To: Interested Parties

Date: May 12, 2010

From: Richard W. Greene

Re: *Intelligent Index* 1st Quarter Review and 2nd Quarter Update

First Quarter Review:

Despite the skepticism surrounding the strength of the economic recovery, global equity and bond markets continued to generate strong positive performances for the first quarter of 2010. For the quarter, the Intelligent Index Model Portfolio gained 7.73%, resulting in a trailing 12-month total return of 59.14%. The benchmark Standard and Poor's 500 Index also experienced positive results, gaining 5.39% for the quarter and 49.78% over the prior year.

Below are the first quarter results for the relevant indices.

Quarterly and Annualized Returns for Intelligent Index Model Portfolio and Indices as of 3/31/2010

	Q1 2010	1-Year	3-Year	5-Year	10-Year
Intelligent Index (Gross)**	7.73%	59.14%	-1.25%	4.33%	5.53%
Intelligent Index (Net)**	7.39%	57.16%	-2.48%	3.04%	4.21%
S&P 500 Index*	5.39%	49.78%	-4.16%	1.92%	-0.65%
DJ Wilshire 5000*	6.04%	52.12%	-3.83%	2.58%	-0.06%
S&P Citi Large-Cap Value*	7.09%	54.68%	-7.41%	1.06%	1.56%
S&P Citi Large-Cap Growth*	3.71%	45.44%	-1.01%	2.65%	-2.98%
S&P Citi Mid-Cap Value*	8.77%	65.50%	-2.74%	4.59%	9.15%
S&P Citi Mid-Cap Growth*	9.44%	62.69%	1.06%	5.63%	2.96%
S&P Citi Small-Cap Value*	9.94%	66.28%	-4.16%	3.18%	8.41%
S&P Citi Small-Cap Growth*	7.30%	61.74%	-2.22%	3.68%	4.36%

Source: Bloomberg, wilshire.com, iShares.com

As a result of all six indices as well as the benchmark S&P 500 Index achieving positive returns for the quarter, no shifts were made and the Intelligent Index Model Portfolio remains in a neutral equal weight allocation of 50% value and 50% growth for the current quarter.

Generally speaking, economic indicators for the last several months have surprised most investors to the upside. Metrics such as the Conference Board's Leading Economic Index, industrial production, capacity utilization, productivity, and retail sales continue to steadily improve and in some cases, are being revised upward. Even the more challenged sectors of the economy such as housing starts and auto sales have shown various degrees of improvement.

While the passage of the Health Care Reform Bill took center stage during the quarter, the market was more focused on the improving fundamentals of the economy. Despite the turmoil created as a result of the Greek debt crisis, the Intelligent Index Model Portfolio is showing gains for the second quarter as well, driven by strength in the small cap sectors of the market.

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Quarter to Date Performance (Net of Fees) Intelligent Index Portfolio	Symbol	Price 3/31/2010	Shares	% of Portfolio	Real-time Price		Quarter to Date
iShares S&P Small Cap Value Index Fund	IJS	64.13	368.65	16.66%	68.25		6.42%
iShares S&P Small Cap Growth Index Fund	IJT	61.26	385.92	16.66%	64.71		5.63%
iShares S&P Mid Cap Value Index Fund	IJJ	71.33	331.43	16.66%	73.89		3.59%
iShares S&P Mid Cap Growth Index Fund	IJK	84.84	278.66	16.66%	87.56		3.21%
iShares S&P Large Cap Value Index Fund	IVE	56.46	418.72	16.66%	56.82		0.64%
iShares S&P Large Cap Growth Index Fund	IVW	59.92	394.78	16.67%	59.88		-0.07%
				100.0%			
iShares S&P 500 Index Fund	IVV	117.34			117.72		0.32%
					Portfolio		***3.06%***
				Relative Performance		+	2.74%

Year to Date Performance		12/31/2009			Real-time Value		Year to Date
Intelligent Index Portfolio							10.33%
S&P 500	IVV	111.81			117.72		5.29%
				Relative Performance		+	5.04%

Market Commentary:

It's hard to grasp the magnitude of change in investor sentiment from last spring's climate of fear to the constructive, almost nonchalant mindset of today. Angst has given way to cautious optimism, restoring confidence in economic recoveries and "market rationality." While portfolios have rebounded with the help of historically low interest rates and massive bailouts that stopped a meltdown of the financial system, other elements of the financial system are still deteriorating, and like the early cracks in the housing bubble, this decay seems to be going ignored by certain aspects of the market. Two of the most disconcerting costs of engineering at least a temporary economic recovery have been the resulting deterioration of the Federal balance sheet and the economy's dependency on low interest rates. While the Government may have the ability to defer deficit concerns for the near term, the recent recession has left the balance sheets of most states and municipalities severely weakened or in shambles altogether. It seems somewhat obvious that the consumers, who have spent the last few years de-leveraging their personal balance sheets and watching many of their investments regain considerable value, will be expected to shoulder the burden of fixing Federal and local balance sheets through higher taxes, increased fees, and the elimination or reduction of benefits and tax deductions for the foreseeable future; this is never bullish for the stock market. As a result, we do not view the current improvement in the stock market as an "all clear" signal to resume excess personal spending or aggressive risk-taking with one's assets.

Head in the Sand:

As we have stated before, we think that much of the market risk has shifted from equities to bonds. Surpassing the debate over the direction of interest rates is the debate over sovereign debt and the solvency of many cities, counties, and states throughout the country. While bond investors are willing to acknowledge the possibility of defaults on the part of Greece, Portugal, Spain and the like, few are taking seriously or implementing precautions against municipal related defaults. An increasing number of observers are commenting on the "head in the sand" mentality of municipal investors. Put bluntly, some suggest "investors are kidding themselves if they think that states and cities can't fail."[1] Nicole Gelinas of City Journal adds, "the financial crisis has exploded plenty of long-held beliefs, including the idea that mortgage debt is a risk free investment. But nothing has shaken the articles of faith that underpin another massive debt market: municipal bonds."[1] The belief that cities and states will do anything to avoid defaulting on their bonds, or that the Federal government will step in to help should this occur, seems a bit unwise and

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[1] Gelinas, Nicole. "Beware the Muni-Bond Bubble". City Journal. Spring 2010. Volume 20. Number 2. http://www.city-journal.org/2010/20_2_municipal-bonds.html

naive at this point in time. Many states are struggling to close budget shortfalls and trying to find a way to finance billions in compounding pension and health care liabilities that they have no ability to pay. The notion that certain cities and states may be forced to default in order to restructure many of these obligations and liabilities is entirely plausible.

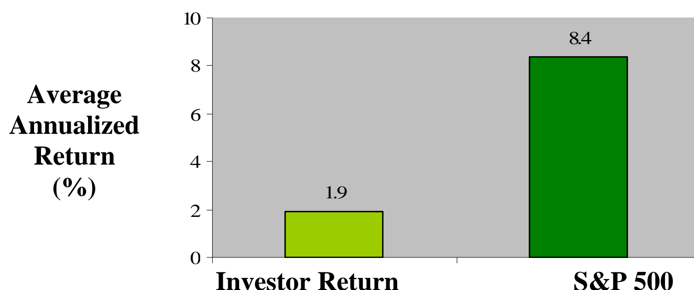
The same rear view mirror observations that went on with the housing and mortgage crises are being played by rating agencies and those with a vested interest to sell or manage tax-exempt bonds. Adamant that there have been historically few examples of municipal default (in 2008, there were "*only*" 136 defaults of municipal bond securities, representing $7.5 billion in assets[2]), rating agencies and analysts suggest municipal bonds are essentially low-risk investments. What they have not offered is by what means these cities and states will pay the estimated $2 trillion in promised pension benefits owed to public sector employees. Critics of the European Union bailout of Greece cite that you don't solve a debt crisis with more debt. What is needed is genuine financial and policy reform. Unfortunately, genuine financial reform is easier said than done, as evidenced by the recent rioting and social unrest in Greece. Over the last 10 plus years, municipal bond buyers have played the role of the European Union by willingly buying billions and billions of dollars of municipal debt without forcing municipalities to face the realities of an unsustainable budgetary system. Hence, there is still very little political will to face these realities and make hard choices that will likely jeopardize political careers. Nevertheless, the longer it continues to be swept under the rug, the more likely a crisis of significant proportions can occur. Whereas the majority of mortgage related securities were held by institutions, insurance companies, banks, and foreign entities, the vast majority of the estimated $2.8 trillion in municipal bonds are owned by individual U.S. investors. The municipal bond market is finally on the radar screen of regulators as well. Andrew Donohue, Director of Investment Management for the Securities and Exchange Commission, recently acknowledged that there existed a surprisingly "low level of regulatory oversight"[2] of the municipal market, which is "scheduled to be addressed in the upcoming months."[2] If history is any lesson however, investors should never depend on regulators, legislators, rating agencies, or underwriters to effectively protect their interests.

