

ASSET ALLOCATION SUMMIT 2010

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Your Goals. Our Commitment.





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Each year, RegentAtlantic Capital, LLC's investment committee wipes the slate clean and thoroughly reviews our current investment allocation models, attempting to identify whether our existing allocations are the most appropriate and optimal allocations for our clients' portfolios.

The process is intensive: weeks of research and analysis go into each of the asset classes reviewed, outside fund managers are interviewed at length, topics are discussed and debated within the investment committee at even greater length, and ultimately recommendations are generated. As evidenced by our recent decision to finally implement infrastructure as an asset class in client portfolios in the middle of this past year (research for which began initially in 2006), we make sure to take the appropriate amount of time and expend the necessary amount of energy towards research and analysis before moving forward with the addition of any asset classes.

This year, we reviewed seven asset classes for potential addition to our allocation models, of which one made the final cut and three found themselves on the shelf for future consideration.

Reviewed and Approved!

- **Opportunistic Bonds:** With interest rates around the world at an all-time-low helping to facilitate the current recovery, the prospect of rising interest rates (and, in turn, falling bond prices) lurks on the horizon as economies around the world emerge from the debris of the market collapse. As this potential outcome unfolds, allocating the entire fixed income portion of your portfolio to traditional fixed income vehicles may not be appropriate; rather, it might make sense to add exposures to fixed income vehicles that have the potential to appreciate in value in rising rate environments. For our purposes, an allocation to the opportunistic bonds asset class will primarily consist of a strategic income bond fund and the balance will be allocated towards an FDIC-insured emerging market currency-linked Certificate of Deposit. RegentAtlantic Capital LLC® believes this strategy has the potential to provide positive return in an area where positive returns may be few and far between.

Interesting, Let's Keep An Eye On These

- **Frontier Markets:** Anointed the "emerging of emerging markets", this asset class represents developing countries with smaller, less developed and less liquid capital markets than developed counterparts such as the United States and China. Frontier markets as an asset class focuses on the following regions: Eastern Europe (e.g.,

Bulgaria, Kazakhstan), Latin America (e.g., Argentina), Africa (e.g., Nigeria, Kenya), the Middle East (e.g., the United Arab Emirates, Kuwait), and Asia (e.g., Vietnam, Pakistan).

- **Emerging Markets Debt:** Emerging markets debt represents a class of bonds issued by countries whose economies are still considered to be in the earlier stages of development. These markets include economies in Latin America, Eastern Europe, Southeast Asia, the Middle East, and Africa.
- **Private Equity:** Private equity, an asset class that involves direct investments into private companies or buyouts of public companies, consistently shows up on our radar when we look for new asset classes. Traditional detractions include liquidity and operational constraints and distributions of K-1s at tax-time. As additional investment vehicles come to market, the emergence of a suitable vehicle for our clients becomes more likely.

Not Interested

- **Managed Futures:** Managed futures as an asset class represents a group of alternative funds that try to produce positive returns in both rising and falling markets. To do so, the managers identify price patterns in a broad range of asset classes, and take advantage of these patterns by trading in one of the world's futures exchanges. Some of the asset classes studied by these managers include equities, interest rates, commodities, and currencies.
- **Gold:** Gold's recent popularity is well-intended - as we emerge from one of the most severe financial crises in history, gold has been identified as "the safe-haven" of investments, especially in light of the current bleak outlook on the future of the U.S. dollar and anticipated high U.S. deficit levels for years to come. But with popularity comes the potential that a bubble has formed and that speculation, more than anything else, has been the primary driver behind gold's recent impressive rally.
- **High Yield Municipal Bonds:** High yield municipal bonds are non-investment grade bonds (below BBB) issued by municipalities and other non-governmental entities such as hospitals, nursing homes, private businesses, and private colleges. As a percentage of the overall municipal bond universe, high yield municipal bonds are a very small player. Nevertheless, we thought it worthwhile to review them as an asset class given their historical correlation levels and current yield levels relative to historical averages.



OPPORTUNISTIC BONDS: THE ANSWER TO OUR FIXED INCOME CONCERNS?

One of the primary points of concern currently keeping us up at night is how to handle clients' fixed income allocations over the next few years. With interest rates at an all-time low around the world helping to facilitate the current recovery, the prospect of rising interest rates (and, in turn, falling bond prices) lurks on the horizon as economies around the world emerge from the debris of the market collapse. The possibility of negative returns in the fixed income asset class is a real one, and we used our 2010 Asset Allocation Summit as an opportunity to collectively work through this conundrum.

Fixed Income: Before the Storm

Leading up to the global market meltdown, RegentAtlantic Capital, LLC® spread fixed income portfolios across three asset classes: U.S. short-term bonds, U.S. inflation-protected bonds, and international hedged bonds. Both our short-term and international hedged bond allocations benefited from spread tightening across the credit markets, all the while maintaining relatively low volatility. Our U.S. inflation-protected bond allocation was held at an underweight as deflationary pressures outweighed inflationary pressures.

