CAPITAL MANAGEMENT GROUP, INC.

CMG

Alternative Investment Strategies

CMG Q2 2010 Absolute Return Strategies Performance Review

Dear clients, friends and family:

Attached is our 2nd quarter market outlook – our thoughts on the markets moving forward. Following is the 2010 second 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.

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. Risk is present in all types of investments. Through a depth of due diligence combined with our years of trading experience, we seek to find the very best actively managed investment strategies and believe that risk can be better managed through a diversified blend of non-correlating actively managed strategies designed to add value to your overall investment portfolio.

CMG Absolute Return Strategies - Quarterly Performance Update

Strategy	1st QTR	2nd QTR	YTD 6-30-2010
Anchor Capital Stratus ProFunds Program	-1.66%	-5.38%	-6.95%
Anchor Capital Long/Short HY Bond Strategy	0.68%	1.25%	1.94%
Bandon Directional Interest Rate Strategy	-0.58%	-3.06%	-3.61%
CMG Managed HY Bond Strategy	2.00%	0.83%	2.85%
Jefferson Nat'l. CMG HY Bond Annuity	4.24%	1.27%	5.57%
Cook S&P 500 Index ETF Trading Strategy	-2.69%	6.53%	3.68%
Heritage Capital Gold Strategy	-0.34%	0.78%	0.43%
Howard Capital Sector Rotation Program	9.30%	-9.17%	-0.71%
Scotia Growth S&P Plus Program	2.36%	9.01%	11.57%
System Research Treasury Bond Program	-1.11%	-0.26%	-1.38%
Jefferson Nat'l. Scotia Growth S&P Plus Annuity	3.90%	0.35%	4.26%

Strategy Blends	1st QTR	2nd QTR	YTD 6-30-2010
Conservative 2 Blend	0.11%	-0.84%	-0.72%
Moderate 2 Blend	0.15%	0.10%	0.26%
Aggressive 2 Blend	-0.16%	0.64%	0.47%

Market Index	1st QTR	2nd QTR	YTD 6-30-2010
Dow Jones Industrial Average	4.11%	-9.36%	-5.00%
S&P 500	5.38%	-11.42%	-6.65%
NASDAQ Composite	5.68%	-12.03%	-7.05%
Barclays Aggregate Bond Index	2.03%	3.49%	5.33%
Barclays HY Credit Bond Index	4.62%	-0.11%	4.50%

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

Anchor Capital Stratus ProFunds Program:

The Anchor Capital Stratus ProFunds Program ("Stratus") finished the quarter down 5.38% net of fees, bringing the year to date return to -6.95%. After strong performance in April, Stratus experienced a 6.39% drawdown in May, with the majority of the loss coming during the May 6th flash crash. Coming into May 6th, Stratus was aggressively positioned long as markets were in a short term oversold position. The subsequent sell off during the crash that saw markets drop 10% intraday continued into the 7th and accounting for a loss of 6.64%. For the balance of the quarter, Stratus remained long high yield and was typically hedged between a combination of positions in Russell 2000, NASDAQ 100 and S&P 500 mutual funds. As we discussed in our prior commentary, we anticipated that the mean reversion component of the strategy would begin trading more frequently. Although Stratus took several mean reversion trades during the quarter, the opportunity for mean reversion trades proved to be fewer during the quarter than we have seen in the years prior to 2009 and 2010. We continue to believe that increased volatility combined with our anticipation for a choppy up and down trading range environment should help this important mean reversion element of the strategy.

Anchor Capital Long/Short HY Strategy:

The Anchor Capital Long/Short HY Strategy ("Anchor HY") returned 1.25% for the quarter net of fees and is up 1.94% year to date. Anchor HY began the quarter 100% long high yield bond mutual funds and remained in that position through the week of the flash crash in early May. After reversal of the market trend, Anchor HY was 100% short high yield bonds through the balance of May and into the second week of June. After a short term long trade during the middle of the month, Anchor remained in a hedged position for the balance of June. We were particularly pleased with how Anchor was able to navigate a difficult trading environment during the quarter and generate returns by going long and short. The strategy is continuing to perform well in July and is now up an additional 1.54% through 7-28-10.

