PMG

PEBBLE MANAGEMENT GROUP

About Pebble Management Group

Our approach stems from an understanding of how volatility and market activity affect asset growth. We believe that appropriate investment strategies must function in both advancing and declining markets to be successful.

At Pebble Management Group, we find value in our independence. We operate without many of the inherent conflicts of interest of large firms. Large firms are often compensated by fund companies and other issuers to be included on their offerings platform or gain direct access to the registered representatives and advisors. The advisors are encouraged to sell proprietary funds or other investment products that benefit the parent company but may or may not be the best choice for the clients. There is no investment banking divisions or other departments that would potentially cause a conflict.

"Our approach stems from an understanding of how volatility and market activity affect asset growth."

We choose from the entire investment universe to select the most appropriate investments without being pushed or encouraged to use potentially inferior products. Our single focus is choosing the right investments for our clients.

Our Approach

At PMG, our core philosophy is a value-based approach to investing that leads to long-term investment success. We don't attempt to chase performance and ride the market's ups and downs. Seeking and expecting to invest in the top performing investments each year is unrealistic given that performance is unpredictable from year to year. The top performers one year may be the worst performer the next year.

Many investors have experienced this phenomenon during their investing history by purchasing a top performing stock or fund, only to watch it lose value once they invested in the chosen security. We search the universe of investment products to find consistent high quality investments that fit our approach. We are conservative in our approach, but aggressive in our management.

Investment is more than achieving attractive returns. Many investors chase the attractive returns only to find they have stumbled across the unattractive downside risk and accompanying asset loss. Declines are much more damaging than aggressive returns are rewarding. A client that sustains a 20% loss in one year must have a 25% gain to offset the loss. Managing volatility provides better long-term performance and higher cumulative returns. The fastest path from Point A to Point B is achieved through slow, steady performance by balancing opportunity and risk.

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Why Lower Volatility?

Volatility is the single most important factor in long-term wealth accumulation. Why is that so? Compounding is the key to growing assets. Losses in a portfolio have a disproportionate effect over gains in a portfolio. A portfolio that enjoys a 20% gain in one year and suffers a 20% loss in the next year has lost wealth. For example, a client that started with $10,000 would have seen the assets grow to $12,000 after the first year. In the second year, the same assets would have decreased to $9,600. Although the average return would be breakeven or 0%, the account actually lost $400 over the two years. It takes a 25% gain to offset a 20% loss. Losses have a larger negative effect than the same corresponding gain has a positive effect because the assets lost will not compound over time to generate maximum wealth.

"Losses in a portfolio have a disproportionate effect over gains in a portfolio. "

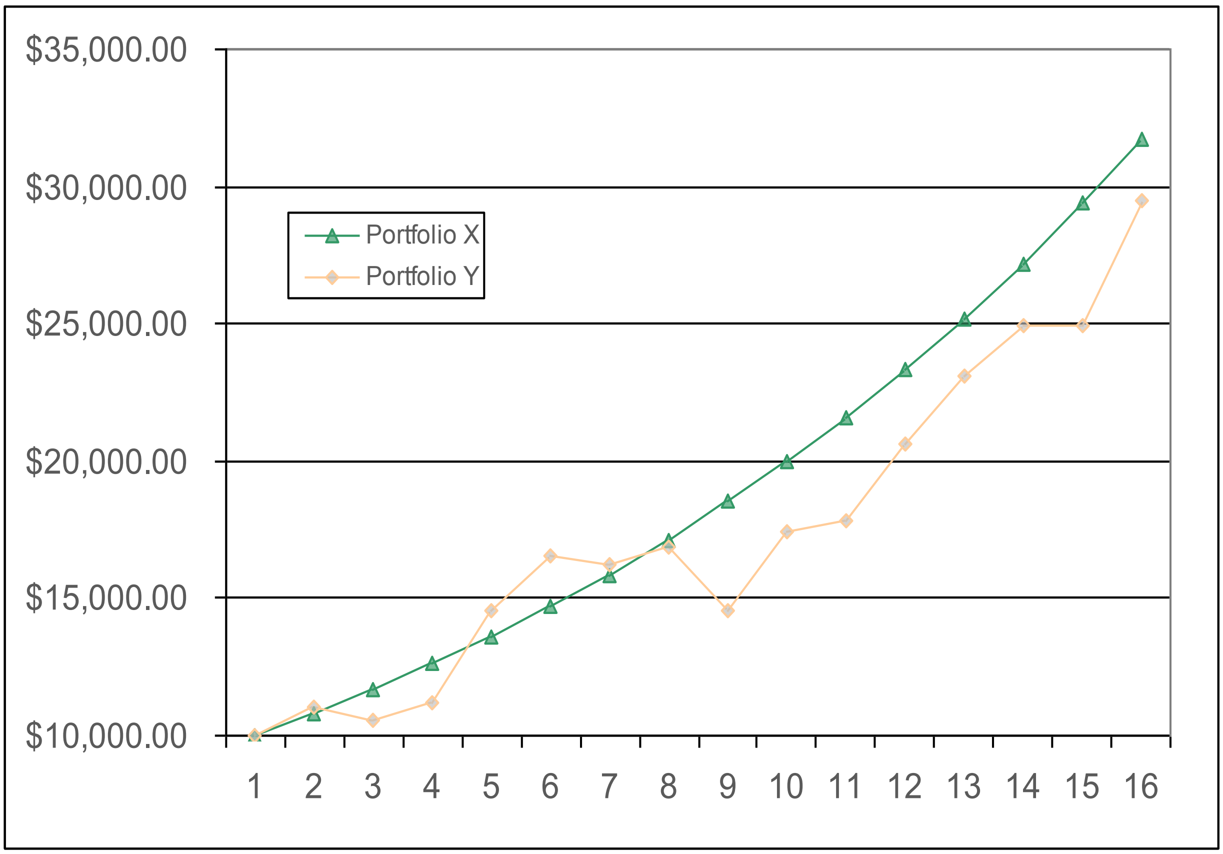
The following illustration and chart shows a graphic representation of the effect of volatility. Portfolio X has an annual return of 8% and Portfolio Y has a variable return ranging from +30% to -14%. Both portfolios have an average return of 8%. The difference is in the volatility. The lower volatility Portfolio X ends up with a higher balance than the more volatile Portfolio Y.

