CAPITAL MANAGEMENT GROUP, INC.

CMG

Alternative Investment Strategies

CMG 2009 Absolute Return Strategies Performance Review

Dear clients, friends and family:

Following is the 2009 fourth 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 guarantee future returns.

CMG Absolute Return Strategies - Quarterly Performance Update

Strategy	October	November	December	2009 YTD
Anchor Capital Stratus ProFunds Program	-4.01%	1.50%	1.90%	3.61%
Anchor Capital Long/Short HY Bond Strategy	0.48%	0.39%	3.69%	10.50%
Bandon Directional Interest Rate Strategy	0.13%	1.91%	-0.65%	9.11%
CMG Managed HY Bond Strategy	-0.26%	-0.09%	3.44%	23.75%
Jefferson Nat'l. CMG HY Bond Annuity	1.51%	0.04%	1.80%	32.11%
Cook S&P 500 Index ETF Trading Strategy	-4.93%	-0.76%	-2.01%	-11.48%
Heritage Capital Gold Strategy	-1.93%	2.59%	0.64%	3.80%
Schreiner Dynamic Index Program	-8.03%	2.43%	-0.82%	-6.82%
Scotia Growth S&P Plus Program	-2.62%	-2.90%	-2.29%	6.52%
Jefferson Nat'l. Scotia Growth S&P Plus Annuity	-3.07%	-4.76%	-2.76%	27.92%
Conservative 2 Blend	-1.40%	1.16%	1.14%	8.73%
Moderate 2 Blend	-2.46%	0.59%	0.61%	7.50%
Aggressive 2 Blend	-4.15%	0.88%	-0.12%	2.56%

Market Index	October	November	December	2009 YTD
Dow Jones Industrial Average	0.00%	6.51%	0.80%	18.82%
S&P 500	-1.86%	6.00%	1.93%	26.46%
NASDAQ Composite	-3.64%	4.86%	5.81%	43.89%
Barclays Aggregate Bond Index	0.49%	1.29%	-1.56%	5.93%
Barclays HY Credit Bond Index	1.80%	1.01%	3.28%	58.21%

While I was pleased with our accurate call on the stock market recovery (see our published updates anticipating a sizable equity market rebound in the **Market Commentary** section of our website) and pleased with the performance our CMG Managed HY Bond Strategy, the Bandon Directional Interest Rate Strategy, and both of our Tax Deferred Annuity Programs, I was displeased with the performance of our equity market oriented trading strategies, particularly during the latter half of 2009. The absence of volatility and a lack of counter-trend days during the rally provided a rare and challenging market period for actively managed equity trading strategies. We follow hundreds of managers, CTA strategies, and Hedge Fund strategies, and witnessed a consistent theme: a lack of volatility created a difficult environment for trading strategies. In fact, two of the indices that we track, the Credit Suisse Tremont HFI Managed Futures Index and the HFN CTA/Managed Futures Index had their worst performance in

over a decade. The indices returned -6.57% and +1.08% for the year, struggling to generate returns in the second half of the year.

There are a few other periods in history with similar one directional post crash rallies and the nature of those moves each proved to be both rare and short lived. I wrote in December 2008, ***"December 23, 2008: You'll get the chance"***, about the expected recovery and sited the post crash behavior following the 1929, 1938, and 1974 crash declines. You can now add post 2008/09 to the list.

Intermediate term trending strategies like HY were able to capture a significant portion of the up move (the strategies are designed to catch intermediate trend moves). The short-term actively managed equity strategies, highly dependent on counter-trend moves, struggled the latter half of 2009.

Can this rare one direction low volatility aggressive up move environment continue? I don't think so. I believe the macroeconomic headwinds are simply too great for the market to continue on this trajectory. The important question is "What are you going to do from this point in time moving forward?" Long-term secular bear markets last a long time – typically 17 years. The current secular bear market began in March 2000. While 2009 was a tremendous year for the major markets with the DJIA gaining 22.67%, the S&P 500 gaining 26.46%, and the NASDAQ Composite gaining 43.89%, the last decade paints a far different picture. The ten-year cumulative performance, 2000-2009, are disheartening: DJIA +13.75%, S&P 500 -9.09%, and the NASDAQ Composite -44.24% (note that most investors were significantly overweight NASDAQ stocks in 1999).