Bandon Directional Interest Rate Strategy:

The Bandon Directional Interest Rate Strategy ("Bandon") finished the quarter down 3.06%, net of fees and is down 3.61% year to date. Bandon began the quarter with a moderate long position in the ProFunds US Government Plus Fund. The labor report in April indicated that job growth was better than expected, especially in the private sector, and the model switched to a short bond position via the ProFunds Rising Rate Opportunity Funds as the new forecast called for 10-yr Treasury interest rates to rise. However, the equity markets sell-off created a flight to quality, and the subsequent rally in bond prices triggered Bandon's 4% stop loss. After getting stopped out, Bandon initiated a new long trade in early May with a moderately bullish forecast. In early June, Bandon reduced its long exposure to the 10-yr Treasury. After the equity market sell-off that lasted most of May and into early June, Bandon's bond valuation component turned bearish while its technical (momentum) component was neutral. However, the largest component of the forecast model remained bullish for bonds as economic indicators, including non-farm payrolls pointed to lower growth and a generally bearish outlook for economic activity.

CMG Managed High Yield Bond Strategy:

The CMG Managed High Yield Bong Strategy ("CMG HY") finished the quarter up 0.83% net of fees and is up 2.85% year to date. The CMG Jefferson National HY Bond VA strategy gained 1.27% net of fees and is up 5.57% year to date. The strategy remained long HY bond exposure for all of April after getting a buy signal in the first quarter. CMG HY moved to cash on the day of the flash crash with nominal downside loss and remained in cash until a new buy signal was initiated in mid June. The strategy remains long HY bonds as of this update. HY's have continued to trend higher in July with the strategy

gaining an additional 2.58% net of fees putting the year-to-date gain at 5.50% for the CMG HY and 7.63% for CMG Jefferson National HY Bond VA. We remain cautiously optimistic on high yields going forward as spreads remain relatively attractive yet August, September and October has historically proved to be a more difficult seasonal period for HY bond performance. Should HY prices begin to decline we will move back to money market funds. We anticipate a difficult equity market through late summer through October. This will have a direct impact on HY trend, thus our stops are placed ½% below current prices.

Some economic and technical thoughts as it effects HY price trend. I believe the risk of a flat to deflationary environment is greater than it was three months ago and will keep short term and long term interest rates low for the time being (performance for bonds is poor in a rising interest rate environment). I believe high yields will remain range bound in the intermediate term. The current coupon yield is relatively attractive and spreads remain attractive and money continues to flow into bond funds; however, bond mutual fund cash levels plunged from 4.0% to 2.5%, the ninth lowest reading on record (simply, portfolio managers are fully invested with less capital to put to work). Historically, the manager bullishness is good short-term as the Barclays US Aggregate Bond Price Index had risen in seven of the previous eight cases with a median gain of 1.7% (per NDR research July 30, 2010). While I see low rates for now, ultimately I believe higher interest rates are ahead 2 to 5 years from now. That risk will need to be carefully managed as most investors are overweight bonds and frankly unprepared.

