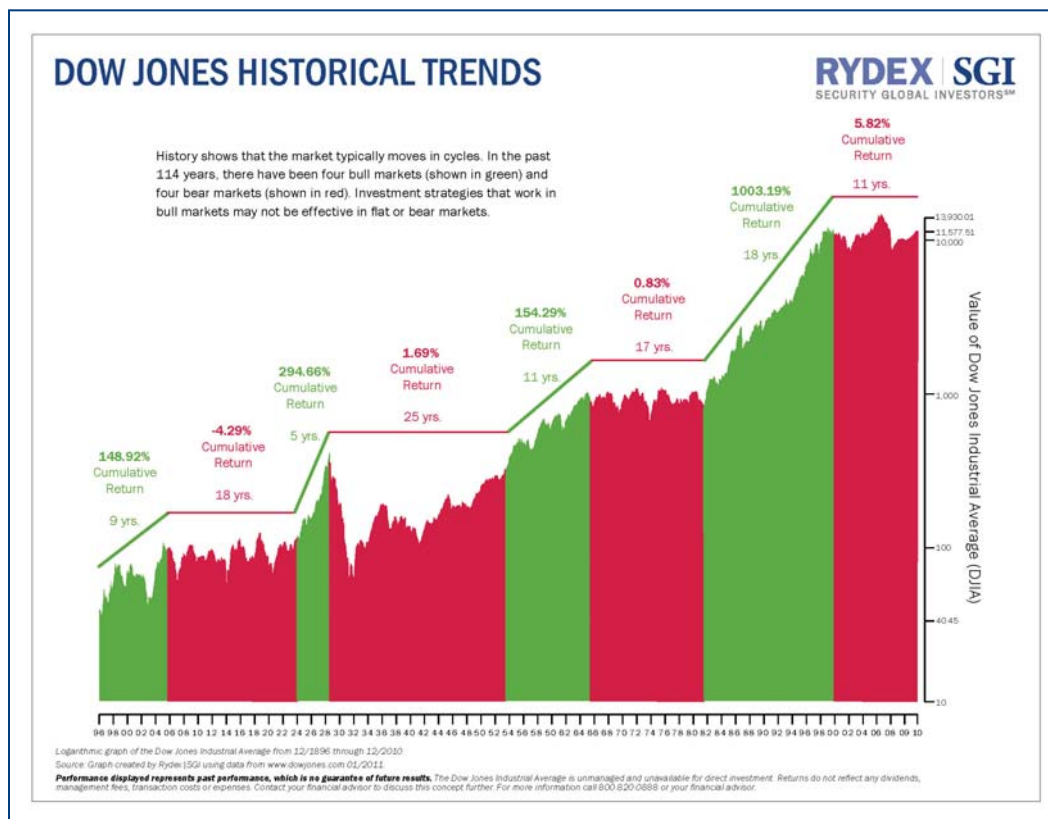
Since its inception, the stock market has rewarded investors with long-term growth. However, for most investors, a realistic time horizon is 10 to 20 years, not a century.

History shows that the equity market enters long periods of higher than average returns, followed by lengthy periods of lower than average returns. These periods are often referred to as secular market trends. There are two kinds of secular trends:

Secular Bull, or upward-trending market, occurs when each successive high point is higher than the previous one, i.e. 1980s, 1990s

Secular Bear, sideways-trending market, occurs when a trend does not consistently rise above the previous high, i.e. 1970s.

Having a thorough understanding of market trends and the current market environment may help you better prepare for where to allocate your assets, and *more importantly, how they are to be managed.*



