Fall 2015

PINNACLE QUARTERLY

Time for Caution

Rick Vollaro, Carl Noble
Sean Dillon, Sauro Locatelli

5 Things You Need to Know About the New FAFSA Rules
Michael Green

Coming Soon... Improved Reporting for Our Clients
A Pinnacle Announcement

PINNACLE
Advisory Group, Inc.

Fall 2015

MARYLAND
6345 Woodside Court
Suite 100
Columbia, Maryland 21046
410.995.6630
410.505.0960 Fax

FLORIDA
5150 North Tamiami Trail
Suite 500
Naples, Florida 34103
239.692.8888
239.692.8878 Fax

7355 SW 87th Avenue
Suite 300
Miami, Florida 33173
305.274.1600

PINNACLE Advisory Group, Inc.

Table of Contents

5 Things You Need to Know About the New FAFSA Rules

Michael Green, Jr.
Wealth Manager

With the arrival of autumn, students are back at school and either preparing for college or already navigating it. While they further their academic careers, their parents wrestle with the current or future cost of higher education and the complexities of the financial aid system.

As parents consider their options for financial aid, they learn quickly that it all starts with the FAFSA (The Free Application for Federal Student Aid) form which is the primary mechanism through which schools determine how much financial aid an applicant qualifies for. Historically, the form was due in February each year and was completed with financial information of the prior tax year (PY).

Understandably, it was difficult for many families to gather the information and complete the form to meet the February deadline. Students found themselves being admitted to colleges without knowing if they could actually afford to attend. Once enrolled in college, the family would need to complete the form each year and repeat the process of collecting tax data and filing forms rather quickly to comply with the deadlines.

All of this is about to change…

An Executive Order recently signed by the President and effective October 2016 contains changes designed to streamline the process for the 2016-2017 school year. Now families can furnish financial information based upon an earlier time frame, deemed the prior-prior-year (PPY).

For example, a student who will enter college in the fall of 2017 will now provide data from the 2015 tax return instead of the 2016 tax return. In conjunction with this change, the FAFSA form will now be made available for completion in October of each year, rather than January. As a result, the 2017 high school graduate in our example can apply for financial aid while concurrently applying for admission and can use the already completed 2015 tax return. In doing so, the student can learn both admission and financial aid results in basically the same time frame. For current college students, the 2015 return will be used twice – once for Fall 2016 and again for Fall 2017.

Students can learn both admission and financial aid results in basically the same time frame.

What does this mean for college applicants and their families? Some planning takeaways include the following:

1. Easier Application Process: By using financial data of two years prior (PPY), applicants will be able to take advantage of the IRS Data Retrieval tool – an instrument through which income tax data can be pulled directly from the IRS into the FAFSA form – making the completion of the form much easier.

2. Start Earlier: Initial college financial aid decisions will be made on the basis of an earlier time-frame – the tax year which begins in the middle of the student's sophomore year of high school.

3. Finish Earlier: The final financial aid decision will also be made on an earlier time-frame during college—the tax year which begins in the middle of the student's sophomore year of college will determine aid for the senior year.

4. Extended Family Assets: Assets held in grandparent-owned 529 accounts that are often saved for the final year of college as a planning strategy may now be used a year earlier with no negative impact on the student's future financial aid eligibility.

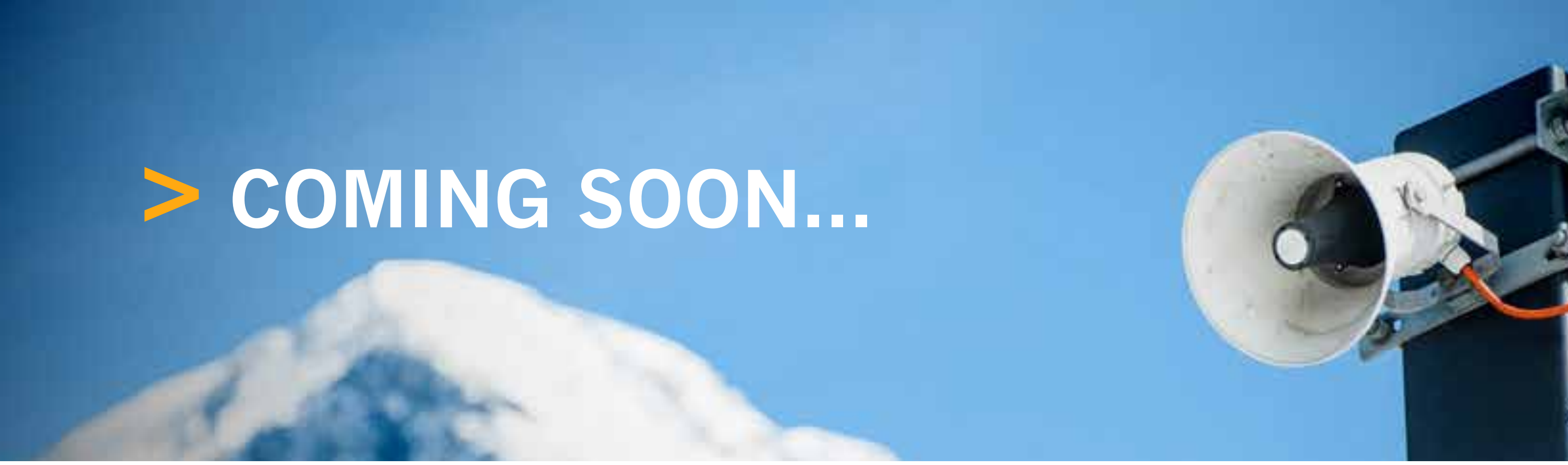
5. 2015 Deja vu: In light of the transition to the new rules, the 2015 tax year will be used twice in calculating financial aid. It will be used for the 2016-2017 school year under the existing PY system, and again for the 2017-2018 school year under the new PPY arrangement. It may be advantageous for parents to defer some income beyond 2015 if financial aid is being sought.