Fixed income has experienced a fantastic 20-year period of declining interest rates, sending bond prices during this period on a relatively consistent positive trajectory. Going even further back in time, looking at the period of September 1981 to December 2008, the Ibbotson Intermediate Government Bond Index was up 9.29% on an annualized basis; during the same time period, 30-day Treasury bills returned 5.24% annually.

Concerns in the Bond Markets

The current economic recovery is being fueled by these aforementioned low interest rates as well as increased government spending. With global interest rates at all-time lows, and the ensuing likelihood of rising interest rates over the next several years as the global economy pulls itself out of a recession, there is a good chance that fixed income portfolios will feel downward pressure during this period. During the last period of rising interest rates (December 1961 to September 1981), Treasury bills returned 6.04% annually, outperforming intermediate government bonds, which returned 4.72% annually. Examining a smaller segment of this time period (January 1977 to September 1981) will reveal that cash even outperformed certain fixed income vehicles: one-month Treasury bills returned 9.50% per year while the Barclays Government/Credit Intermediate Index returned 4.00% per year. With

inflation during this time period charging at an annual clip of 10.44%, the real return on bonds during the smaller time period was -6.44%.

We at RegentAtlantic Capital, LLC® believe that the traditional fixed income asset classes we have used in the past, while still critical elements of client portfolios, will not be enough to weather this rising-rate environment and protect our clients from the scenarios described above.

Looking Ahead

To address the concerns listed above, we are tweaking our fixed income allocations to make room for an asset class we think can help mitigate the impact of rising interest rates.

As reflected in the table at the top of page 3, international hedged bonds will be eliminated as a separate asset class. Durations in vehicles we have traditionally used in this asset class range between 7 to 10 years, making them particularly susceptible to interest rate fluctuations. Rather than allocate to international hedged bonds as a separate asset class, going forward we will create a global short-term bonds asset class, using short-term bond funds that provide both domestic and/or international exposure. We will maintain an allocation to U.S. inflation-protected bonds. Our inflation-protected bonds are longer-term in nature, which is appropriate since inflation is a longer-term risk.

The most critical change to our fixed income allocation is the addition of an opportunistic bonds asset class. This new asset class will primarily consist of an allocation to strategic income bond funds and the balance will be allocated towards an FDIC-insured emerging market currency-linked Certificate of Deposit. The strategic income bond fund's management team will have the flexibility to increase allocations to areas of the bond market they deem attractive and avoid or possibly short those areas it identifies as being unattractive. This flexibility will allow the fund's management team the opportunity to make money in both up and down markets. The emerging market currency-linked Certificate of Deposit is an FDIC-insured, principal-protected vehicle that provides us the ability to insulate a portion of client portfolios from a potential decline in the value of the U.S. dollar.

As we look forward to the next few years in the global fixed income markets and the rising interest rate environment that may ensue, opportunistic bonds appears to be an asset class that may provide positive return in an area where positive returns may be few and far between.

Fixed Income Asset Class Changes

CURRENT ASSET CLASS	NEW ASSET CLASS
U.S. Short-Term Bonds	Global Short-Term Bonds
U.S. Inflation-Protected Bonds	U.S. Inflation-Protected Bonds
International Hedged Bonds	Opportunistic Bonds

FRONTIER MARKETS AS AN ASSET CLASS

In our never-ending quest for portfolio diversification, we are always looking for asset classes that can generate portfolio return while dampening volatility when added to our clients' portfolios. In this case, we considered the often-overlooked frontier markets.

What Are Frontier Markets?

Described as “emerging emerging markets”, the frontier markets asset class represents developing countries with smaller, less developed and less liquid capital markets than developed counterparts such as the United States and China. Historically, it has been difficult to gain exposure to these markets; however, the recent creation of indices by MSCI and Standard & Poors has provided investors with a tool to help define the countries and regions included in the frontier market universe: Eastern Europe (e.g., Bulgaria, Kazakhstan), Latin America (e.g., Argentina), Africa (e.g., Nigeria, Kenya), the Middle East (e.g., the United Arab Emirates, Kuwait), and Asia (e.g., Vietnam, Pakistan).

Do You Want To Invest In Frontier Markets?

Reading through the country exposures listed above, that's a risky bunch. Political instability, inconsistent regulatory

schemes, and liquidity issues - this asset class has it all. However, remember our mandate: to find an asset class that, when added to your existing portfolio, generates return and insulates against market volatility.

Looking at the data, the frontier markets asset class, as measured by the MSCI Frontier Markets Index, has historically low correlations with all of the other asset classes we use at RegentAtlantic Capital, LLC®.

Additionally, on a risk-adjusted return basis, the frontier markets asset class is an attractive one, as measured by a Sharpe ratio (average unit of return per unit of risk) of 0.49 for the time period running June 2002 to December 2009, which was the third highest among all growth asset classes used at RegentAtlantic Capital, LLC® during that time period (third only to infrastructure, +0.70, and emerging markets, +0.67).

