CAPITAL MANAGEMENT GROUP, INC.

CMG

Alternative Investment Strategies

CMG Q4 2010 Absolute Return Strategies' Performance Review

Dear clients, friends and family:

Following is the 2010 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 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	2nd QTR	3rd QTR	4th QTR	2010 YTD
AIFS Active U.S. Treasury Management Strategy	1.21%	-1.55%	2.57%	3.15%	5.41%
Anchor Capital Stratus ProFunds Program	-1.66%	-5.38%	-1.97%	5.53%	-3.73%
Anchor Capital Long/Short HY Bond Strategy	0.68%	1.25%	3.27%	-0.49%	4.76%
CMG Managed HY Bond Strategy	2.00%	0.83%	2.29%	0.31%	5.54%
Jefferson National CMG HY Bond Annuity	4.24%	1.27%	3.23%	0.29%	9.28%
Cook S&P 500 Index ETF Trading Strategy	-2.69%	6.53%	1.49%	1.67%	6.97%
Heritage Capital Gold Strategy	-0.34%	0.78%	-0.21%	0.87%	1.09%
Howard Capital Sector Rotation Program	9.30%	-9.17%	-8.09%	12.26%	2.46%
JT Emerging Markets Strategy	11.76%	13.20%	-8.91%	-2.90%	11.90%
JT NASDAQ 100 Strategy	11.11%	6.03%	-6.53%	-4.24%	5.43%
Scotia Growth S&P Plus Program	2.36%	9.01%	-12.96%	11.95%	8.71%
System Research Treasury Bond Program	-1.11%	-0.26%	-3.92%	8.64%	2.95%
Jefferson National Scotia Growth S&P Plus Annuity	3.90%	0.35%	6.03%	9.49%	21.05%
Strategy Blends	**1st QTR**	**2nd QTR**	**3rd QTR**	**4th QTR**	**2010 YTD**
Conservative 2 Blend	0.11%	-0.84%	-0.82%	2.35%	0.77%
Moderate 2 Blend	0.15%	0.10%	-3.74%	4.76%	1.11%
Aggressive 2 Blend	-0.16%	0.64%	-6.89%	7.40%	0.47%
Market Index	**1st QTR**	**2nd QTR**	**3rd QTR**	**4th QTR**	**2010 YTD**
Dow Jones Industrial Average	4.82%	-9.36%	11.13%	8.05%	14.07%
S&P 500	5.38%	-11.42%	11.30%	10.76%	15.06%
NASDAQ Composite	5.68%	-12.03%	12.30%	12.00%	16.91%
Barclays Aggregate Bond Index	1.78%	3.49%	2.49%	-1.29%	6.56%
Barclays HY Credit Bond Index	4.62%	-0.11%	6.72%	3.21%	15.11%

* 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 manager stories 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 solid disciplined process, and defined edge. We then monitor each trade to make sure the managers remain consistent (ie: 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") gained 3.15% for the quarter, net of fees, and finished the year up 5.41%, net of fees.

The AIFS Active U.S. Treasury Management Strategy ("AIFS") was added to the CMG Absolute Return Strategies platform in early October. The head portfolio managers, Kirk Barneby and Glenn Dorsey, have over 50 years of combined institutional investment management experience, previously managing more than $7 billion at UBS Asset Management. AIFS is a short-term growth-oriented fixed income program that actively trades U.S. Treasury exchange traded funds (ETFs). The program uses a multi-factor model (built on the manager's research that began at Citibank in 1972) based on monthly economic data to invest long and short (inverse) in U.S. Treasury securities. AIFS utilizes a highly quantitative, proprietary investment model to assess the economy and how it impacts U.S. Treasury rates on a monthly basis. The quantitative model evaluates and ranks factors in three primary categories: Economic Outlook, Inflationary Expectations and Investor Psychology. The process integrates all variables to generate a long or short interest rate trade signal, which determines the program's directional position and risk exposure. Given a strong buy signal (expecting interest rates to move lower), the strategy targets an 11 year long treasury exposure by buying Government Treasury Bond ETFs (Exchange Traded Funds). Given a strong sell signal (expecting interest rates to move higher), the strategy targets an 11 year short treasury exposure by buying inverse Government Treasury Bond ETFs. Given a moderately bullish signal, the strategy targets a long 5.5 year Government Treasury Bond ETF exposure. Given a moderately bearish signal, the strategy targets a short 2.75 year Government Treasury Bond ETF exposure.