Over this same period of time, $100,000 invested in our CMG HY strategy grew to $194,600 net of fees. In comparison, $100,000 invested in the S&P 500 was worth $90,900. $100,000 invested in the NASDAQ declined to $55,800.

Most investors chase from one hot performing strategy to another. My advice is to find a number of non-correlating highly probable trading strategies and blend them together to build an absolute return focus in your portfolio. All strategies will run into periods of difficulties. The key is whether the manager has the discipline to follow his process. Personally, I like to add to solid strategies when they are a bit out of sync. A few months doesn't make or break an investment process. It's about probabilities and risk management. I believe even more traditional portfolios need a focused concentration on alternative trading strategies to survive the times I see ahead.

I have been communicating for some time that post waterfall crash environments are unique with explosive moves to the upside: typically 60% in 7.5 months from the low. The S&P is up over 70% and it is nearly 11 months since the crash low. I believe most of the recovery move is behind us and a better trading environment is ahead of us. Macroeconomic risk is high as there are many structural issues the US economy must address moving forward. My best guess is that higher long-term interest rates, higher taxes and a less accommodating Fed will present the next significant headwind for the markets and the economy. The next few years will be interesting as I believe the long-term bear market will again take hold.

2010 is off to a good start as we are seeing a more typical trading ebb and flow market environment. Following are thoughts on the individual CMG Absolute Return Strategies:

Scotia Growth S&P Plus Program:

After gaining 52.63% in 2007, 76.65% in 2008 and almost 40% (net of fees) through the first six months of 2009, this aggressive 2x S&P 500 index trading strategy declined five of the last six months of the year and ended the year with a 6.52% net gain. It was a disappointing second half of the year, especially in light of the aggressive move higher in the equity markets. Many of our clients have been asking, "is the strategy broken?" I certainly don't believe so and offer the following:

While the strategy is designed to participate in the equity market's primary trend (whether it be an up-trend or a down-trend), it 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). If the next day is profitable, the strategy will trade back to money market and await a new counter-trend day to establish a position. Since inception, this particular trade setup has been profitable approximately 70% of the time.

There is an additional trade setup in the strategy that looks to take high probability trades based on overbought and oversold conditions in the S&P 500. In an extremely overbought situation (up approximately 5 or 6 days in a row and up by a certain percentage over that time) the model will short the S&P 500. Conversely, in an extremely oversold situation (down approximately 5 or 6 days in a row and down by a certain percentage over that time) the strategy will go long the S&P 500. Since the inception of the strategy, this trade set up had been profitable 90% of the time. There have been 39 overbought or oversold signals in five years, covering up market periods and down market periods, yet it failed in four of the last five trades in 2009. Is the strategy broken or did it run into a rare trending period? We believe it to be the later and continue to like the probabilities of the strategy moving forward.

The ultimate question is will this very rare market move (a very large number of consecutive up days combined with low volatility) continue? Or will a more normal ebb and flow trading environment emerge? When I look at the S&P 500 Index chart on a year-by-year basis going back in time, I think it is pretty clear that the nature of the second half of 2009's market move was rare.

Month-to-date, Scotia is up over 8% net of management fees. The equity markets have had an impressive month so far with a number of consecutive up days yet there have been several counter-trend opportunities and one overbought signal that have successfully added to Scotia's January gain. Furthermore, Scotia has gained on both the long and short side.

I have a great deal of confidence in Scotia's process. I believe the strategy continues to have edge and I'm especially pleased with his ability to trade each signal with discipline - even in the face of significant investor displeasure. Many other managers might try to manufacture a quick fix with hope to protect their business. This is never a good sign. We are pleased that Scotia remains consistent and disciplined.