Finally, data provided by the International Monetary Fund and the World Bank indicate that frontier market countries appear poised to be major players in global development over the next few years as set forth by the table at the bottom of this page.

Frontier Markets Growth Prospects

REGION	MARKET CAP AS % OF GDP (SEPT. 2009)	AVERAGE % OF GDP GROWTH (2004 – 2008)
Developed Ex-US	61.5%	2.9%
United States	82.6%	2.4%
Emerging Markets	52.1%	5.6%
Frontier Markets	28.3%	6.8%

Source: IMF and World Bank

Can You Invest In Frontier Markets?

With knowledge of the benefits and risks of investing in this asset class, it is important to ask whether there are suitable investment vehicles available. When asking this question, we must identify the appropriate benchmark or index against which available investment vehicles' performance can be measured. For our purposes, the MSCI Frontier Markets Index is the best available option. The index covers 183 companies in 25 countries; within each country, the Index attempts to create exposure to 85% of the country's equity markets as well as 85% of available sectors. With history going back to June 2002, its performance track record is the furthest-reaching of all options. The Index is a pure frontier markets play with no overlapping exposure between itself and the MSCI Emerging Markets Index, which RegentAtlantic Capital, LLC® uses when evaluating emerging markets funds. The MSCI Frontier Markets Index identifies frontier market countries using both objective criteria (e.g., market capitalization, company representation within a given country, and minimum liquidity ratios) and subjective criteria (e.g., market accessibility, openness to foreign investment, and ease of capital flows).

Investable vehicles are limited. We have only been able to identify one pure play frontier markets fund in today's mutual fund universe, though the fund opened in early 2009, forcing us to eliminate it from consideration due to a short track record. Several mutual funds offer exposure to frontier markets but have considerable overlap with the emerging markets space, an area we want to reserve strictly for our emerging markets allocation. There also exist a handful of region-specific vehicles, which, although effective in their approach, would be inefficient from a portfolio management standpoint because they only offer exposure to specific regions and not broad exposure to frontier markets. As an alternative, we are investigating the merits of a structured note that offers exposure to frontier markets countries, though the outlook for a structured product is bleak because frontier markets economies tend to be less accessible than their developed counterparts.

In the absence of an attractive structured note offering, it appears we will have to wait until additional investment options are offered by mutual fund and ETF providers. We will continue to monitor this asset class very closely as it develops into an investable opportunity.

EMERGING MARKET DEBT UPDATE

Emerging markets debt represents a class of bonds issued by countries whose economies are still considered to be in the earlier stages of development relative to the more developed countries around the world. These markets include economies in Latin America, Eastern Europe, Southeast Asia, the Middle East, and Africa. The debt markets in these countries have evolved considerably over the past several years as fundamentals in these regions continue to improve, bringing them into the spectrum of asset classes that RegentAtlantic

Capital, LLC® would consider for inclusion in client portfolios. Although we have reviewed this asset class for consideration in previous Asset Allocation Summits and decided against adding it, the recently improved fundamentals have opened new opportunities in emerging markets debt, including bonds issued and denominated in the currency of the local issuer.

Emerging markets economies have weathered the last twelve to fifteen months better than their developed counterparts. Higher nominal GDP, higher foreign exchange reserves,

J.P. Morgan Emerging Markets Bond Index Global (excluding Argentina) Spread to Treasuries



Source: JP Morgan

Foreign Exchange Reserve Levels



Source: Bloomberg

healthier account balances, younger populations, and continued improvement in the overall average credit quality of issuing countries have all contributed to the progress of emerging markets debt as an asset class. Estimates prepared by J.P. Morgan reflect the anticipation that emerging market debt moves into investment grade territory in 2010.

Since the height of the 2008 global market collapse, spreads on emerging markets debt have tightened steadily to a level of approximately 325 bps over Treasuries. The yield reward investors received a year ago for investing in this asset class quickly eroded, though not without a corresponding pop in prices, as the J.P. Morgan Emerging Markets Bond Index Global (“EMBIG”) jumping 28.2% for the year ending December 31, 2009. Estimates suggest that spreads on emerging markets debt as measured by the EMBIG index will continue to tighten as we progress through 2010.

The chart above illustrates how emerging markets governments have increased their foreign exchange reserves over the last decade with the most dramatic increase taking place over the last four years. Emerging markets policymakers have in-

dicated in recent G-20 meetings that they have no intention of reducing these reserves in the near term. Emerging markets economies are using their foreign exchange reserve levels as a defensive strategy to help insulate against further market turmoil.

