

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Tactical Asset Allocation Using ETFs



DAVID A. SCHOMBERT is the Founder, President and CIO of Metropolitan Capital Strategies, LLC, where he now uses his unique philosophy to manage its portfolios, which are made up of two strategies, Tactical Growth and Tactical Moderate. He received his B.S. degree in finance from George Mason University in 1975. Mr. Schombert began his career in finance as a Financial Risk Analyst, evaluating risk-reward on major contracts for Fortune 500 companies. After 20 years in the private sector, he continued his career for 11 successful years as a Vice President of Private Client Wealth Management for the Smith Barney division of CitiGroup Global Markets, Inc. During his tenure in the financial arena, Mr. Schombert developed a tactical and quantitative investment philosophy that set him apart from the standard investment approach. He resides in Fairfax, Va., with his wife, Gail.



SHARON M. SNOW is the CEO and CCO of Metropolitan Capital Strategies, LLC. She comes to MCS after six very successful years as Second Vice President of Private Client Wealth Management with Citigroup Global Markets, Inc., Smith Barney. After receiving her B.S. degree in business management from the University of Maryland, Ms. Snow owned several different corporations prior to her career at Smith Barney. She now utilizes her expertise at MCS as CEO, assisting Mr. Schombert with the trading strategy and working with the investment professionals that utilize MCS as a money manager for their clients. She is a CFA Level I candidate. Involved in leadership and community roles, Ms. Snow has held several board positions and received recognitions including the prestigious Blue-Chip Council at Smith Barney. Ms. Snow lives in Haymarket, Va., with her husband, Dan, and enjoys time with their children and grandchildren.

TWST: Would you begin with an overview of MCS and your investment philosophy?

Ms. Snow: Metropolitan Capital was founded in April of 2007 by Dave Schombert, our President and Chief Investment Officer. Dave has a strong background in risk analysis for Fortune 500 companies, combined with 12 years working for Citigroup Smith Barney, and he is responsible for MCS' investments. My background is in the business world. I am the CEO and CCO of MCS. MCS uses tactical asset allocation strategies, utilizing exchange-traded funds to generate absolute return, and we offer two investment strategies — Tactical Growth and Tactical Moderate for ERISA or retirement accounts. The most compelling aspect of MCS is that our philosophy and approach to investing is unique compared to traditional money managers. Let's begin

with our motivating principals, and that will tell you a bit about our philosophy and approach. Our first principle is a quote by Donald Trump: "You have to think anyway, so why not think big." At MCS we strive for a 15% average annualized rate of return over a five-year time frame, which is our primary benchmark. While we compare our returns with the S&P 500 and the MSCI World Index, we are not just attempting to beat those benchmarks, but rather we are focused on achieving the average annualized 15% return.

Our second motivating principle is from Warren Buffett: "Rule one is to never lose money. Rule two is never forget rule one." Therefore, MCS employs a loss avoidance philosophy, and by following these two motivating principles, we protect our clients' principal and appreciation.

The MCS approach is tactical, thus allowing us the flexibility to go anywhere in the market and achieve our goal when we determine the risk is low. Specifically, we can use exchange-traded funds for any market capitalization, country, sector, bonds, commodity or currencies to achieve the goal. Most money managers are locked into a style box, such as a country or segment of the market, and thus do not have the flexibility of the entire ETF universe or the ability to take the portfolio into a cash position for extended periods of time in uncertain environments.

Our two strategies are similar because both strategies are tactical asset allocations that employ ETFs and cash or cash equivalents to generate absolute return to achieve our 15% average annualized goal. The only difference between the two strategies is Tactical Growth employs an options strategy to augment our returns and Tactical Moderate does not use options, thus allowing it to be appropriate for retirement accounts. Both strategies have a very low standard deviation compared to the S&P 500 and MSCI World Index. MCS has achieved a 15.4% average gross annualized return from September 2005 to June 2010 in the Tactical Growth Strategy, the total time period of our track record, including the portable record from Sept. 30, 2005, to April 30, 2007. The company has been GIPS-compliant and verified since inception of our firm in 2007, and the portable track record reflects the performance of clients who traded in this strategy when Dave and I were at Citigroup, Smith Barney.

TWST: Tell us a bit more about the core strategy that uses ETFS.