The Impact of Losses

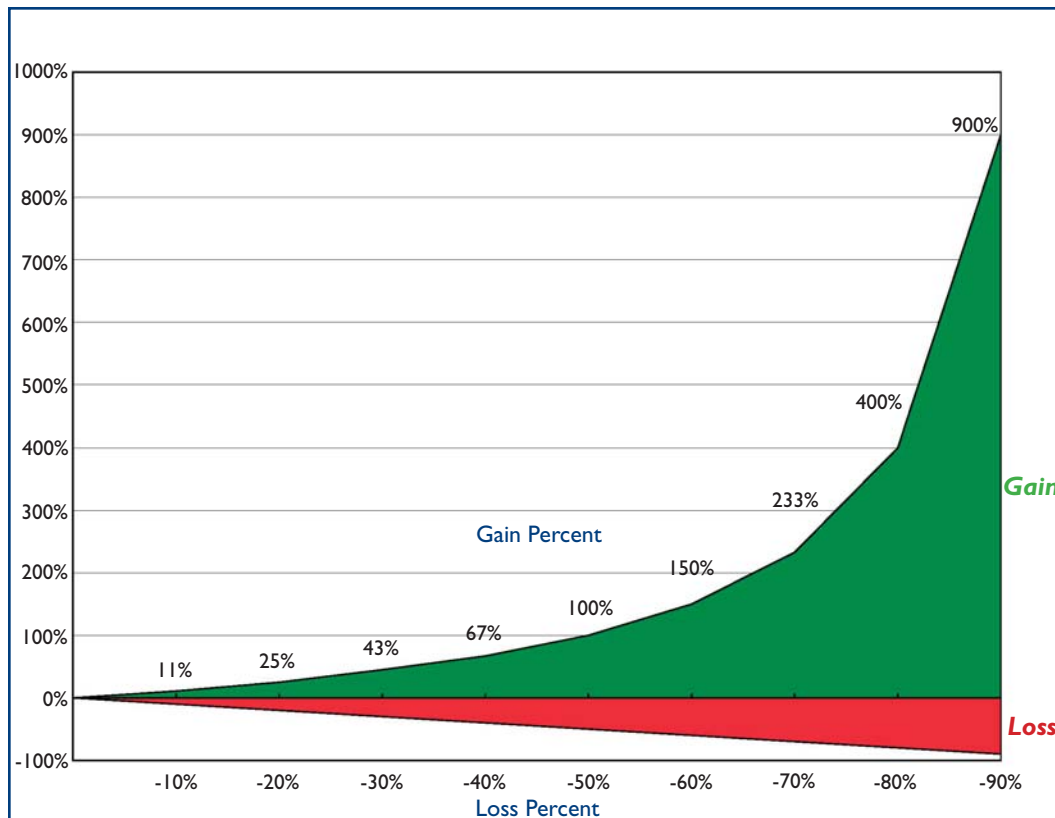
The risk of investing in a broadly diversified group of equities or better, equity indices, is not about losing everything but rather the temporary downside that will occur and how we respond. Even if stocks fell 90%, you will not realize that loss unless you sell.

Some good questions for all of us to address as investors:

1. How much downside am I willing to stomach with the desire to achieve growth offered by investing in equities? (in dollars)
2. Can I afford financially and emotionally the time it may take to recover these temporary losses if it took several months or years?

Question 1 can be answered today. Question 2 is all-dependent upon what happens next in the market—it's unpredictable.

Striving to keep losses to a minimum is therefore very important in order to minimize both the impact of loss and the time to recover from them.



Capitalizing on Unpredictable Markets

There are essentially two ways to invest in the stock market: **Actively (Tactical)** or **Passively (Strategic)**. Both strategies seek to grow over time but accomplish their objective in different ways.

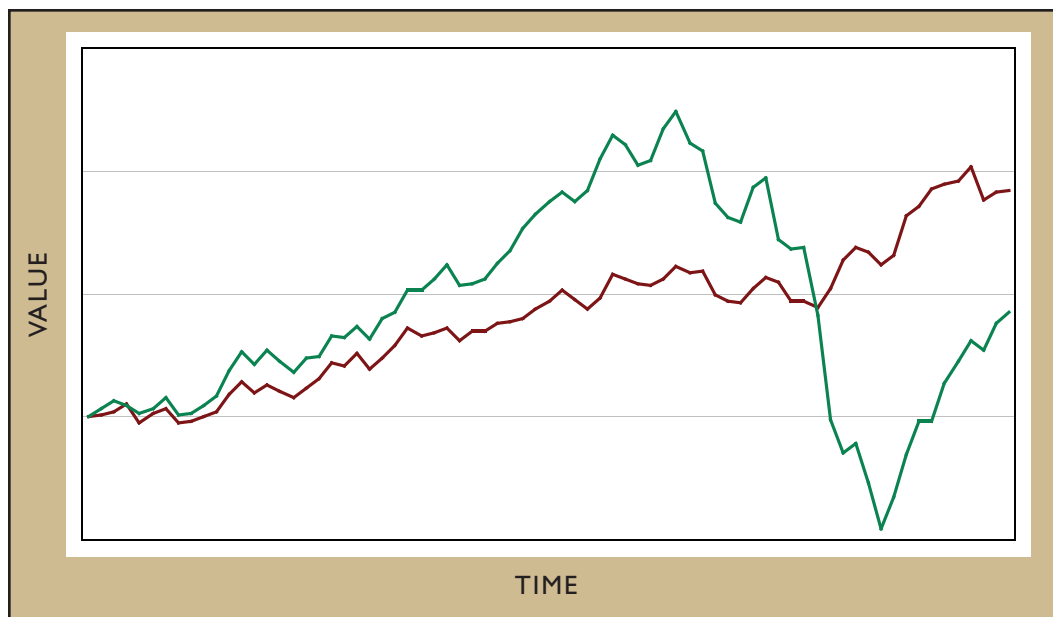
Passive Management (Strategic)