Although fundamentals are attractive, with the prospect of rising interest rates on the horizon, it is important to focus on whether this exposure can be added to portfolios without using bond instruments with long durations. Shorter duration instruments in this arena are generally more focused on local currency money market exposures than emerging market government or corporate debt. In addition, these shorter duration vehicles generally provide the same level of return for lower levels of assumed risk. In this light, RegentAtlantic Capital, LLC® is directing its efforts towards identifying alternative currency investments that would provide exposure to emerging markets currencies, providing a return profile that mimics the fluctuations of these currencies against the U.S. dollar.



PRIVATE EQUITY UPDATE

As part of our 2010 Asset Allocation Summit, we once again conducted a thorough review of the merits of adding private equity as an asset class in client portfolios. The private equity asset class is one we have looked at on multiple occasions, given its strong risk-adjusted returns and low correlations to other asset classes currently held in client portfolios at RegentAtlantic Capital, LLC®.

As the global economic crisis unfolded toward the tail-end of 2008 and all of 2009, the private equity industry experienced a notable shift in trading volume from the traditional primary market to the secondary market. This shift was primarily a result of institutions being forced to de-lever their balance sheets and overcommitted investors satisfying capital calls. Buyers in the secondary market enjoyed the ability to act selectively, demanding substantial discounts from sellers forced to liquidate to satisfy cash needs. Discounts in the secondary market should continue as activity in the primary market picks up, raising the potential for another wave of capital calls. Managers of investment vehicles within the private equity space can position their allocations to benefit from this trend, as assets appreciate from their discounted purchase prices over the holding period.

Historically, private equity has been reserved for foundations, endowments, pension plans, and sovereign wealth funds; however, each day brings new investment vehicles that provide the opportunity for individual investors to access private equity exposure.

One of the funds we have been actively monitoring is the Partners Group Private Equity Fund, which addresses many

of the structural barriers that have previously prevented individual investors from accessing this asset class, including lack of liquidity, lack of diversification, minimum investment restrictions, administrative complexity, and access to quality management. When reviewing potential private equity funds, it is important to find a manager that has the experience and resources to structure an offering that would provide diversification across many countries, financing stages, capitalizations, industries, and types of investment. We would also like to see the employment of strategies designed to minimize the “J curve effect” where investors often experience negative returns during the first few years of a traditional private equity fund investment while it ramps up to full implementation.

Some barriers still remain, however. Given the legal structure of these investment vehicles, investors would receive K-1s for income reporting purposes, which generally add to annual tax preparation bills. From an operational standpoint, not all of the custodians that we use to hold client assets currently provide access to private equity funds that we deem potentially appropriate for RegentAtlantic Capital, LLC® client portfolios. Finally, although recently developed private equity investment vehicles offer improved liquidity, the amount of liquidity may not be at the level currently desired by clients.

Until we become more comfortable with the restrictive (albeit improved) liquidity constraints and added tax reporting complexity that comes with investing in private equity funds, RegentAtlantic Capital, LLC® will continue to monitor this asset class for opportunities as they become available.



MANAGED FUTURES: EXPENSIVE BETA

Managed futures as an asset class represents a group of alternative funds that try to produce positive returns in both rising and falling markets. To do so, the managers identify price patterns in a broad range of asset classes, and take advantage of these patterns by trading in one of the world's futures exchanges. Futures markets are generally liquid, transparent, and offer leverage to investors. Some of the asset classes studied by these managers include equities, interest rates, commodities, and currencies. Although the implementation of each managed futures strategy can differ across managers, the intrinsic approach is the same: create systematic trading systems that focus on identifying technical pattern recognition and follow the trends identified.

Quantitatively, the managed futures asset class is an attractive one. By itself, managed futures tends to have decent risk-adjusted returns; additionally, within the context of a diversified portfolio, low correlations to other asset classes make managed futures a key player in dampening a portfolio's volatility during wild market swings.

From a qualitative standpoint, managed futures as an asset class does not stack up as nicely. With billions of dollars flooding this asset class over the past several years, one must wonder whether managers will continue to find market inefficiencies to generate their trading profits. Fee structures for vehicles within this asset class are also a major concern. Finally, a major component of yield traditionally generated

by this asset class, collateral yield, will all but disappear in the near future if interest rate changes hold anywhere near expectations.

Inefficiencies No More?

Technical traders make their profit from trading on market inefficiencies. As more eyes (i.e., dollars) are directed at what is perceived to be an inefficient market, the rate at which existing inefficiencies are traded away (i.e., disappear) increases. We at RegentAtlantic Capital, LLC® believe that the managed futures asset class is currently experiencing this phenomenon. As seen in the chart below, assets managed in this arena have risen exponentially in recent years, more than doubling in the period from 2003 to 2008; anecdotally, 2009 has seen another strong inflow of dollars to these funds. With more assets chasing similar opportunities, we expect lower returns going forward.

