To: Interested Parties

Date: November 30, 2009

From: Richard W. Greene

Re: *Intelligent Index* 3rd Quarter Update

Third Quarter Review:

Global stock and bond markets continued an impressive rally from their March lows. As more concrete signs of economic stability emerged, the benchmark Standard and Poor's 500 Index gained 15.61% in the third quarter of 2009. The Intelligent Index Model Portfolio followed its 18.11% gain in the second quarter of 2009 with an additional advance of 17.77% in the third quarter of 2009.

Below are the third quarter results for the relevant indices, net of fees.

Quarterly and Annualized Returns for Intelligent Index Model Portfolio and Indices (Net of Fees) as of 9/30/2009

	Q3 2009	YTD	1-Year	3-Year	5-Year	Since Inception on 1/1/2000
Intelligent Index	17.77%	23.70%	-6.73%	-3.37%	2.31%	3.69%
S&P 500 Index	15.61%	19.27%	-6.90%	-5.43%	1.02%	-1.57%
DJ Wilshire 5000	16.12%	21.28%	-6.43%	-4.83%	1.76%	-2.46%
S&P Citi Large-Cap Value	17.94%	16.27%	-11.43%	-8.09%	0.26%	0.49%
S&P Citi Large-Cap Growth	13.56%	22.10%	-2.62%	-2.88%	1.67%	-3.76%
S&P Citi Mid-Cap Value	21.46%	26.81%	-5.06%	-2.94%	3.99%	8.54%
S&P Citi Mid-Cap Growth	18.55%	33.56%	-1.18%	0.08%	4.95%	3.34%
S&P Citi Small-Cap Value	20.10%	17.65%	-11.20%	-5.30%	2.19%	7.41%
S&P Citi Small-Cap Growth	17.24%	21.30%	-10.12%	-2.70%	3.40%	3.97%

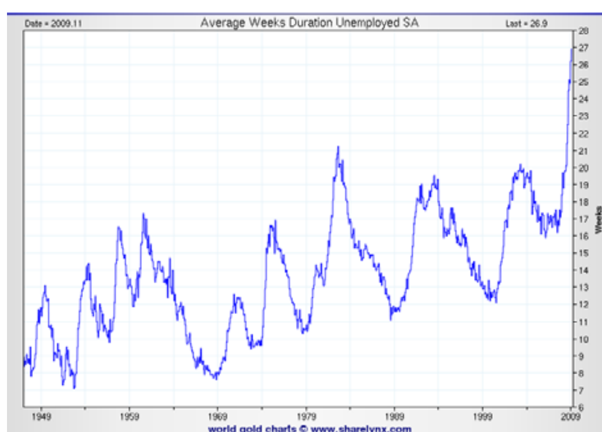
Source: Bloomberg, wilshire.com, iShares.com

As a result of all six indices as well as the benchmark S&P 500 Index being positive, the Intelligent Index Model Portfolio remains in a neutral equal weight allocation of 50% value and 50% growth for the current quarter.

Market Commentary:

Historically low interest rates and improvements in a number of economic sectors had created perfect conditions for the recent stock market rally. Ongoing government subsidies and cheap credit gave additional credence that the worst case scenarios for the economy may not come to pass. The Fed's policy of "zero" interest rates has been behind much of the strength in the equity and bond markets. Cash has stream-rolled into virtually every debt instrument regardless of quality and its position in the capital structure. Despite many bond funds receiving over 40 times more cash flow than equity mutual funds in the third quarter of 2009, stock funds have also been the entryway, as investors continue to flee 0% interest rate money market funds.[1] The recent "successes" of third quarter earning outpacing street estimates have added strength to the current rally (though the S&P 500 Index has still experienced 8 quarters of consecutively lower earnings[2]), but have also left many wondering whether investors are speculating too much on a real economic recovery before actual evidence supports it.

While the stock market is considered a forward looking indicator, the disconnect between the market and the real world economy is as pronounced as many have ever seen. Maintaining one's standard of living for most Americans has become more challenging with unemployment remaining stubbornly high, and commercial and residential mortgage defaults increasing unabated. According to the Mortgage Bankers Association, "nearly 10 in 100 homeowners are delinquent [on their mortgage], up from about 7 out of 100 in the third quarter of 2008"[3], not including those in foreclosure. According to the association, "the combined percentage of those in foreclosure as well as delinquent is 14.41%, or about 1 in 7 of mortgage holders."[3]. This is occurring against the backdrop of corporate America's improved profitability and productivity due to layoffs, downsizing, and federal subsidies. The chart below illustrates the average unemployment duration (in weeks) from 1949 through 2009.



