METROPOLITAN CAPITAL STRATEGIES, LLC
A Different Approach to Investing

"A Change Is Gonna Come"

A Call to Action For Tactical Asset Allocation

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In the late 1950's, the musician Sam Cooke said it first: "A Change is Gonna Come ". Sophisticated investors are looking for a change in their investment plans. Investors are tired of lackluster returns, imperfect asset allocations, riding the rollercoaster and, ultimately fed up with portfolios that have not recovered the losses from 2008-2009. If there is a lesson to be learned from the crisis, it is that risk needs to be managed differently than what has been done in the past. This suggests changes in the investment evaluation process, adding additional asset allocations, such as tactical strategies, and reevaluating the definition of risk management through cash positions. Often an investment committee meets and sets the asset allocation for the upcoming year. A prudent approach to an asset allocation plan should be based on economic issues at the time they occur, not based on the calendar. Tailoring the allocation to the current state of the economy can eliminate the continual chasing of returns.

Metropolitan Capital Strategies (MCS) is a leader in a modified approach to investment risk. The MCS approach includes investing tactically while simultaneously focusing on loss avoidance (or principal protection). MCS embraces putting portfolio assets at risk, but only when a 10%+ return is likely. Then MCS protects those gains by moving to a risk-off position and investing in the lowest risk asset class at that point in time. Currently it is cash*.

The Great Recession is not over, and investors are still experiencing portfolio destruction similar to what occurred during the Great Depression; investor wealth has been destroyed. They need a plan to protect, stabilize and ultimately grow assets. Tactical investing is a good solution. While tactical strategies are appearing now as the new buzz word, the MCS tactical investment strategy --with an actual track record that precedes and includes the meltdown-- held up spectacularly during the downturn. MCS is confident that investors are prepared to embrace tactical investing -- including the use of cash as an asset class. Tactical Asset Allocation (TAA) strategies are poised for tremendous growth in the coming years. A TAA strategy can improve returns, lower risk and minimize or eliminate losses as illustrated by the charts below which details MCS' results.

Annualized Performance Through 9/30/2011

	YTD	1 Year	3 Years	5 Years	Since Inc. 9/30/05
Tactical Growth-Gross	-3.4%	-2.5%	6.8%	10.9%	11.9%
Tactical Growth-Net	-5.3%	-5.1%	3.8%	8.2%	9.6%
MSCI World Index	-11.8%	-3.8%	0.5%	-1.7%	0.9%
S&P 500 Index	-8.7%	1.1%	1.2%	-1.2%	0.7%

* Most other tactical money managers do not employ "full cash" positions, only partial. Historically MCS has used money markets for cash positions. In the future, MCS reserves the right to use additional asset classes for portfolio protection and is not limited to only money markets. When the MCS Tactical Growth portfolio is in a cash position, accounts may have uncovered option positions. Tactical Moderate portfolios do not use option positions. Please see full disclosure at the end of paper.

5 Years Ending 9/30/2011	Rate of Return	Std Dev	R-Squared	Sharpe Ratio	Max Ddown%	Sortino Ratio	Tracking Error	Info Ratio	Alpha	Beta
Tactical Growth	10.9	10.6	0.1	0.9	-9.4	3.2	20.6	0.6	9.9	0.1
Tactical Growth (Net)	8.2	10.8	0.1	0.6	-10.6	2.2	20.7	0.5	7.3	0.1
MSCI World Gross	-1.1	20.6	1.0	-0.1	-54.6	0.0	0.0	0.0	0.0	1.0

Institutions and retail investors have different relationships with their investment accounts. Institutions typically have a long-term goal for their money that is tied to an actuarial assumption of approximately 7 to 8% per year on average. Over the shorter term, the return is measured relative to a benchmark for the asset class or classes in which the funds are invested. Often, short-term returns are considered acceptable if they outperform the asset class benchmark; even if this means the portfolio value declines. Because of this, institutional investors are often derailed by severe bear markets such as 2008/2009. The large decline in portfolio values caused several large, sophisticated plan sponsors to lower their actuarial assumptions.

Most retail investors move from brokerage house to brokerage house often after a series of less than satisfactory returns and promises of greater opportunity. With each new broker relationship, a clean slate begins in the mind of the investor. Their cumulative return records (gains or losses) and deposits and withdrawals do not follow them, making it difficult for them to know their actual or true returns over time.