Unattractive Fee Structures

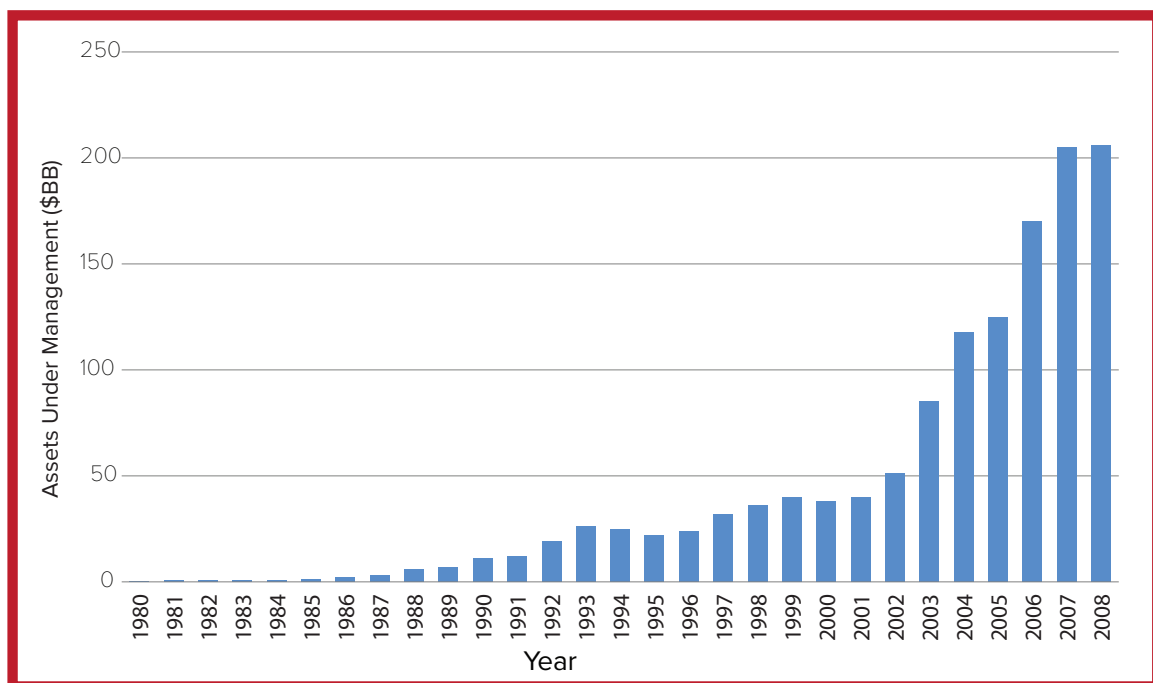
Although managed futures mutual funds and ETFs are available, the choices are limited. Alternative managed futures investment vehicles, such as limited partnerships (“LPs”), are more attractive from a return standpoint because they are not required to publicize their trading strategy, making it less likely for other traders to identify (and ultimately exploit) the LP manager’s trading patterns. The primary negative of the LP structure is the fee schedule, which is similar to other alternative investment vehicles, including a flat management fee and an incentive fee. Typically, the flat management fee is 2% of assets and the incentive fee is 20% of gains (subject to a maximum). LPs also distribute K-1s, which generally result in higher tax preparation expenses for clients.

Because managed futures managers employ an active trading strategy, the manager can be expected to incur substantial transaction costs, which is exacerbated by the market structure for futures. In a typical futures trade, multiple parties are involved, each collecting a fee for the service they provide. All told, these fees and other administrative costs can add up to 2% to 3% annually. Layer these expenses in with the standard management fee, and the managed futures vehicle needs to make 4% to 5% annually before the investor starts to earn a positive return.

Disappearing Sources of Return

A significant contributor to historical returns, collateral yield, has been virtually eliminated with the recent decline of Treasury rates. To illustrate this concept, consider the following explanation of how futures contracts generally operate: The buyer of a future is buying the obligation to purchase a specific commodity (e.g., oil) at a specific point in the future. In practice, the buyer does not have to pay for the commodity until the future expires. In the world of managed futures, advisors never allow the contract to expire; otherwise, they would be forced to take delivery of the physical commodity (e.g., store the barrels of oil at their own cost). Instead, managed futures advisors will always sell the futures contract before its expiration. Although they are never required to pay for the commodity, they are required to maintain specific cash levels in risk-free assets, typically three-month T-bills, as collateral while they hold the futures contract. The three-month Treasury bill rate as of December 31, 2009 was 0.08%, considerably lower than the historical average going back to 1990 of 3.98%. As these rates trend toward zero, a major contributor to past returns has vanished.

Managed Futures Assets Under Management 1980-2008



GOLD: EVERYBODY ELSE IS DOING IT, SO WHY SHOULDN'T WE?

Gold has been a hot topic recently, which is why we put our best and brightest on the task of researching the merits of adding it as an asset class. Gold's popularity is well-intended - as we emerge from one of the most severe financial crises in history, gold has been identified as "the safe-haven" of investments, especially in light of the current bleak outlook on the future of the U.S. dollar and anticipated high U.S. deficit levels for years to come. But with popularity comes the potential that a bubble has formed and that speculation, more than anything else, has been the primary driver behind gold's recent impressive rally.