Looking Forward:

We often suffer from the misconception that people in governmental power have, because of credentials, a disproportionate amount of intelligence and insight into economic and social policy analysis. As one fund manager put it regarding Ben Bernanke's reappointment as Chairman of the Federal Reserve Bank, "[it] is like reappointing the *Titanic's* captain for facilitating an orderly disembarkation of the sinking ship while ignoring the fact that he had charged recklessly through dark and dangerous waters."[4]

As a new era of government intervention unfolds, many investors question the likelihood of any successful robust economic recovery. Some contend that there is a fine line between regulation and manipulation. As much as Washington tries to lay blame on the greedy Wall Street bankers for our crisis, it was, to a large extent, public policy initiatives, enacted by both parties, which created the underpinnings for recent disasters. The elimination of reasonable credit standards for mortgage applications along with support for no-money-down-interest-only mortgages had the exact opposite effect than what Congress intended. Instead of making homeownership more affordable, these programs initiated insatiable demand and widespread speculation, which ultimately inflated home prices to levels beyond the means of most homebuyers, as real estate price appreciation far outpaced wages and income increases for most Americans. Ultimately, lenders were facilitators in transactions that were doomed to fail.

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[1] http://www.ici.org/pdf/flows_data_2009.pdf

[2] Selkin, Donald. Chief Market Strategies, National Securities Corporation. "Daily Market Notes" (for external distribution). November 10, 2009. Page 4.

[3] Streitfeld, David. "U.S. Mortgage Delinquencies Reach a Record High." The New York Times. November 20, 2009. http://www.nytimes.com/2009/11/20/business/20mortgage.html

[4] Grantham, Jeremy. GMO LLC. Quarterly Letter October 2009. Page 1.

The partial repeal of Glass-Steagall Act by the Gramm-Leach-Bliley Act in 1999, which repealed Glass-Steagall Act's provisions prohibiting a bank holding company from owning other financial companies, set the stage for a new era in mega banks and the "too big to fail" dilemma that exists now. The July 2007 repeal of the "uptick" rule for short selling immediately brought forth a deluge of market volatility. The uptick rule was originally designed in 1938 to prevent the kinds of bear raids on stocks that occurred in the 1929 stock market crash. Ironically, despite the Securities and Exchange Commission's claim that the elimination of the rule had nothing to do with the market's meltdown, they apparently felt it necessary to ban the short selling of virtually all financial related companies for 3 months in 2008, a policy move completely contradicting their prior assertions.

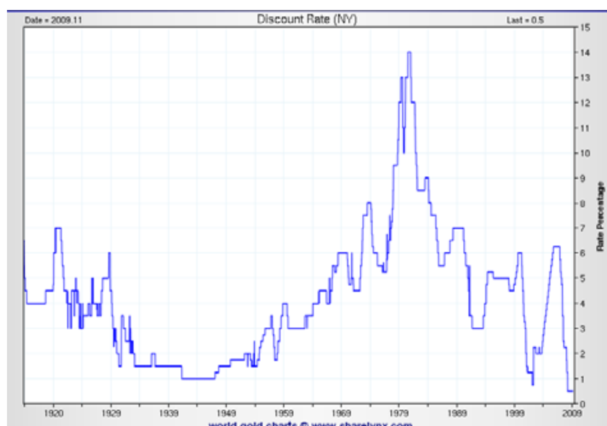
While it is encouraging that the Conference Board Leading Economic Index rose in September for the sixth straight month, that third quarter GDP increased at an annual rate of 3.5%, and that industrial production and capacity utilization have recently been inching up, the government's balance sheet continues to deteriorate. The Federal Reserve reported that as of June 30, 2009, total outstanding U.S. debt (government, corporate, and consumer) stands at a record $52.8 trillion.[5] Given the current Gross Domestic Product of $14.2 trillion, $3.73 of debt exists for every dollar of output, a record by a substantial margin from the 1933 level, when $2.99 of debt existed for every dollar of output.[5]

According to the estimates of recognized financial expert John Mauldin, over 20% of 2009 U.S. treasury tax receipts would need to be used to just pay the interest on the current outstanding government debt.[6] With the ongoing federal deficits requiring even more debt issuance by the government, it seems logical that U.S. taxpayers can expect significant and prolonged tax increases in order for the government to finance its borrowing costs.