Ms. Snow: We believe there are opportunities at certain points in time that allow one to earn 10% to 20% returns that occur in different broad-based sectors of the market. These sectors can be purchased using ETFs and typically represent broad-based U.S. indexes, global indexes, commodities, currencies, bonds or anything available in the ETF universe. Our investment process allows us to identify the likelihood of market trends, giving us the opportunity to earn money in chunks of 10% to 20%. Similar to markets in general, outstanding portfolio returns are rarely earned in small increments, typically they are earned in what can be referred to as “chunks.” Generally there are six to 14 of these opportunities to earn 10% to 20% returns in a number of broad-based indexes occurring in rolling five-year periods. From these six to 14 opportunities, there are about five to eight that carry acceptable risk, allowing us to commit our clients’ capital. We invest only when we identify a 10% to 20% upside potential with low risk or a high level of confidence.

Back to our investment philosophy: “Never lose money in any calendar year.” If we cannot find investments that meet both criteria — double-digit return with an associated low risk — we invest in the lowest-risk asset class allowable and augment the return using our options strategies. Historically, our lowest-risk option or investment class has been cash equivalents or money markets, but moving forward, we could use currencies, bonds or commodity ETFs.

I will also embellish on our methodology, if you’d like. We use proprietary fundamental and technical analysis to determine the asset allocation and selection of ETFs. We

have a three-step process. Dave, as the CIO, starts with the charts and technical indicators for confirmation of inflection points and/or oversold indicators. If there is an area that looks interesting, he then proceeds to the fundamentals. There are 26 fundamental indicators that are the core of the MCS algorithm. The weightings of each of these indicators can be changed, depending on the circumstances. Once an ETF is identified, we look at the top 15 and bottom 15 constituents in each ETF. If the fundamental algorithm is positive, we then move to the economic influences that are relevant and most likely to impact the ETF we have chosen for investment. We then affirm or re-weight the algorithm and run the formula for risk assessment. If everything is positive, we make a decision to invest consistent with those risk

rankings. Just to be clear, we start with six technical indicators, then the 26 fundamental indicators and finally the 25 economic factors.

TWST: The economic indicators, do they determine all the assets in which you invest?

Mr. Schombert: They don’t really determine the asset classes by themselves. The fundamental and technical analysis combined with the economic indicators determine the ETFs. We primarily look at broad-based ETFs. Historically looking back at the last five years, we’ve used very broad-based ETFs, like the Mid-Cap 400, S&P 500, Emerging Market Indexes and others as such. We use economic indicators, such as GDP, CPI, PPI, employment, etc., to determine the economic environments that would be most favorable to a low-risk investment, but that is just a starting point. The algorithms produce a mathematical calculation indicative of a confidence level of one to 100. We’re looking for a 90% or greater confidence factor to purchase ETFs at any point in time.

Highlights

David A. Schombert and Sharon M. Snow offer an in-depth summary of Metropolitan Capital Strategies’ investment philosophy, which uses a tactical, flexible asset allocation strategy that utilizes exchange-traded funds to deliver absolute return. The firm offers two different investment strategies: Tactical Growth and Tactical Moderate. Both strategies aim to achieve a 15% average annualized goal by investing in broad-based sectors of the market through ETFs. Ms. Snow explains that MCS’ fundamental and technical analysis, based on 26 fundamental indicators, allows the firm to identify broad-based ETFs for investment based on a 90% or greater level of confidence. She believes the firm’s low-risk/high-confidence investment criteria, in addition to its flexibility, offer a competitive advantage in today’s volatile market. Despite political and economic headwinds to come, both money managers are confident in their ability to capture double-digit upside in low-risk areas.

TWST: What about the indicators to determine the length of time that you'd remain in a certain market environment?

Mr. Schombert: The length of time that we are typically in the market is seven weeks to four months. Like the markets, outstanding returns are rarely earned in small market moves, but rather are earned in "chunks." We exit the market if there is an unexpected negative material news event regardless of our return. The sell decision is the inverse of the buy decision. Exit signals also include technicals forming a top, relative strength deteriorating, or the end of the earning season and all the earnings news has been released.

"Flexibility is one of the cornerstones to successful long-term investing. A bear market generally can be anywhere from negative 20% to almost a 40% downturn, as experienced in 2008. We are convinced that it's imperative to have cash and cash equivalents available within a tactical strategy to provide the best rates of return and risk management for our clients."

TWST: What about the weightings of your ETFs to determine value algorithms? What changes in those weightings have you made in recent months?