Although there is a common goal: both the institutional investor and the retail investor are trying to maximize long-term returns to create additional wealth. MCS' TAA strategy accomplishes this better than either approach mentioned above as highlighted by our 3, and 5 year returns. MCS focuses on real returns, not relative returns, highlighting the importance of having a clear investment benchmark and managing investment risk within that benchmark. The MCS benchmark is a target rate of return of 15% annualized over a five year time period. This equates to a 100% increase in the assets of the portfolio.

During a raging bull market most investment accounts achieve an adequate rate of return. In a bear market positive returns are rare, primarily because most investors fail to get out of harm's way by not employing cash positions. A few tactical managers can go to any asset class at any point in time, which is critical to protecting principal. The ability to go to a full cash* position during uncertain times, not just employing a sector rotation strategy, is one major key to managing risk. This ability limits or eliminates losses, while a portfolio that must recover losses is in great jeopardy.

An article in the Wall Street Journal titled; The Cruel Math of Big Losses, November 2009, sums it up;

> "…the harsh math of 2008 and 2009 is a reminder of a key goal that most investors should strive for: avoiding the largest losses…. A manager who limited losses last year goes a huge way to helping investors accumulate wealth over time and meet their long term goals." [1]

The time involved to get back to "even" is lost to the investor forever. Returns are asymmetric. If a portfolio loses 50%, a 100% gain is needed just to get the portfolio back to "even". How many investors were told by their advisors that they needed to avoid big losses prior to the meltdown -- not after? MCS is one of the few managers that actually employed a full cash* position throughout the meltdown. Many investors have concerns that the US stock market will underperform the investment goals they have set during the next ten years. The investment community is between the proverbial rock and a hard place, so common sense tells us that investors need a different strategy. They need an alternative solution that offers a proactive approach that protects principal and adds appreciation over a set period of time.

Expected returns are often overestimated. 2011 started off with some interesting data from the mainstream media. On January 2, 2011, the New York Times featured an article, "In Investing, It's When You Start and When You Finish." [2] It featured an elaborate chart illustrating how much investment return one could expect based on historical data. The chart, as illustrated below, highlights the best 20 year time period of investing as 1948 to 1968 with the S&P 500 return of 8.4% annualized. The worst 20 year period was 1961 to 1981 with

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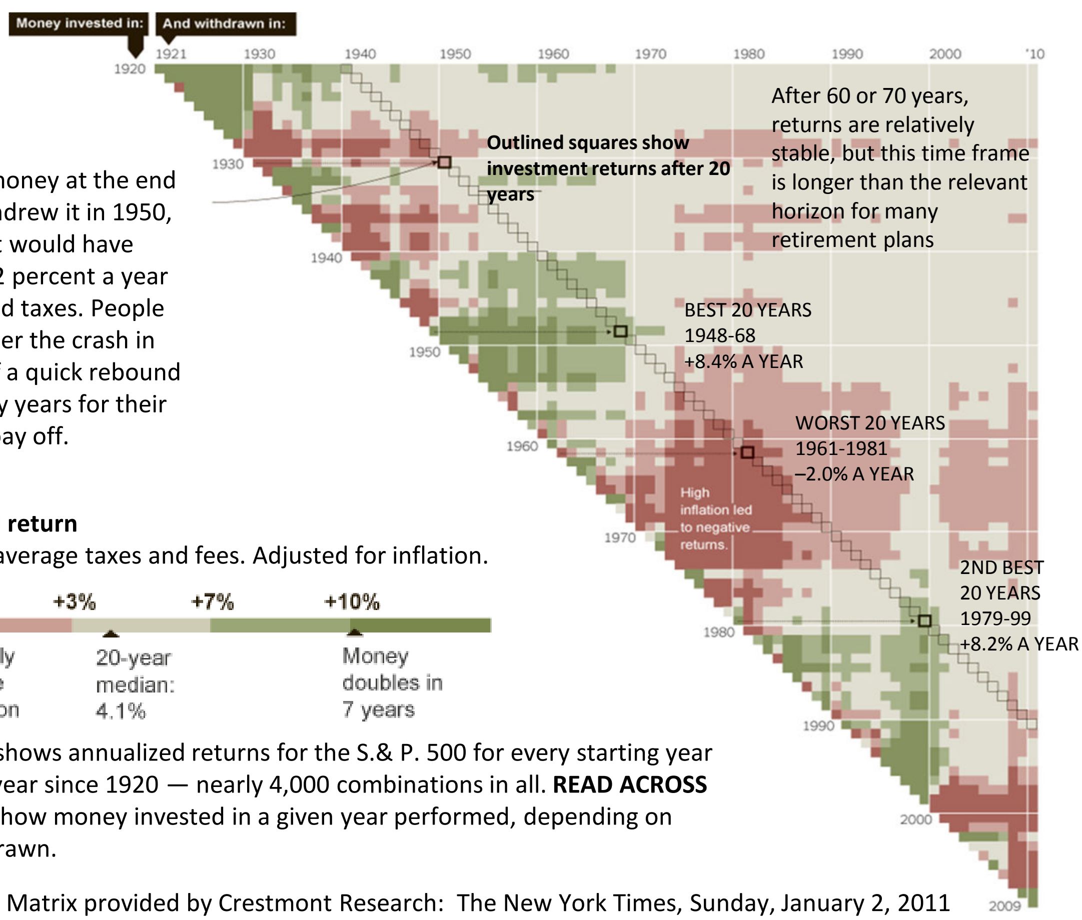
an annualized return of -2.0%, and the time period of 1979 to 1999, (encompassing one of the greatest bull markets ever) came in slightly below the 1948 to 1968 time frame at 8.2% a year. This is significant for two reasons. Many investors believe that the stock market, represented by an index like the S&P 500, has historically returned 10% per year. Due to that historical myth, many investors asset allocate falsely assuming their domestic equity position will achieve a 10% average. You've heard that you can't time the market--we believe returns are relative to the time one is invested in the market. If we had our parent's funds to invest when Bob Dylan started rocking in the sixties and held on, our returns would have fared below that magic 10%, perhaps 6.2% or worse, depending on the actual day we started as illustrated by the chart below.

