

2009 First Quarter Market Review

Executive Summary

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•Investors were eager to put 2008 behind them as the New Year began. But, a fresh wave of gloom caused the stock market to sink to new lows. Along the way, however, official policy responses to the crisis continued to grow in size and scope. Towards the end of the quarter, there were some faint indications that the pace of economic contraction might be beginning to slow. The stock market traced a similar pattern to last quarter, with almost two months of steep declines followed by a sudden, sharp market rally.

•The overriding theme of the first quarter was the tremendous expansion of government efforts to restart economic activity. Three particularly important developments impacted financial markets during the quarter: the \$787 billion American Recovery and Reinvestment Act; the \$1.25 trillion expansion of the Federal Reserve's "quantitative easing" campaign; and the release of the details of the Treasury's Public-Private Investment Partnership.

•Pinnacle Advisory Group's managed accounts declined in the first quarter. The stock market rally during March helped to erase some of the losses. Although returns were negative, Pinnacle portfolios continue to outperform the broad stock market and respective benchmark portfolios.

•Our current outlook is that we are right in the midst of an economic experiment that features the evils of debt deflation versus potent monetary and fiscal stimulus that will be entering the financial system during the next few quarters. We continue to believe that growth will be slow through most of 2009,

with a chance that the economy may turn the corner in late 2009, or the beginning of 2010. However, there is preliminary evidence that credit markets are beginning to thaw, and some economic measures are flashing early signals that the intensity of the global growth contraction may be passing through the worst of the economic storm.

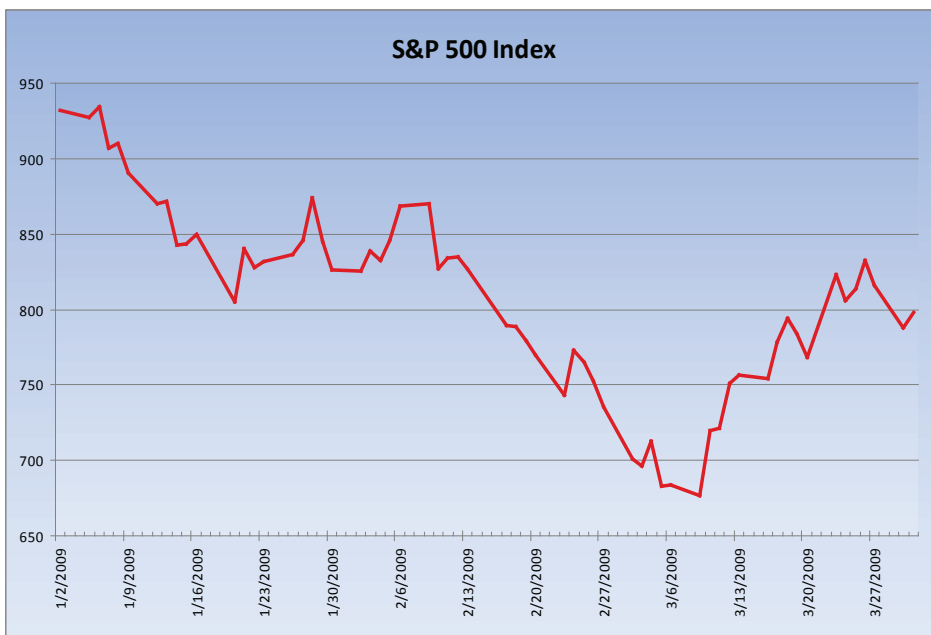
•Due to the lack of clarity in the data, and the substantial risk still present in the economic backdrop, we are not yet ready to call a bottom in financial markets and materially increase portfolio volatility at this time. However, the amount of uncertainty regarding who will win this tug of war and the variety of different outcomes possible have contributed to unusually low conviction in our forecast. At a time with such unusual cross currents and unknowable consequences based on recent history, we believe it is prudent to stay close to neutral volatility in client portfolios.

•We are reaching an inflection point where indicators are beginning to clash and the battle of reflation and deflation appears to have hit a fever pitch. It is encouraging that some rays of light are beginning to show up in an otherwise very dark background. Even if the economy is beginning to stabilize, we expect the road to recovery will continue to be bumpy and investors should expect volatility to exist as the market reacts to each new development. A neutral allocation seems appropriate given the backdrop, and we will continue to make adjustments when necessary to make sure portfolio allocations align with our current view.