AIFS began the quarter by initiating a short trade based on a fully bearish forecast for bonds (expecting interest rates to move higher) for the month of October. In November, the strategy moved to moderately bearish position, anticipating a slight rise in interest rates. Finally, in December, AIFS moved back to a fully bearish position in bonds in anticipation of rising interest rates. Over the course of the quarter, the U.S. 10 year Treasury Bond yield increased from 2.52% to 3.31% (approximately a loss of 8% on the 10 year Treasury Bond) as better growth forecasts and fears of inflation sent interest rates higher. Most bond mutual funds (with the exception of HY Funds) lost value over the same period. We think this is the beginning of a long and difficult period for traditional bond investors (unless maturities are shortened and bonds held to maturity). Unlike most bond investment strategies, AIFS has the ability to make money in a rising interest environment and a declining rate environment. After a 20 year bull market for bonds, we believe interest rates have likely put in their secular low. Although it is reasonable to forecast a period of higher interest rates, it is important to understand that interest rates rarely move in a purely linear fashion. Even in long periods of rising interest rates like the 1970s, interest rates still fell in almost half of the calendar months during that period. Thus we believe active duration management will be essential in the period ahead.

Anchor Capital Stratus ProFunds Program:

The Anchor Capital Stratus ProFunds Program ("Stratus") finished the quarter up 5.53%, net of fees, bringing the year to date return to -3.73%, net of fees.

Stratus had as strong fourth quarter, generating positive returns in each month during the quarter. The strategy had long exposure to high yield bonds, the NASDAQ 100 and the Russell 2000 during most of the quarter. After a strong October, equity markets posted a flat November, during which time the strategy hedged its long exposure with short high yield bond and S&P 500 positions. Stratus was primarily long in December as equity markets trended higher to finish the year. Stratus maintained long exposure of 60-80% for the majority of the month before hedging the potfolio into year end as markets became extremely overbought. The strategy generated one mean reversion trade during the quarter, going long the pharmaceutical sector. We are pleased with the strategy's performance over the past couple quarters after a difficult second quarter in which most of Stratus's losses came on the day of the flash crash, May 6, 2010.

Anchor Capital Long/Short HY Strategy:

The Anchor Capital Long/Short HY Strategy ("Anchor HY") returned -0.49% for the quarter, net of fees, and finished the year up 4.76%, net of fees.

Anchor HY was long high yields for all of October as the strong trend from the third quarter continued to push prices higher. After a strong October for equity and high yield markets, November proved more difficult to navigate as added volatility created a choppy market. Anchor HY was hedged for a large part of the month and net short HYs for several days as markets consolidated after the strong moves of the previous two months. The high yield market was again stronger in December and the strategy remained fully long for most of the month and into 2011.

CMG Managed High Yield Bond Strategy:

The CMG Managed High Yield Bond Strategy ("CMG HY") finished the quarter up 0.31%, net of fees, and returned 5.54%% year to date. The CMG Jefferson National HY Bond VA strategy gained 0.29%, net of fees, and returned 9.28% for the year.

CMG HY was long high yield bonds during the quarter and remains long as of this writing in early 2011. Although interest rates moved higher during the quarter, HY bonds performed as investors moved funds out of Treasury bonds and into higher yielding assets, including high yield bonds. We remain in a seasonally bullish period for high yields and believe that trend should continue through most of the first quarter. We believe that the second quarter, post April 2011, could prove more challenging as the Federal Reserve finishes its asset purchases, which to this point has continued to support the risk on trade. For now, the high yield market is trading with equities and is not impacted by the rise in interest rates. We believe that risk will become apparent and expect high yields to decline beginning in the second quarter. We continue to trade with tight stop-loss triggers and believe that an equity market sell-off tied to higher interest rates will ultimately set up a new attractive buying level at lower prices and more rewarding yields at some time in the near future. For now spreads remain relatively attractive, investors are seeking risk and the trend is higher.

Cook S&P 500 Index ETF Trading Strategy:

The Cook S&P 500 Index ETF Trading Strategy ("Cook") finished the quarter up 1.67%, net of fees, and returned 6.97% year to date, net of fees.

The Cook strategy finished the year with another positive quarter during which the strategy made three trades. The strategy placed a profitable long trade in early October, took a modest loss on a short trade in November and finished the year with a profitable December driven by a long trade that was initiated in late November.

Heritage Capital Gold Strategy:

The Heritage Capital Gold Strategy ("Heritage") posted a 0.87% return for the quarter, net of fees, bringing the strategy's year to date return to 1.09%, net of fees.

Heritage posted a profit for the fourth quarter and finished the year up modestly. The strategy looks for a specific, high probability, price reversal pattern to trigger a trade. There are periods when the pattern fails to present a trade opportunity. Frustratingly, that was the case for much of 2010, yet we have been pleased with the mangers discipline and steady risk management. We will be adding an allocation to Heritage Capital's more aggressive intermediate-term gold strategy that is designed to participate in some of the intermediate and longer-term trends in the precious metals index. In general, we remain bullish on gold. We will be adding the strategy during the first quarter of 2011 and anticipate incorporating the strategy into the CMG managed blends at the end of the first quarter.

Howard Capital Sector Rotation Program:

The Howard Capital Sector Rotation Program ("Howard") posted a 12.26% return, net of fees, for the quarter bringing the strategy's year to date return to 2.46%, net of fees.