CMG Managed High Yield Bond Strategy:

The CMG High Yield Bond Strategy is designed to capture the intermediate term trend up moves in High Yield bonds, generating returns by capturing both price gain and yield. In October 2008, I put out a piece entitled ***"High Yield Opportunity Directly Ahead"***. I said, "Over the nearly 17 years that I have been trading the intermediate term trends in the HY market, I have witnessed two significant buying opportunities (both coming off recession lows/rising defaults – 1991 and 2002)... Although we are not quite there just yet, opportunity number three is taking shape." At the time I wrote that piece, our HY strategy had been essentially flat for five years. The world was priced to perfection in 2004–2007 as high yield bonds were yielding hardly more than a safe Treasury bond. Money Markets funds were paying a very low yield and default rates were at record lows.

Today, I believe we remain in the late stages of post recession HY opportunity. Yields remain attractive. My best guess is that HY's return 10% to 12% in 2010 with returns better in the first four months of the year and again in the last few months of the year (seasonally a good period for HY). I see a potentially significant correction mid-year offering some favorable trading opportunities as the year progresses. I believe that there is significant risk of recession again in 2011 or sooner. A lot depends on Fed/Treasury led liquidity injections and the timing of politically unavoidable tax increases (it will be a mistake). Our existing structural problems will take years to work through – risk is high. Additionally, geopolitical risks remain large with risk of war in the Middle East unfortunately a high probability. We are a world in a deleveraging process. All of this will likely increase trading opportunity. In short, a recession, a major equity market decline and/or another credit crisis will move HY prices lower and reset yields at higher levels.

Currently, the model is close to a sell signal. I'm keeping a 1% stop loss exit trigger on the current long positions. If my model hits that trigger, we'll move back to cash and patiently await the next buy signal.

There is no guarantee I will be correct in my thinking and frankly my fundamental thinking makes little difference in the process of how I trade the strategy. If HYs are moving higher in price, we'll invest long to capture price gain and high yield. If HYs move lower in price, we will quickly move to cash. The greater the volatility (a larger price decline), the greater the next buying opportunity for the strategy will be. I see higher volatility in 2010 and currently yields remain attractive.

After a few initial bumps caused by AIG's unexpected mass liquidation of its credit default swap portfolios in early 2009 (yes - at the major expense of the US taxpayer and the reward of Goldman Sacs and several other large firms), the strategy had a very strong year as reflected in the gains above.

Anchor Capital Long/Short HY Strategy:

After a difficult start to 2009 (see comments on AIG above), the Anchor HY Strategy performed well as high yield bonds trended up into the end of the year. While the CMG HY Managed Bond Strategy is designed to capture the intermediate-term trends in high yield bonds, the Anchor Long/Short HY Strategy is designed to trade high yields more tactically. During short periods of decline, the strategy will hedge exposure by investing in short bond funds to offset long exposure. Should high yields enter a period of prolonged decline (several weeks to several months), the strategy has the ability to take directional net short positions through the use of inverse funds. Should high yields enter a sell-off, we expect the strategy to hedge exposure, raise cash and take short positions to benefit from the decline. We believe the short-term nature of the strategy and the ability to take short positions makes it a complimentary allocation to the CMG Managed HY Bond Strategy.

Anchor Capital Stratus ProFunds Program:

The Anchor Stratus Strategy is a multi-strategy portfolio that trades US equity indices, long and short, and invests long only in ProFunds sector funds based on a mean reversion strategy and trades high yield bond funds, long and short. The strategy, much like Scotia, works better in a trading environment with counter-trend days. The second half of the year proved challenging for the strategy as the underlying models remained hedged for large portions of the equity market rally as short-term overbought conditions would dictate. In particular, the mean reversion component of the strategy had very few trades in the second half. Mean reversion strategies look to capitalize on short-term market dislocations where there is a high probability that a sector or index will revert back to its intermediate or long-term trend over a given period of time. Unfortunately, there were almost no opportunities last year as all of the sector funds that the strategy can trade trended strongly together with few diverging from their longer-term trend. We believe

that increased volatility, more counter-trend trading days and a larger dispersion of performance between sectors should benefit the strategy in 2010.