Despite the obvious tax advantages, we would advise investors at this point in time to be very thorough when allocating assets to municipal bonds or municipal bond funds. As our Director of Fixed Income John Wolfsberg recommends, diversification between states, issuers, and sectors is paramount. Pre-refunded municipal bonds and high grade corporate bonds (where tax-equivalent yields are close to tax-free yields) should be strongly considered for one's fixed income portfolio. Given the backdrop and challenges created by massive public debts, budget shortfalls, and stock valuations that we believe are discounting a fairly strong recovery, we recommend that allocations to equities remain conservative, that bond portfolios be reviewed, and that new monies be invested gradually over the next several months.

Intelligent Index Commentary:

The market's volatility over the last two years caused many investors to consider changing their approach to investing by abandoning long-established investment practices such as asset allocation, systematic rebalancing, and buy and hold discipline. When facing a volatile market, people often feel they must "do something", regardless of whether or not it's the right move. As Harvard University psychology professor Daniel Gilbert writes, "in the long run, people of every age and in every walk of life seem to regret not having done things much more than they regret things they did."[3] Similarly, investors feel "emotionally rewarded for taking action because it reduces anxiety and gives them an increased feeling of control".[4] Unfortunately, when it comes to investing, this tactic of taking action often leads to poor decisions, as illustrated in the following chart, comparing average investor returns with that of an S&P 500 Index over the last 20 years.

Average Annualized Returns for the "Average" Investor and S&P 500 Index (1987-2008)



Source: Dalbar QAIB (1987-2008). Past performance is not a guarantee of future results.

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[2] Toonkel Marquez, Jessica. "SEC targets shady practices in muni bond market". Investment News. 5/7/2010. http://www.investmentnews.com/article/20100507/FREE/100509912

[3] Gilbert, Daniel. *Stumbling on Happiness.* New York: Knopf, 2006. Page 179.

[4] Brandes Investment Partners Bulletin. Winter/Spring 2010 Edition. "Does "Buy and Hold" Still Work?" Page 1.

In fact, investors' total returns are consistently lower than the total returns of the index due to badly timed purchases and sales; investors' long-term returns would have been far better had they just bought-and-held.

We have long been proponents of a disciplined long-term holding strategy once the appropriate allocation to equities has been determined and feel the consistent performance of the Intelligent Index Model Portfolio demonstrates and validates the success of this approach. By enhancing its buy-and-hold discipline with a systematic rebalancing protocol, the Intelligent Index has yielded an annualized 5.53% over the last 10-years, considerably outperforming its benchmark S&P 500 Index (yielding an annualized -0.65% over the last 10 years) without chasing hot stocks, making sector plays, or timing the market. "Warren Buffet wrote that it takes only two things to invest successfully: having a sound plan and sticking to it. He went on to say that of these two, it's the "sticking to it" part that investors struggle with the most."[5] With its broad market diversification and systematic rebalancing indicators, the Intelligent Index strategy has historically done just that – provide investors with a sound plan they can stick to by creating a buy and hold strategy that has outperformed its benchmarks. We look forward to updating you again after the 2nd 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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Indices are unmanaged and one cannot invest directly in an index. The 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. Russell 3000 Index: Measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. Intelligence 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. 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[5] Richards, Dan. "Warren Buffet on Investing in a Climate of Fear: A Letter for Clients". http://www.horsesmouth.com/panel/PageObject1_conv.asp?ID=84501