



Richard W. Greene
Managing Principal

To: Interested Parties

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From: Richard W. Greene

Re: *Intelligent Index* 4th Quarter Review

Fourth Quarter Review

After a year marked by considerable volatility, the US equity markets ended the year essentially flat. Despite providing investors with little to show for the roller coaster of a year, the US equity markets performed best of all the major global exchanges. The benchmark Standard and Poor's 500 Index gained 11.82% for the fourth quarter and concluded the year a positive 2.11%. The Intelligent Index Model Portfolio rallied 13.00% for the quarter net of fees, but ended marginally down for the year at -1.82% net of fees.

Below are the results for the Intelligent Index Model Portfolio and the relevant indices.

Quarterly and Annualized Returns for Intelligent Index Model Portfolio and Indices as of 12/31/2011

	<u>Q4 2011</u>	<u>YTD</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
Intelligent Index (Gross)	13.36%	-0.58%	-0.58%	17.30%	2.47%	6.11%
Intelligent Index (Net)	13.00%	-1.82%	-1.82%	15.84%	1.20%	4.79%
S&P 500 Index*	11.82%	2.11%	2.11%	14.11%	-0.25%	2.92%
DJ Wilshire 5000*	12.02%	0.98%	0.98%	14.93%	0.12%	3.80%
S&P Citi Small-Cap Value*	18.58%	-1.38%	-1.38%	14.75%	0.12%	6.55%
S&P Citi Small-Cap Growth*	15.85%	3.62%	3.62%	19.40%	3.81%	7.51%
S&P Citi Mid-Cap Value*	15.88%	-2.43%	-2.43%	17.01%	1.38%	7.45%
S&P Citi Mid-Cap Growth*	10.26%	-0.94%	-0.94%	22.20%	5.26%	6.48%
S&P Citi Large-Cap Value*	12.98%	-0.48%	-0.48%	11.55%	-2.96%	2.87%
S&P Citi Large-Cap Growth*	10.81%	4.65%	4.65%	16.57%	2.38%	2.84%

Source: Bloomberg, Wilshire.com, iShares.com.

As a result of all indices as well as the S&P 500 Index being positive for the quarter, the Model Portfolio was returned to an equal weighting between growth and value styles.

Year in Review

Most equity investors were thrilled to say goodbye to 2011 as the Eurozone financial crises dominated market sentiment and created levels of volatility reminiscent of 2008. It was also a year when most international investors lost considerable ground, and while the Eurozone financial crises received almost all the attention it was the Asia-Pacific Region that was home to the year's biggest losers. Had it not been for QE2 and strong corporate fundamentals, the US markets very likely may have experienced double digit type declines similar to almost all the foreign markets. Investor confidence seemed to erode in direct parallel with the flood of negative headlines emanating from Europe, the Middle East, Asia, and the United States, and in general investors sought relatively safe havens for their monies in large blue chip dividend paying companies, gold, and US Treasuries, despite the downgrade in the credit rating of US debt.

What kept the market afloat amidst so much uncertainty and turbulence was monetary policy towards maintaining low interest rates and record corporate profits. For example, third quarter 2011 aggregate earnings per share for the S&P 500 Index were \$25.29, their highest ever for a quarter according to data compiled by Standard & Poor's.¹ Low interest rates have facilitated improvements in corporate balance sheets while motivating investors to assume increase levels of market exposure in an attempt to generate some sort of return on liquid assets. Unfortunately, these drivers cannot last indefinitely.

Looking Forward

The relative "lull" in the action between policy makers, bankers, Greece, and other European basket cases has allowed investors to focus at least temporarily on the continued strength in corporate fundamentals and Chairman Bernanke's intention to keep rates low into the 2014 time frame. With almost half of Q1 behind us, the Intelligent Index Model Portfolio and its constituent indices are participating meaningfully in the current rally as demonstrated below.

