



To: Interested Parties

Date: August 4, 2010

From: Richard W. Greene

Re: *Intelligent Index* 2nd Quarter Review and 3rd Quarter Update

Second Quarter Review:

In a quarter dominated by concern over sovereign debt defaults and the scope of new financial regulations, volatility returned to the market with most U.S. benchmarks indices experiencing double digit losses. For the quarter, the Intelligent Index Model portfolio declined 10.17% inclusive of fees while the S&P 500 lost 11.43%. For the trailing twelve months, the Intelligent Index has posted a 19.53% return inclusive of fees while the S&P 500 and Wilshire 5000 have returned 14.43% and 15.68% respectively.

Below are the second quarter results for the relevant indices.

Quarterly and Annualized Returns for Intelligent Index Model Portfolio and Indices as of 6/30/2010

	<u>Q2 2010</u>	<u>YTD</u>	<u>1-Year</u>	<u>3-Year</u>	<u>5-Year</u>	<u>10-Year</u>
Intelligent Index (Gross)	-9.88%	-2.92%	21.04%	-6.39%	1.60%	4.60%
Intelligent Index (Net)	-10.17%	-3.52%	19.53%	-7.56%	0.33%	3.30%
S&P 500 Index	-11.43%	-6.65%	14.43%	-9.81%	-0.79%	-1.59%
DJ Wilshire 5000	-11.19%	-5.83%	15.68%	-9.36%	-0.28%	-0.78%
S&P Citi Large-Cap Value	-11.57%	-5.30%	16.40%	-12.82%	-1.90%	0.76%
S&P Citi Large-Cap Growth	-11.28%	-7.99%	12.59%	-6.90%	0.20%	-3.92%
S&P Citi Mid-Cap Value	-9.90%	-1.99%	25.54%	-7.41%	1.46%	8.31%
S&P Citi Mid-Cap Growth	-9.26%	-0.70%	24.34%	-4.41%	2.85%	2.32%
S&P Citi Small-Cap Value	-10.41%	-1.51%	23.51%	-8.88%	0.13%	7.02%
S&P Citi Small-Cap Growth	-6.97%	-0.18%	23.83%	-6.45%	1.44%	3.56%

Source: Bloomberg, wilshire.com, iShares.com

As a result of all six indices as well as the benchmark S&P 500 Index being negative for the quarter, growth indices were over-weighted to create a 70% growth and 30% value allocation.

Broadly speaking, considerable fears were evidenced throughout the market as a result of what Alec Young, international strategist for Standard and Poor's, called a "trifecta of risks": Greece, China and questions regarding the durability of the U.S. recovery. Although Greece's weak balance sheet and outsized deficits were first to reach the "crisis" level, attention started to be focused on other countries such as Spain and Portugal whose deficits question the credit worthiness of their debt. Interbank lending between European institutions was curtailed as banks grew wary of lending to each other. Hopes for increases in global growth were dimmed with China's revised policy for more moderate growth, which if curtailed too much, could easily derail any sustained global recovery. Domestically, overhanging uncertainties and lack of any meaningful impact from federal stimulus programs served to raise the concern of a "double dip" occurring in the U.S. economy despite the relatively good earnings posted by Corporate America. Those suggesting that the economy might dip back into a recession often compare it with a drink of 'Red Bull' that gives one a short term lift but not long term sustainable energy. While the stimulus program did allow some jobs to be maintained or added, it also bloated the government's deficit and weakened its balance sheet.

As we approach the half way mark for the third quarter, markets have responded positively to the European Union support for the Euro, and subsequent improvement in the European debt situation. Despite the deterioration in U.S. consumer confidence, an unexpected positive that has given some lift to the U.S. stock market has been the possibility that some of the Bush era tax cuts may be maintained until the economy is in a better position to absorb the \$350 billion of tax increase that are scheduled to be incurred next year.

Quarter to date as of this writing², markets have surprised most market observers by recovering the majority of last quarter's losses.