Michael Kitces, Pinnacle's Director of Financial Planning Research, provides additional context detail on his blog: **https://goo.gl/t0Oi5z**

As a Certified College Planning Specialist (CCPS®), I know that educational costs—and the planning issues they give rise to have implications for students, parents, grandparents, and people of all income levels. At Pinnacle, we have the resources to help you navigate this complicated landscape. Should you have questions on this topic, be sure to consult your financial advisor.

Michael Green, Jr., JD, CFP®, CTFA, CCPS is a Wealth Manager at Pinnacle Advisory Group.

Email: mgreen@pinnacleadvisory.com
Profile: pinnacleadvisory.com/mgreen/



Improved Reporting For Our Clients

A new and improved format

A variety of additional reports will be available through a new online client portal

The Pinnacle Team has been working hard to provide you with enhanced reports and online capabilities that we are sure you will like. We are currently implementing those improvements and you should see the new reports and online resources as we approach year-end.

The Portfolio Reports have an improved format, including new graphs and charts outlining your portfolio. Our Wealth Managers have additional tools to generate customized reports and can share them with you at your next review meeting.

Your Pinnacle Vault will continue to hold your documents and you will now also have access to a secure portal where you can log-in and view a variety of reports that can be customized by you to provide holdings and performance information, transaction data, and cash balances.

We hope you find the new reports helpful and we will provide you with additional information as it becomes available.

MARKET REVIEW

Rick Vollaro
Chief Investment Officer

Carl Noble
Senior Analyst

Sean Dillon
Technical Analyst

Sauro Locatelli
Quantitative Analyst

The third quarter came in like a lamb and went out like a lion, as the return of volatility hit risk assets hard across the globe. As in previous quarters, emerging market stocks and commodities suffered double digit declines as markets continue to deal with the end of the commodity super-cycle and the mix of structural and cyclical problems reverberating throughout the emerging market complex. But the big news of the quarter was a catch up in developed markets that had previously appeared impervious to the problems that were festering in the developing world.

In August, large developed markets that include the U.S. dropped quickly and in unison. The three day drawdown in August was one of the fastest on record, highlighted by a 1,000 point drop in the Dow Jones Industrial Average during the first 10 minutes of trading. The speed of the move caught investors off guard, and shook confidence around the globe. Safe haven instruments such as bonds, cash, and the U.S. dollar caught a bid off the turmoil in risk assets, though returns for the quarter were still somewhat muted given the amount of distress in risk assets across the globe. By the end of the quarter investors were left to assess whether they had witnessed just another correction in a bull market, or whether the volatility was the beginning of a cyclical downturn in stocks that might bring about a more meaningful move in risk assets.

Global Economic Cycle: Slowing

We believe the global economy, and particularly the issues in China and emerging markets, are at the epicenter of the world's problems. By our estimates, between 30-50% of world GDP is directly or indirectly linked to China's growth through various trade links. So while some believe that the U.S. economy is strong enough to simply brush off the effects of a major slowdown in China, we feel that decoupling is a dangerous possibility. Furthermore, while our base case has been that the U.S. will be able to maintain a low trajectory growth path, we believe the U.S. is currently slowing, as the drag in world trade is now showing up here.

There are some who believe that the U.S. is firing on all cylinders, arguing that our consumer-led economy is poised to benefit from the Chinese and emerging markets malaise (given that current low interest rates and low inflation are byproducts of the slowdown and busted commodity super-cycle). We agree that there are some positive side effects from a slowing China, and we're hopeful that consumers will enjoy these inputs on a lag and support the economy. But we're also realists, and at this point it is hard to deny that U.S. data has started to develop some cracks in the armor.

For example, in the month of September all seven Federal Reserve district manufacturing surveys declined. In addition, signs of credit stress have materialized in the junk bond market, indicating growing concern that default rates may soon rise, led by energy-related companies struggling with much lower oil prices. Housing and employment have been solid areas within the economy, but even they have taken a few blows over the last month. While we aren't calling for a recession yet, we do believe that the risks to the U.S. economy are growing.

Bottom Line: Overall the evidence is mixed, with global conditions looking mildly bearish, and the U.S. slowing.