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Investors were eager to put 2008 behind them as the New Year began. The financial storm that ripped through the global economy last year left behind a smoldering wreckage in its wake. Yet a stock market rally that began on November 20, combined with political changeover in Washington, offered some hope to a shaken populace. But those hopes quickly faded as the rally peaked on January 6, and a fresh wave of gloom spread over the markets as the S&P 500 Index sank to new lows. After falling by more than -38% in 2008, the S&P plunged another -29% from its intraday high of 944 on January 6 to its intraday low of 666 on March 6, which was a level last reached in 1996! But along the way, official policy responses to the crisis continued to grow in size and scope. Government programs involving enormous sums of money were created to rescue a financial system under extreme duress. Towards the end of the quarter, there were even some faint indications that the pace of economic contraction might be beginning to slow. The stock market traced a similar pattern to last quarter, with almost two months of steep decline followed by a sudden, sharp market rally.



Index	First Quarter Return
S&P 500 Index (w/ dividends)	-11.01%
Russell 2000 Index (small cap stocks)	-14.95%
MSCI EAFE Index (international stocks)	-13.96%
Dow Jones/AIG Commodity Index	-6.91%
Barclays Capital Aggregate Bond Index	+0.35%
3-month T-bills	+0.05%

The overriding theme of the first quarter was the tremendous expansion of government efforts to restart economic activity. As the U.S. consumer and the private sector continued to retrench, Uncle Sam stepped up in a big way to attempt to fill the void. It appears that we have now entered a new era of more government involvement in the economy and financial markets, with increased regulation a likely outcome.

Although there have been dozens of new programs launched to try and halt this economic downturn, there were three particularly important developments that impacted the financial markets during the quarter. They were:

- On February 17, in one of his first orders of business, President Obama signed into law the \$787 billion American Recovery and Reinvestment Act, which is a combination of tax relief and various spending initiatives that are meant to create jobs and help lift the economy out of recession.
- On March 18, the Federal Reserve vastly increased the scope of their

balance sheet expansion activities (aka “quantitative easing”) by announcing that they would buy \$300 billion worth of U.S. Treasury bonds, and increasing their commitment to purchase mortgage-backed securities by \$750 billion to a total of \$1.25 trillion. Their goals appear to be to cap any potential increase in interest rates that might result from a surge in borrowing that the Treasury needs to do this year to fund Federal spending, and to further reduce mortgage rates to help stimulate the housing market.

- On March 23, Treasury Secretary Tim Geithner finally announced details of the Public-Private Investment Partnership (PPIP). It’s designed to incentivize private capital to purchase some of the toxic loans and securities that are held on bank balance sheets through the use of government funds and loan guarantees. This program is expected to allow the purchase of up to \$1 trillion worth of troubled assets, which if successful is expected to help restart bank lending activity.

It has been made clear by various government authorities through these and other actions that they will do “whatever it takes” to fix the financial system. Whether or not all of the drastic measures being taken can rescue the economy remains to be seen. In many respects, the government is taking unprecedented steps and exercising authority that hasn’t been used in decades. For investors, the question is how effective will all of this be in restarting the economy and boosting financial markets, and will there be “unintended consequences” created as a result?

For an in-depth discussion of Pinnacle’s views on this and other matters, please turn to the “Market Outlook” section of this report.

Pinnacle Performance Analysis

Pinnacle Advisory Group’s managed accounts declined in the first quarter. The stock market rally during March helped to erase some of the losses. Although returns were negative, Pinnacle portfolios continue to outperform the broad stock market and respective benchmark portfolios.

Composite	First Quarter Composite Return 12/31/08 to 3/31/09	Trailing 12-Month Composite Return 3/31/08 to 3/31/09
Dynamic Conservative Growth	-3.54%	-14.39%
Dynamic Moderate Growth	-4.27%	-17.81%
Dynamic Appreciation	-5.83%	-24.77%
Dynamic Ultra Appreciation	-6.95%	-28.79%

Please see the last page of this report for important performance-related disclosures.

