

PORTFOLIO MANAGERS' REPORT

JANUARY 2013

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MARKET RECAP

After a turbulent December due to Fiscal Cliff concerns, we have started the year on a much better note. With a deal being reached at the 11th hour, equity markets shot higher to start the year and have slowly crept higher while chopping around in a tight channel. The bond, currency, and commodity markets have seen a lot of action so far this year with rates initially spiking in the first week of the year and tapering off recently.

ECONOMY

The holiday season gave us a look at the economy's end of year health. Even as concern had grown on the Fiscal Cliff, the economy showed further signs of stabilizing. Q3 GDP's final report came in at 3.1%, significantly above the initial read. ISM manufacturing rebounded from a sub-50 reading in November with a mark above the 50 line at 50.6. ISM non-manufacturing surprised at 56.1, its highest reading since March 2012. These readings coincided with other national/regional activity indices posting positive numbers. Ironically, consumer confidence readings dropped off for a second month, symbolizing the views the American public had on Washington's handling of the fiscal issues. Employment readings were in line as weekly jobless claims moved lower after post-Sandy surges and non-farm payrolls were in the 150-200K range for the last two months.

PORTFOLIO COMMENTARY

We recently made a series of trades in our portfolios to adjust holdings and tweak exposure levels with the net effect being minimal.

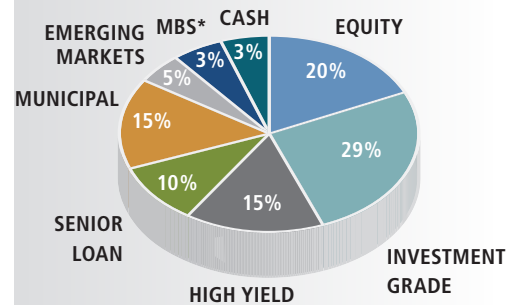
In Long/Short Balanced, we added international equity and international fixed income while switching the securities held for commodity and currency positions. Our domestic equity and fixed income positions were adjusted to accommodate for the changes. The beta target for the portfolio remained unchanged as our economic signals have not indicated further increase at this time.

Our fixed income product, Active Income, received the most significant adjustments. Duration was taken down further to reduce the portfolios sensitivity to upward moves in treasury interest rates, as some of our models have shown signs of occurring. Overall, the changes did little to affect yield which still stands above 4% on an indicated basis. We cut exposure to treasuries and municipals while adding to corporate and intermediate bond holdings.

The S.T.A.R. program's sector allocations remained static as we added international equity exposure and added exposure to metals and mining based on our trend signals.

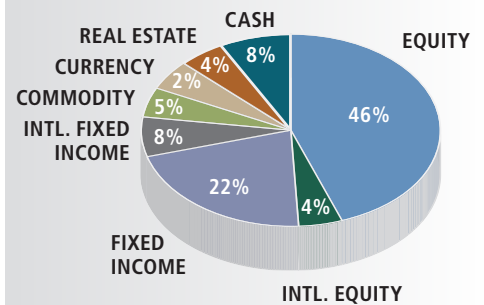
The next few weeks will see little change as Congress continues to deliberate on fiscal restructuring packages and we approach the debt ceiling deadline (again). GDP for Q1 is expected to be below par as a result of the fiscal headwinds. On the other hand, we have seen modestly improving numbers as of late. Employment held up in recent quarters even in the face of slow growth, more so than in past years. We see this environment as a positive indicator considering the level of caution corporations have taken in regards to hiring.

ACTIVE INCOME

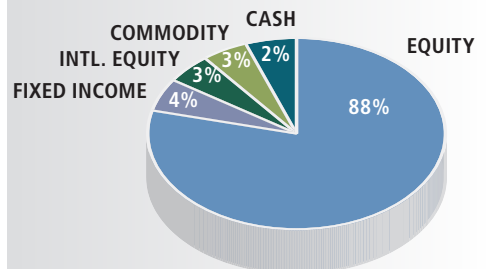


*Mortgage Backed Securities

LONG/SHORT BALANCED



S.T.A.R.



The presented portfolio allocations are all as of 01/15/13.

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Definitions:

Cash: An investment in highly liquid assets in the form of legal tender and money market investments or an investment in a mutual fund or exchange-traded that invests primarily in these types of investments.

Commodity: A security such as a mutual fund or exchange-traded fund who performance is primarily related to the performance of an underlying commodity, hard asset, or a group thereof.

Corporate: An investment in a mutual fund or exchange-traded fund that invests primarily in debt instruments issued by corporations.

Currency: A security such as a mutual fund or exchange-traded fund who performance is primarily related to the performance of an underlying currency or a group thereof.

Emerging Markets: An investment in a mutual fund or exchange-traded fund that invests primarily in U.S. dollar-denominated government debt obligations issued by emerging-market countries.

Equity: A stock or similar security representing an ownership interest in a company or a mutual fund or exchange-traded fund that invests primarily in such securities.

Fixed Income: A debt investment in which a corporate or government entity borrows funds from an investor for a defined period of time at a fixed interest rate or a mutual fund or exchange-traded fund that invests primarily in such securities.

High Yield: An investment in a mutual fund or exchange-traded fund that invests primarily in the category of debt instruments which have a higher risk of default and thus pay a higher yield. These debt instruments are rated below a certain level by the major credit rating agencies due and are also known as "junk bonds." (For Moody's rating scale this generally means bonds rated Ba and lower and for Standard & Poor's, bonds rated BB and lower.)

International Equity: A stock or similar security representing an ownership interest in a company domiciled outside of the United States or an exchange-traded fund that invests primarily in such securities.

International Fixed Income: An investment in a mutual fund or exchange-traded fund that invests primarily in debt issued by governments outside of the United States.

Investment Grade: An investment in a mutual fund or exchange-traded fund that invests primarily in the category of debt instruments which are rated above a certain level by the major credit rating agencies due to their increased likelihood of meeting payment obligations. (For Moody's rating scale this generally means bonds rated Baa and higher and for Standard & Poor's, bonds rated BBB and higher.)

Mortgage Backed: An investment in a mutual fund or exchange-traded fund that invests primarily in U.S. agency mortgage-backed securities issued by GNMA, FNMA, and FHLMC.

Municipal: An investment in a mutual fund or exchange-traded fund that invests primarily in the debt obligations of states, municipalities, and counties. Interest earned on these obligations is exempt from federal tax and in certain cases, also state and local tax.

Real Estate: A security such as a mutual fund or exchange-traded fund whose performance is primarily related to the performance of underlying investments in property consisting of land and buildings on it, either directly or through Real Estate Investment Trusts (REITs), or a group thereof.

Senior Loan: An investment in a mutual fund or exchange-traded fund that invests primarily in debt issued by financial institutions which in the event of bankruptcy is the first to be repaid.

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