Global Monetary Policy: Mixed Settings

We have come to the conclusion that watching central bankers has become such an important part of the investing landscape that it deserves its own category. Currently global policy settings are diverging, with international central banks mostly easing policy through various mechanisms, while the U.S. Federal Reserve is preparing to exit the zero interest rate policy that has dominated the landscape since the Great Recession. This leaves conditions mixed, but also creates uncertainty about how markets will respond to the prospect of a monetary tightening cycle in the U.S. for the first time in nearly a decade.

Bottom Line: The overall monetary policy setting is mixed with continuing liquidity abroad, and the U.S. Fed inching closer to policy normalization.

Technical Conditions: Broken

One area of the evidence that seems to be uniformly broken lies within the technical conditions of the market. Even before the latest selloff, a number of classic divergences were developing below the surface that signaled a market on increasingly shaky ground. These included such things as slowing momentum and an acute thinning in participation among many sectors of the market. When the market finally broke down in August from a long lateral phase, it did so decisively, causing an ominous surge in measures of underlying selling pressure. The best thing we can say about the market's current technical setup is that it recently became extremely oversold, which means a bounce is likely to occur. But oversold conditions can be misleading, and what might appear to be another classic dip-buying opportunity in a bull market looks more like a classic bear trap to us (given our view that the primary trend has changed from bull to bear).

Bottom Line: Many technical measures have now broken, leaving us with a grade of "Solidly Bearish" for technical conditions.

Valuation: U.S. Still Overvalued; Emerging Markets Remain a Value Trap

One of the silver linings to any correction or bear market is that it tends to produce cheaper valuations, which can lead to a wider margin of safety that actually improves the long-term return profile for equities. Many bullish prognosticators believe the correction has already brought the broad market down to levels that are cheap, but we disagree. While it's true that the market is a little less expensive than it was before the correction, the decline hasn't been enough to really move the needle on the highly overvalued readings prior to the drop. Even after the correction, our valuation model suggests that over the next 5 years the S&P 500 is priced to produce less than 3% per annum. While we are not anticipating a devastating bear market that would send valuation to dirt cheap levels, we do believe the market will likely need to fall further before becoming fairly valued.

Beyond the U.S., valuation metrics show a relatively cheaper profile (though to varying degrees). Some of the larger international developed markets are marginally cheaper than the U.S., and emerging markets definitely appear cheaper on some metrics. But given poor fundamentals that are likely to get worse before they get better, we continue to believe this part of the globe represents a value trap. Emerging markets may have gotten oversold enough this year to produce a powerful trading rally, but we don't think the underperformance vs. the developed world has bottomed yet from a longer-term perspective.

Bottom Line: Valuation in the U.S. is still in expensive territory despite the recent correction, and many of the cheapest markets continue to represent untouchable value traps.

Quantitative Message

We run our own quantitative models and supplement our work with a number of sources that have been building quant models for many years. We have watched our quantitative models vacillate between mildly bearish and neutral recently, but when balanced against the independent models we follow, the broad message is that we're in a mildly bearish period.

Bottom Line: The message of the quantitative work is mildly bearish on balance.

Independent Reads

At Pinnacle we augment our internal work with independent research from some of the industry's leading sources. While these outside opinions are never in full agreement, they are currently offering wildly divergent views on what is taking place in markets, and how to position our portfolios to maximize returns and control risk. One clear divergence comes from a disagreement between macro strategists and market technicians: The strategists are still pretty constructive on balance, while the technicians are warning that the primary trend is now down.

Bottom Line: Add it all up and we believe the evidence is neutral, but with wide tails.

A Time for Caution

The evidence we just summarized has many nuances, and there are plenty of crosscurrents that cloud the picture. But sometimes the big picture is not really that complicated if we step back from the myriad of details that float around each trading day. We believe the combination of an aged bull market, poor valuation, and a technical backdrop that has finally broken down, has produced an environment that demands we manage risk at this time.

Of course, we will have to continue to challenge our conclusion as we move forward. If we are incorrect, it would likely mean that the global economy is actually bottoming right now and beginning to turn the corner. Should that prove to be the case, the weight of the evidence will eventually turn again, and we'll reposition to at least neutral volatility weightings. In that scenario, we acknowledge in advance that there will be some opportunity cost in not fully participating to the upside (which we currently think is an acceptable tradeoff in light of the growing possibility that a bear market is beginning to unfold). At the moment the evidence suggests that it's time to de-risk and play our hand somewhat conservatively here. Ultimately, our intention is to side step some of the pain during this cleansing process, and eventually look to reposition at better valuations to help our clients build long term wealth.

Note: The above discussion applies to the management of Pinnacle's Dynamic Prime models. Below is a brief description of changes during the quarter to Pinnacle's new investment strategies that were introduced earlier this year. The Dynamic Market Series and the quantitative component of the Dynamic Quant are rules-based strategies and thus are not managed according to Pinnacle's macro outlook.

