CAPITAL MANAGEMENT GROUP, INC.

CMG

Tactical Investment Solutions

CMG Q2 2012 Quarterly Performance Update

Dear clients, friends and family:

Following is the 2012 second 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 and the CMG Classic Blends. We have also reflected the net performance for our tax deferred variable annuity tactically managed programs. Market index performance is presented at the bottom of the chart.

Within the total portfolio construction process, we believe it is important to include a number of non-correlating risk diversifiers (equity, fixed income and tactical exposure), that performance evaluation should be considered over a three to five year period vs. months and quarters, and that one should compare equity performance against an equity benchmark, bond against a bond benchmark and tactical against a tactical benchmark. Asset classes are non-correlating for a reason and should be viewed from that perspective. 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	2012 YTD
CMG Managed HY Bond Program	4.48%	1.17%	5.70%
Equity Strategies	**1st QTR**	**2nd QTR**	**2012 YTD**
CMG Opportunistic All Asset Strategy - Multi-Platform	10.22%	-4.84%	4.89%
CMG Opportunistic All Asset Strategy - TCA	9.84%	-3.55%	5.89%
CMG Opportunistic All Asset Strategy - TD Ameritrade	7.78%	1.66%	9.56%
Heritage Capital Gold Equity Strategy	1.72%	-2.71%	-1.03%
Scotia Partners Dynamic Momentum Program	6.06%	-1.85%	4.10%
Long / Short Strategies	**1st QTR**	**2nd QTR**	**2012 YTD**
Anchor Capital Long/Short HY Bond Program	2.82%	-0.51%	2.30%
Scotia Partners Growth S&P Plus Program	7.80%	-12.61%	-5.80%
System Research Treasury Bond Program	0.34%	8.44%	8.80%
Annuity Programs	**1st QTR**	**2nd QTR**	**2012 YTD**
CMG Opportunistic All Asset Strategy - Jefferson National	10.15%	-4.72%	4.96%
Jefferson National CMG HY Bond Annuity	3.72%	1.32%	5.09%
Jefferson National Scotia Partners Growth S&P Plus Annuity	8.75%	-14.65%	-7.18%
Managed Blends	**1st QTR**	**2nd QTR**	**2012 YTD**
Conservative Blend	3.32%	-0.25%	3.06%
Moderate Blend	3.83%	-0.88%	2.92%
Aggressive Blend	4.54%	-1.04%	3.39%
Classic Blends	**1st QTR**	**2nd QTR**	**2012 YTD**
Classic Balanced	5.95%	-3.94%	1.77%
Classic Core Equity	8.35%	-5.38%	2.52%
Classic Bear / Bull	6.92%	-7.28%	-0.86%
Market Indices	**1st QTR**	**2nd QTR**	**2012 YTD**
Dow Jones Industrial Average	8.84%	-1.85%	6.83%
HFRI Macro Systematic Diversified Index	-0.55%	-0.04%	-0.59%
S&P 500	12.58%	-2.75%	9.49%
NASDAQ Composite	18.67%	-5.06%	12.66%
Barclays Aggregate Bond Index	0.31%	2.06%	2.37%
Barclays HY Credit Bond Index	5.33%	1.83%	7.26%

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

Fixed Income Strategies

The **CMG Managed High Yield Bond Program ("CMG HY")** returned +1.17% for the second quarter, net of fees. CMG HY was long high yield bonds to start the quarter and tactically moved to a cash position in mid-May. The HY market trend continued lower through early June. After the selloff, the strategy re-entered the HY market in early June at a lower price and higher yield and remains invested in high yield bond funds through today (July 20, 2012). We believe high yields remain attractive based on number of fundamental and macroeconomic factors. We see three factors supporting the high yield market: 1) high yield spreads are higher than historical trends, 2) investor demand remains strong, and 3) the light new issue calendar and low default rates. All of these factors support a continued positive market environment for high yields.

On July 17, Michael F. Sciortino, Sr., CMG's Head of Distribution and Stephen Blumenthal, CMG's CEO, Founder and Portfolio Manager of CMG HY, hosted a webinar entitled "Searching for Higher Yields", during which Steve talked about how the strategy works and how to utilize the strategy within the fixed income portion of your portfolio(s). If you did not register for the initial call, please follow this link to access the replay of the webinar.