Strategy:

Warren Buffett recently characterized investor behavior as "fear, greed, and folly". The purpose of underscoring some of the problems still prevalent in the economy is to hopefully lessen the likelihood that Centerpoint clients will engage in "greed and folly" given the strong bounce back in the stock and bond markets. The stock market has been the beneficiary of improving fundamentals, but also investors' fatigue with low money market and CD interest rates. For us, it's a bit comparable to the air conditioner and snow blower sales. It's always after the heat wave or blizzard that the dealers are deluged with buyers.

Our Director of Fixed Income, John Wolfsberg, commented in his third quarter review that risks of a bubble in the fixed income market are growing. In our mind, the short term, immediate gratification hunger for a 1% or 2% higher yield, which exposes fixed income principal to excess risk, is "folly" personified. The abnormally low interest rates may not disappear tomorrow, but as the charts below demonstrate, they are at historical lows and really have nowhere to go but up over the next few years. This being the case, this may be the absolute worst time to extend maturities, own low quality debt, and effectively chase yield.



The last chart below reflects how historically inflation, as measured by the Consumer Price Index, marches onward and upward almost regardless of economic cycles. In fact, inflation should probably be added to the two certainties in life after "death and taxes." Inflation is almost exclusively combated with higher interest rates, making this a perilous time not to remain relatively short on the yield curve or maintain sufficient liquidity to take advantage of higher rates down the road. By the same token,

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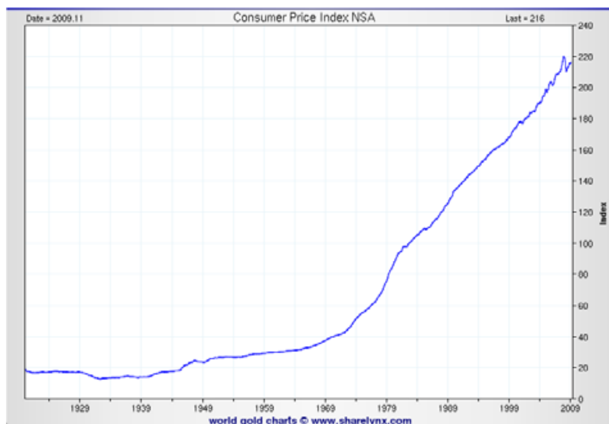
[5] Hoisington, Van. R, and Hunt, Lacy H., Ph.D. Hoisington Investment Management. "Quarterly Review and Outlook – Third Quarter 2009". Page 1. www.hoisingtonmgt.com.

[6] Mauldin, John. "Killing the Goose". October 9, 2009. http://www.frontlinethoughts.com/article.asp?id=mwo100909

investors may be ill advised not to maintain some equity, real estate, or commodity exposure, because historically, although not recently, they have represented good inflation hedges.



And if we are wrong? In our minds, there is a huge difference between experiencing real losses and opportunity cost. The missed opportunity of a couple of percentage points of interest income pales in comparison with the 5%, 10%, or 20% loss of principal one can experience in a rising rate environment. In order for this administration not to be a one term phenomenon, a tangible broad-based recovery will have to be underway by 2011. Our bet is that the policy makers will do everything in their power to engender renewed growth, which can only lead to a gradual return to historical levels for interest rates.

As for equities, we continue to be pleased with the Intelligent Index Model Portfolio's ability to outpace the broader market benchmarks over both the short and long terms. We are maintaining but not adding to equity allocations as we think the market is fairly valued, but not by any means cheap. We would look to market pullbacks to commit any uninvested money.

We look forward to updating you again after the 3rd quarter, and as always, please do not hesitate to contact us with any questions or thoughts in the meantime.

Sincerely,

Richard W. Greene
Managing Principal

Jennifer M. Wolfsberg
Principal

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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. The opinions expressed herein are subject to change without notice. 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