Dynamic Market Series

The satellite of the Dynamic Market strategies, comprising 30% of the portfolios, remained on a defensive posture and was allocated to short-term T-bills (SHV) throughout the entire third quarter. This was the result of two separate components of the strategy: our valuation model for the S&P 500 index continuing to indicate that the market is overvalued, and the technical component of the model switching from a "buy" signal to a "sell" signal for the S&P 500. Either of these two conditions would be sufficient for the strategy to remain in a defensive posture, and both of them would have to reverse in order for the strategy to be allowed to move to either a neutral or aggressive posture. The choice of short-term T-bills over longer duration bonds was also driven by the technical component of the model, which was on a "sell" signal for the Barclays U.S. Aggregate Bond Index throughout the entire quarter. However, the component actually switched to a "buy" signal on October 5th as a result of a renewed uptrend in the Barclays U.S. Aggregate index, and the satellite was traded accordingly on October 6th by selling our position in short-term T-bills (SHV) and initiating a position in bonds (SCHZ).

Dynamic Quant Series

During the first two months of the quarter, the quantitative satellite, comprising 37.5% of the Dynamic Quantitative strategy, remained invested in stocks according to the sector rotation component of the model, which continued to favor the Technology, Energy, Financials, and Consumer Staples sectors. However on September 3rd the technical component of the model for the MSCI USA index switched from a "buy" signal to a "sell" signal. This was primarily driven by deterioration in the market's technical profile, which resulted from the August market correction. A "sell" signal from the technical component implies a defensive posture for the quantitative satellite of the strategy. As a result, all the equity sector holdings in the satellite were sold on September 4th, and the proceeds were held in short-term T-bills (SHV) for the remainder of the quarter. The choice of short-term T-bills over longer duration bonds was also driven by the technical component of the model, which was on a "sell" signal for the Barclays U.S. Aggregate Bond Index throughout the entire quarter. However, the component actually switched to a "buy" signal on October 5th as a result of a renewed uptrend in the Barclays U.S. Aggregate index, and the satellite was traded accordingly on October 6th by selling our position in short-term T-bills (SHV) and initiating a position in bonds (SCHZ).

Pinnacle's Three Dynamic Strategies

PRIME SERIES

Pinnacle's Prime Series offers investors an array of actively managed portfolios that are globally diversified and designed to provide market-like returns with less risk. Our Prime Series is comprised of five distinct options that include conservative portfolios that prioritize stability and income, moderate portfolios seeking a balance of stability and growth, and growth portfolios designed for appreciation and growth.

The Prime Series portfolios are managed by our experienced investment team to pursue value anywhere in the world—in any asset class—and evaluate opportunities using both qualitative judgment and quantitative tools. Our over-arching strategy is based on long-term economic themes where we build our portfolios in line with the strengths and weaknesses in the market. Our investment team evaluates the qualitative and quantitative data and adjusts our portfolios accordingly. These portfolios have been managed by our investment team since 2002 through all market cycles and have a GIPS verified track-record. The Prime Series should appeal to clients who want an active, tactical management strategy that blends the best of qualitative judgment and quantitative tools.

MARKET SERIES

Pinnacle's Market Series provides an investor with a globally diversified portfolio that is primarily managed with strategic asset allocation and complimented with tactical management in a smaller portion of the portfolio. The strategic holdings are low cost and efficient, and the satellite portion provides a way for the portfolio to increase return potential when markets are cheap, and dampen risk when markets are expensive or volatility increases.

The series offers three portfolios to investors: Conservative, Moderate, and Appreciation. The strategic allocation comprises 70% of the portfolio and is diversified across twelve asset classes that are systematically rebalanced to retain targeted allocations. The tactical allocation comprises 30% of the portfolio and consists of U.S. stocks and fixed income securities. The tactical satellite includes the flexibility to move between stocks, bonds, or cash, and rotates between them depending on market valuations and technical conditions. By combining both strategic and tactical strategies, the Market Series offers the benefits of both passive and active management.

QUANTITATIVE SERIES

The Pinnacle Quantitative Portfolio provides investors with an actively managed portfolio that uses a 'Core and Satellite' approach to combine tactical asset management and quantitative analysis. The Core strategy invests approximately 60% of the portfolio in our Dynamic Moderate Growth model, which strikes a balanced approach between capital appreciation and income. The Satellite strategy comprises about 40% of the portfolio and uses sophisticated quantitative analysis that leverages value and momentum data as it rotates equity sectors, bonds, and cash to balance growth and risk.

Our proprietary quantitative model evaluates current market conditions based on a set of valuation and technical indicators, and rotates the allocation between ten U.S. equity sectors and bonds or cash. This portfolio will appeal to clients who are looking for a heavily rules-based approach to investing and are willing to make aggressive allocation changes depending on market conditions.

PINNACLE ADVISORY GROUP, INC.