At the individual security level, the best performances came mostly from holdings in Fixed Income and Alternative Investments. The TCW Total Return Bond Fund, which invests in mortgage-backed bonds, and the PIMCO Foreign Bond Fund, which invests in foreign government bonds, did well in a quarter in which Treasury bonds declined. In equities, Technology sector investments were the lone bright spots, as most other areas declined by varying degrees. The two best performers came from

Top 5 Performers of the 1st Quarter

Hussman Strategic Growth Fund	+7.03%
Gold ETF	+4.35%
iShares Software ETF	+4.09%
TCW Total Return Bond Fund	+2.46%
PIMCO Foreign Bond Fund	+0.59%

Bottom 5 Performers of the 1st Quarter

Consumer Discretionary ETF	-8.40%
iShares High Yield ETF	-8.89%
First Eagle Overseas Fund	-9.63%
Consumer Staples ETF	-11.09%
S&P SPDRs	-11.23%

the Alternative Investment allocation. The Hussman Fund was very defensively positioned in a declining market which allowed it to outperform, and Gold continued to attract interest in a volatile and uncertain investment environment.

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Quarterly Portfolio Activity

There were no major shifts in portfolio positioning during the quarter. Portfolios were moved closer to neutral from underweight in the fourth quarter, and they remained slightly below neutral for the duration of the first quarter. There were some minor equity sales in early January after the market had rallied 25%, and again in early March when the market fell back down below 741 (the 11/20/08 low). When the market began to rally, we felt that the portfolios might be too far below neutral, and so some modest equity positions were bought in the DMG and DA portfolios.

The following table details the current asset mix across strategies:

Composite	Equities	Fixed Income	Alternative Investments
Dynamic Conservative Growth	21	61	18
Dynamic Moderate Growth	37	44	19
Dynamic Appreciation	51.5	29.75	18.75
Dynamic Ultra Appreciation	65.5	14.5	20

Although equity weightings are considerably below typical benchmark weightings, we continue to emphasize that portfolios consist of several “equity-like” positions in other asset classes that have equity-like volatility and may offer equity-like returns. For example, since last fall we’ve been building exposure to High Yield bonds, which are technically part of the Fixed Income category but are much more volatile than typical bonds. Alternative Investments consists of several equity-like investments, including Gold, Eclectic Manager funds, and Commodities. Combining all of the equity-like positions leaves portfolios very close to neutral overall volatility.

Market Outlook

Last quarter we wrote the following, “*Our latest outlook is that the economy is in a severe recession and will remain extremely weak through year-end, with risks still tilted to the downside and the possibility that this could stretch into 2010. The macro environment appears to be lining up for a furious war between the forces of deflation and reflation. Deflationary pressure emanating from the housing depression, global recession, poorly functioning credit markets, and forced deleveraging have the upper hand at present. On the other side of the battle lines stand monetary and fiscal authorities from around the world that appear willing to commit trillions of dollars of stimulus to try and defend the system from the deflationary mindset that is showing tentative signs of taking hold.*

Due to ongoing economic dislocations, extreme volatility should be expected and the market may very well trade in a wide range that could extend from the current cyclical trough of 740 to as much as the previous highs around 1,500 on the S&P 500 Index. Should we get an extension of the rally off the lows, we will treat any surge in the markets as a cyclical rally within the ongoing bear market, and in the absence of improved fundamentals, our current plan is to use the rally to reduce volatility in portfolios as it plays out. At present our model allocations are positioned at slightly below neutral volatility, which we feel is appropriate given the risks to both sides of the forecast. It is important to note that in some respects we are currently navigating uncharted waters and there is more risk to the outlook than usual due to the number of potentially high octane variables that are currently in play. In this environment we remain extremely vigilant in guarding against becoming entrenched in our stated view and stand ready to quickly adjust if necessary based on incoming information.”

As we enter the second quarter, our current outlook is that ***we are in midst of an economic experiment that features the evils of debt deflation versus potent monetary and fiscal stimulus that will be entering the financial system during the next few quarters. This battle intensified recently as the fiscal and monetary authorities upped the ante during the past quarter in an attempt to break the spiraling deflationary cycle, get ahead of the economic curve, and reflate the***

system. From a fundamental perspective, economic data continues to trend in a seemingly endless negative direction in many critical areas including housing, consumption, and employment. We continue to believe that growth will be slow through most of 2009, with a chance that the economy may turn the corner in late 2009, or the beginning of 2010. However, there is preliminary evidence that credit markets are beginning to thaw, and some economic measures are flashing early signals that the intensity of the global growth contraction may be passing through the worst of the economic storm.