Clients gain maximum wealth over the long term by limiting downside risk (and the corresponding asset loss) while participating in most of the gains in positive markets. Investors don't have to do the impossible – predict the best performing assets each year. Investors' goals should be to earn decent returns while avoiding big losses.

The Cost of Volatility

Year	Portfolio X		Portfolio Y	
0		$10,000.00		$10,000.00
1	8%	$10,800.00	10%	$11,000.00
2	8%	$11,664.00	-4%	$10,560.00
3	8%	$12,597.12	6%	$11,193.60
4	8%	$13,604.89	30%	$14,551.68
5	8%	$14,693.28	14%	$16,588.92
6	8%	$15,868.74	-2%	$16,257.14
7	8%	$17,138.24	4%	$16,907.42
8	8%	$18,509.30	-14%	$14,540.38
9	8%	$19,990.05	20%	$17,448.46
10	8%	$21,589.25	2%	$17,797.43
11	8%	$23,316.39	16%	$20,645.02
12	8%	$25,181.70	12%	$23,122.42
13	8%	$27,196.24	8%	$24,972.21
14	8%	$29,371.94	0%	$24,972.21
15	8%	$31,721.69	18%	$29,467.21
Total Return	**120%**	**$31,721.69**	**120%**	**$29,647.21**

The Cost of Volatility



Correlated vs.
Non-Correlated Assets

Our investment options include carefully screened alternative investments that are non-correlated to the equity market. Non-correlated assets offer investment options not subject to equity market risk. Equity investments, such as stocks, mutual funds, ETFs and similar investments, are all subject to market risk. Market risk, or systematic risk, occurs when many equity securities in the market, regardless of industry or asset class, experience fluctuations that have very little to do with the fundamentals of the individual securities themselves. Most investors experienced downside equity market risk in the recession of 2008. The non-correlated alternative investments serve to help lower overall portfolio volatility. The example below illustrates how non-correlated assets may increase the return while lowering volatility.

A small position in managed futures as part of an overall portfolio assists in lowering the portfolio volatility. The S&P 500 index from January 1987-May 2009 returned an average of 7.47% with an average volatility (standard deviation) of 15.69%.[†]

"Non-correlated assets offer investment options not subject to equity market risk. "

The BTOP50 index from January 1987-May 2009 returned an average of 10.76% on an average volatility of 10.81%. [‡] The BTOP50 Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. By adding a 10% position in managed futures to the overall portfolio, the average return would increase to 7.79% while average volatility would decrease to 14.11%.

†The average return and average volatility for the S&P 500 Index were calculated using the month end values for the period from Jan. 1987 through May 2009 as published by Yahoo Finance.
‡The average return and average volatility for the BTOP50 Index were calculated using the month end values for the period from Jan. 1987 through May 2009 as published by BarclayHedge.com.

Creating a Custom Portfolio

The traditional approach to goal setting for a client consists of discussing an investor's risk tolerance and financial objectives. The advisor then places the client in one of several pre-determined investment models used by the representative. Although that approach may suit some investors, we believe the portfolio should be more customized to suit the individual client. To help our clients achieve their individual goals, our advisors work with each client to select and create a custom portfolio to help the client move from Point A to Point B.