Net Returns as of 9/30/2015

Start Date	End Date	Dynamic Market Conservative	Dynamic Market Moderate	Dynamic Market Appreciation	Dynamic Quant	S&P 500	Barclays U.S. Aggregate Bond
10/31/2002	12/31/2002	1.89%	1.46%	1.02%	0.98%	-0.33%	2.04%
12/31/2002	12/31/2003	18.32%	21.38%	24.47%	21.33%	28.68%	4.10%
12/31/2003	12/31/2004	7.54%	8.78%	10.02%	11.10%	10.88%	4.34%
12/31/2004	12/31/2005	3.44%	4.73%	6.02%	6.50%	4.91%	2.43%
12/31/2005	12/31/2006	8.52%	10.42%	12.35%	11.11%	15.79%	4.33%
12/31/2006	12/31/2007	5.85%	6.09%	6.32%	7.90%	5.49%	6.97%
12/31/2007	12/31/2008	-14.17%	-20.04%	-25.60%	-13.37%	-37.00%	5.24%
12/31/2008	12/31/2009	23.35%	25.87%	28.34%	26.92%	26.46%	5.93%
12/31/2009	12/31/2010	9.37%	10.49%	11.55%	11.04%	15.06%	6.54%
12/31/2010	12/31/2011	-0.58%	-1.92%	-3.29%	-2.24%	2.11%	7.84%
12/31/2011	12/31/2012	9.57%	10.72%	11.86%	11.09%	16.00%	4.22%
12/31/2012	12/31/2013	7.28%	10.68%	14.18%	20.09%	32.39%	-2.02%
12/31/2013	12/31/2014	3.50%	3.90%	4.29%	6.35%	13.69%	5.97%
12/31/2014	9/30/2015	-3.21%	-4.08%	-4.97%	-6.03%	-5.29%	1.13%
Total Return		108.83%	118.94%	128.43%	176.58%	182.14%	77.57%
Annualized Return		5.87%	6.25%	6.60%	8.19%	8.36%	4.55%
Trailing Returns							
Trailing-Three-Month		-3.01%	-4.22%	-5.43%	-5.75%	-6.44%	1.23%
Trailing-One-Year		-2.68%	-3.38%	-4.08%	-4.34%	-0.61%	2.94%
Trailing-Three-Year		2.65%	3.57%	4.48%	6.17%	12.40%	1.71%
Trailing-Five-Year		3.94%	4.73%	5.49%	6.66%	13.34%	3.10%
Trailing-Ten-Year		4.61%	4.67%	4.68%	6.87%	6.80%	4.64%
Quarterly Returns							
Best		13.77%	15.88%	18.00%	12.71%	15.93%	4.58%
Worst		-6.64%	-10.13%	-13.56%	-7.15%	-21.94%	-2.44%
Average Negative		-2.62%	-3.36%	-4.30%	-2.96%	-6.69%	-0.86%
Three-Year Returns							
Best		14.92%	17.07%	19.20%	15.63%	25.56%	8.87%
Worst		-3.42%	-6.08%	-8.71%	-1.22%	-15.11%	1.53%
Average Negative		-1.55%	-2.52%	-2.71%	-0.79%	-7.25%	
Risk Metrics Vs. Benchmarks							
Beta		1.02	0.98	0.96	0.72		
Alpha		-0.20%	-0.17%	-0.17%	2.57%		
Correlation		96.68%	97.78%	98.37%	90.14%		
Standard Deviation		6.95%	8.60%	10.34%	8.42%	13.98%	3.47%
Sharpe Ratio		0.66	0.58	0.51	0.82	0.50	0.93

*See back tested disclosures

PINNACLE ADVISORY GROUP, INC.

Net Returns as of 9/30/2015

Start Date	End Date	Dynamic Conservative	Dynamic Conservative Growth	Dynamic Moderate Growth	Dynamic Appreciation	Dynamic Ultra Appreciation*	S&P 500	Barclays U.S. Aggregate Bond
10/31/2002	12/31/2002	1.74%	0.82%	0.63%	0.57%		-0.33%	2.04%
12/31/2002	12/31/2003	10.09%	17.82%	20.83%	24.78%		28.68%	4.10%
12/31/2003	12/31/2004	6.51%	8.71%	9.48%	10.65%		10.88%	4.34%
12/31/2004	12/31/2005	3.71%	4.35%	5.93%	5.70%	6.36%	4.91%	2.43%
12/31/2005	12/31/2006	8.90%	8.88%	10.82%	12.71%	14.20%	15.79%	4.33%
12/31/2006	12/31/2007	5.65%	6.61%	7.75%	7.97%	8.45%	5.49%	6.97%
12/31/2007	12/31/2008	-9.86%	-12.59%	-16.93%	-23.84%	-27.69%	-37.00%	5.24%
12/31/2008	12/31/2009	9.25%	10.87%	18.68%	23.61%	31.67%	26.46%	5.93%
12/31/2009	12/31/2010	5.75%	8.39%	10.99%	11.33%	11.29%	15.06%	6.54%
12/31/2010	12/31/2011	4.14%	3.38%	2.11%	0.71%	-2.42%	2.11%	7.84%
12/31/2011	12/31/2012	4.83%	6.38%	7.24%	8.62%	11.73%	16.00%	4.22%
12/31/2012	12/31/2013	3.31%	10.06%	14.08%	18.10%	24.30%	32.39%	-2.02%
12/31/2013	12/31/2014	3.26%	3.35%	3.81%	3.49%	3.52%	13.69%	5.97%
12/31/2014	9/30/2015	-1.18%	-2.09%	-3.11%	-3.98%	-5.69%	-5.29%	1.13%
Total Return		70.60%	101.23%	131.55%	140.33%	99.72%	182.14%	77.57%
Annualized Return		4.22%	5.56%	6.72%	7.02%	6.34%	8.36%	4.55%
Trailing Returns								
Trailing-Three-Month		-1.45%	-2.95%	-4.13%	-5.27%	-7.38%	-6.44%	1.23%
Trailing-One-Year		-0.14%	-0.60%	-1.41%	-2.17%	-3.67%	-0.61%	2.94%
Trailing-Three-Year		1.75%	3.66%	4.71%	5.58%	7.11%	12.40%	1.71%
Trailing-Five-Year		3.01%	4.82%	5.76%	6.46%	7.33%	13.34%	3.10%
Trailing-Ten-Year		3.33%	4.15%	5.18%	5.15%	5.79%	6.80%	4.64%
Quarterly Returns								
Best		5.60%	8.08%	10.31%	12.76%	17.60%	15.93%	4.58%
Worst		-6.05%	-6.05%	-7.30%	-11.95%	-14.21%	-21.94%	-2.44%
Average Negative		-1.39%	-1.99%	-2.59%	-3.84%	-4.89%	-6.69%	-0.86%
Three-Year Returns								
Best		8.10%	11.50%	14.38%	17.10%	19.57%	25.56%	8.87%
Worst		-0.40%	-1.86%	-3.31%	-6.60%	-8.31%	-15.11%	1.53%
Average Negative		-0.22%	-0.83%	-1.58%	-2.46%	-2.86%	-7.25%	
Risk Metrics Vs. Benchmarks								
Beta		0.85	0.81	0.84	0.87	0.80		
Alpha		-0.27%	0.42%	0.98%	0.71%	1.23%		
Correlation		89.55%	93.23%	95.43%	96.52%	96.39%		
Standard Deviation		4.19%	5.73%	7.49%	9.50%	11.69%	13.98%	3.47%
Sharpe Ratio		0.70	0.74	0.72	0.60	0.36	0.50	0.93