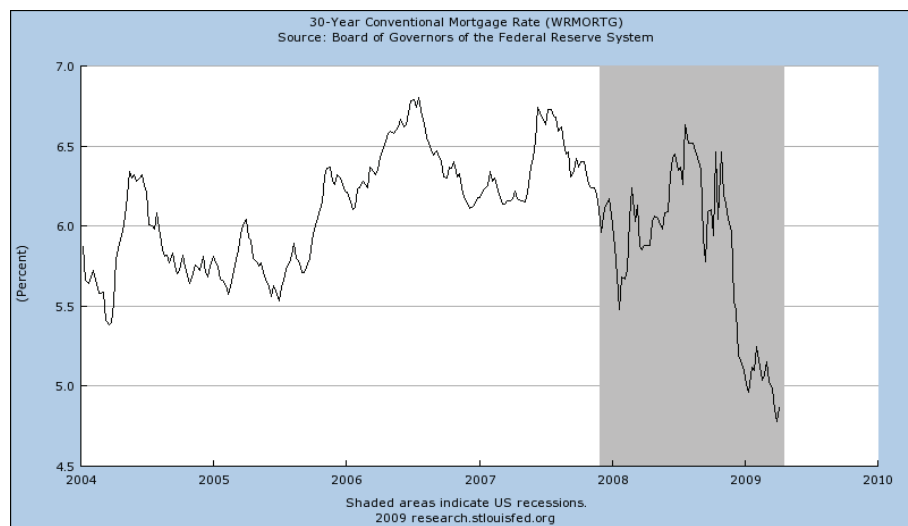
From a shorter-term perspective, the stock market enters the quarter appearing to be overbought after a strong rally on the heels of expanded quantitative easing, long-awaited details of the public-private investment fund, and a change in mark-to-market accounting rules that might help halt the erosion in toxic securities that are on bank balance sheets. The overbought condition along with the onset of earnings season has left investors wondering whether the market will continue rallying, or whether it will run out of steam like its bear market predecessors. Due to the lack of clarity in the data, and substantial risk still present in the economic backdrop, we are not yet ready to call a bottom in financial markets and materially increase portfolio volatility at this time. The amount of uncertainty regarding who will win this tug of war and the variety of different outcomes possible have contributed to unusually low conviction in our forecast. At a time with such unusual cross currents and unknowable consequences based on recent history, we believe it is prudent to stay close to neutral volatility in client portfolios.

Negatives, Positives, And A Time To Be Neutral

Economic data in the first quarter was overwhelmingly negative. A number of different

indicators, such as industrial production, retail sales, and durable goods orders, to name a few, seemed to be literally falling off a cliff. But by the end of the quarter, there were nascent signs that the freefall was beginning to level off. During the current cycle, we have felt that some of the most critical data to follow has been in housing, credit, wages and spending, and employment. Below is our latest assessment of these critical areas.

In housing, there have been some encouraging signs recently. We track and analyze a wide array of housing market data, including home sales, construction activity, house price trends, mortgage rates and inventories. The good news is that there have been several recent housing reports that have beaten economists' estimates. Also, the Federal Reserve's campaign to purchase large amounts of mortgage-backed securities to drive mortgage rates lower appears to be working quite well. While very recent evidence has been positive, there are still reasons not to get too excited just yet. The amount of inventory that still exists continues to be a primary concern because it remains very elevated even after the precipitous declines that already occurred. In summary, some of the evidence is getting more constructive for housing, but we are not quite ready to call a bottom yet. Housing was the epicenter of the crises, and still has strong links to the credit crisis and financial system solvency. We still believe that the economy needs housing to stabilize before we can comfortably increase volatility in client portfolios.