Ms. Snow: We have been making changes in the weightings over the past three years, not so much in the past few months. A key change was in February 2010, which allowed MCS to move into the markets from mid-February to mid-April and exit the market with about a 24% net return in the Tactical Growth Strategy for that time period. Basically, if we were to look at the different weightings from 2010 versus 2009, revenue and earnings, two of the top fundamental factors in our algorithms, were weighted higher at that point in time. They were growing, and that did allow us an opportunity to enter into the market during that time period, which lasted a little over seven weeks, and capture our upside potential in a low-risk environment, at which point we exited the market. Within the fundamentals, the changes in the rankings for 2010 were the perceived positive revenue and earnings in the ETFs that we bought. This year the three ETFs we invested in were the emerging market, the technology sector and in the Standard & Poor's 500 ETF.

TWST: You always look for the 15% average annualized return. Have there been times when you've been very low on that, like at the end of 2008? Were you able to maintain 15% at that time?

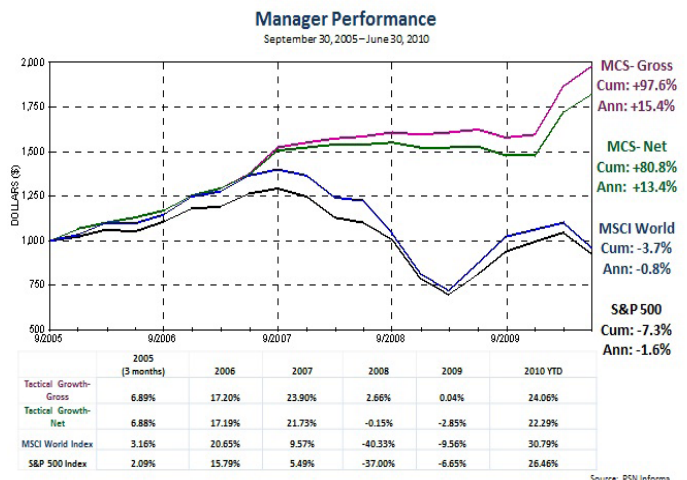
Ms. Snow: In 2008 and even 2009, our risk criteria, low risk and/or high confidence level, were not met. During very uncertain times in the markets, such as the global financial meltdown in 2008-2009, we employed a loss avoidance position due to the inherent risk environment, which is the second part of our motivating principles, and that is, "Never lose money in any calendar year." With the market in such a negative environment, like 2008, when the S&P was down 37% for the year, we invest in the lowest-risk asset class, cash or cash equivalents available at that point in time. If our confidence fac-

tor or proprietary algorithms do not meet the risk levels that are commensurate with our criteria to invest our clients' capital, we move to a cash position or cash equivalents, which is basically a contrarian approach to investing. That flexibility makes MCS different or unique in that we have the ability to go to 100% cash. We purposely wrote our ADV to allow ourselves that option prior to the meltdown. It's been part of Dave's core philosophy in investing for decades.

TWST: Do you have fixed income ETFs?

Ms. Snow: We are not currently invested in a fixed income ETF, but we have the ability to employ fixed income ETFs in our portfolio, as we have done in the past. We can invest in any

asset class in the entire ETF universe and, as you know, there are approximately 800 different ETFs. We can go in the global markets, broad U.S. markets, commodities, precious metals, natural gas, agriculture, currencies, bonds or sectors, and that gives us enormous flexibility. Stated again, that's one of the unique features of Metropolitan Capital's philosophy and approach. We will not allow ourselves to be boxed in to only one aspect of the investing world. We don't fit into a large-cap or an international box, and unfortunately most institutions lack a tactical box, which also allows us to be labeled an absolute return strategy.



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TWST: Because you don't have any mandate, you're free to go to all-cap indices and hedge equities, right?

Ms. Snow: Absolutely. We believe that is paramount to a good investment philosophy. In fact, we do not embrace the standard definition of asset allocation and diversification when there is uncertainty about where to invest, and that it's somewhat nonsensical to asset allocate part of a portfolio

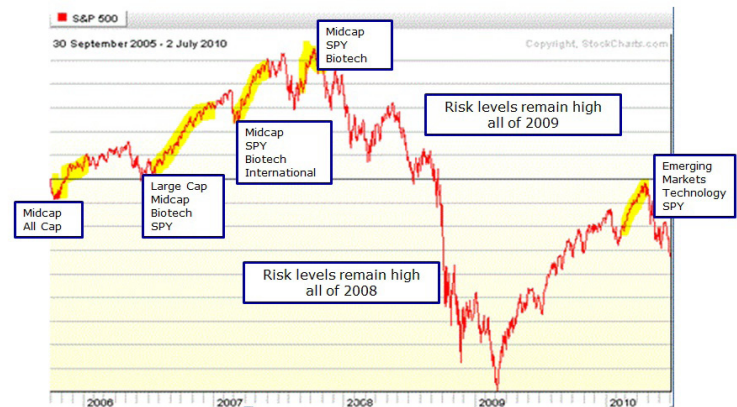
into non-performing asset classes or, more importantly, into declining asset classes. We firmly believe managers should allow themselves the ability to go to cash, especially in uncertain times.