PRIMARY OBJECTIVE: Growth while minimizing risk by passively holding a diversified portfolio of equities and/or fixed-income investments. This strategy remains 100% invested at all times. Investors are therefore fully exposed to both rising and falling markets. As a result, investors may experience periods of high growth as well as periods of high volatility and severe declines.

Active Management (Tactical)

PRIMARY OBJECTIVE: Growth while minimizing risk by actively allocating between different asset classes and categories. This approach has the opportunity to lessen exposure to severe market sell-offs by moving assets to investments that are either stable in value such as money market funds and/or other investments that act as a hedge. Although gains may be sacrificed because of emphasis on risk management, much less gain is required to make up for losses and move beyond the break-even point over a passive approach. In short, the flexibility of active management provides for a smoother more consistent experience during both rising and falling markets.

The chart below shows an example of the difference between the two approaches. Among other factors, understanding your tolerance for loss will help your adviser determine the appropriate strategy or potential combination of strategies to use when constructing your portfolio.



March 31, 2011

Goal

To provide diversification and help reduce volatility for investors by having multiple managers with varied investment styles in one account.

Investment Strategy

The **TACTICAL MPT MODELS** provide investors with a combination of money managers in one account. The goal of the models is to achieve a blend of managers within different investment strategies within the same risk level to allow for a higher degree of diversification.

The **TACTICAL MPT MODELS** offer five variations tailored to a client's comfort with portfolio risk. Manager performance in each risk-adjusted model is monitored regularly. Inclusion in the **TACTICAL MPT MODELS** is based on a history of adding value to a client's account at the chosen risk level.

By combining multiple managers, the **TACTICAL MPT MODELS** attempt to create portfolios that offer consistent investment performance, achieving long-term results while reducing the likelihood of uncomfortable short-term surprises. The models use a combination of Modern Portfolio Theory (MPT) and a variety of active management techniques to reallocate assets in response to market change. The **TACTICAL MPT MODELS** seek to closely match benchmark performance in up markets while lessening the impact of down markets allowing for faster investment recovery.

Below are the investment strategy descriptions of the PSI programs that make up the **TACTICAL MPT MODELS**:

ALL SEASONS' strength lies in our proprietary research showing markets have patterns that have historically tended to repeat themselves throughout the year. **ALL SEASONS** seeks to invest in historically favorable market segments in proportions reflective of current market conditions. **ALL SEASONS** relies on historical data from the past 20+ years (*past performance is not indicative of future results*) that identifies two calendar based cycles that are used to determine its daily portfolio positions:

- A weekly stock rotation cycle that identifies sectors or market indices likely to out-perform the market and is used to determine *where to invest*.
- A monthly cash flow cycle that identifies market strength caused by changes in cash flow into the market and helps to determine *how much to invest*.

DYNAMIX employs three models to seek returns:

- **Calendar effects:** Makes investments only during those periods our research shows institutional investors are most likely to be active in the market.
- **Long-term trend-following model:** Gauges the major underlying trend of the market and invests accordingly. Uses proprietary measures to monitor the institutional participation in various market sectors on the belief that institutional investment follows a regular pattern. When institutional investments are rising, the program will invest in the market. When institutions are exiting the market, the program will invest in money market.
- **Market-neutral sector and index rotation model:** Attempts to capture profit from the spread between favored sectors or indices and unfavored sectors or indices.

GLOBAL MACRO makes investment decisions based on macro U.S. and global economic trends. The strategy attempts to combine fundamental and technical analysis in seeking to profit from trends, market biases, and future expectations regarding specific countries, regions, industries, and companies. Investments can be made in sectors that show growth potential with low volatility, or that show low price points relative to value.

INDEX PLUS seeks to identify historically recurring cycles of market gains. These periods are selected for their relationship to long-established patterns in the activity of institutional investors—what we call Institutional Pressure (IP) days. These IP days correspond with periods when institutions tend to move large sums of money into the market. Examples of IP days include 401(k) and pension investments, tax periods, seasonal fluctuations, and holidays. By investing only during IP days, the program attempts to increase the chances of a positive return while avoiding market volatility during the remainder of the year.