Bandon Directional Interest Rate Strategy:

The Bandon Directional Interest Rate Strategy invests long or short (short via investment in inverse bond funds) in mutual funds tied to the performance of the 10-year and 30-year US Treasury bonds. In addition to a number of economic indicators factored into its process, the strategy trades once a month, on the first Friday of every month when US unemployment figures are released. Based on that fundamental information, combined with technical and momentum analysis of the 10-year bond, Bandon will take a long or short position in US bond mutual funds. During 2009, the strategy took on 11 directional long or short US bond mutual fund positions (in August the model was neutral and remained in money market.), 7 were accurate and 4 were not. The strategy is designed to make money if interest rates are rising and if interest rates are falling. We are pleased with the performance of the strategy and its ability to generate a high level of profitable trades in line with its long-term performance. Furthermore, we believe that the strategy is poised to do well in 2010 as volatility is likely to remain in the US treasury markets as the Federal Reserve will likely raise rates before the end of the year.

Most investors in bonds will find it difficult to make money when rates are moving higher. While we expect interest rates may remain range bound, we see significant pressure on higher rates moving forward. This is an attractive fixed income alternative investment strategy that has the potential to profit in both a rising rate and falling rate interest rate environment.

Heritage Capital Gold Strategy:

The Heritage Capital Gold Strategy invests long only in the Rydex Precious Metals fund based on technical indicators, primarily candlestick reversal patterns. Please note that the strategy does not trade the spot price of gold, but rather invests via a Precious Metals mutual fund in companies that are in the precious metals sector. After a 30.81% net return in 2007 and a 23.90% net return in 2008, the strategy had a quiet year despite the rapid appreciation in the price of gold, most of which occurred in the second half of 2009. The breakout in gold post August was rapid and the particular trade set up that Heritage bases its trading decisions upon set up infrequently during the unique nature of the up move (lack of counter-trend down moves necessary to set up the desired candlestick reversal patterns). Looking forward, we expect more volatility in both the spot price of gold and precious metals equities as it appears the dollar is set to rebound to stronger levels. We remain favorable on the strategy.

Cook S&P 500 Index ETF Trading Strategy:

The Cook S&P 500 Index ETF Trading Strategy ("Cook") is based upon an overbought or oversold indicator designed to capture directional market moves using S&P 500 Index Exchange Traded Funds. While Cook has a number of specific trade setups, the overall framework of his 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. This strategy trades approximately 20 round trip trades per year and spends a considerable amount of time invested in cash.

Mark was famously interviewed in the book, Stock Market Wizards – Interviews with America's Top Stock Traders, by Jack Schwager. This particular strategy trades one of his historically probable trade set ups. Generally, Mark looks for trade set ups that are profitable 75% of the time higher.

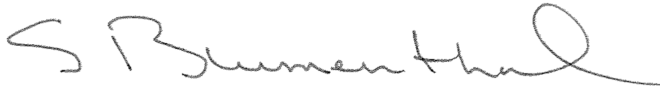
The strategy is dependent on first the creation of an extremely overbought or oversold market condition, then, once identified, the strategy takes a counter-trend position in a liquid S&P 500 Index ETF. For example, in an extremely overbought situation, the strategy will invest in an inverse S&P 500 Index ETF with the goal of profiting when the S&P declines. In an extremely oversold situation, the strategy will invest in an S&P 500 Index ETF that profits when the S&P rises.

After a pretty good start to 2009, especially given the difficult stock market and crash low in March 09, we were disappointed that the strategy lost in each of the last five months of the year. Simply, each overbought signal (which generated a short or inverse trade) was stopped out as the market broke resistance to higher levels causing the strategy's preset stop loss exit levels to trigger a sell. While we are displeased with the 2009 final performance, we understand the nature of the strategy and specifically the uniqueness of the equity market move in the second half of 2009. We continue to believe that the strategy's process is sound and are pleased that the execution of that process remains disciplined. From a probability standpoint, when a trade set up that has historically won approximately 7.5 out of every 10 trades, loses 4 out of 5 in a row, it is has been our experience that it too will mean revert. We continue to favor the strategy. 2010 is off to a good start. The most recent overbought short signal resulted in a profitable trade.

Schreiner Dynamic Index Program:

After starting the year strong, the Schreiner Dynamic Index Program struggled in the second half of the year. We are disappointed with the strategy's performance and have removed or significantly decreased the allocation to Schreiner in all of the CMG managed blends. We will continue to monitor the strategy closely over the next quarter.

With kind regards,



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