CAPITAL MANAGEMENT GROUP, INC.

CMG

Tactical Investment Solutions

CMG Q3 2011 Quarterly Performance Update

Dear clients, friends and family:

Following is the 2011 third quarter and year-to-date net performance information for CMG's Tactical Investment Strategies along with our thoughts on each strategy over the past quarter. In addition, we have provided the net performance for the CMG Managed Blends: the Conservative, Moderate and Aggressive Blends. We have also reflected the net performance for our tax deferred variable annuity tactically managed programs, including the CMG Jefferson National HY Bond and Jefferson National Scotia Growth S&P Plus. Market Indices performance is presented at the bottom of the chart. Within the total portfolio construction process, we believe it is important to have a number of non-correlating risk diversifiers. Evaluation should be compared over multiple time periods. Of course, past performance does not predict or guarantee future returns.

CMG Managed Account Strategies - Quarterly Performance Update				
Fixed Income Strategies	**1st QTR**	**2nd QTR**	**3rd QTR**	**2011 YTD**
CMG Managed HY Bond Strategy	1.50%	0.57%	-1.73%	0.31%
Equity Strategies	**1st QTR**	**2nd QTR**	**3rd QTR**	**2011 YTD**
CMG Opportunistic All Asset Strategy - TCA	3.85%	-1.43%	-3.49%	-1.21%
CMG Opportunistic All Asset Strategy - TD Ameritrade	3.63%	0.83%	-10.24%	-6.23%
Heritage Capital Gold Strategy	2.18%	0.38%	-1.20%	1.33%
Howard Capital Sector Rotation Program	5.63%	-7.97%	-16.89%	-19.21%
Scotia Partners Dynamic Momentum Strategy	4.59%	-6.73%	-10.69%	-12.88%
Long / Short Strategies	**1st QTR**	**2nd QTR**	**3rd QTR**	**2011 YTD**
AIFS Active U.S. Treasury Management Strategy	-3.83%	-2.52%	-0.47%	-6.70%
Anchor Capital Long/Short HY Bond Strategy	-1.80%	-0.69%	1.25%	-1.25%
Cook S&P 500 Index ETF Trading Strategy	-3.27%	4.37%	-10.41%	-9.55%
Scotia Partners Growth S&P Plus Program	14.80%	4.12%	-8.78%	9.04%
System Research Treasury Bond Program	9.31%	4.94%	8.98%	25.01%
Annuity Programs	**1st QTR**	**2nd QTR**	**3rd QTR**	**2011 YTD**
CMG Opportunistic All Asset Strategy - Jefferson National	4.98%	0.11%	-2.82%	2.13%
Jefferson National CMG HY Bond Annuity	2.05%	0.54%	-1.91%	0.65%
Jefferson National Scotia Growth S&P Plus Annuity	7.39%	3.66%	-0.52%	10.73%
Strategy Blends	**1st QTR**	**2nd QTR**	**3rd QTR**	**2011 YTD**
Conservative Blend	0.34%	-0.08%	-1.68%	-1.43%
Moderate Blend	2.48%	-0.72%	-4.29%	-2.64%
Aggressive Blend	5.53%	-0.38%	-5.84%	-1.01%
Market Indices	**1st QTR**	**2nd QTR**	**3rd QTR**	**2011 YTD**
Dow Jones Industrial Average	7.07%	1.42%	-11.49%	-3.90%
HFRI Macro Systematic Diversified Index	-1.30%	-1.95%	4.40%	0.87%
S&P 500	5.92%	0.10%	-13.86%	-8.68%
NASDAQ Composite	4.83%	-0.28%	-12.91%	-8.95%
Barclays Aggregate Bond Index	0.43%	2.30%	3.83%	6.67%
Barclays HY Credit Bond Index	3.88%	1.06%	-6.06%	-1.38%

* 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 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 tactical investment strategies together when you create the alternative 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, 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, character, and a manager's ability to trade. Following are our thoughts on the strategies on our managed account platform.

Fixed Income Strategies

The CMG Managed High Yield Bond Strategy ("CMG HY") returned -1.73%, net of fees, for the third quarter. We mentioned in our second quarter update that HY bonds were likely topping out and that a better buying opportunity would be coming. As investors reduced portfolio risk in all asset classes and credit spreads widened on fears of a sovereign debt meltdown in Europe, the Barclays HY Credit Bond Index lost over 6% during the quarter. Exiting near the top of the last bullish price move, CMG HY moved to cash nearly two months ago and avoided the majority of the decline. We get excited when prices decline and yields expand. The re-entry at lower prices/higher yields sets up the next opportunity. As such, we traded back into HY Bond Funds in early October and are up over 2% month-to-date.

The Merrill Lynch High Yield Master II Index's option-adjusted spread is approximately 801 basis points. In English, that is 8% higher than 5-7 year Treasury bond yields. We see fair value at approximately 370 basis points over Treasury's. This means the HY market is pricing in a great deal of recession fear and correctly so from our perspective. The high yield market currently yields around 9% with a yield spread of nearly 8% over safer treasuries. We like the probabilities of the current trade additionally supported by the seasonally favorable November – January period for the asset class.

Beyond this, odds favor a 2012 recession. Recessionary periods are not kind to High Yield bonds. We trade with a strict focus on capital preservation and continue to follow the same quantitative risk managed trading process we have followed since the early 1990's. For now, we are happy with the current trade, are excited about the higher yields and frankly we are looking forward to a highly probable post recession high return opportunity in the not too distant future (of course, no guarantees).