MARKET NEUTRAL employs a market neutral trading model designed to exploit market anomalies (calendar biases) that have historically caused a predictable pattern of leadership rotation among major stock indices and sectors that has been repeated month after month. Unlike typical investment strategies that are correlated to the markets and may suffer significant declines during periods of adverse market volatility, **MARKET NEUTRAL** seeks modest and consistent positive returns regardless of market direction.

PRICE HISTORY makes investment decisions based on moving averages, which determine entry and exit points to and from the market. Investments are made in a broad spectrum of sectors and major U.S. and global stock market indices. All investments have a stop-loss point in an effort to help control losses in any one specific position the strategy owns. In volatile or downward markets, **PRICE HISTORY** will try to add value in the overall portfolio by taking hedged or defensive positions.

QUANTITATIVE GROWTH seeks to create a portfolio that remains fully invested in the market while decreasing overall risk through diversification.

QUANTITATIVE GROWTH focuses its investment decisions on two econometric inputs: interest rates and economic growth. While the portfolio is designed to mirror the overall market, the manager seeks additional benefit from overweighting by buying higher percentages of certain asset classes to take advantage of potential opportunities.

The **PSI BOND PROGRAM** seeks to provide conservative growth using primarily fixed-income investments. It seeks additional return by taking advantage of asset class dispersion (i.e., the tendency of stock and bond prices to move in opposite directions).

PSI BOND attempts to mitigate risk by monitoring interest rates, market volatility, and credit spreads using proprietary mathematical models, resulting in hedges and purchases against fixed-income and equity investments. Tools used include:

- **Traditional allocation:** A diversified batch of investments, primarily bonds.

Tactical MPT Models

Reasons to Invest

- Employ the experience of highly respected and innovative money managers
- Manager performance monitored regularly
- Active management in a diversified portfolio

Minimum Account
\$20,000.00

About PSI

Portfolio Strategies, Inc. (PSI) is an SEC-registered investment advisory firm founded in 1982 and headquartered in Tacoma, Washington. PSI offers a range of investment strategies that can be managed on various platforms including: brokerage, variable annuities, and retirement plans for individuals, corporations, non-profit institutions, and endowments.

Performance

Tactical MPT Models	Quarter	YTD	1-year	3-year	5-year	Since Inception ¹
Conservative	0.29%	0.29%	3.89%	3.93%	4.49%	4.53%
Moderate Conservative	0.55%	0.55%	4.40%	3.93%	4.28%	4.57%
Moderate	1.07%	1.07%	5.38%	3.89%	3.83%	4.63%
Moderate Growth	1.59%	1.59%	6.31%	3.77%	3.33%	4.64%
Growth	2.12%	2.12%	7.20%	3.60%	2.78%	4.61%
S&P 500 Index	5.92%	5.92%	15.65%	2.35%	2.62%	4.54%

Tactical MPT Models	Standard Deviation	Alpha	Beta	Maximum Drawdown	Up Capture	Down Capture
Conservative	3.81%	3.43%	0.20	-7.85%	27.76%	17.52%
Moderate Conservative	4.58%	3.16%	0.26	-10.69%	33.52%	26.19%
Moderate	6.34%	2.63%	0.38	-17.91%	45.34%	42.63%
Moderate Growth	8.24%	2.09%	0.50	-24.67%	57.57%	57.95%
Growth	10.18%	1.56%	0.62	-30.96%	70.21%	72.23%
S&P 500 Index	15.33%	0.00%	1.00	-50.95%	100.00%	100.00%

Returns are net of management fees.

¹Benchmark = The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. An investment cannot be made directly into an index.

²Date of inception: January 1, 2004.

Past performance is not indicative of future results and net of dividends, please contact Portfolio Strategies at (800) 959-2001 for the most recent performance figures or if you have questions about any of our programs.

Disclosures & Glossary

Portfolio Strategies, Inc. (PSI) is a registered investment adviser established in 1982. PSI offers strictly discretionary investment management services via the omnibus trading of mutual funds and annuity subaccounts. PSI's disciplined, quantitative investment strategies use a wide variety of techniques (such as relative strength, momentum, modern portfolio theory, calendar effects, and trend-following) to invest in mutual funds and annuity subaccounts holding U.S. and foreign securities of any market capitalization. The Tactical MPT Models are a pre-packaged combination of the individual programs offered by PSI. Readers are encouraged to view the individual program materials to learn more about each program and the individual program disclosures. All returns are in U.S. Dollars.