Investment Discipline

When RegentAtlantic Capital, LLC® reviews potential asset classes for inclusion in client portfolios, one of the primary characteristics we look for is whether the asset class has clear fundamentals that can be used to explain price movements and behaviors exhibited by the asset class. Gold, however, lacks clear valuation factors, making it difficult to calculate its intrinsic value and measure the true worth of gold in a portfolio.

We also prefer our asset classes to have exhibited historically stable and consistent returns over a significant period of time coupled with low volatility relative to the amount of return generated. As seen in the chart below, after a spike in 1980, gold prices remained relatively stagnant, hovering around \$400 per ounce for more than 25 years. If you had invested in gold in the beginning of 1981, after 25 years, you would have achieved a return of -12.34% with 13.92% volatility. Conversely, one cannot deny gold's recent success, having charged up 164.04% for the six-year period ending December 31, 2009. Therein lies one of our primary concerns with this asset class: determining the appropriate entry and exit points with a dearth of fundamental data to provide any foundation whatsoever is very much a speculative exercise, making this an imprudent asset class to include in client portfolios.

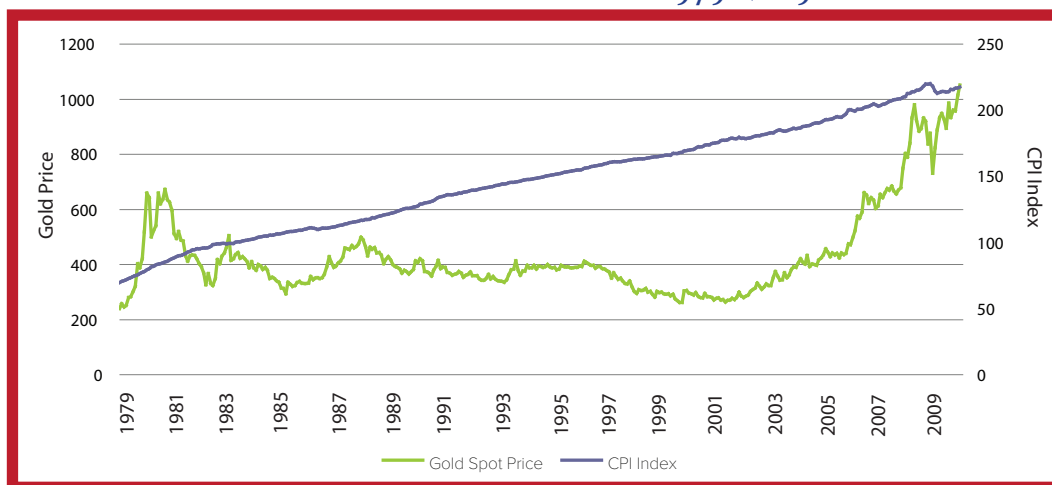
Supply-Demand Disconnect

Data for the third quarter of 2009 recently released by the World Gold Council suggests that gold's recent price surge has been more of a function of speculative pressures and less of a function of demand for the physical product. According to the report, total global demand for gold finished the third quarter of 2009 at 800.3 tons, down 33.6% from the 1,205.6 tons purchased in the same quarter a year earlier. Demand in the recent quarter also was below the 1,029.8 tons bought in the first quarter of this year. This year-over-year decrease occurred in every major category of consumption, including jewelry (which accounted for more than 55% of total demand in 2008), industrial use, official coins, and purchases by exchange-traded funds. This disconnect in the gold market is a strong reason to believe that this rally has been speculation-driven rather than fundamental-driven.

Gold As An Inflation Hedge

Another reason to invest in gold posed by gold proponents is that it serves as an inflation hedge. The federal government's efforts to stimulate the economy have pumped massive amounts of money into the financial system. These substantial stimulus programs coupled with Federal Reserve's decision to print large quantities of money have increased concerns that inflation is looming. With gold prices reaching new highs and benchmark interest rates near all-time lows for what is anticipated to be a prolonged period of time, gold has been heralded as a refuge for those with inflationary concerns. But a historical comparison between gold's price movements and inflation does not support this argument, as illustrated in the chart below. Except for coincident run-ups in both inflation and gold prices during the late 1970s, for the 25-year period following, inflation continued to gradually climb while gold remained relatively flat. Even though gold has caught up with cumulative inflation in recent years, the price movements are far too volatile.