We take in a great deal of research from multiple sources. Personally I favor the independent sources and listen closely to the thoughts of some of the brightest investment managers in the business. One such very bright hedge fund manager sees the 10-year Treasury bond yield moving to 12% in three to five years. That is not a typo and today the 10-year yields 3%. As world governments work aggressively to inflate their way out of this global economic mess, inflation and rising rates are a very high probability. Their backs are against the wall. I don't believe they have a choice and I don't believe it will be possible to get a balanced outcome; thus, I see a high probability of significantly higher interest rates. Not in the next year, but I believe it is coming. Perhaps it is not 12% as suggested above, but a move to 6% or 7% would cause significant loss on both passively managed bond investments and the global stock markets. Either way, I believe another train wreck lies ahead. Take a quick step back. It has been nearly 26 years of a declining interest rate environment. Short term rates are near 0%. Long-term rates are historically very low. The risk towards higher interest rates in the years ahead is great. That risk will need to be properly managed. Most investors are unprepared as they left the stock market and flooded into the bond market. To be clear, the stock and bond markets perform poorly in a rising interest rates environment. I don't believe we have reached the end of the long-term secular bear market cycle. I believe it will end with interest rates at much higher levels and PE ratio's below 8-10. For now, some rallies and some very hard declines – choppy to sideways at best for a number of years to come (target 2017). As for our HY strategy, should markets sell-off we will move to cash and await another buying opportunity (hopefully at much lower prices / higher yields). Overall, we remain constructive on the strategy today and moving forward as yields today offer much better risk vs. return. This was not the case in the 2005-2008 periods (yields were unattractively low). We continue to manage the strategy with a strict focus on risk management.

Cook S&P 500 Index ETF Trading Strategy:

The Cook S&P 500 Index ETF Trading Strategy ("Cook") finished the quarter up 6.53%, net of fees and is up 3.68% year to date. We were particularly pleased with Cook this quarter as the strategy was able to generate returns from both long and short trades. In early April, Cook shorted the S&P 500 and then added to his short position in late April just before a market top and subsequent sell-off. Following a double digit market sell-off in May, the strategy established a long position as markets became extremely

oversold. Cook looks to trade the counter trend moves in the S&P 500 Index trading ETF's either long or inverse long (short the market) based upon an overbought or oversold indicator designed to identify highly probable short term directional market moves. The overall framework of Cook's trading is guided by the Cook Cumulative Tick Indicator™ ("CCT"). The CCT is a proprietary indicator designed to identify overbought / oversold extremes in the US equity markets. The strategy is dependent on first the creation of an extremely overbought or oversold market condition, then, once identified, the strategy takes a counter-trend position in a liquid S&P 500 Index ETF (a long position when the market is extremely oversold and a short position when the market is extremely overbought).

As we mentioned in our prior commentary, the CCT at the end of the first quarter reached the third highest overbought reading ever. The highest reading was in March 2000 and the second highest was in March 1998. The equity markets topped out in late April after seven consecutive up weeks and the longest period since Mark Cook started trading without a 20% correction (we have still not seen the 20% correction). At that point markets were so tightly wound that there was simply no more energy (buyers) to push it higher. That overbought condition reached equilibrium in one day during the flash crash after taking many months to reach that overbought condition. The market quickly moved from that overbought condition to a severely oversold position by late May. In fact, the daily CCT had one of the highest daily minus readings ever. We believe that Mark Cook's ability to measure the extremes of the market in this way using his proprietary CCT indicator is the key to the strategy's edge and will allow this trading strategy to thrive in the range bound market we are likely to endure for the coming months. Cook is having another solid month gaining 3.46% through 7-28-10 and is now up 7.25% net of fees year to date.

Heritage Capital Gold Strategy:

The Heritage Capital Gold Strategy ("Heritage") posted a +0.78% return, net of fees, for the quarter bringing the strategy's year to date return to +0.43% net of fees. Heritage was more active with its trading in the second quarter after several quarters that resulted in few trading opportunities. After a flat April, the strategy had a strong May identifying a strong reversal pattern in the Precious Metals index late in the month. The balance of the quarter was quiet as the Philadelphia Gold and Silver Index remained range bound with few sustainable trading trends. Heritage invests on a long-only basis in the Rydex Precious Metals Fund (which is based on the Philadelphia Gold and Silver Index) based on technical indicators, looking to identify highly probable short term technical reversal patterns.