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Consumer spending has been weaker and the longer term headwinds facing consumers are daunting. The savings rate is now climbing from a very low level, credit conditions continue to be tight, and the psyche of U.S. consumers has been bruised by the triple hit of lower housing prices, declining financial markets, and mounting job losses. The brightest news on this front is that there has been a steady increase in inflation-adjusted wages over the last six months. We have long followed wages as a leading indicator of consumer spending, and if the relationship is still valid, then the

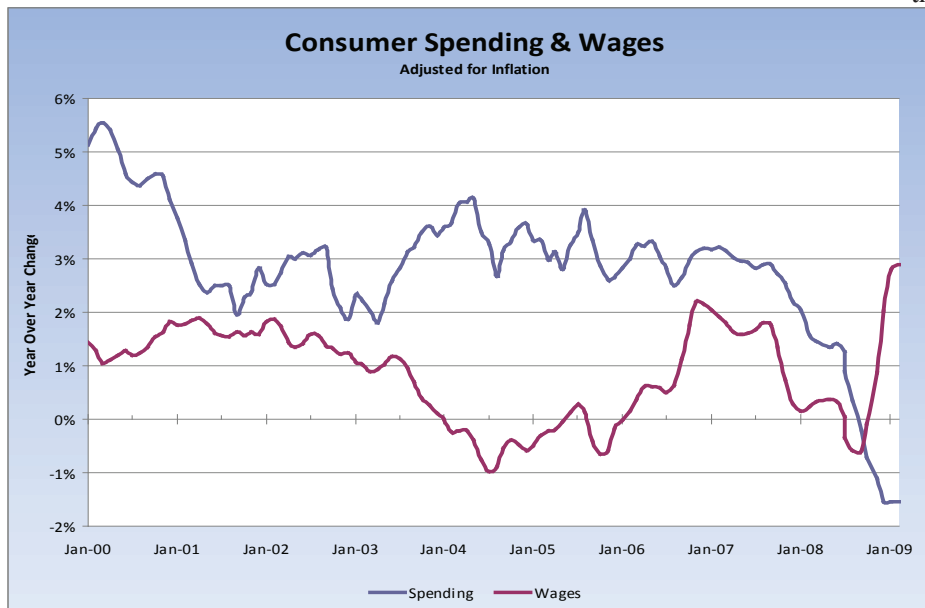
returning to the market. On the other hand, bank lending standards are still very tight which is limiting the supply of credit to the economy. Meanwhile, the employment situation is worsening. Approximately 5.1 million workers have lost their jobs during this recession, causing the unemployment rate to rise to 8.5%. The unemployment rate is a lagging indicator and so there may not be much to be gleaned from that number, but leading indicators of employment, such as unemployment insurance claims, have yet to offer signs of improvement. There is some evidence

that suggests that the stock market

bottoms ahead of even the leading employment indicators, so we'll have to factor this into our ongoing analysis of the labor markets.

The Positives – \$12.8 Trillion And Counting

As discussed above, there were several new large and important programs unveiled by the government during the quarter. According to Bloomberg News, there's been a total of \$12.8 trillion worth of spending, lending, and guarantees committed by the government



divergence between wages and spending implies that the decline in consumer spending should soon subside. However, with the employment backdrop worsening, and with credit markets still not functioning normally, we are questioning whether rising wages will actually translate into better spending in this environment. For now we view this as an improvement, but we plan to watch for some confirmation in the spending numbers before getting too excited.

The credit freeze and the job market are also high on our list of data points to monitor. Credit markets are still not functioning normally, but there are some tentative signs that they may be slowly healing. For example, High Yield and Investment Grade bond yields are slowly falling from November's peak levels, indicating that some degree of risk taking is

since the outset of this financial crisis. It is truly difficult to comprehend such a tremendous amount of money. According to the U.S. Census Bureau, there are approximately 306 million people living in the United States today, so that's almost \$42,000 for every man, woman, and child! Looked at another way, total U.S. economic output as measured by Gross Domestic Product (GDP) was \$14.2 trillion in 2008, so the rescue has amounted to nearly one full year of economic growth. And we don't think that the government is necessarily done yet either – we're convinced that they'll continue to increase the size of the rescue until they're satisfied that the economy has responded sufficiently. The point here is that although there is plenty of debate regarding the specifics of some of the policies, the sums are reaching such staggering heights that it seems virtually impossible that they won't have