TWST: Is the flexibility that you offer very important in an uncertain market environment?

Ms. Snow: Definitely, in our opinion, flexibility is one of the cornerstones to successful long-term investing. As I said before, a major part of our criteria is based on historical data and market events, but also one needs to anticipate future investment climates or a potential bear market. So as a bear market materializes, a portfolio manager could be exposing the portfolio to undue risk, knowing that if he is in the bond and/or equity markets, it could have a severe downturn without the ability to fully protect the portfolio. A bear market generally can be anywhere from negative 20% to almost a 40% downturn, as experienced in 2008. We are convinced that it's imperative to have cash and cash equivalents available within a tactical strategy to provide the best rates of return and risk management for our clients. We do not risk our clients' funds unless there is an associated level of confidence that allows one to achieve a

next five years, a good portion of profits could be made internationally in broad-based emerging-market ETFs. We don't just buy and hold; we buy when our confidence factor is high, with a corresponding potential double-digit return. We usually hold our investments seven weeks to four months.

MCS Strategy in Action



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"We only invest in broad-based ETFs that have high liquidity. They're very transparent and difficult for someone to manipulate. ETFs are baskets of stocks that are traded openly on an exchange. One could say ETFs are different from mutual funds, with that they receive real-time market prices. For us, ETFs provide the opportunity to take advantage of real-time market prices that are beneficial to our clients in an inherently diversified product."

high rate of return, because our clients want to make and keep their investment dollars. We believe that you can achieve a 15% average annualized return over a five-year time horizon with low risk, even during the worst down market since the Great Depression. The low risk is evident as expressed by the standard deviation of our strategy, which is about 10%. Moreover, we are confident, in our opinion, that we will continue to provide our clients with protection and outstanding returns, and that is what a successful investor strives to achieve.

TWST: You have a considerably in-depth quantitative analysis, the fundamentals and technicals, but I was wondering whether you take a top-down perspective and estimate future investing climates?

Ms. Snow: Yes, we continually look at future investing climates by utilizing a comparative analysis technique with top-down, bottom-up allocations, and we then crosscheck for risk factors. Historical data is extremely relevant, and we take the macro level and top-down approach through different investment criteria. Basically, if we look at the environment that we're in today, we are stunned to come out of a serious bear market and might possibly be beginning to slowly recover. The market is still down approximately 35% since the high of October 2007, and the revenue growth of most U.S. companies is relatively anemic at best. That invites one to look at the economic conditions of other countries for possible opportunities. In our opinion, during the

In the future climate, we're also looking at sectors, such as technology, biotech and pharmaceuticals, that we believe will outperform at some point during the next five years. We are also looking at other asset classes, including fixed income. Looking forward the next five years, we think there could be attractive and interesting low-risk opportunities in the fixed income area, or possibly in the currency and commodity markets. The important thing to remember is that we only invest when the risk is low with a corresponding potential double-digit returns.

TWST: What enables your risk management strategy to work so well? ETFs by themselves have a lot of risk management; they are not as volatile as equities. What are risk techniques would you tell us about?

Ms. Snow: That is true — ETFs are less volatile but highly diversified. It is our opinion that they are very appropriate for different market environments at certain points in time. As far as the advantages that ETFs have, one could say the inherent diversification and high liquidity is very important. We only invest in broad-based ETFs that have high liquidity. They're very transparent and difficult for someone to manipulate. ETFs are baskets of stocks that are traded openly on an exchange. One could say ETFs are different from mutual funds, with that they receive real-time market prices. For us, ETFs provide the opportunity to take advantage of real-time market prices that are beneficial to our clients in an inherently diversified product.

TWST: What differentiates your firm from other tactical asset allocators at other peer companies?