CMG Tactical Equity Strategies

The **Scotia Partners Dynamic Momentum Program ("Scotia Dynamic")** returned -1.85% for the quarter, net of fees. Scotia Dynamic incurred losses in early April while being fully invested in the transportation, biotechnology and healthcare sectors to start the month. As the equity market stabilized, the strategy did not participate in several of the subsequent oversold rallies due to a lack of momentum across the investable universe of sectors that the strategy can choose from. While May proved to be equally challenging for equity markets, Scotia Dynamic was down modestly while being positioned in the biotechnology and precious metals sectors at various times during the month. By mid-May, the strategy moved 100% to cash as there was no positive momentum in any of the equity sectors. The strategy finished May and entered June with positions in biotechnology and precious metals. The strategy was heavily invested in precious metals for the first three weeks of June and that allocation contributed the majority of the gains for the month.

The **Heritage Capital Gold Equity Strategy ("Heritage")** returned -2.71% for the quarter, net of fees. Along with the broader equity markets, precious metals equities (gold and silver miners) declined significantly during the quarter, losing 9.7%, as measured by the strategy's benchmark, the Philadelphia Gold and Silver Miners Index. Since the start of the year, the index has declined 7.12% and over the past year, gold and silver equities have lagged other equity sectors, declining 16.02%. The price of gold has also declined over this period of time as market expectations for inflation have turned to concerns about a recession and possible deflation. The impact on the miners has been significant and has created a strong downward trend in precious metals equities miners. Heritage made several trades during the quarter with modest exposure of 25-50% for those trades. Those trades hit stop loss limits and resulted in modest losses. Despite a modest decline during the quarter and limited trading opportunities, we are pleased with the strategy's discipline and continue to have conviction in the strategies investment process.

The **CMG Opportunistic All Asset Strategy ("CMG Opportunistic")**, our broadly diversified tactical mutual fund allocation strategy, returned -4.84% for the quarter in the Multi-Platform portfolio (available at Schwab, TD Ameritrade, Pershing, NFS and RBC), -3.55% for the quarter in the TCA (Trust Company of America) portfolio and +1.66% in the TD Ameritrade portfolio, net of fees.

After a strong start to the year during which CMG Opportunistic captured significant upside from equity oriented positions, the portfolios rotated into more defensive equity funds and fixed income positions during the second quarter. With respect to equity positions, the portfolios moved from higher beta funds like technology, financials and energy to an increased allocation in defensive positions such as healthcare, biotechnology and utilities. In addition, the portfolios also added to fixed income exposure in a combination of bond funds including government bonds, inflation protected bonds and convertible bond funds. The move toward a more defensive posture helped limit losses during the second quarter equity market correction.

It is important to note that CMG Opportunistic is designed 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 (i.e. a shift to fixed income and defensive sectors). Each CMG Opportunistic portfolio is comprised of 11 models (with the exception of the Jefferson National portfolio) that are making independent allocation decisions based on different holding periods and indicators, resulting in a dynamic and diversified portfolio of mutual funds. As a result, portfolios that are available on the different investment custodian platforms utilize no-transaction-fee funds that vary from one custodian platform to another and thus each strategy may not be precisely aligned over short windows of time; however, we believe they will generally perform in line over multiple quarters and years. For a snapshot of current allocations in the CMG Opportunistic portfolios, please visit our website at the following links: Multi-Platform, Jefferson National, TCA and TD Ameritrade. Alternately, please feel free to contact us to learn more about how the Opportunistic All Asset portfolios dynamically reallocate over time with the objective to manage risk and achieve return.

Long / Short Strategies

With respect to our long/short equity managers, the **Scotia Partners Growth S&P Plus Program ("Scotia")** finished the quarter -12.61%, net of fees. Scotia had a difficult quarter as trendless and volatile equity markets caused the strategy's core model to change from bullish to bearish and back again. In addition, the size and velocity of the price movements in the S&P 500 also generated several overbought and oversold trades during the quarter. The Scotia strategy generally performs better in strong trending environments (up and/or down) interspersed with counter-trend days that allow Scotia to take profits and reposition for a new trade, much like the first quarter of the year. The strategy generated twelve trades during the quarter, five core model trades and seven mean reversion trades (overbought / oversold) trades. On May 22, CMG hosted a webinar with Cliff Montgomery, the Portfolio Manager of Scotia Partners. Mr. Montgomery addressed a number of topics about the strategy including the development of the strategy, why it is non-correlating, the ideal market environment for the strategy and his views on how much one might allocate to the strategy. If you were unable to attend the webinar in May, we highly recommend listening to the replay to learn more about the strategy and how it can be a risk diversifier in your portfolio(s). Please click on the following link to access the replay.