CPI Index and Gold Prices 1979-2009



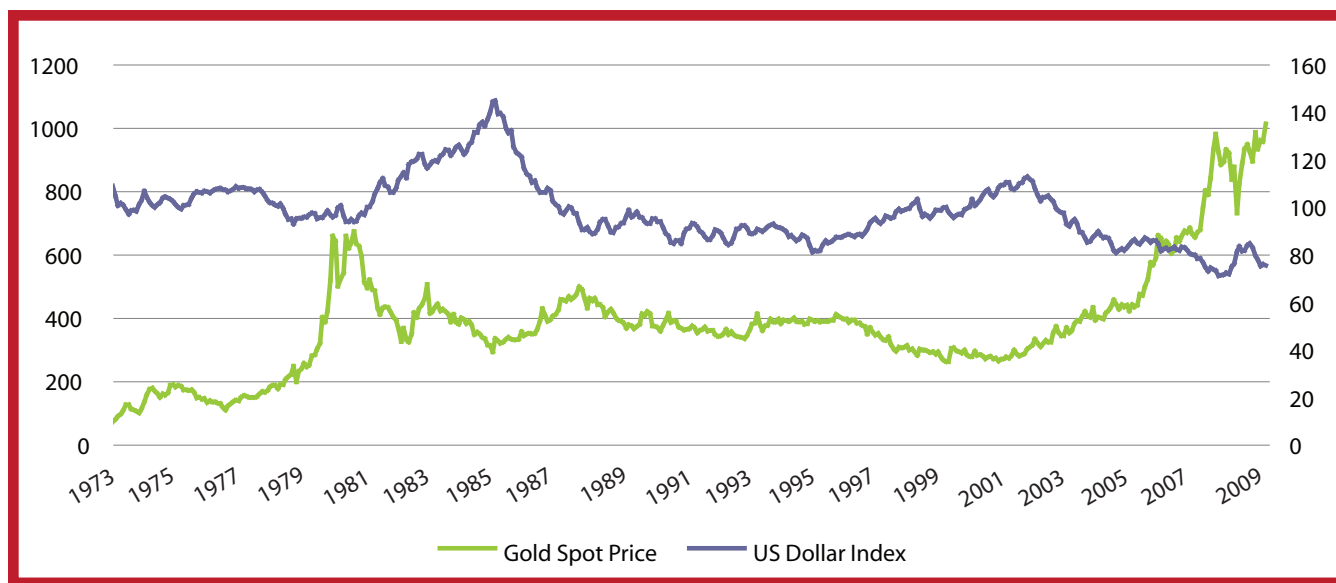
Source: Bloomberg

Gold As A Dollar Hedge

Despite gold's questionable track record as a hedge against inflation, its performance against the U.S. dollar has been relatively consistent, as shown in the chart below. Average correlation between the U.S. Dollar Index and gold between 1973 and 2009 has been -0.50, which reflects a relatively strong negative correlation, indicating that gold prices tend to decrease when the dollar's value increases and vice versa. But this alone is not a strong enough argument to move assets into gold.

With a lack of any underlying fundamental data to explain fluctuations in gold's price, it is difficult to argue that gold's recent rally has been fueled by anything more than speculation and fear. It is critically important to hedge against detrimental market forces such as inflation and U.S. dollar depreciation; however, doing so via an asset class like gold would be unwise. Investment vehicles such as unhedged equity exposure, unhedged international bonds or currency structured notes would be more appropriate alternatives.

U.S. Dollar and Gold Prices 1973-2009



Source: Bloomberg

HIGH YIELD MUNICIPAL BONDS: NO BANG FOR THE BUCK

High yield municipal bonds are non-investment grade bonds (below BBB) issued by municipalities and other non-governmental entities such as hospitals, nursing homes, private businesses, and private colleges. As a percentage of the overall municipal bond universe, high yield municipal bonds are a very small player. Nevertheless, we thought it worthwhile to review them as an asset class given their historical correlation levels and current yield levels relative to historical averages.

Correlations

Compared to other fixed income asset classes, high yield municipal bonds have relatively low correlations, which is obviously an attractive characteristic when building a diversified portfolio. Compared to our growth asset classes, correlations are slightly higher, diminishing the argument for including high yield municipal bonds in this category.

Risk-Adjusted Returns

The strongest argument against including the high yield municipal bonds asset class in our overall allocation is the poor risk-adjusted returns it has achieved over the past several years. During the six years from December 2003 to December 2009, the annualized return for the High Yield Municipal Index was 4.04% with an annualized standard deviation of 8.92%, whereas the annualized return for the Investment Grade Municipal Index was only slightly lower at 3.63% yet had a substantially lower annualized standard deviation of 2.11%.

Ultimately, while correlation data is attractive, the risk-adjusted returns exhibited by this asset class certainly are not. Through exposure to investment grade municipal bonds, a portfolio can achieve similar returns with considerably lower risk. To take advantage of the low correlations, RegentAtlantic Capital, LLC® will continue to research whether it makes sense to use investment vehicles that dip into A and BBB tranches when it conducts its short-term bond annual review.