*Dynamic Ultra Appreciation inception date: 6/30/2004

Disclosure

Indexes

S&P/BGCantor 0-3 Month U.S. Treasury Bill Index - A broad, comprehensive, market-value weighted index that seeks to measure the performance of the U.S. Treasury Bill market. The index includes the reinvestment of all cash distributions.

Barclays Capital U.S. Aggregate Bond Index - 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. The index includes the reinvestment of all cash distributions.

S&P 500 Total Return Index - 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. The index includes the reinvestment of all cash distributions.

MSCI Daily TR Net USA USD Index - An unmanaged, capitalization-weighted index reflecting the full breadth of investment opportunities within the US equity markets. The index includes large, mid, small and micro capitalization companies, covering approximately 99.5% of the capitalization of the US equity market. The index includes the reinvestment of all cash distributions.

Dow Jones Industrial Average Total Return Index - 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. The index includes the reinvestment of all cash distributions.

Russell 2000 Total Return Index - An unmanaged, market-capitalization weighted index that measures the performance of the 2,000 smallest market capitalization companies in the Russell 3000 index. The index includes the reinvestment of all cash distributions.

NASDAQ Composite Total Return Index - 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. The index includes the reinvestment of all cash distributions.

MSCI Daily Total Return Net EAFE USD Index - An unmanaged, market capitalization weighted index composed of stocks from 21 developed markets, but excluding those from the U.S. and Canada. The countries included in the index are located in Europe, Australia, Asia, and the Far East. The index includes the reinvestment of all cash distributions. The index reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

MSCI Daily Total Return Net Emerging Markets USD Index - An unmanaged, market capitalization weighted index composed of stocks from 26 emerging markets. The countries included in the index are located in Europe, South America, Africa, and Asia. The index includes the reinvestment of all cash distributions. The index reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Bloomberg Commodity Index Total Return - A rolling index, rebalanced annually, composed of futures contracts on 19 physical commodities. It is designed to be a highly liquid and diversified benchmark for the commodity futures market. The index includes the reinvestment of all cash distributions.

iPath® Bloomberg Commodity Index Total Return ETN - An investable vehicle designed to provide exposure to the Bloomberg Commodity Index Total Return. The vehicle's inception date is 6/30/2006.

Commodity Blended Benchmark - Comprised of 100% Bloomberg Commodity Total Return Index from 10/31/2002 to 6/30/2006 and 100% iPATH Bloomberg Commodity Index Total Return ETN from 6/30/2006 to present.

CPI Index - This index measures changes in the price level of a market basket of consumer goods and services purchased by households. The index is published by the Bureau of Labor Statistics.

Market Series Benchmarks

DMC Benchmark - 33% S&P 500 Total Return Index / 9% MSCI Daily Total Return Net EAFE USD Index / 3% Commodity Blended Benchmark / 49% Barclays Capital U.S. Aggregate Bond Index / 6% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DMM Benchmark - 44% S&P 500 Total Return Index / 12% MSCI Daily Total Return Net EAFE USD Index / 4% Commodity Blended Benchmark / 36% Barclays Capital U.S. Aggregate Bond Index / 4% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DMA Benchmark - 55% S&P 500 Total Return Index / 15% MSCI Daily Total Return Net EAFE USD Index / 5% Commodity Blended Benchmark / 23% Barclays Capital U.S. Aggregate Bond Index / 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

Prime Series Benchmarks

DC Blended Benchmark - Comprised of 21% S&P 500 Total Return Index / 6% MSCI Daily Total Return Net EAFE USD Index / 3% Commodity Blended Benchmark / 63% Barclays Capital U.S. Aggregate Bond Index / 7% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index from 10/31/2002 to 8/31/2009, and 14% S&P 500 Total Return Index / 4% MSCI Daily Total Return Net EAFE USD Index / 2% Commodity Blended Benchmark / 72% Barclays Capital U.S. Aggregate Bond Index / 8% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index from 8/31/2009 to present. The benchmark is rebalanced monthly.