Average real annual return

Investors often have expectations of real annual returns greater than 7 percent — the areas in green. But over 20 years or longer, rates that high are rare.



An example
If you invested money at the end of 1930 and withdrew it in 1950, the stock market would have returned about 2 percent a year after inflation and taxes. People who invested after the crash in 1929 in hopes of a quick rebound had to wait many years for their investments to pay off.

Average real annual return
Includes dividends, average taxes and fees. Adjusted for inflation.

0% | +3% | +7% | +10%

Did not keep up with inflation | Slightly above inflation | 20-year median: 4.1% | Money doubles in 7 years

This chart at right shows annualized returns for the S.& P. 500 for every starting year and every ending year since 1920 — nearly 4,000 combinations in all. **READ ACROSS THE CHART** to see how money invested in a given year performed, depending on when it was withdrawn.

Source: Stock Market Matrix provided by Crestmont Research: The New York Times, Sunday, January 2, 2011

Historical averages vary widely and many analysts are speculating that the stock market will return an annualized 3.2% return over the next 10 years (2011-2021). Currently there are many structural cracks in the economy. A few of these structural cracks are:

- The true employment picture in the US including underemployment and unemployment is approximately 26 million people (as of April 2011). [3]
- The housing bubble crashed and is double dipping.
- Consumers and banks are deleveraging.
- US GDP is forecasted at approximately 2% - 3% per year. [4]
- The outlook for the US economy was downgraded to negative from stable by Standard and Poor's in March 2011, followed by a US credit rating downgrade in August 2011 for the first time in US History.
- The sovereign debt crisis in Europe.

Young people in the US have traditionally been the group that purchased and furnished homes, vehicles and wardrobes for their burgeoning families and careers. The continuation of high unemployment for the country and especially for our young people, seriously limits our country's ability to get out of the doldrums we are experiencing. This, coupled with the retirement of the baby boomers expecting entitlements such as Social Security, has polarized our country. Now that Standard and Poor's has downgraded the US debt, Moody's and Fitch are possibly not far behind. Returns over the next 10 years could be far below historical norms, perhaps in all areas to include bonds, equities and commodities. This will continue to cripple investors that do not make significant changes to their asset allocation models. The New York Times "advises investors to reconsider their expectations about the Buy and Hold strategies that have sometimes worked so well in the past." [2]

All misconceptions are alarming, but some are outright dangerous. One of these dangerous beliefs, as mentioned above, is the S&P 500 historically returning 10%. Despite what we have been led to believe, the timing of any investment is crucial, if not one of the most important aspects in investing. Institutional investors have great difficulty timing their investments. They typically reallocate when they hire new managers on average about every three years, and they have limited ability to go to cash. What can an investor do? One answer is to include or increase an allocation to tactical managers that can add alpha and mitigate risk. Many institutions are unfamiliar with the methods some tactical managers employ. Tactical managers use larger cash allocations than other managers that must remain fully invested in their discipline, so the concept of going to a cash* position can be difficult to appreciate.

