

Market and Portfolio Commentary

Unlike recent months that have been driven mostly by the combination of solid economic data and strong market momentum, the month of February was dominated by geopolitics and the uncertainty it created in global oil markets. So far this year, several countries in the Middle East and North Africa (MENA) region have been in the midst of uprisings aimed at removing autocratic regimes. While this creates the exciting possibility that freedom may gain hold in areas of the world that have previously been devoid of this privilege, it has also created major uncertainties in regards to whether the supply of oil is about to get a lot tighter. During the month oil prices gyrated up and down on worries about Egypt, and then later spiked up in regards to the escalating turmoil in Libya.

question whether these gains can be sustained in a world of escalating geopolitical tensions, and the potential for much higher energy prices. Below is our assessment of the current investing landscape.

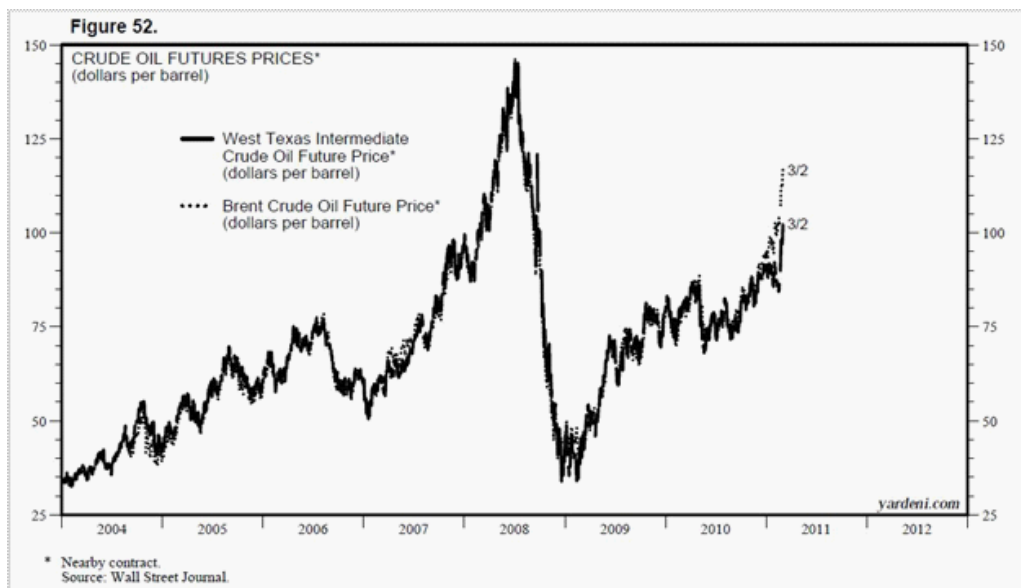
Business Cycle Dynamics

The U.S. business cycle continues to navigate the sweet spot that is a product of accelerating economic growth, benign inflation, and flush liquidity resulting from the Federal Reserve's bond buying program. Most leading indicators continue to point in a positive direction, and manufacturing indices have surged anew. Labor markets continue to be very slow to recover, but there have been some recent signs of improvement. Lastly, corporate earnings and revenues have continued to surpass analyst expectations, helping to support the torrid rally in stocks since last fall. Despite the mostly solid U.S. backdrop, risks continue to exist in the form of a very sluggish housing market, higher commodity price inflation, and the looming end of the Federal Reserve's bond purchases in June. The risk of a super-spike in oil has quickly emerged as probably the biggest risk to the global economy in the short term, and if the rate of change in oil accelerates materially from here, we'll be forced to reassess our positive cyclical outlook.

In contrast to the U.S., the macro environment for many emerging market countries continues to deteriorate.

As oil and gas prices rocketed higher across the globe, volatility returned to financial markets as investors began to discount the threat that an oil shock posed to global consumers, who are so critical to the world economy. Stocks were impressively resilient despite the spreading turmoil, making a new cyclical high during the month. However, watching chaos spread across the MENA region, investors must now

Higher rates of growth combined with a greater sensitivity to rising commodity inflation has continued to put pressure on authorities to raise rates, which should begin to slow those economies going forward. The big issue is to what degree growth will be affected. A minor slowdown could easily be digested by global markets and would allow authorities to back off from further rate increases. However, a major deceleration could tip



the balance and ripple through the world economy. For now we favor the soft landing scenario, but we'll continue to watch developments closely and won't be dogmatic if the evidence begins to support a hard landing in this part of the world.

Technical Conditions

The technical landscape remains broadly supportive for a continuation of the bull market in stocks. The vast majority of global markets are still in strong uptrends despite recent volatility, market breadth has kept pace with the rally, new lows are absent, and there are no alarming divergences at this time. However, some short-term conditions are flashing caution signs to investors. Market sentiment still seems to be overly bullish, transportation stocks are failing to confirm the uptrend, and emerging market relative weakness may be a warning signal that ultimately spills over to U.S. markets. We continue to believe that a short-term correction appears likely, but that any selloff that materializes should be a buying opportunity based on the positive intermediate term profile that exists.