Howard finished the year with a strong quarter, posting positive returns in October (+3.10%), November (+0.61%) and December (+8.22%). In October, Howard was invested primarily in the basic materials and electronic sectors (semiconductors). In early November, Howard rotated the electronics position into banking and by December that position was moved into energy service, which was showing stronger momentum. Howard was invested in basic materials for the entire quarter as the sector benefited from higher commodity prices and a weaker dollar. The strategy remains invested in the basic materials and energy services sectors through January.

After a difficult second and third quarter during which the Howard strategy was whipsawed twice on trades, the strategy finished the year strong. The Howard Capital Sector Rotation Program is a long-biased investment strategy that rotates trades among the Rydex sector funds. Howard has a two step process: identify whether to be invested or stay in cash/money market based on its proprietary buy-line (based on the number of stocks making 52 week new highs vs. new lows) and then invest in the two sectors with the greatest momentum. Since inception of the strategy in 2002, Howard has been whipsawed on trades based on their buy-line signal only six times: two of those instances happened this year and were tied to the volatility surrounding the European debt markets. Although these types of trading situations are rare, the resulting stop losses were a drag on performance in 2010.

Since inception in October 2002, the strategy has averaged 14.71% per year, net of fees, vs. 7.51% for the S&P 500 Index with a maximum drawdown of -18.90% vs. -50.95% for the S&P 500 Index.

We remain confident in the strategy and believe its long-term outperformance of the equity markets demonstrates the strategy's edge and disciplined trading process.

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 returned -2.90% and -4.24% in the fourth quarter, net of fees. For the year, the strategies returned 11.90% and 5.43%, respectively.

The JT Emerging Market Strategy and the JT NASDAQ 100 Strategy were added to the CMG Absolute Return Strategies platform at the end of September. Both strategies were added to the managed blends in early October. They 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 JT strategies had a challenging quarter, posting losses in October, generating strong returns in November and finishing down in December. The model incorporates aspects of both trend following and mean reversion and a key component of the program is the methodology of scaling both entry and exit, which provides for profit taking and risk reduction, creating a system of stop loss and profit realization. The strategy was stopped out of two short trades in October as equity markets continued to move higher despite slowing momentum and strong technical divergences. During a choppy November, JT generated strong returns from a short position, with the JT EM strategy out performing the JT NASDAQ strategy. The strategy was short for most of December as well and stopped out that trade in early January. Despite a challenging quarter, we are pleased with JT's performance for the year and believe the strategy has considerable edge, particularly at market tops and bottoms when typical momentum strategies are likely to incur losses. JT's model attempts to identify when market momentum is slowing, even when prices are still moving higher as was the case in December. The strategy continues to identify short trading opportunities due to the overbought condition of the market (there were only a couple of negative performance days for the equity markets in December). The strategy's proprietary model indicates that equity markets are at their most overbought level since 2009 and significantly higher than in 2007, before the market crash. We anticipate increasing exposure to JT in early April in anticipation of a change in the markets up trend.

Scotia Growth S&P Plus Program:

The Scotia Growth S&P Plus Program ("Scotia") finished the quarter up 11.95%, net of fees, bringing the year to date return to 8.71%, net of fees. The Jefferson National Scotia Growth S&P Plus Annuity strategy gained 9.49%, net of fees, and finished the year up 21.05%, 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 had a particularly strong quarter generating strong returns in October and finishing with a strong December after sustaining a modest loss during November. Scotia generated returns from both long and short trades during the quarter. We are pleased with the strategy's performance for the year and believe that Scotia continues to demonstrate considerable edge.

Scotia completed another positive year of performance and since the strategy's inception in 2004 Scotia has returned 328.03% (cumulative return) net of fees for a compound annualized return of 25.07% net of fees. Over that same time the S&P 500 Index generated a compound annualized return of just 3.61%. Of course, past performance cannot guarantee future returns and Scotia remains an aggressive strategy and should be used to compliment other investment positions in your portfolio.

System Research Treasury Bond Program:

The System Research Treasury Bond Program ("System Research") finished the first quarter +8.64%, net of fees. For the year, System Research returned 2.95%, net of fees.

System Research spent the majority of the quarter in an inverse Treasury bond position that profited from rising interest rates. The strategy remains short bonds as the core of the model continues to forecast higher interest rates over the short- to intermediate-term. The strategy 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 strategy actively manages interest rate directional exposure. While AIFS targets a maximum position of 11 year Treasury exposure long or short and trades Government ETF's, System Research targets 30 year Treasury bond exposure long or short and trades the ProFunds US Government long and inverse mutual funds.

Importantly, 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 by 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 two to five years. Perhaps significantly higher (Sovereign defaults, Municipal issues, and the prospects for increased inflation). Let us show you how you can reduce your risk exposure by adding actively managed interest rate strategies to your fixed income allocation bucket.

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

With kind regards,

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