The **System Research Treasury Bond Program ("SR")** returned +8.44% for the quarter, net of fees. After entering April with a short position, SR traded both long and short during the month. By the end of April, all of the model indicators were generating a long signal (signaling a downward move in interest rates and indicating higher bond prices). SR remained long Treasury bond exposure for the entire month of May through June and to the present time. All of the strategy's indicators currently imply a period of lower interest rates and rising bond prices: the commodity indicator reflects lower global growth and hence a trend lower in metals prices, the equity indicator points to the outperformance of defensive and interest rate sensitive utility stocks and the short-term fixed income indicator points to continued momentum for higher bond prices. Based on the construction of the SR model and the ongoing deceleration of global growth as indicated by most macroeconomic indicators, the strategy is likely to maintain a long bias for the foreseeable future.

The **Anchor Capital Long/Short High Yield Bond Program ("Anchor")** returned -0.51% during the second quarter, net of fees. Anchor actively managed its exposure during the quarter as high yields began the quarter in an upward trend before correcting in May. Anchor began the quarter with a long position in high yields but by May had moved to a hedged position with modest net long exposure. Anchor remained hedged until mid-May when the strategy was net short high yield bond funds. After the sell-off in May, high yields rebounded in June and Anchor was again positioned net long by the end of the quarter.

Conclusion

After a positive start to the year, global equity markets declined significantly in April and May, before rebounding and finishing the quarter on better footing. Although the headlines from Europe, especially the Greek election and the Spanish banking bailout, drove much of the selling during the quarter, macroeconomic indicators across the globe pointed to a slowdown in growth or in the case of Europe outright recession. In addition to Europe, which is trying to preserve a fragile currency union, China posted some of the worst growth numbers in years and is wrestling with a messy political transition while debating the best way to stimulate the economy. Emerging markets and commodity producing countries are slowing down as their primary trading partner, China, slows. Japan remains a mess with fractured leadership, poor demographics, a deteriorating sovereign balance sheet all while trying to negotiate the energy challenges that have come from shutting down nuclear reactors in the wake of last years disaster.

In the U.S., we face some of the same challenges as the rest of the world, albeit with a greater capacity to solve our own problems (as one would expect from a superpower with a global reserve currency). However, the will to make the difficult choices, and tell Americans about what needs to be done, is seemingly not in the capacity of our politicians. The "fiscal cliff" nears - the can has been kicked down the road far enough. We are arriving at a point of major inflection. It is time to make serious choices about the level of government services we will provide our citizens and whether we can afford it with the current tax and spending imbalances. How will our leaders respond?

Both political parties are on hold until after the election, demonstrating the inability to compromise on the mix of revenue increase (through tax reform, tax hikes, etc.) and spending cuts (entitlements, defense, etc.). The recessionary cocktail that will come from the expiration of the Bush tax cuts, the payroll tax holiday and the spending sequester that resulted from the debt ceiling debate last year is front and center. Excess debt is a drag on growth; excessive deficit spending is irresponsible and drives our debt load higher. It is estimated that failure to extend the Bush tax breaks will further impact domestic GDP growth by -1% to -4%. That moves our economy from a 1.5% to 2% growth rate to a flat to negative growth rate. If your taxes go up you have less to spend. If your debt goes up you have to pay more of you income to cover the debt payments and thus have less to spend. This is recessionary fuel. In fact, Lakshman Achuthan, chief operations officer of the Economic Cycle Research Institute ("ECRI"), a leading forecaster of the business cycle and recessions, believes the U.S. has already entered into a new recession period.

While we are not in the business of forecasting recessions, we do believe that a survey of the macroeconomic landscape does not have us feeling very bullish over the next several years. We believe the equity markets remain in a long-term secular bear market that is defined by us as an emotionally exciting (or nauseating) rollercoaster ride of up trends and seemingly quick and volatile down drops. If the ECRI is correct, it is important to note that the U.S. equity market declines approximately 40% from high to low in recessions.

Fortunately, we believe there is a better way, one that embraces uncommon solutions within your portfolio construction, one that we have been talking about for quite some time and that calls for including tactical, risk managed trading strategies to compliment the traditional buy and hold model of investing. We like to think of it as “Enhanced Modern Portfolio Theory”: a sound application of Harry Markowitz’s portfolio theory that capitalizes on the innovation that has expanded the portfolio tool chest of risk diversifiers and can help investors to build better portfolios – portfolios that can weather bull and bear cycles. At CMG we welcome the opportunity to serve as a partner and trusted resource that can help you navigate an ever-changing investment landscape.

With kind regards,

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