INVESTMENT MANAGEMENT AND FINANCIAL PLANNING

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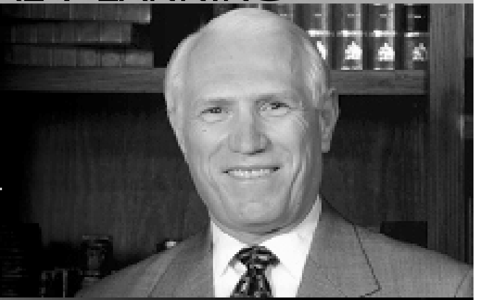

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## Investment Insights
**November 2009**

### ROCKY THE SEA MONSTER
### AND MY UNCONVENTIONAL METHOD OF ESCAPE

Once upon a time, I enrolled in a YMCA lifesaving class. It was the Paterson, N.J. ‘Y’. Our class consisted of about a half dozen teenagers and our instructor who wasn’t too much older. Our instructor however was really big and intimidating, looking more like a heavy weight boxer and weight lifter than a swimming and lifesaving instructor. Let’s call him Rocky.

Part of our training was escaping from dangerous situations. They were situations in which the lifesaver himself became endangered in deep water by a distressed swimmer grabbing on to him. One escape procedure was from a face-to-face stranglehold in which the panicked swimmer, trying to keep from going under, conveniently grabs and clinches onto the lifesaver’s neck with both hands.

Rocky carefully went through the stranglehold escape procedure with us at poolside. Then it was our time to actually practice the escape in the water. Rocky, big hulk that he was, played the part of the distressed and drowning swimmer. First in line, I thought ‘yeah, right.’, and jumped into the pool swimming to the ‘victim’. Rocky, now the ‘distressed swimmer’ immediately reached out, tightly clutched on to my throat with his size 15+ hands, and pulled me underwater.

The <u>*conventional*</u> escape procedure was simple. The idea was to clasp the hands together and then quickly and forcefully thrust the arms up between the drowning swimmer’s arms, forcing his arms apart, at the same time breaking his death grip around the throat.

Rocky was squeezing my throat tightly in his grasp. My head was under water, and well let’s put it this way, I was getting a bit excited and stressed out at this point. At the same time that I got my hands clasped for the upward thrust to break loose his grip, I was also peddling my legs pretty fast trying to get my head above water. *It was then that I discovered my own <u>un</u>conventional method to the escape from the stranglehold.*

With all of my fast and furious leg-peddling, at one miraculous point my right knee came into direct contact with Rocky’s groin. Rocky’s size 15+ hands instantaneously came unglued from my throat. For me it was nirvana. Completely free, I peddle-rocketed into the air like a leaping porpoise and breathed in the beautiful oxygen that my lungs were screaming for.

*Rocky, who by now represented to me the greatest and most evil sea monster in the entire history of planet earth popped up too, but not in near as glorious fashion as me.*

Rocky’s face was contorted and grimacing. Thank God he had not sufficiently recovered to kill me on the spot. My unconventional escape from Rocky-the-awful-sea-monster’s death grip was totally unintended and accidental. All I could do was apologize while at the same time I maneuvered to get him into the rescue carry.

Well, Rocky the Wounded Sea Monster was not up to listening to my apologies let alone let me get him into the rescue carry. He was quite annoyed at me to put it mildly. Guess he was still feeling the aftermath of my unconventional digression from his teachings. His emotional state was further aggravated by the loud snickers from my classmates who had watched the drama unfold from poolside.

He flicked me away from him. He then dressed me down in no uncertain terms. His thunderous voice shouted at me a few choice and colorful curse words about what I had done to his privates. He then bellowed at me the conventional procedures that he had taught me using some language that I believe would not have had the ’Y’s’ seal of approval. (*continued on next page)*

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**S&P 500 Look back**

| | |
|---|---|
| 2000 | -9.11% |
| 2001 | -11.89% |
| 2002 | -22.10% |
| 2003 | +26.68% |
| 2004 | +10.87% |
| 2005 | + 3.00% |
| 2006 | +13.62% |
| 2007 | + 3.52% |
| 2008 | -38.5% |

**NASDAQ Look back**

| | |
|---|---|
| 2000 | -39.18% |
| 2001 | -20.78% |
| 2002 | -31.25% |
| 2003 | +50.76% |
| 2004 | +9.14% |
| 2005 | -1.4% |
| 2006 | +7.87% |
| 2007 | + 9.27% |
| 2008 | -40.5% |