Valuation

As in prior months, broad valuation appears close enough to fair value that it doesn't mean much to our broad asset allocation at this time. Measures using forward looking earnings or that compare short-term interest rates to earnings yields continue to make the market appear to be very undervalued. On the other hand, indicators that use normalized earnings, revenues, or cash flow paint a somewhat less rosy picture. Netting it all out, it appears that market valuation may be slightly elevated, but not enough to compel us to shift portfolio allocations on its own.

Pinnacle Portfolio Performance for February

Pinnacle portfolios extended their recent string of gains in February as financial markets continued to rally. Cyclical U.S. equity holdings continued to lead the way, particularly

holdings generally lagged, while gold and diversified commodities fared well. Fixed income holdings were mostly positive as the recent increase in interest rates paused during the month. The table below highlights the best and worst performing securities during the month:

Top Five Performers – February 2011		
Position	Weight	Return
iShares Networking ETF	5%	9.8%
S&P Oil & Gas Exploration & Production ETF	2%	8.7%
Energy Sector SPDR	4%	7.4%
Consumer Discretionary ETF	3%	6.0%
Gold SPDR	3%	6.0%

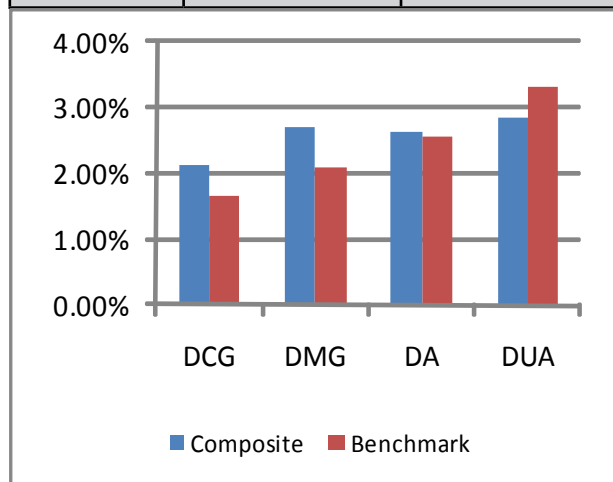
Bottom Five Performers – February 2011		
Position	Weight	Return
Matthews Asian Growth & Income Fund	3%	-0.1%
iShares 7-10 Year Treasury ETF	4%	-0.2%
Hussman Strategic Growth Fund	2%	-0.3%
iShares 3-7 Year Treasury ETF	4%	-0.4%
Oppenheimer Developing Markets Fund	0%	-1.4%

Please note that the returns and weightings used for this illustration are based on the Dynamic Moderate Growth portfolio at the end of the period. The individual security returns for other strategies may vary due to trade execution or security selection differences. Securities may have been bought and sold during the quarter; therefore, client returns (which are shown here) may not reflect a security's actual quarterly return. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Past performance does not guarantee future results.

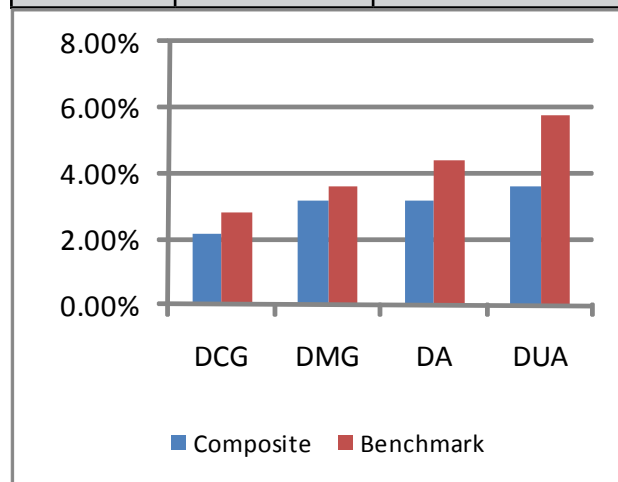
Portfolio Transactions

During February, we tactically reduced exposure to Emerging Markets, as we believe those markets may be poised to continue to underperform for the time being. The proceeds were used to increase U.S. equity weightings. We also added back to our gold positions, after tactically reducing them last month prior to gold's recent correction. Overall, we continue to view portfolios as close to or slightly below benchmark levels of volatility, and may increase risk weightings on a stock market correction if one develops.

Month: February 2011		
Policy	Composite	Benchmark
DCG	2.11%	1.64%
DMG	2.71%	2.10%
DA	2.63%	2.55%
DUA	2.85%	3.30%



Year To Date: 2011		
Policy	Composite	Benchmark
DCG	2.17%	2.79%
DMG	3.14%	3.60%
DA	3.14%	4.40%
DUA	3.57%	5.75%



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Pinnacle Dynamic Portfolios

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