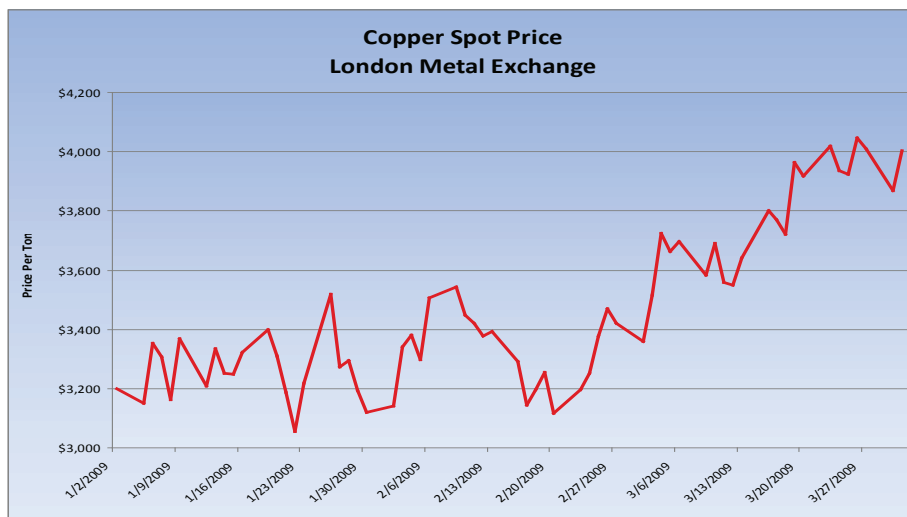
a meaningful impact. And the numbers used here don't even include the additional hundreds of billions of dollars of stimulus announced in other countries. So even though the economic outlook is bleak at the moment, we're doing our best to look past current problems to try and visualize how the economy is likely to respond to such massive stimulus in coming quarters.

In addition to massive stimulus, there are some other rays of light peeking through the storm clouds. Commodity prices have recently turned higher, and they tend to be highly sensitive to economic activity, which is another sign that the economy might be trying to stabilize. Also, investor psychology seems to be universally negative at this point. According to past studies of investor behavior, when investors have been uniformly convinced that things will only get worse, a market bottom has usually appeared soon after. And finally, the length of the current recession may offer a reason for optimism. This recession has lasted for 16 months so far, having officially started in the fourth quarter of 2007. According to InvesTech Research the longest recessions since the Great Depression have each lasted 16 months (in 1981-82 and 1973-74). So, we've already equaled the length of the two worst recessions in the past 80 years. In other words, this recession is growing long in the tooth, and investors should begin to formulate a plan for investing on the other side of this downturn.

Conclusion

We are reaching an inflection point where indicators are beginning to clash and the battle of reflation and deflation appears to have hit a fever pitch. It is encouraging that some rays of light are beginning to show up in an otherwise very dark background. Even if the economy is beginning to stabilize, we expect the road to recovery will continue to be bumpy and investors should expect volatility to exist as the market reacts to each new development. A neutral allocation seems appropriate given the backdrop, and we will continue to make adjustments when necessary to make sure portfolio allocations align with our current view. We are hopeful that the recent market rally represents the beginnings of a shift in the tide. However, enough risk still exists that it seems prudent to refrain from diving back into the water for fear that another shockwave could produce one more financial tsunami under current conditions. The good news is that our investment strategy provides the flexibility to adjust to conditions as they evolve. As always, we stand ready to adjust portfolios to a variety of possible scenarios that may unfold, depending on incoming information.