Ms. Snow: We think the difficulty for most money managers, including tactical managers, is their lack of flexibility to use cash or cash equivalents for extended periods of time. Some tactical managers do not employ an all-in or all-out type of strategy, but rather they could be 40% in equities, 60% in cash, etc., and try to fiddle with those percentages. In our opinion, that does not allow a manager the ability to maximize the profit and minimize the risk. Our portfolios only have two profiles — we are either in a full cash equivalent position or if there is a high confidence factor with a low-risk environment, we're going to be fully invested. The other key is our ability to invest in anything at any point in time. That's really essential to providing the best performance with the lowest risk. Unfortunately most managers are locked in a market cap, asset class, region or a sector. Once again, MCS' flexibility is a key asset to our investment strategy.

TWST: What advice would you give to investors? With everything you've said, why wouldn't they all go to a tactical asset allocator, like Metropolitan Capital Strategies? What are the advantages you offer to them?

Ms. Snow: We believe that as more investors become comfortable with our broad-based strategic moves and understand the robust work behind our risk assessment, we will see smart money coming our way. Advantages are the 15% average annual benchmark goal, which, as one knows, in a five-year time period would double the money. It's our opinion that most investors have been or have bought into the idea of asset allocation diversification even though clearly it has not worked in at least the past 10 years. They're not familiar with tactical managers because there is no "box" to put them in. In the in-

Our advice to investors is to have patience, but unfortunately most investors don't have the patience or a five year goal for their money. They are used to being fully invested at all times, and they're not used to what they consider to be sitting on the sidelines or being in a low-risk asset class. Also most investors really are not aware of the basic cycles of investing, the analysis of cycles in the market or using historical data. They tend to be greedy and looking for linear returns. Let's look at the previous five years from 2005 to present in the market. In the Metropolitan Capital Strategies' approach to investing, we've had five opportunities associated with low risk to invest in the market. The chart attached illustrates the tactical moves of our portfolio. We were in the market at the end of 2005 and September to December 2006. We had two opportunities in the market in 2007, February to May, and then August to October of 2007. And then we positioned

Annual Returns through June 30, 2010

	2010 YTD	2009	2008	2007	2006	2005 (3 months)
Tactical Growth-Gross	24.06%	0.04%	2.66%	23.90%	17.20%	6.89%
Tactical Growth-Net	22.29%	-2.85%	-0.15%	21.73%	17.19%	6.88%
MSCI World Index	-9.56%	30.79%	-40.33%	9.57%	20.65%	3.16%
S&P 500 Index	-6.65%	26.46%	-37.00%	5.49%	15.79%	2.09%

Annualized Returns through June 30, 2010

	2010 YTD	1 Year	2 Years	3 Years	4 Years	Since Inc. 9/30/05
Tactical Growth-Gross	24.06%	21.79%	11.63%	12.90%	14.99%	15.44%
Tactical Growth-Net	22.29%	18.30%	8.50%	9.74%	12.46%	13.29%
MSCI World Index	-9.56%	10.77%	-11.32%	-10.94%	-3.02%	-0.80%
S&P 500 Index	-6.65%	14.43%	-8.11%	-9.81%	-3.22%	-1.57%

*Beginning May, 2007 gross returns are pure gross and supplemental to the net returns as they are not reduced by transaction costs. Information presented prior to May 1, 2007 is that of the portfolio management team while affiliated with a prior firm.

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"Sometimes we're actually a little stumped ourselves as to why clients don't invest more with tactical managers. The edge is really having a five-year defined goal, a goal that's our signature benchmark. We apply focus, discipline and objectivity to that investing, and ultimately we manage risk, not securities. We need clarity before we invest our clients' funds, and our strategy has historically worked in all market environments and more importantly, should continue to work moving forward."

stitutional and retail world, brokers are familiar with asset allocating. They have their typical pie charts and allocate assets according to a profile. While there has been a move lately for "no more pie charts," most investors still do the same-old thing. As Albert Einstein once stated, "The definition of insanity is doing the same thing over and over and expecting different results." So yes, sometimes we're actually a little stumped ourselves as to why clients don't invest more with tactical managers. The edge is really having a five-year defined goal, a goal that's our signature benchmark. We apply focus, discipline and objectivity to that investing, and ultimately we manage risk, not securities. We need clarity before we invest our clients' funds, and our strategy has historically worked in all market environments and more importantly, should continue to work moving forward.

ourselves in a low-risk asset class for two years until February of 2010. That's a fairly different investment philosophy than most individual investors are familiar or comfortable with. I think it's a little difficult for them to get their arms around MCS' type of strategy.