For further information, please contact any of the individuals listed below at RegentAtlantic Capital, LLC.
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The index returns used in the presentation show the total return for various investment indexes and include the impact of the reinvestment of dividends. A comparison to indices may not be a meaningful comparison. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from performance of a client's portfolio. The investments in a client's portfolio may differ substantially from the securities that comprise each index and are not intended to track the returns of any index. One cannot invest directly in an index, nor is any index representative of a client's portfolio. Actual client accounts will hold different securities than the ones included in each index. The index returns are gross of applicable account transaction, custodial, and investment management fees. The actual investment results would be reduced by such fees and any other expenses incurred as an investor.

The allocations discussed are subject to change based on the Investment Committee's recommendations and are current as of January 1, 2010.

Index Definitions:

MSCI Frontier Markets Index: Covering 25 countries, the index is designed to track the performance of a range of equity markets that are now more accessible to global investors. They aim to achieve a broad representation of the investment opportunity set while taking into consideration investability requirements within each market.

JP Morgan Emerging Markets Bond Index: Tracks total returns for traded external debt instruments in the emerging markets. The EMBI includes U.S. dollar denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million.

Barclays Capital High Yield Municipal Index: An unmanaged index composed of non-rated municipal bonds or municipal bonds rated Ba1 or below. For inclusion in the index, bonds must have at least 1 year until final maturity, have a fixed rate coupon, and be denominated in U.S. dollars. Included bonds must have at least \$7MM outstanding.

Barclays Capital Government/Credit Intermediate Index : Measures the performance of dollar denominated U.S. Treasuries, government-related, and investment grade credit securities that have a remaining maturity of greater than or equal to one year and less than ten years.

IA SBBJ Intermediate Term Government: Total returns for the 1987-present period are calculated from the Wall Street Journal prices. Using the coupon accrual method total returns are calculated as the change in the flat or "and-interest" price. The flat price is the average of the bid and ask prices plus the accrued coupon. The accrued coupon is equal to zero on the day a coupon is paid, and increases over time until the next coupon payment according to this formula: As with long-term government bonds, one-bond portfolios are used to construct the intermediate-term index. The bond chosen each year is the shortest non-callable bond with a maturity of not less than five years, and it is "held" for the calendar year. Monthly returns are computed. Bonds with impaired negotiability or special redemption privileges are omitted, as are partially or fully tax-exempt bonds starting in 194. Returns over 1934-1986 are obtained from the CRSP Government Bond File. Over 1934-1942, almost all bonds with maturities near five years were partially or fully tax-exempt and selected using the rules described above. Personal tax rates were generally low in that period, so that yields on tax-exempt bonds were similar to yields on taxable bonds. Over 1926-1933, there are few bonds suitable for construction of a series with a five year maturity. For this period, five-year bond yield estimates are used. These estimates are obtained from Thomas S. Coleman, Lawrence Fisher, and Roger G. Ibbotson, Historical U.S. Treasury Yield Curves: 1926-1992 with 1994 update (Ibbotson Associates,

Chicago, 1994). The estimates reflect what a "pure play" five year Treasury bond, selling at par and with no special redemption or call provisions, would have yielded had one existed. Estimates are for partially tax-exempt bonds for 1926-1932 and for fully tax-exempt bonds for 1933. Monthly yields are converted to monthly total returns by calculating the beginning and end-of-month flat prices for the hypothetical bonds. The bond is "bought" at the beginning of the month at par (i.e. the coupon equals the previous month-end yield), assuming a maturity of five years. It is "sold" at the end of the month, with the flat price calculated by discounting the coupons and principal at the end-of-month yield, assuming a maturity of 4 years and 11 months. For the period 1987-present, the income return is calculated as the change in the flat price plus any coupon actually paid from one period to the next, holding yield constant over the period. As in the long-term government total return series, the exact number of days comprising the period is used. For 1934-1986, the income return is calculated as the total return minus the capital appreciation return. For 1926-1933, monthly income returns are assumed to be equal to the previous end-of-month yield, stated in monthly terms. For the periods 1987-present and 1926-1933, monthly capital appreciation is simply the difference between total return and income return. For 1934-1986, capital appreciation is taken directly from the CRSP Government Bond File. The yield on an intermediate-term government bond is the internal rate of return that equate's the bond's price with the stream of cash flows (coupons and principal) promised to the bondholder. The yields reported for the 1987-present are calculated from The Wall Street Journal. For 1934-1986, yields were obtained from the CRSP Government Bond File. Yields for 1926-1933 are estimates taken from Coleman, Fisher, and Ibbotson, Historical U.S. Treasury Yield Curves: 1926-1992 with 1994 update.

The country indices used are broken down by country as follows:

Developed Ex-US: Japan, UK, France, Australia, Germany, Switzerland, Spain, Italy, Sweden, Netherlands, Hong Kong, Singapore, Finland, Belgium, Denmark, Norway, Greece, Austria, Portugal, Ireland, New Zealand

Emerging Markets: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey

Frontier Markets: Argentina, Bahrain, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Nigeria, Oman, Pakistan, Qatar, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Trinidad & Tobago, Ukraine, United Arab Emirates, Vietnam