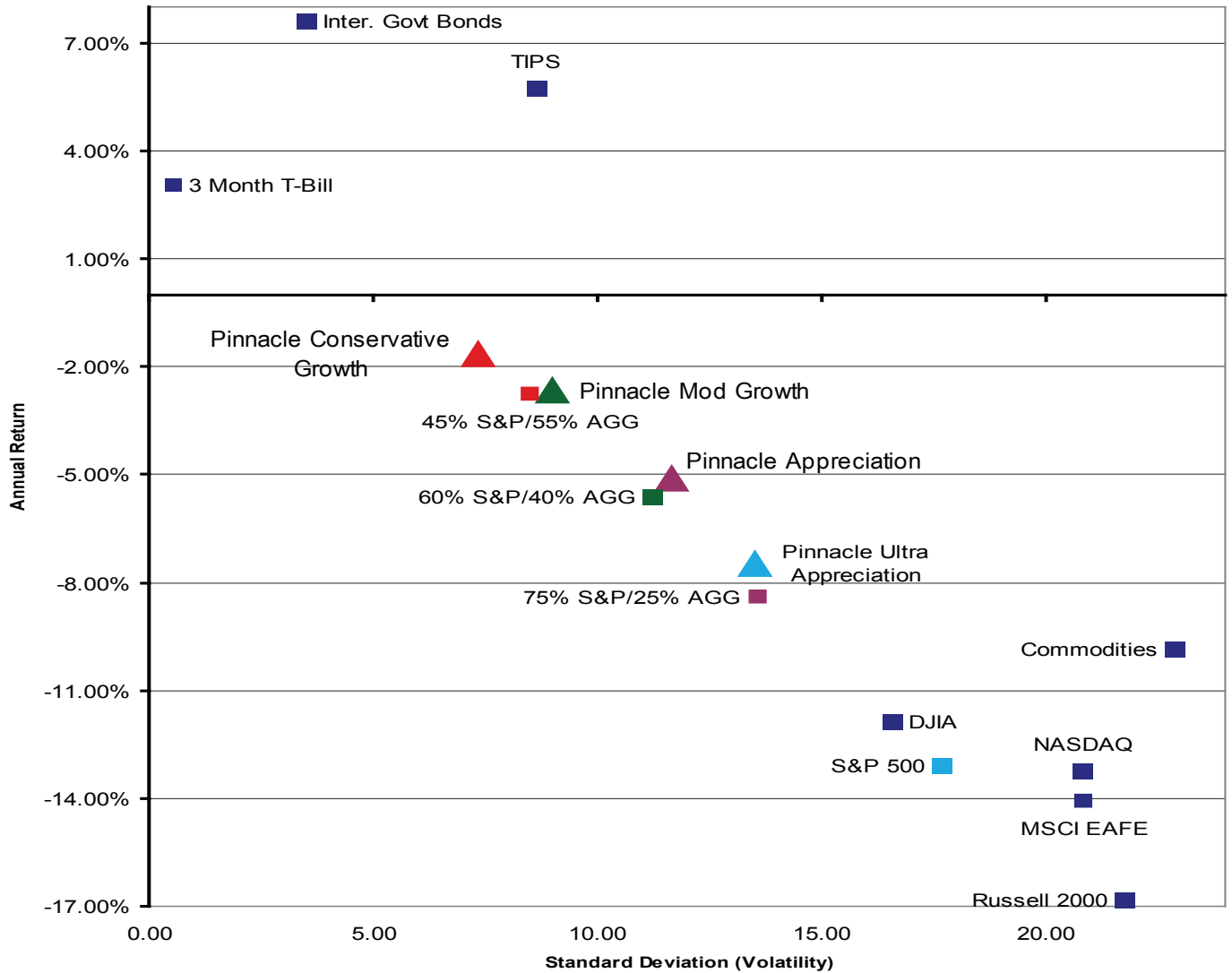
Note: Pinnacle's views are current as of the date of this communication and are subject to change as economic and market conditions dictate.



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3 Year Chart (3/31/06 - 3/31/09)

Pinnacle Composite Portfolios may be compared to a variety of asset classes, blends of asset classes, or mutual fund universes. This chart shows risk and return for four Pinnacle composites. Risk is expressed on the horizontal axis as standard deviation. A high standard deviation means a security is more volatile than a security with a low standard deviation.



Asset	Annual Return	St.Dev	Asset	Annual Return	St.Dev
3 Month T-Bill	3.06%	0.53	Pinnacle Dynamic Moderate Growth	-2.64%	8.99
Intermediate Govt Bonds	7.62%	3.52	75% S&P/25% AGG	-8.40%	13.60
TIPS	5.75%	8.62	Pinnacle Dynamic Appreciation	-5.09%	11.67
DJIA	-11.85%	16.58	Pinnacle Dynamic Ultra Appreciation	-7.49%	13.52
Pinnacle Dynamic Conservative	-0.29%	5.90	S&P 500	-13.06%	17.67
Pinnacle Dynamic Con Growth	-1.65%	7.34	Commodities	-9.84%	22.89
45% S&P/55% AGG	-2.76%	8.53	Russell 2000	-16.80%	21.72
NASDAQ	-13.23%	20.80	MSCI EAFE Index	-14.07%	20.87
60% S&P/40% AGG	-5.59%	11.22			

Intermediate Government Bonds – An unmanaged index based on all publicly issued intermediate gov't debt with an avg maturity or 4 years.