8/2/2010 15:36³

<i>Quarter to Date Performance</i>			<i>% of</i>	<i>Price</i>	<i>Value</i>	<i>Price</i>	<i>Value</i>	<i>Quarter</i>
<i>Intelligent Index Portfolio</i>	<i>Symbol</i>	<i>Shares</i>	<i>Portfolio</i>	<i>6/30/2010</i>	<i>6/30/2010</i>	<i>8/2/2010</i>	<i>8/2/2010</i>	<i>to Date</i>
iShares S&P Sm Cap Value Index Fund	IJS	222.74	10.00%	57.21	\$12,743	62.19	\$13,852	8.70%
iShares S&P Sm Cap Growth Index Fund	IJT	522.19	23.33%	56.94	\$29,733	61.42	\$32,073	7.87%
iShares S&P Mid Cap Value Index Fund	IJJ	198.77	10.00%	64.11	\$12,743	69.93	\$13,900	9.08%
iShares S&P Mid Cap Growth Index Fund	IJK	386.75	23.33%	76.88	\$29,733	83.73	\$32,383	8.91%
iShares S&P Lrg Cap Value Index Fund	IVE	256.6	10.00%	49.66	\$12,743	54.40	\$13,959	9.54%
iShares S&P Lrg Cap Growth Index Fund	IVW	561.65	23.33%	52.94	\$29,734	57.93	\$32,536	9.43%
Cash			100.0%				\$138,703	
iShares S&P 500 Index Fund	IVV			103.46		113.28		9.49%
							Portfolio	8.85%
							<i>Relative Performance</i>	- -0.64%

<i>Year to Date Performance</i>			<i>12/31/2009</i>	<i>Real-time</i>	<i>Year</i>
				<i>Value</i>	<i>to Date</i>
Intelligent Index Portfolio			\$132,199	\$138,703	4.92%
S&P 500	IVV		111.81	113.28	1.31%
				<i>Relative Performance</i>	+ 3.61%

¹ Phillips, Matt. "Greece and China Pace Global Declines". The Wall Street Journal. June 30, 2010
http://online.wsj.com/article/NA_WSJ_PUB:SB10001424052748703374104575336854041142176.html

² August 4, 2010

³ Based on a model portfolio of \$100,000.00. The Quarter to Date and Year to Date Percentages are determined by the market value differential of the value on 06/30/2010 and 12/31/2009 (respectively) and the value on 08/02/2010. The Relative Performance is determined by the differential of the S&P 500 value and the Intelligent Index Portfolio.

Market Commentary

Today's economic and political climate has created a dramatic tug of war between competing investment ideologies relative to both the stock and bond markets. Equity investors are generally divided between two camps: "Bottom Up" investors and "Top Down" investors. Simplistically, Bottom Up investors focus primarily on company fundamentals such as current and future earnings, the balance sheet and market value relative to a company's true potential private market value. Top Down investors on the other hand are heavily influenced by their view of the macro economic climate, political and demographic forecasts and other big picture trends. Once in a great while, like now, the data and metrics that drive investment strategy for these two styles are diametrically opposed which, along with a lack of consumer confidence, is contributing to the considerable amount of investors' uncertainty and malaise that exists today.

Many who are constructive on the market point out that valuations in the market among some of America's high quality companies are quite reasonable and, when combined with the current low interest rate environment, historically result in attractive returns for equity investors. Even while acknowledging that the economy downshifted last quarter, Jeremy Siegel, a highly regarded Wharton financial professor and author of many books on investing, noted that with the S&P 500 trading at 13.3 times earnings (versus the historic post war PE multiple of 15.2), investors could expect good returns from stocks over the next 5 to 10 years⁴. He elaborated by pointing out that throughout the post war period, investment returns when the price to earnings multiple was below the 15.2 average resulted in after inflation equity returns averaging 11% for each 5 and 10 year holding period, with investors never having a negative 10 year return and 5 year returns being positive 95% of the time.

While Bottoms Up investors and value investors rely on fundamentals such as noted above to support their thesis, the macro or Top Down investors currently reference the many risks and uncertainties that exist. Last month, the Bureau of Labor Statistics issued another dismal report reflecting that the average unemployed person remains unemployed for 35 weeks, by far the largest length of time in the postwar period⁵. Mohamed El-Erian, the Chief Executive Officer and Co-Chief Investment Officer of the Pacific Investment Management Company (PIMCO), raises concerns about the high unemployment rate among young would-be workers⁶. As the population ages and creates needs for more social services, it is critical for younger workers to be gainfully employed rather than also dipping into the economic "safety nets" designed for the older unemployed or retired. He believes that structural unemployment can pose a threat to the economy for several years, and although well designed and properly employed "safety nets" are important, the ever increasing burdens being shouldered by employers are making them reticent to add new employees and worse still, looking to trim payrolls further. In addition, we are confronted with examples every day of how the credit worthiness and balance sheets of our states, cities and towns continue to deteriorate with no solutions in sight. Increasing taxation and regulations are hampering business formation and personal incomes and as a result, the potentials for increased tax revenue on local levels looks unlikely for the foreseeable future, which will only exacerbate their financial deterioration.

