CAPITAL MANAGEMENT GROUP, INC.

CMG

Alternative Investment Strategies

CMG Q1 2011 Absolute Return Strategies' Performance Review

Dear clients, friends and family:

Following is the 2011 first quarter and full year net performance information for CMG's Absolute Return Strategies along with our thoughts as they relate to each strategy. In addition, we have reflected the net performance for three of the CMG managed blends: the Conservative 2, Moderate 2 and Aggressive 2 blends. We have also reflected the net performance for the CMG Jefferson National HY and Jefferson National Scotia Growth S&P Plus Tax Deferred Variable Annuity programs. Of course, past performance does not predict or guarantee future returns. Following are thoughts on the individual CMG Absolute Return Strategies.

CMG Absolute Return Strategies - Quarterly Performance Update

Strategy	1st QTR	2011 YTD
AIFS Active U.S. Treasury Management Strategy	-3.83%	-3.83%
Anchor Capital Stratus ProFunds Program	-1.47%	-1.47%
Anchor Capital Long/Short HY Bond Strategy	-1.80%	-1.80%
CMG Managed HY Bond Strategy	1.50%	1.50%
Jefferson National CMG HY Bond Annuity	2.05%	2.05%
Cook S&P 500 Index ETF Trading Strategy	-3.27%	-3.27%
Heritage Capital Gold Strategy	2.18%	2.18%
Howard Capital Sector Rotation Program	5.63%	5.63%
JT Emerging Markets Strategy	-2.84%	-2.84%
JT NASDAQ 100 Strategy	-6.31%	-6.31%
Scotia Growth S&P Plus Program	14.80%	14.80%
System Research Treasury Bond Program	9.31%	9.31%
Jefferson National Scotia Growth S&P Plus Annuity	7.39%	7.39%
Strategy Blends	**1st QTR**	**2011 YTD**
Conservative 2 Blend	0.71%	0.71%
Moderate 2 Blend	2.47%	2.47%
Aggressive 2 Blend	5.54%	5.54%
Market Index	**1st QTR**	**2011 YTD**
Dow Jones Industrial Average	7.07%	7.07%
S&P 500	5.92%	5.92%
NASDAQ Composite	4.83%	4.83%
Barclays Aggregate Bond Index	0.43%	0.43%
Barclays HY Credit Bond Index	3.88%	3.88%

* Please note all strategy returns are reported net of a 2.50% management fee.

Our investment objective is to produce flat to up returns (example: for the Moderate 2 blend the investment objective is to return 8% to 10% annually with 6% downside risk exposure) in most market environments whether they be up, sideways or down. No investment strategy can be expected to be positive in all periods and risk remains present in all types of investments. For this reason, we believe it is best to combine a number of proven non-correlating active investment strategies together when you create the absolute return portion of your diversified investment portfolio. We review hundreds of managers each year and have considerable reach in the alternative space. Very few make the cut. A strategy must be liquid, available to all investors, have a sustainable edge, low correlation to the broad markets, a disciplined process, and defined edge. We then monitor each trade to make sure the managers remain consistent (i.e.: do not change their style to conform to current market sentiment). We look for passion, edge, character, and a manager's ability to trade. Following are our thoughts on each of the individual strategies on our managed account platform:

AIFS Active U.S. Treasury Management Strategy:

The AIFS Active U.S. Treasury Management Strategy ("AIFS") finished the first quarter down 3.83%, net of fees.

AIFS began the year in a fully bearish position, anticipating lower bond prices and higher interest rates. In early January, the strategy moved to a neutral position, matching the duration of the benchmark U.S. 10-year Treasury. In February, AIFS moved back to a fully bearish position and has maintained that portfolio exposure through March and into April. The strategy's multifactor model continues to forecast falling bond prices and higher interest rates. AIFS utilizes a proprietary interest rate scorecard, comprised of three factor categories, to determine monthly interest rate forecasts.

During the first quarter the Economic Outlook and Inflationary Expectations factors within the model decidedly forecasted higher interest rates. As the U.S. economy and employment situation continue to improve, interest rates have moved higher reflecting better growth prospects as well as expectations of a Fed rate hike later in 2011 or in early 2012. Inflationary expectations in the model also point to higher interest rates due primarily to rising commodity prices. The third component of the model, investor psychology, remained neutral during most of the quarter. AIFS finished the quarter modestly lower after sustaining most of its loses during the quarter in the second half of February as equity markets pulled back and bond prices spiked due to the revolutions in the Middle East. Furthermore, after a brief investor flight to safety in response to the Japan earthquake and tsunami, bonds sold off again and interest rates continued their trend higher. As we discussed in our 2011 outlook, we believe that interest rates will continue to trend higher over the coming years, creating a difficult period for traditional long-only bond investors. AIFS has the ability to make money in a rising interest environment and was short bonds the majority of the first quarter.