YTD thru 10/31/09

| | |
|---|---|
| S&P500 | +12.8% |
| NASDAQ | +22.88% |
| 10/11/2007 HI thru 10/31/09 | |
| S&P500 | -33.3% |
| Mar 2000 HI thru 10/31/09 | |
| NASDAQ | -59.5% |

*There is no risk-free investment! Investment portfolio values fluctuate and past performance is never a guarantee of future results. "Do no harm" translates into structuring and managing an investment portfolio to conform to a client's risk tolerance and time horizon. Proactive asset allocation, diversification within asset classes, and continual monitoring and risk management of each position are methods we use in structuring and managing portfolios. Our approach includes corroborating fundamental research, with capital markets supply-and-demand research, also called technical research. At times we will use conservative hedging techniques to limit downside risk.

(*continued*) All that time I was thinking that this lambast of words was far better than being killed which is what his eyes were saying that he really wanted to do to me. As he thundered on, I was thinking to myself, 'Alleluia, Alleluia, he's not gonna kill me!.'

Well Rocky finally began to recover and settle down. We tried the escape procedure again. Rocky, it seemed, was this time a bit less fierce with me. He was probably now a bit wary that this skinny kid with the long legs and knobby knees had little regard for conventional procedures and should be considered quite dangerous. Very carefully, and this time in strict accordance with Rocky's teachings, I again escaped Rocky the Sea Monster's choke hold and finally got him into the rescue carry position. But in the back of my mind, ***for the first time ever, I fully understood the difference between conventional methods and unconventional methods. I now knew in my gut that unconventional methods could sometimes be very effective.***

Early in my investment career, I learned that the investment industry espoused buy-and-hold for the long term. *Buy-and-hold was the long-established conventional method*. Leave it to the markets and over time your portfolio would have a nice upward slope. Never any guarantees, but earnings over time would probably be up 5 to 12% a year depending on the mix of cash, fixed income, stocks and other investments. The industry did, and still does, pump out pie charts and statistics bolstering that buy-and-hold convention to bowl you over with its greatness. And guess what, investors who invested in any of the major indices ten years ago have less money now than they did then. That was their reward for buying and holding. The conventional method in short has simply not worked for many retirees and others who placed their trust in it!

The buy-and-hold concept needs long time periods to allow it to work (longer than many have or are willing to put up with). It is also based on TRUST that companies will act in the best interests of shareholders, that regulators will effectively regulate, that banks will be good stewards of capital rather than casino operators, that our tax, regulatory, commercial, and other legislation will be sound, and it goes on and on. TIME and TRUST underpin buy-and-hold!

I could see very early in my career, almost twenty years ago, that the conventional buy-and-hold investment strategy was breaking. The recent Madoff –SEC scandal just punctuated a long, long period of failures in which bad guys rigged the system and got away with it. Given what is, what do you do in an investment manager's position to do the best job to serve clients? Well, we turned to an unconventional research method. The unconventional research that our investment team began learning, espousing, and using quite a few years ago is based on technical or what I call supply-and-demand research of the capital markets.

The *unconventional* approach primarily is one that applies Economics 101, *technical or supply-and-demand research*, to investment decision making. In late 2000 and early 2001, *conventional fundamental research* reports from Wall Street touted Enron as a solid investment. The one analyst who wrote a negative fundamental report was fired after a telephone call was made to his Wall Street boss by Enron's CEO. *A case could be made that fundamental research had become a clear and present danger to the public.* Technical or supply-and-demand research, using trend analysis, relative strength measures, and disciplined risk management was indicating that supply was in control of Enron. (Enron's stock price was deteriorating). In essence, Enron investors in the know were unloading shares on an unsuspecting public. *The value of the unconventional approach, technical or supply-and-demand research, was that it was the only overt indicator that suggested that something was very, very wrong at Enron. Those who applied it were able to get out at a profit or a small loss.*

(continued) Charles Dow allegedly conceived technical analysis in 1896, more than 100 years ago. *Why doesn't everyone use unconventional technical research?* Several basic reasons. It never became an imbedded program in academia, it uses leading edge, constantly-improving and expensive information technology, and even with the technology tools, it requires hard work and constant due diligence.