DCG Benchmark - 33% S&P 500 Total Return Index / 9% MSCI Daily Total Return Net EAFE USD Index / 3% Commodity Blended Benchmark / 49% Barclays Capital U.S. Aggregate Bond Index / 6% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DMG Benchmark - 44% S&P 500 Total Return Index / 12% MSCI Daily Total Return Net EAFE USD Index / 4% Commodity Blended Benchmark / 36% Barclays Capital U.S. Aggregate Bond Index / 4% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DA Benchmark - 55% S&P 500 Total Return Index / 15% MSCI Daily Total Return Net EAFE USD Index / 5% Commodity Blended Benchmark / 23% Barclays Capital U.S. Aggregate Bond Index / 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

DUA Benchmark - 72% S&P 500 Total Return Index / 20% MSCI Daily Total Return Net EAFE USD Index / 6% Commodity Blended Benchmark / 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

Quant Series Benchmarks

DQ Benchmark - 27.5% S&P 500 Total Return Index / 37.5 MSCI Daily TR Net USA USD Index / 7.5% MSCI Daily Total Return Net EAFE USD Index / 2.5% Commodity Blended Benchmark / 22.5% Barclays Capital U.S. Aggregate Bond Index / 2.5% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index. The benchmark is rebalanced monthly.

Definitions

Standard Deviation - A measure of risk, defined as the dispersion of a set of returns from its mean.
Correlation - A statistical measure of how two securities or portfolios tend to move in relation to each other.
Beta - A measure of systematic risk of a portfolio in comparison to the market or benchmark. It is calculated using a linear regression.
Alpha - A measure of risk-adjusted performance, defined as the return in excess of a normal return implied by a portfolio's systematic risk, measured by Beta.
Sharpe Ratio - A measure of risk-adjusted performance, calculated as the ratio of return in excess of the return on Treasury Bills, divided by the Standard Deviation of returns.
Drawdown - A measure of percentage decline from a prior peak.

Disclaimer

Pinnacle Advisory Group, Inc. ("Pinnacle") is a registered investment adviser under the SEC Investment Advisers Act of 1940.

The performance of the Prime series strategies includes all client groups with assets values over $200,000 and no material restriction implementation of the firm's investment strategy. This applies to the following: Dynamic Conservative, Dynamic Conservative Growth, Dynamic Moderate Growth, Dynamic Appreciation, Dynamic Ultra Appreciation.

BACK TESTED AND MODEL PERFORMANCE
MARKET SERIES

Pinnacle Advisory Group, Inc. ("Pinnacle") is a registered investment adviser under the SEC Investment Advisers Act of 1940.

The **Market** series of portfolios represent hypothetical model portfolio results that are designed to capture market returns across the investment cycle but also to protect or improve returns at market peaks and troughs. Back tested and model presentations may not be relied upon for investment purposes and are not meant to represent actual current or future performance. This report is unaudited and does not replicate actual returns for any client.

This is a hypothetical model presentation and may only be used in a one-on-one presentation for specified individual clients. This should not be further disseminated without compliance approval. Perspectives, opinions, and testing data may change without notice. Please contact a Pinnacle investment professional for additional information. Past performance is not indicative of future return. All information is believed to be correct but accuracy cannot be guaranteed.

The Market series of portfolios are structured with a 70% Core portfolio and 30% Dynamic portfolio. The core portfolio owns a static diversified 11-asset class portfolio of equity and fixed income securities. The satellite portfolio owns a quantitatively derived (based on a set of valuation and technical indicators) mix of equities and fixed income to protect against market extremes. Back tested results represent the period of October 2002 to the most recent month-end date. Results should be evaluated over a complete market cycle, which includes both bull market and bear market returns.

The **Dynamic Market Conservative (DMC)** portfolio performance is measured against a five-asset class benchmark, rebalanced monthly, consisting of 45% equities and alternatives (33% S&P 500 Total Return Index, 9% MSCI Daily Total Return Net EAFE USD Index, 3% Commodity Blended Benchmark*) and 55% fixed income (49% Barclays Capital U.S. Aggregate Bond Index, 6% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

The **Dynamic Market Moderate (DMM)** portfolio performance is measured against a five-asset class benchmark, rebalanced monthly, consisting of 60% equities and alternatives (44% S&P 500 Total Return Index, 12% MSCI Daily Total Return Net EAFE USD Index, 4% Commodity Blended Benchmark*) and 40% fixed income (36% Barclays Capital U.S. Aggregate Bond Index, 4% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