Bond investors are equally at odds regarding the credit markets outlook for inflation or deflation. Once considered highly unlikely, the deflation scenario has gained increasing momentum with bond yields continuing to go lower, end product demand remaining soft, and GDP numbers being revised to the downside. A case in point was Proctor and Gamble's August 3rd earnings release which included sub par results despite their having lowered prices on the majority of their consumer products. Although many of their products may be considered 'commodities,' there is little if any pricing power for most manufacturers today. Inflation hawks, on the other hand, still maintain that, on a historic basis, rates are unsustainably low and the Federal Reserve will have to be ahead of the curve in raising rates once there is more visibility of a sustained recovery. Granted, no one knows when that is, but investors can be sure that on a percentage basis, interest rate increases will be significant and have the potential to materially impact long dated maturities. This debate in the fixed income market underscores the challenge income investors currently face: "Do I invest short term and accept minimal yield in return for the safety and liquidity of my money, or do I commit to a 10 year type maturity at 3% or 4% to improve my cash flow, but risk seeing the value of my investment drop in a couple of years and not be able to take advantage when the rates rise?" ***This quandary becomes even more problematic when one takes into account rising tax rates and inflation risk that have the potential to further reduce one's return.***

Investment Strategies

Given so much conflicting data and uncertainties it is understandable that many investors are hesitant to take any risks as they lack conviction in a strategy that will successfully help them to meet their financial needs. It is precisely at these points in time when investors need to have such a plan, and try to be disciplined with their savings and investments. Lou Harvey, founder of

⁴ Siegel, Jeremy. "Economic and Financial Commentary". WisdomTree ETFs Second Quarter 2010.

⁵ Rampell, Catherine. "Bleak Outlook for Long-Term Unemployed". New York Times. July 2, 2010.
<http://economix.blogs.nytimes.com/2010/07/02/bleak-outlook-for-long-term-unemployed/>

⁶ Benjamin, Jeff. "Joblessness? Debt crisis? It's an 'exciting time for investing,' says Pimco's El-Erian". Investment Times. July 16, 2010
<http://www.investmentnews.com/article/20100716/FREE/100719938>

Boston-based Dalbar Inc. which issues annual quantitative studies on investor behavior, stated in a July 24th Barron's interview that investors who worked with fiduciaries, or advisors with a legal obligation to put the client first and whose personal assets were on the line, tended to be among investors who were relatively well protected during the 2008 market upheaval⁷. We believe that Centerpoint is such an entity.

As volatile as the Index Portfolio might have been during this period, our strategy continues to validate itself by consistently adding value to the broad benchmarks and thereby providing investors with a viable alternative to individual stock selection which has become increasingly more difficult for both individuals as well as professional money/mutual fund managers. **Researchers at Dimensional Fund Advisors found that from 1980 to 2008 the top performing 25% of stocks were responsible for all the gains in the broad market, as represented by the University of Chicago's CRSP equity index.** The bottom 75% of stocks collectively generated average losses of around 2% over the same period of time according to the study. This provides some explanation as to why over the last 25 years most mutual funds do not meet or exceed the returns of their respective indices or benchmarks. **The take away from this study is "cast a wide net" which is exactly what the Intelligent Index attempts to do.** Investing in individual equities can on occasion still be very profitable but the odds suggest it be done with only those assets that can withstand risks and the potential negative rates of return.

Despite all the risks and doubts currently in the market our recommendations continue to be as follows:

- ❖ Be conservative and manage your expectations by assuming lower than historical return.
- ❖ Be sure you have a meaningful safety net before looking to allocate monies to the equity market.
- ❖ Be disciplined about how you allocate your fixed income assets as many believe a bubble has been created in the bond market and that the next ten years will be a "lost" decade for bonds similar to how the last ten years have been referred to as a lost decade for stock returns.
- ❖ Continue to revisit your appropriate allocation to equity and, if at all possible, stick to it! We call this "holding your nose" investing. The financial media has gravitated more to the doom and gloom prognosticators than the bullish ones. As the saying goes, investors seem to always be fighting the last war. No one knows with certainty what the economy or market will do, as the 2009 market recovery evidenced. If one truly has a several year investment time horizon, it continues to make sense to have some skin in the game where returns have the potential to far exceed, after inflation, intermediate and long term fixed income yields.

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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⁷ Willoughby, Jack. "Did Investors Learn Anything from 2008's Crash?". Barron's. July 24, 2010
<http://online.barrons.com/article/SB50001424052970203587804575379063303196310.html>