Equity Strategies

The equity market correction that began in June accelerated during the third quarter and proved to be a difficult environment for directional equity strategies. The Scotia Partners Dynamic Momentum Strategy and the Howard Capital Sector Rotation Program returned -10.69% and -16.89%, respectively, net of fees. Both strategies rely on quantitative momentum models to determine portfolio allocations and trade with an intermediate-term focus. Market volatility reached levels not

seen since 2008 and generated a number of whip-saw trades for both strategies. Scotia Dynamic and Howard Sector both have risk management components that are designed to move the strategy to cash or money market. Scotia Dynamic will only invest in sectors that are exhibiting positive momentum and will cap exposure to any one sector during bearish market periods. Howard has a two step process that is designed to rotate in the two highest momentum sectors at any given time, but only if the model is above the HCM Buyline, a proprietary indicator based on equity market new highs and new lows. In August, a break below the HCM Buyline moved the portfolio to cash (where it currently remains).

The Heritage Capital Gold Strategy returned -1.20% for the quarter, net of fees. Heritage had several trades during the quarter that were stopped out as equity market declined and investors reduced risk in gold and silver miners' equities.

The CMG Opportunistic All Asset Strategy, our tactical mutual fund allocation strategy, returned -3.49% for the quarter in TCA Portfolio and -10.24% in the TD Ameritrade Portfolio, net of fees. The difference in returns is attributed to the recent launch of the TD Portfolio and the related minimum mutual fund holding periods. The CMG Opportunistic All Asset Strategy is designed to identify mutual funds with emerging price trends across a broad range of over 100 diverse mutual funds (large cap value, growth, small cap, mid cap, international developed and emerging markets, fixed income and equity precious metals). Within each portfolio there are eleven underlying models with different holding periods, different technical indicators and different mutual fund options. The purpose is to identify changing market dynamics creating a broadly diversified portfolio of 11 mutual funds to actively participate in rising markets and manage risk as markets deteriorate (ie: a shift to fixed income and defensive sectors). For a snapshot of current allocations in both portfolios, please visit our website at the following links: TCA and TD Ameritrade. Alternately, please feel free to contact us to learn more about how the portfolios dynamically reallocate over time to manage risk and increase returns.

Long / Short Strategies

Long/short strategies performed well during the third quarter as both equity and fixed income markets were volatile. In particular, our long/short fixed income strategies performed well, led by the System Research Treasury Bond Program ("SR") , which returned +8.98% for the quarter, net of fees. The Anchor Long/Short High Yield Bond Strategy ("Anchor") generated +1.25%, net of fees, during the quarter and the AIFS Active U.S. Treasury Management Strategy ("AIFS") was down modestly, finishing the quarter -0.47%, net of fees. The European debt crisis drove assets into safe havens, pushing US Treasury Bond prices higher and dropping yields to historical lows. SR was long 30 year Treasury bond funds during the quarter and has remained in that position into October, albeit with a lower exposure today vs. the third quarter. AIFS began the quarter in a fully bearish position (expecting lower bond prices and higher interest rates), shifted to a neutral position in August and then a fully bullish position (higher bond prices and lower interest rates) in September. Anchor traded actively during the quarter and generated strong returns on short trades, particularly in August when high yield bonds sold off significantly. After a further correction in September, high yield prices and yields look attractive and Anchor moved to a long position.

The Scotia Partners Growth S&P Plus Program ("Scotia") finished the quarter down -8.78%, net of fees and the Cook S&P 500 Index ETF Trading Strategy ("Cook") returned -10.41%, net of fees, during

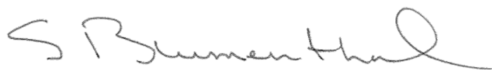
the quarter. Although higher volatility market environments are generally more favorable for long/short equity strategies like Scotia and Cook, this past quarter proved challenging as intraday market movements of 2-3% became an every day occurrence. Investor sentiment moved from elation at the prospect of a European debt deal to fear of a total Euro collapse with each day, as the S&P traded in a 150 point range most of August and September. Although the core of the Scotia model identified a bearish market trend, the rapid market movements created both overbought and oversold conditions in very short periods of time over the past two months. In this type of environment, the strategy can be whipsawed and incur losses despite a generally more favorable volatility environment.

Conclusion

As the European Debt crisis continues to infect the global economy, the prospect of recession in many developed countries has gone up significantly. The probability of a Greek default is 100% and markets have become more and more concerned about Spain, Italy and even France. Both Spain and Italy had their ratings cut and the French are not far behind. Although the current Euro bailout fund has been ratified by the EU members, the prospect of further bailouts looks dim as European leaders are pushing the constitutional limits of what their democracies will allow them to fix the problem. The potential for a European financial system collapse is very real and the global impact is difficult to measure. More broadly, the developed world, including Europe, Japan and the United States is deeply indebted. While debt alone is not a problem (see Japan the past 20 years), a lack of growth makes it more difficult to service that debt without larger structural reforms, namely austerity. The problem becomes how much austerity and when to implement it to satisfy “bond vigilantes” and creditors. Cut too little and ratings agencies will downgrade your debt. Cut too much and what little growth there is will stall completely (please visit our website to read a report titled *Painful Medicine* by the IMF on the impact of austerity on growth and employment). The reality is that the need exists to cut spending in the intermediate-term and stimulate growth in the short-term. However, the capacity for more stimulus, both fiscally and politically is practically nil and monetary policy in most countries is reaching its limitations. None of these dynamics support robust growth or another cyclical bullish uptrend. We continue to see greater risks to downside in equity markets while the risk and return in fixed income markets has become very asymmetric: bonds are near record highs and don’t adequately reflect the fiscal risk of countries like Japan or the US. The buy-and-hold stock and bond allocations that have dominated investor portfolios for the past 30 years will not provide the proper diversification that investors need to navigate the ongoing slow growth bear market. Additional sources of risk diversification, such as tactical trading strategies, managed futures and global macro investments are needed to provide proper diversification and risk management.

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

With kind regards,



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