The retail investment industry is largely a marketing and sales industry. It is based on the conventional buy-and-hold idea, which in turn is based on TRUST, which in turn has been greatly undermined - to the detriment of the investing public -by *lousy leadership*. The result has been a global systemic failure that we will hopefully not see again in our lives. Restore TRUST and chances are the conventional approach of buy-and-hold could regain some of its credibility.

In the meantime, to "*First Do No Harm and Make Money"** (please read sidebar) we will rely on an approach that uses unconventional technical research, corroborated by the best fundamental research that we can find. We want to be invested in up trends not in downtrends and in asset classes and individual securities with superior relative strength compared to all of the investment choices available. We also want to have a sound reward and risk management discipline to optimize the upside and to cut small losses before they become large losses. The unconventional approach of supply-and-demand research also provides us with valuable risk management tools that are not readily available from fundamental research services.

The below chart shows how using this methodology has worked out over the past nine years that included two very severe Bear Markets. What is depicted is a tactical asset allocation approach that invested money in the two highest relative strength of five asset classes. As the asset classes rotated around in their relative strength standing, investments were adjusted to always be invested in just the two with the highest standing relative strengths. You can see the results over that time period. There are other approaches in applying our methodology but this example clearly demonstrates its value over market cycles and in different market conditions. The Tactical Portfolio, in the below table, is the one that uses the technical or supply-and-demand research that we use. All of the asset classes are identified at the bottom of the table.

## DALI Level One: Benchmark Index 50/50 Portfolio

**While the Tactical Portfolio (DALI Level One) is rarely at the top of the return quilt in any one year, as asset classes rotate in and out of favor, DALI comes out on top over the last decade by being in the right place at the right time.**

**January 3, 2000 - September 30, 2009**

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 YTD | 2000-2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| AGG 12.22% | AGG 8.45% | UV/Y 23.04% | EFA 38.12% | EFA 17.04% | UV/Y 22.54% | EFA 25.79% | UV/Y 20.56% | Tactical Portfolio 5.26% | EFA 21.89% | Tactical Portfolio 120.86% |
| UV/Y 11.53% | MNYMKT 3.33% | AGG 10.25% | ISI 27.37% | UV/Y 11.21% | EFA 11.40% | Tactical Portfolio 14.95% | DWAFXI 7.62% | AGG 2.99% | UV/Y 18.62% | UV/Y 110.83% |
| MNYMKT 5.88% | Tactical Portfolio 0.95% | DWAFXI 9.75% | Tactical Portfolio 21.13% | ISI 9.84% | Tactical Portfolio 10.34% | UV/Y 13.51% | EFA 7.21% | MNYMKT 1.33% | ISI 17.57% | AGG 42.88% |
| Tactical Portfolio 4.79% | DWAFXI -5.33% | Tactical Portfolio 9.70% | DWAFXI 14.93% | Tactical Portfolio 9.37% | ISI 3.65% | ISI 13.34% | MNYMKT 4.36% | DWAFXI -10.06% | DWAFXI 8.96% | MNYMKT 30.01% |
| DWAFXI -6.65% | ISI -11.77% | MNYMKT 1.58% | UV/Y 8.86% | DWAFXI 6.27% | MNYMKT 3.01% | DWAFXI 6.93% | ISI 3.47% | UV/Y -23.74% | Tactical Portfolio 6.78% | DWAFXI 21.79% |
| ISI -8.03% | UV/Y -16.34% | EFA -17.04% | AGG 3.67% | MNYMKT 1.40% | AGG -1.77% | MNYMKT 4.73% | AGG 1.47% | ISI -37.81% | AGG 0.69% | EFA -7.95% |
| EFA -15.88% | EFA -22.03% | ISI -22.53% | MNYMKT 0.98% | AGG 0.25% | DWAFXI -7.99% | AGG -0.88% | Tactical Portfolio 0.77% | EFA -42.85% | MNYMKT 0.13% | ISI -21.04% |

***Legend:***

**= Level One Tactical Portfolio:** Switches based On RS among the different asset classes of commodities, foreign currencies, international equities, fixed income, domestic equities, and cash.

AGG = iShares Lehman Aggregate Bond Fund
UV/Y = Continuous Commodity Index
MNYMKT = DWA Money Market Proxy
DWAFXI = DWA Foreign Currency Index
ISI = iShares S&P 1500 Index Fund
EFA = iShares MSCI EAFE Index