Anchor Capital Stratus ProFunds Program:

The Anchor Capital Stratus ProFunds Program ("Stratus") finished the first quarter down 1.47%, net of fees.

Stratus maintained long exposure in High Yield Bonds, the Russell 2000 and the NASDAQ 100 at the start of the year as equity markets moved higher. As markets reached overbought levels midway through the quarter, the strategy moved to a hedged position, which minimized drawdowns during the sell-off in March. The strategy also generated several mean reversion trades during the quarter in precious metals, banks and consumer goods. The mean reversion allocation within the Stratus portfolio is a large driver of returns that we anticipate to be more active in the coming quarter.

Anchor Capital Long/Short HY Strategy:

The Anchor Capital Long/Short HY Strategy ("Anchor HY") finished the first quarter down 1.80% for the first quarter, net of fees.

Anchor HY traded both long and short during the quarter. High yield bonds started the year strong and the strategy was long high yields for all of January and into the first week of February. The strategy was hedged by the end of the month as Anchor's model indicated a weakening of the trend. At market extremes, high yield bonds tend to trade like equities and by the end of February, high yields looked to be overbought on a short-term basis. In mid-March, Anchor moved to a full short position in high yield bonds via inverse bond funds. After the initial shock surrounding the Japanese earthquake and the events in the Middle East, Anchor moved back to a long position as high yields resumed their upward trend. Although the short trades during the quarter were not profitable, we are pleased with the strategy's trading and believe that it is an excellent compliment to the CMG Managed High Yield Bond Strategy which is directionally long-only, albeit with the ability to move to cash for the purpose of risk management.

CMG Managed High Yield Bond Strategy:

The CMG Managed High Yield Bond Strategy ("CMG HY") finished the first quarter up 1.50%, net of fees. The CMG Jefferson National HY Bond VA strategy gained 2.05%, net of fees.

CMG HY was long high yield bonds for most of the quarter before moving to cash in mid-March. We reinitiated a new long trade in early April. At the end of last year, we expressed our belief that the first quarter of the year would be strong primarily due to historically seasonal strength. High yields started the year strong but in the past month have shown a decreasing momentum as credit spreads have compressed significantly due to investors searching for yield. We believe that the next couple of quarters will likely see a widening of credit spreads as the Federal Reserve commences winding down quantitative easing 2 ("QE2"). Despite the Fed's asset purchase programs, bond prices are lower and interest rates are higher than at the announcement of QE2 last year. That trend is likely to continue and will provide trading opportunities for high yields. With high yield bonds once again priced to perfection and the prospects for rising interest rates over the next five years, we welcome a dislocation that would allow us to enter at more attractive prices and higher yields. For now, we remain long with tight stop-loss triggers set in place.

Cook S&P 500 Index ETF Trading Strategy:

The Cook S&P 500 Index ETF Trading Strategy ("Cook") finished the first quarter down 3.27%, net of fees.

Cook generated three short trades during the quarter, one of which was profitable. Cook initiated a short trade that was stopped out in early January followed by another short trade at the end of the month that was also stopped out by mid-February. In early March, Cook generated a profitable short trade that was closed out during the Japanese earthquake. Cook has since initiated a long position tied to a strong support level near the recent market bottom in March. The strategy follows several trade set ups that are tied to short-term extreme overbought and oversold market conditions.

Heritage Capital Gold Strategy:

The Heritage Capital Gold Strategy ("Heritage") finished the first quarter up 2.18% for the first quarter, net of fees.

Heritage was active during the quarter as several pullbacks in gold and the precious metals miners created trading opportunities for the strategy. After a losing trade in early January, the strategy generated several profitable trades in February and March. The Heritage strategy looks for high probability price reversal patterns to trade. The strategy is not a long directional trade on precious metals. The added market volatility in late February and into early March presented several trading opportunities as precious metals equities pulled back along with broader equity markets. The subsequent rebound in precious metals miners was partially due to the general rebound in equities but was reinforced by global inflationary fears and the demand for gold and silver to hedge against currency devaluation.

Howard Capital Sector Rotation Program:

The Howard Capital Sector Rotation Program ("Howard") finished the first quarter up 5.63%, net of fees.

After a solid fourth quarter to finish 2010, Howard posted a strong return as equity markets moved higher during the first quarter. For half of the portfolio, the strategy remained long the energy services sector for the entire quarter. The sector continues to exhibit positive momentum as a weaker dollar and higher oil prices provide a strong tailwind. Howard began the year with the other half of the portfolio invested in the basic materials sector but traded into electronics (comprised primarily of semiconductor related companies) in mid-February. After the equity market sell-off that bottomed in mid-March because of the Japanese earthquake, the strategy moved this position to an inverse government bond (30 year U.S. Treasury bond) fund. After a flight to safety during the sell-off, investors moved back to riskier assets and sold treasuries in March. By late March, Howard traded out of the inverse bond position into the telecommunications sector. Howard Sector finished the quarter positioned 50% long telecommunications and 50% long energy services.