Lehman Aggregate Bond Index (AGG) – An unmanaged, intermediate term, market-capitalization weighted index used to represent investment grade bonds being traded in the U.S. The index includes Treasury securities, Government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in U.S.

TIPS - These are inflation-protected securities issued by the US Treasury.

Dow Jones Industrial Average Index (DJIA) - An unmanaged, price-weighted index of 30 widely held stocks traded on the NYSE. The 30 stocks in the Dow Jones Industrial Average are all major factors in their industries and their stocks are widely held by individuals and institutional investors.

S&P 500 – An unmanaged, capitalization-weighted index composed of 500 widely held common stocks listed on the NYSE. This index provides a broad snapshot of the overall U.S. equity market . The index selects its companies based upon their market size, liquidity, and sector.

S& 500 Total Return Index – S&P 500 index including reinvestment of all dividends and distributions.

AIG Commodity Index (Commodities) - This rolling index is composed of futures contracts on 19 physical commodities.

It is designed to be a highly liquid and diversified benchmark for the commodity futures market.

Russell 2000 – An unmanaged, market-capitalization weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 index.

MSCI EAFE Index - An unmanaged, market capitalization weighted index composed of stocks from 21 developed markets, but excludes those from the U.S. and Canada. The countries included in the index are located in Europe, Australia, Asia, and the Far East.

NASDAQ – An unmanaged, market-capitalization weighted index. The security types eligible for the index include domestic or foreign common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests, and tracking stocks.

45% S&P/55% AGG – Comprised of the S&P 500 Total Return Index and Lehman Aggregate Bond Index.

60% S&P/40% AGG – Comprised of the S&P 500 Total Return Index and the Lehman Aggregate Bond Index.

75% S&P/25% AGG – Comprised of the S&P 500 Total Return Index and Lehman Aggregate Bond Index.

Disclaimer

Pinnacle Advisory Group, Inc. (hereinafter “Pinnacle”) is an investment advisor registered under the applicable provisions of the U.S. Securities and Exchange Commission (SEC).

Pinnacle Dynamic Portfolios

Any reference to “Pinnacle’s” portfolio volatility or portfolio performance is based on the actual performance of Pinnacle’s composite portfolio groups. There are five Pinnacle composite portfolios – Dynamic Conservative, Dynamic Conservative Growth, Dynamic Moderate Growth, Dynamic Appreciation, and Dynamic Ultra Appreciation – and each is managed within the constraints of a specific Investment Policy Statement. The composite portfolios are actively managed and the underlying securities and/or percentage holdings in each security can and do change as Pinnacle alters its market outlook based on a continuous evaluation of market and economic conditions. The composite portfolios typically own a diversified mix of no-load or load-waived mutual funds and exchange-traded funds that invest in U.S. and international equities, fixed income securities, and alternative investments such as commodities, real estate, and hedge-fund-like strategies. It is important to note that the returns and volatility shown are accurate representations of past performance, but are not necessarily predictive of future performance or volatility as market conditions can and do change. Returns are calculated using month-end portfolio values. Any and all return or volatility data for the composite portfolios are shown net of all Pinnacle fees and any other related fees (such as fund expense ratios or transaction/trading costs where applicable), include dividends and interest, and are size- and time-weighted. Policy composites include portfolios formerly categorized as “Stock” or “Mutual Fund,” which may have deviated slightly from target model weightings in the past. Policy composite returns may vary from individual Pinnacle client accounts due to deposits or withdrawals from the account, or other client-driven market timing or security selection issues. Pinnacle composite portfolios may be compared to various asset classes, blends of asset classes, indices, or mutual fund universes. The performance and volatility of these asset classes are for comparison purposes only and such performance can be materially different than a Pinnacle composite portfolio.