People talk about the market as if it is a single uniform investment, but it actually is made up of various industries, companies, and asset classes. Each performs very differently. Some will rise in the same year that others fall. We invest in industries, companies, and asset classes identified through our value-based approach. The portfolios are made to adjust over time with changing markets to help our clients reach Point B faster.

> *"To help our clients achieve their Individual goals, our advisors work with each client to select and create a custom portfolio to help the client move from Point A to Point B."*

The majority of clients have the same core financial goal – to preserve and grow assets. Yet each client is an individual with individual needs and goals. Our management platform allows the client and advisor to work together to construct a customized portfolio, using the building blocks provided, that best fits the client's needs.

Creating a Custom Portfolio

Most clients start with the Core portfolio. It is the main building block of most portfolios. This portfolio is built to be a complete portfolio that embodies our core philosophy. It is a flexible portfolio that can contain any mix of stocks, bonds, mutual funds, ETFs, alternative, and/or structured products. The value-based Core portfolio is constructed with conservative to aggressive investments that are designed to work in conjunction with each other to provide solid returns with an overall lower volatility than the markets.

The Core portfolio may be the perfect choice for some investors, but one size does not fit all. We offer mini-portfolios, or building blocks, that target specific goals and asset classes. Clients, working with their advisor, choose the building blocks to customize the portfolio to accurately reflect the individual nature of each client's needs, goals and risk tolerance.

"We offer mini-portfolios, or building blocks, that target specific goals and asset classes. "

Client Bill of Rights

Rights for investors, just like individual rights, are some of the oldest and most traditional of American values. Clients' rights must be protected through honest dealings and full and fair disclosure. PMG believes in basic investor rights, which are vitally important to the satisfaction of our clients.

I. All clients have the right to equal and fair treatment.

II. Clients have the right to asset management and products which treat the clients' money with fiscal responsibility and due care.

III. Clients have a right to management that fosters a culture of integrity, honesty, and adherence to the spirit as well as the letter of the law.

IV. Clients have a right to management that understands their job is to manage assets, not the amount of commissions.

V. Clients have the right to a financial team that clearly understands it is the steward of the clients' assets, that it serves the clients, that it is not the clients' master.

VI. Clients have the right to financial advisors that act on behalf of clients, rather than vendors who must make sales.

VII. Clients have the right to an inquisitive, financially literate and actively engaged financial team that views its mandate broadly and that acts as the representative of clients.

VIII. Clients have the right to timely and transparent disclosures of actual asset performance.

Client Role

"Clients who work closely with their advisors and play an active role in achieving their investment objectives will likely realize better results. "

PMG's role is to provide our clients with the best possible investment advice and asset management services. Clients have an important role to play as well to ensure that PMG provides the service needed to meet client's individual goals.

Clients must provide their designated advisor with complete and accurate information regarding their financial profile, investment objectives, risk tolerance, and any special circumstances that may affect the portfolio. Clients must notify their advisor when any significant changes occur in their financial profile, stated investment objectives, and/or risk tolerance.

Clients should understand the investment strategy being recommended. Clients are encouraged to evaluate advisors' recommendations and ask questions to enhance their understanding of the strategy. This open-communication process will help ensure that the advisor and client are working toward the same goal.

Review account statements on a quarterly basis. Clients should immediately address any questions they may have or possible discrepancies they find. Addressing these issues early on will help keep the client's portfolio in line with the investment objectives at all times.

Clients who work closely with their advisor and play an active role in achieving their investment objectives will likely realize better results. The more the advisor understands the client's needs, objectives, and current circumstances, the quicker an advisor can help move the client from point A to point B.

Resources

We have all of the capabilities of a larger firm through our relationship with Scottrade. Scottrade is the insured custodian of our clients' assets and handles our back-office administrative functions. The company also generates monthly statements, offers Internet access to accounts, and provides additional client services.

A truly independent service provider, Scottrade specializes in supplying high quality back office services to the financial services industry. Their solutions encompass the entire financial spectrum, from processing deposits through trade processing and generating quarterly statements. Their expertise extends from the large and transparent stock, bond, and mutual fund markets into the non-traditional areas of real property, limited partnerships, non-traded real estate investment trusts, and other direct participation programs. Established in 1980 as an investment asset custodian, Scottrade has a solid history of assuring a safe and secure environment for investors.

In addition, we analyze research through various outlets such as Morningstar, Barclays, JP Morgan, and others. The research from some of the world's most respected sources allows us to discover, research, and select investments that are best for our clients without the conflict of interest that comes with many of the larger investment firms.

Notes

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