JT Emerging Markets Strategy / JT NASDAQ 100 ETF Strategy:

The JT Emerging Markets Strategy ("JT EM") and the JT NASDAQ 100 Strategy ("JT NASDAQ"), respectively, finished the first quarter down 2.84% and 6.31%, net of fees.

JT EM and JT NASDAQ are quantitative investment strategies that trade the Emerging Markets long and inverse using the ProFunds Emerging Market index mutual funds and trade the NASDAQ 100 index long and inverse using the ProShares 2x exchange traded funds (ETFs). The trading signal is generated by a single model which takes into account several technical indicators to determine long or short (inverse) directional exposure. Both strategies began the year in modest short positions as the model identified the market environment to be severely overbought. The strategy was stopped out of its short position in early January as equity markets continued to move higher. However, a lack of momentum and the persistence of an oversold market condition led to the JT initiating another short position in late January. JT held that position through February into late March before closing the position for a slight loss in both JT EM and JT NASDAQ. Although both strategies generated strong returns during the market sell-off in February, there was no volume confirmation that would indicate that markets had reached a capitulation short-term bottom in March. As a result, JT maintained its short position through March and gave back the gains that were accumulated earlier in the month. The past several months have proved a challenging time for the strategy but we are pleased with JT's discipline and the role it serves in our blended portfolios. In particular, its ability to hedge at market tops and bottoms when other purely momentum based strategies struggle is key to balancing overall portfolio risk. After the market sell-off this past quarter alleviated the overbought reading in the model, we anticipate that JT will trade more actively in the coming quarter.

Scotia Growth S&P Plus Program:

The Scotia Growth S&P Plus Program ("Scotia") finished the quarter up 14.80%, net of fees. The Jefferson National Scotia Growth S&P Plus Annuity strategy gained 7.39%, net of fees. The difference in performance is a result of different mutual funds utilized to execute the strategy at Jefferson versus managed accounts at TCA and also a result of different trade cut-off times.

Scotia generated strong returns from both long and short trades during the quarter. Scotia participated in in the equity market uptrend in January. As markets became overbought in February, the strategy made a number of profitable short trades. As markets found a bottom in March, Scotia again participated actively in the bullish rebound in equities. The strategy has averaged 26.60% per year since July 2004 net of management fees through March 2011 and has been profitable each year since 2004. Important to our way of thinking, the strategy is non-correlated to the general equity and fixed income markets and has the ability to profit in both an up trending and down trending S&P 500 Index. Please note that the strategy has had several large drawdowns thus our belief that an allocation to Scotia S&P Plus should be paired with other non-correlating absolute return strategies.

System Research Treasury Bond Program:

The System Research Treasury Bond Program ("SR") finished the first quarter up 9.31%, net of fees.

After spending the majority of the fourth quarter in an inverse Treasury bond position that profited from rising interest rates, SR traded much more actively during the first quarter switching/exchanging from short to long positions and back again four times. Although SR spent the majority of the quarter short bonds in expectation of rising interest rates, the strategy had several tactical long bond trades in mid-January, mid-February and most importantly mid-March during the crisis in Japan when the short-term technical component of the model positioned the strategy long bonds. SR takes into account fundamental and technical factors in determining long or short positions in 30 year Treasury bond funds, trying to identify trends in inflation and interest rates. The inflation component of the model, tied to commodity prices, continues to indicate higher rates ahead in the short- to intermediate-term. At present, the strategy remains 50% invested in an inverse Treasury bond position as the core of the model continues to favor rising interest rates. We are very pleased with the strategy's performance during the quarter and its ability to generate returns from long and short trades. Furthermore, we believe that along with AIFS, the SR strategy is an effective way to manage interest rate duration and directional exposure for long-only fixed income investors. Both AIFS and System Research have little to no correlation to the S&P 500 Index and the Barclays Aggregate Bond Index. Additionally, both have little correlation to each other.

Conclusion:

The vast majority of investment portfolios we see are allocated 60% to stocks and 40% to bonds. The bond portion has benefited from a 28 year bull market as interest rates moved from 16% to 2.3% (10 year Treasury yield). Most investors are unaware of the risk that exists in their current 40% allocation to bonds. We believe rates will move higher over the next five years, perhaps significantly higher (sovereign defaults, municipal issues, and the prospects for increased inflation). We continue to believe that alternatives should be an important part of your investment portfolio and it remains our goal to provide liquid and transparent Tactical Alternative solutions.

As always, please give us a call if you have any questions.

With kind regards,

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