Quarter to Date 2012 Price Returns Intelligent Index Portfolio Constituent Index Fund ETFs	Symbol	Quarter to Date 2012
Barclay's S&P Small Cap Value Index Fund ETF	IJS	12.92%
Barclay's S&P Small Cap Growth Index Fund ETF	IJT	9.51%
Barclay's S&P Mid Cap Value Index Fund ETF	IJJ	10.33%
Barclay's S&P Mid Cap Growth Index Fund ETF	IJK	11.11%
Barclay's S&P Large Cap Value Index Fund ETF	IVE	8.21%
Barclay's S&P Large Cap Growth Index Fund ETF	IVW	6.55%
Barclay's iShares S&P 500 Index Fund ETF	IVV	7.44%

Source: Yahoo Finance as of 2/8/2012 close.

Ironically, the relative bullishness for 2012 expressed by many Wall Street prognosticators is partly based on the extremely negative sentiment overhanging the market. Many believe the market has already priced in most if the negative news regarding Europe barring a "systematic collapse". As much as we would like to concur, we remain cautious given both the extent of unknowns and the risks of a systematic collapse.

Greek and other austerity efforts continue to come up short while deadline after deadline pass to avoid a default by Greece in March. Domestically, while corporate and consumer balance sheets have experienced de-leveraging, public balance sheets have expanded unabated. Forecasts for US GDP growth range in the 1.5% – 2.5% range, which is not sufficient for the US to grow its way into a strong recovery and materially increase the Government's tax receipts through sustained job growth. Tax receipts need to rise meaningfully, given that the US currently borrows 40 cents out of every dollar it spends.² The government's inability to curtail entitlements will make it almost impossible to ever stabilize our national deficit. Even if economic conditions improve, demographic trends in the US reflect an aging population that will further add to entitlement expenditures given that the

¹ Hauser, Christine. "Wall Street Ends Back Where It Started". The New York Times. December 30, 2011. <http://www.nytimes.com/2011/12/31/business/daily-stock-market-activity.html>

² Williams, Grant. "Things That Make You Go Hmmm...". January 23, 2012. <http://www.financialsense.com/contributors/grant-williams/2012/01/23/things-that-make-you-go-hmmm>

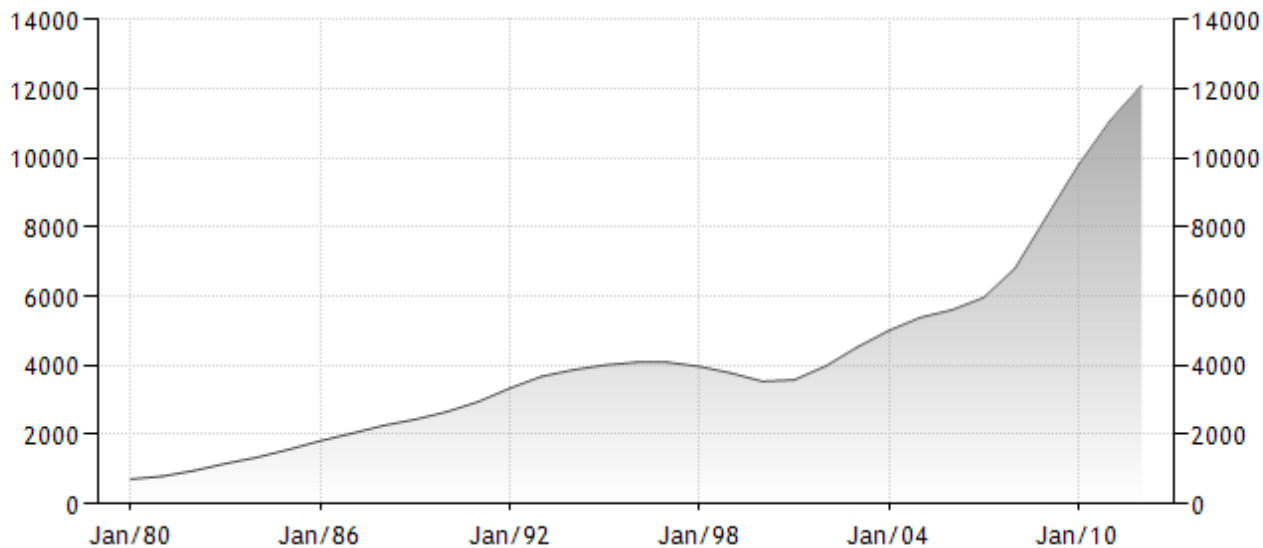
percentage of citizens over 65 years of age compared to those 15 – 64 years of age is expected to increase by over 30 percent in the next 10 years.³ The charts below illustrate just how big a predicament the government is currently facing.