But again, in our opinion, we're investing the way that we know successful investing can be accomplished. We have a goal and apply patience with discipline. We stick to that goal and don't get greedy. We know there will be many opportunities to invest over a five-year time period. Unfortunately, our strategy just appears to be different from the norm. But as most investors are painfully aware, their strategy has not been successful. Maybe it's time to seriously consider Albert Einstein's observation because it's not too late to think outside the box.

TWST: Is there anything else you'd like to add?

Ms. Snow: I just would like to end with some of the headwinds that we see in the market. In the short term, we anticipate a lot of uncertainty. Obviously in the U.S. domestic

and definitely practical for investors to have a modified philosophy and approach to investing in the future because investors who attempt to do it the same-old way that they have been doing it for the past 10-plus years could be extremely disappointed in their

“Our advice to investors is to have patience, but unfortunately most investors don't have the patience or a five-year goal for their money. They are used to being fully invested at all times, and they're not used to what they consider to be sitting on the sidelines or being in a low-risk asset class.”

market, there are some political policy shifts — potential changes in the House and/or the Senate — that could change the investing environment with new laws or regulations. We see problems with clarity on the extension or partial extension of the Bush tax cuts, and without clarification the situation makes investing very uncertain. Also the business and economic environments are very anemic at this point in time.

For the longer term, we're concerned about the deficit, which continually increases the debt of our country, whether or not a second stimulus bill will be forthcoming and the amount of that stimulus. Basically the major problem for our country is going to be the demand for goods and services, which affects areas such as employment and, more importantly, the revenue and earnings of the companies that make up the ETFs that we'll invest. With all that being said, we believe it is even more prudent

returns. Again to close, we feel very confident in our ability to go the low-risk areas of the market and capture double-digit upside potential for our investors.

TWST: Thank you. (PS)

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Disclosure: Past performance is no guarantee of future results. Investments may lose value. Results presented include reinvestment of all dividends and other earnings. Metropolitan Capital Strategies, LLC (MCS) claims compliance with the Global Investment Performance Standards (GIPS®). Compliance with GIPS® has been verified for the periods May 1, 2007 through May 31, 2008 by Cohen Fund Audit Services and for periods June 1, 2008 through December 31, 2009 by Ashland Partners & Co, LLP. MCS is a registered investment adviser established in 2007. MCS manages a variety of equity assets for primarily U.S. retail clients. The FACT Funds® Tactical Growth strategy primarily involves purchasing and selling Exchange Traded Funds (“ETFs”) along with writing covered and uncovered put and call options, coupled with risk management techniques. Financial derivatives, or option contracts, allow clients to generate income that is intended to offset fees, increase account value, and limit downside potential in a specific underlying investment. There are special risks associated with uncovered option writing, which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions. Cash positions and options are employed continually throughout the year. The FACT Funds® Tactical Moderate strategy primarily involves purchasing and selling Exchange Traded Funds coupled with risk management techniques. The Company intends to buy and sell securities on behalf of its clients on a short-term basis, generally at least every few months. The composites were created on May 1, 2007. Returns prior to composite creation are those from a previous firm and have been linked to current firm performance. Prior firm returns have been reduced by transaction costs only. The Composites include MCS discretionary accounts consistent with the investment strategy noted above. Composite returns calculated in US dollars are presented net and gross of investment management fees and wrap fees. Gross returns are pure gross and considered supplemental to the net returns because they are not reduced by the transaction costs. Information regarding policies for calculating and reporting returns is available upon request. To receive a complete list and description of MCS investment composites and/or a presentation that adheres to GIPS standards, contact Cheryl Parrish at 571-379-8586, or email info@mcsmgr.com. Metropolitan Capital Strategies, LLC compares its composite performance to the performance of the MSCI World (Gross) Index (“MSCI World”). The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. For periods prior to December 31, 2009 the S&P 500 Index is used for comparison purposes. The S&P 500 Index consists of 500 US stocks chosen for the market size, liquidity and industry group representation. The benchmark was changed to more accurately reflect the strategy of the composite. Tactical Growth Composite net annual returns compared to the MSCI World Index are as follows, YTD (6/30/2010): 22.29% vs -9.56%, 2009: -2.85% vs 30.79%, 2008: -0.15% vs -40.33%, 2007: 21.73% vs 9.57%, 2006: 17.19% vs 20.65%, 9/30/05-6/30/10: 13.29% vs -3.75%.