Individual program component returns represent a mixture of hypothetical results, results of manager's client accounts prior to rollout at PSI, and the results of PSI clients invested in the respective individual component programs.

The portion of the returns that reflect hypothetical, back-tested results were achieved by means of the retroactive application of a back-tested model and, as such, the corresponding results have inherent limitations, including: (1) the model results do not reflect the results of actual trading using client assets, but were achieved by means of the retroactive application of a back-tested model that was designed with the benefit of hindsight; (2) model results generally do not reflect the reinvestment of dividends, nor the deduction of transaction, custodial or advisory fees (except that the model results do reflect the deduction of an annual investment management fee), the impact of taxes, or the separate fees assessed directly by each unaffiliated mutual fund holding that comprised the model, the deduction of all of which fees and costs would have had the effect of decreasing model performance results; (3) back-tested performance does not reflect the impact that any material market or economic factors might have had on the adviser's use of the model if the model had been used during the period to actually manage client assets; and, (4) PSI's clients may have experienced investment results during the corresponding time periods that were materially different from those portrayed in the model.

These returns have been adjusted downward to reflect PSI's maximum management fee. The performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, an annual investment management fee, and the separate fees assessed directly by each unaffiliated mutual fund holding that comprised the model.

Alpha: A quantitative measure of the performance of a given stock, mutual fund, or portfolio in comparison to the risk adjusted performance of the underlying benchmark. A positive alpha means a fund has outperformed its benchmark by the stated percentage, while a negative alpha would indicate that the fund has underperformed by the same percentage.

Beta: A quantitative measure of the volatility of a given stock, mutual fund, or portfolio relative to the overall market or appropriate benchmark. A beta above 1 is more volatile than the market, while a beta below 1 is less volatile.

Calendar Bias: The historical tendency of markets to perform in a predictable pattern with certain events happening at a given time each day, week, month, or year.

Down Capture Ratio: The measure of a manager's performance in down markets relative to the market itself. A down market capture ratio of 50% suggests that the manager captured only 50% of the market's loss when the market was down.

Growth Investments: Investment strategy designed to locate rapidly growing companies in emerging sectors or markets, growth stocks typically have a higher PE ratio and higher historic volatility.

For reasons including variances in model account holdings, transaction and custodial fee variances, market fluctuation, the date on which a client became a participant in the model, and any account contributions or withdrawals, the performance of a specific client's account may vary substantially from the indicated performance results. The Tactical MPT Models may involve an above-average turnover, which could negatively impact upon the net after-tax gain experienced by an individual client in a taxable account. The PSI performance results do not reflect the impact of taxes.

Past performance may not be indicative of future results and the performance of a specific individual client account may vary substantially from the performance results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal either the performance results reflected, or the performance results for any of the comparative index benchmark(s) provided. The historical performance results of the comparative index benchmark(s) do not reflect the deduction of transaction and custodial charges or the deduction of an investment management fee, the incidence of which would have the effect of decreasing indicated historical performance results. The historical index performance results are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the model portfolio meets, or continues to meet, his/her/its investment objective(s). It should not be assumed that PSI's client account holdings will correspond directly to any of the comparative index benchmarks.

To the extent that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise PSI immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised by PSI) will be either suitable or profitable for a client's or prospective client's portfolio. All performance results have been compiled solely by PSI, are unaudited, and have not been independently verified. Information pertaining to PSI's advisory operations, services, and fees is set forth in PSI's current disclosure statement, a copy of which is available from PSI upon request. PSI maintains all information supporting the performance results in accordance with regulatory requirements.

Inverse (Short) Investments: The sale of a borrowed asset, typically on margin with the expectation that the asset will fall in value. There is substantial risk involved in taking a short position, as the potential risk with the appreciation of the asset is unlimited.

Maximum Drawdown: Measure of the greatest potential loss involved in the investment from the highest daily account value to the subsequent lowest daily account value. For example, if an investment of \$100,000 declines in value to \$95,000, then the maximum drawdown of this investment would be 5%.

Standard Deviation: Refers to the variability of returns. The lower the standard deviation, the more stable the returns.

Up Capture Ratio: The measure of a manager's performance in up markets relative to the market itself. An up capture ratio of 50% suggests that the manager captured only 50% of the market's gain when the market was positive.

Value Investments: Investment strategy designed to seek out undervalued companies, sectors, or markets. Value stocks typically have a lower PE ratio, lower volatility, and longer period of operation.