Howard Capital Sector Rotation Program:

The Howard Capital Sector Rotation Program ("Howard") posted a -9.17% return, net of fees, for the quarter bringing the strategy's year to date return to -0.71%. We added the Howard Capital Sector Rotation Program to the CMG ARS Platform in April and have made an initial small allocation to the strategy in the CMG Strategy Blends as we anticipated a market sell off. The Howard Capital Sector Rotation Program is a long-biased investment strategy that rotates trades among the Rydex sector funds. The model takes into account several fundamental and technical factors to determine long trades in US Equity Sector mutual funds and US Government Bond Funds at Rydex. The strategy has a two step process. First, the model identifies whether to be long or in cash based on Howard Capital's proprietary buy line that analyzes new highs and new lows on the AMEX, NASDAQ and NYSE exchanges. If the buy line indicates the model should be long, a quantitative overlay will identify the top two sector funds that the model should invest in. Daily analysis is done to determine whether the strategy should remain long and whether it should remain in the existing sector allocation or if it should rotate into other sectors with stronger momentum. After a strong first quarter the strategy triggered a move to cash in May as

equity markets sold off over 10%. Howard remained in cash for the entire month of June and re-entered the market in late July.

Scotia Growth S&P Plus Program:

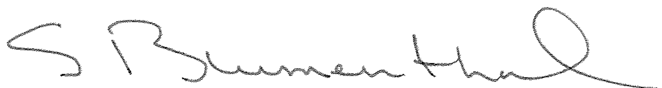
The Scotia Growth S&P Plus Program ("Scotia") finished the quarter up 9.01% net of fees bringing the year to date return to +11.57%. The Jefferson National Scotia Growth S&P Plus Annuity strategy gained 0.35% net of fees and is up 4.26% year to date. The difference in performance is a result of different mutual funds utilized to execute the strategy at Jefferson versus managed accounts at TCA and also a result of different trade cut-off times. We are pleased with the strategy's performance during the second quarter, especially during May and June when equity markets sold of significantly. After the April market peak, we saw an ebb and flow trading environment return to the markets. This is a generally a more favorable market environment for the strategy as it provides Scotia with trading opportunities from both a primary trend basis, the core of the model, and overbought / oversold trading opportunities (the Plus in the Program name). Scotia is designed to participate in the equity market's primary trend (whether it is an up-trend or a down-trend) but requires a counter-trend day to establish a new position (i.e. a down day in an up-trending market or an up day in a down-trending market). In 2009, although Scotia correctly identified the long term and intermediate term market trends, the lack of countertrend days during the post crash market rally limited Scotia's ability to participate bullish market trend. Scotia's correlation to the all major US equity market indices remains close to zero and we believe an allocation to Scotia continues to add valuable diversification to other assets in your investment portfolio.

System Research Treasury Bond Program:

The System Research Treasury Bond Program ("System Research") finished the first quarter -0.26%, net of fees. Year-to-date through 6-30-10, the System Research Program has returned -1.38% net of fees. The System Research strategy was added to the platform at the start of the year and is a quantitative investment strategy that invests long and short in the 30-year Treasury bond. The strategy was short coming into April, went long bonds in early May (the day of the flash) and stayed long the balance of the quarter. The strategy takes into account fundamental and technical factors in determining long or short positions, trying to identify trends in inflation and interest rates.

We have made a case for the continuation of the long-term secular bear market cycle. If we are correct, then portfolio allocations need to be adjusted to manage the downside risk. If we are incorrect, then Passive buy-and-hold should be over-weighted. We don't feel the probabilities favor an overweight to Passive Index investing at this time. Passive buy-and-hold investments work well in a long term bull market cycle yet struggle in long-term secular bear cycles (as witnessed by the last ten years). We believe a better client allocation solution is to combine Active investment management with Passive investment management for a balanced diversified portfolio. Behaviorally, through both bull and bear market periods, Dunbar studies show that investors chase returns tending to buy in after a rally and sell out at the bottom of a decline resulting in significant portfolio underperformance. Importantly, we believe a combination of both styles will better help your clients stick to their investment game plan.

With kind regards,



Steve

CMG Capital Management Group, Inc.
150 North Radnor Chester Road – Suite A150
Radnor, PA 19087
610-989-9090
www.cmgfunds.net

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