UNITED STATES INTEREST RATE



SOURCE: WWW.TRADINGECONOMICS.COM

UNITED STATES GOVERNMENT NET DEBT



SOURCE: WWW.TRADINGECONOMICS.COM

The chart on top represents interest rates since January 1979, while the chart on the bottom reflects US Public debt since January 1980. J.P. Morgan further points out that every 65 basis point increase in interest rates adds \$100 billion in interest payments. Any meaningful upward move in interest rates from the current average rate of 2.274% can have a devastating effect given that only 12 years ago the average rate was 6.66%.² Rates at these levels are clearly unsustainable and why the government has chosen not to take advantage of the long end of the yield curve and protect against sharply rising rates is hard to understand. This is just one of the many issues that may lead to major problems down the road, and when combined with the host of uncertainties from Europe to Iran to the almost daily discrediting of both our elected officials and our major financial institutions, we find ample justification for our cautious approach to portfolio allocations.

³ Short, Doug. "Boomer Demographics: The Shift Ahead". Seeking Alpha. October 13, 2011. <http://seekingalpha.com/article/299329-boomer-demographics-the-shift-ahead>

Conclusion

While we were disappointed that the Intelligent Index Model Portfolio lost a little ground last year, we attribute it to the near meltdown in the financial sector in the third quarter as a result of European uncertainties. The long term results continue to reflect positively against the broader indices and in our mind, present a significantly better strategy than attempting to find that handful of mutual funds that over the long term, after fees and after taxes, have outperformed their relative benchmarks.

We look forward to updating you after the 1st quarter and as always feel free to contact us with any thoughts or questions.

Sincerely,

Richard W. Greene
Managing Principal

Jennifer M. Wolfsberg
Managing Principal

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Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

DJ Wilshire 5000: Measures the performance of all U.S. common equity securities, and so serves as an index of all stock trades in the United States.

S&P 500 Index: Measures the performance of the largest 500 U.S. common equity securities.

Intelligent Index figures reflect hypothetical returns for the "model portfolio" which is comprised of S&P/Barra indices that do not trade. Actual returns reflect the performance of Barclays Share Exchange Traded Funds, which are designed to track the S&P/Barra indices. Increments of Return sourced from the model portfolio.

The information contained herein is compiled independently by Richard Greene. Though considered to be reliable, these materials have not been verified by any third-party, and are not guaranteed as to their accuracy or completeness. All quantitative analysis illustrated herein is done using market composites which best represent the overall investment strategy of the Intelligent Index. All annualized return figures consist of both capital appreciation and dividends reinvested.

Risk: The Intelligent Index Strategy allocates its investments among Barclays iShares ETF indexes invested in growth and value style equities of small, mid, and large capitalizations. The Intelligent Index Strategy systematically rebalances its allocations in these assets to maintain their target weightings. There can be no guarantee that rebalancing will achieve its intended result. The risks, both systematic and unsystematic, associated with an investment in the Intelligent Index Strategy specifically and equities in general may not be suitable for all investors. The performance figures contained herein do not guarantee future results.

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