The **Dynamic Market Aggressive (DMA)** portfolio performance is measured against a five-asset class benchmark, rebalanced monthly, consisting of 75% equities and alternatives (55% S&P 500 Total Return Index, 15% MSCI Daily Total Return Net EAFE USD Index, 5% Commodity Blended Benchmark*) and 25% fixed income (23% Barclays Capital U.S. Aggregate Bond Index, 2% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

Portfolio holdings are assumed to be rebalanced when holdings diverge from model weightings by more than 1%. No taxes or transaction costs are included in the analysis. All returns are net of maximum investment management fees, but are gross of all other costs, expenses and commissions associated with client account trading and custodial services. Any comments regarding an individual security are presented at the client's request, may only be used for client reference, and are not reflective of composite or individual portfolio ownership. Pinnacle may or may not have held or currently hold a specific security. The position may or may not have been profitable and may or may not be profitable in the future. Any positive comments regarding specific securities may no longer be applicable and should not be relied upon for investment purposes. No security is profitable all of the time and there is always the possibility of selling it at a loss. Investments are subject to change without notice.

Decisions and information provided were based on available research at the time and as these are not realized returns, specific action or lack of action is not known for certainty. Material economic and market factors may have changed and certain investment restrictions may have affected performance. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, and international accounting difference risks which may be more excessive in emerging markets. Returns do include the reinvestment of gains, dividends and other income. Individual client returns may be materially negatively affected due to expenses and commissions associated with client account trading and custodial services.

*Comprised of 100% Bloomberg Commodity Total Return Index from 10/31/2002 to 6/30/2006 and 100% iPATH® Bloomberg Commodity Index Total Return ETN from 6/30/2006 to present.

BACK TESTED AND MODEL PERFORMANCE
QUANTITATIVE SERIES

Pinnacle Advisory Group, Inc. ("Pinnacle") is a registered investment adviser under the SEC Investment Advisers Act of 1940.

The **Quantitative** series of portfolios represent hypothetical model portfolio results that are designed to capture market returns across full market cycles, and also to protect or improve returns at market peaks and troughs. Back tested and model presentations may not be relied upon for investment purposes and are not meant to represent actual current or future performance. This report is unaudited and does not replicate actual returns for any client.

This is a hypothetical model presentation and may only be used in a one-on-one presentation for specified individual clients. This should not be further disseminated without compliance approval. Perspectives, opinions, and testing data may change without notice. Please contact a Pinnacle investment professional for additional information. Past performance is not indicative of future return. All information is believed to be correct but accuracy cannot be guaranteed.

The **Dynamic Quantitative (DQ)** portfolio uses Pinnacle's Dynamic Moderate Growth (DMG) portfolio as the chassis (see Dynamic Prime Series as described in investment policy statement for description of the DMG portfolio), and then adds on a purely quantitative allocation of the portfolio. The DMG's actively managed portfolio is 62.5% of the total portfolio, while the quantitative allocation makes up 37.5%. The Quantitative allocation rotates between ten U.S. equity sectors and fixed income, depending on how the quantitative model evaluates current market conditions based on a set of valuation and technical indicators. Back tested results represent the period of October 2002 to the most recent month-end date. Results should be evaluated over a complete market cycle, which includes both bull market and bear market returns.

The **Dynamic Quantitative (DQ)** portfolio performance is measured against a six asset class benchmark, rebalanced monthly, consisting of 75% equities and alternatives (37.5% MSCI US, 27.5% S&P 500 Total Return Index, 7.5% MSCI Daily Total Return Net EAFE USD Index, 2.5%% Commodity Blended Benchmark*) and 25% fixed income (22.5% Barclays Capital U.S. Aggregate Bond Index, 2.5% S&P/BGCantor 0-3 Month U.S. Treasury Bill Index). Pinnacle's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics and thus returns may at times materially differ from the stated benchmark.

Portfolio holdings are assumed to be rebalanced when holdings diverge from model weightings by more than 1%. No taxes or transaction costs are included in the analysis. All returns are net of maximum investment management fees, but are gross of all other costs, expenses and commissions associated with client account trading and custodial services. Any comments regarding an individual security are presented at the client's request, may only be used for client reference, and are not reflective of composite or individual portfolio ownership. Pinnacle may or may not have held or currently hold a specific security. The position may or may not have been profitable and may or may not be profitable in the future. Any positive comments regarding specific securities may no longer be applicable and should not be relied upon for investment purposes. No security is profitable all of the time and there is always the possibility of selling it at a loss. Investments are subject to change without notice.

Decisions and information provided were based on available research at the time and as these are not realized returns, specific action or lack of action is not known for certainty. Material economic and market factors may have changed and certain investment restrictions may have affected performance. Foreign investments involve special risks including greater economic, political and currency fluctuation risks, and international accounting difference risks which may be more excessive in emerging markets. Returns do include the reinvestment of gains, dividends and other income. Individual client returns may be materially negatively affected due to expenses and commissions associated with client account trading and custodial services.

*Comprised of 100% Bloomberg Commodity Total Return Index from 10/31/2002 to 6/30/2006 and 100% iPATH® Bloomberg Commodity Index Total Return ETN from 6/30/2006 to present.