With the recent interest rate cuts by the Federal Reserve, the allure of cash has diminished. 2% was a typical return on risk-free instruments such as savings accounts, certificates of deposit, or US Treasury Bills. When you consider inflation, cash actually loses value over time. Adding more fuel to the fire is the decline in the dollar. Nonetheless, having cash at a real rate of return of zero is a better alternative than a 10%, 20%, or even 50% decline in an investment. Perhaps surprisingly, even the value investors who devote effort to buying companies for less than intrinsic value -- are experiencing losses today. If you were completely invested in cash at the start of 2008, your rate of return would have far outpaced the broad stock market indexes' returns over the past several years.

Still, many investors often have it backwards. When interest rates are low and stocks appear inexpensive, there is a flight to the safety of cash. When rates pick up and the market is fully valued or overvalued, cash is deemed a less useful asset. Is cash the best investment strategy? For loss avoidance it is. Even Jeremy Grantham, whose GMO LLC letters are widely read and quoted by financial journalists, has discussed the value of cash for loss avoidance.

Investor Behavior. Another significant piece of market returns is investor behavior. Almost all investors "herd", that is follow the crowd. According to Elliott Wave International author Bob Prechter, 'when one does not herd it just feels wrong'. He goes on to say:

> *"The fact is that every day in finance, investors are uncertain.* ***So they look to the herd for guidance.*** *Because herds are ruled by the majority... financial market trends are based on little more than the shared mood of investors...* ***how they feel*** *... Buyers in a rising market appear unconsciously to think, 'The herd must know where the food is. Run with the herd and you will prosper.' Sellers in a falling market appear to unconsciously think, 'The herd must know that there's a lion racing toward us. Run with the herd or you will die.' In the end, rationality has no place in collective behavior. Birds do it. Bees do it. Large groups of humans do it, too: we herd."* [5]

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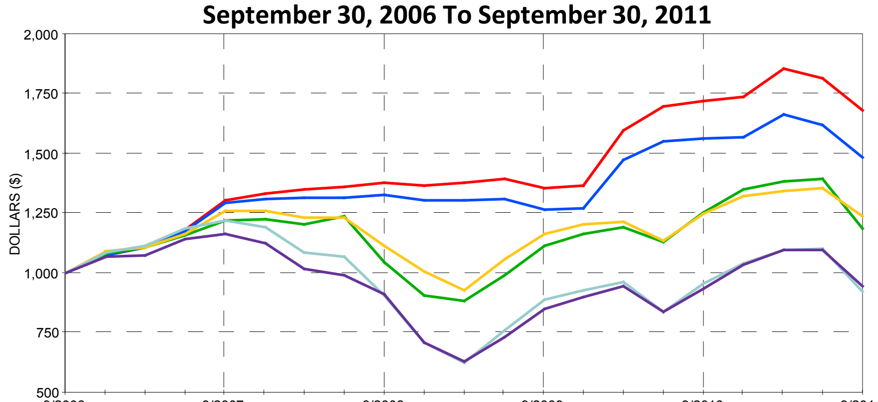
Even institutions that have significant resources to hire the best advisors and managers to achieve their goals have underperforming portfolios. So in addition to herding, why are they still down?

> "*It is common knowledge that Yale and Harvard financial managers pursued high-risk investment strategies that, in boom times, brought spectacular returns. Did these same strategies contribute to the spectacular losses suffered by the endowments of these institutions*?" [6]

Like most, they are still reeling from the meltdown. Neither of these major endowments had an allocation to tactical strategies and both have elaborate asset allocation plans that broke down and failed to deliver as postulated when the markets became highly correlated. For a time, these two institutions invested similarly. Then one took a different path by taking on additional risk. For a time period this appeared to pay off. After the global financial meltdown, the portfolio value of the two endowments was the same. Was the higher risk investment strategy prudent or safe? That question should be approached from a different perspective. Can an endowment reduce their drawdowns, lower their risk and at the same time not sacrifice alpha (performance)? The answer is a resounding YES - with a change to tactical as illustrated in the chart below. This graph illustrates various global tactical managers in the global balanced universe on the growth of an investment chart.

Metropolitan Capital Strategies, LLC
Growth of an Investment
September 30, 2006 To September 30, 2011

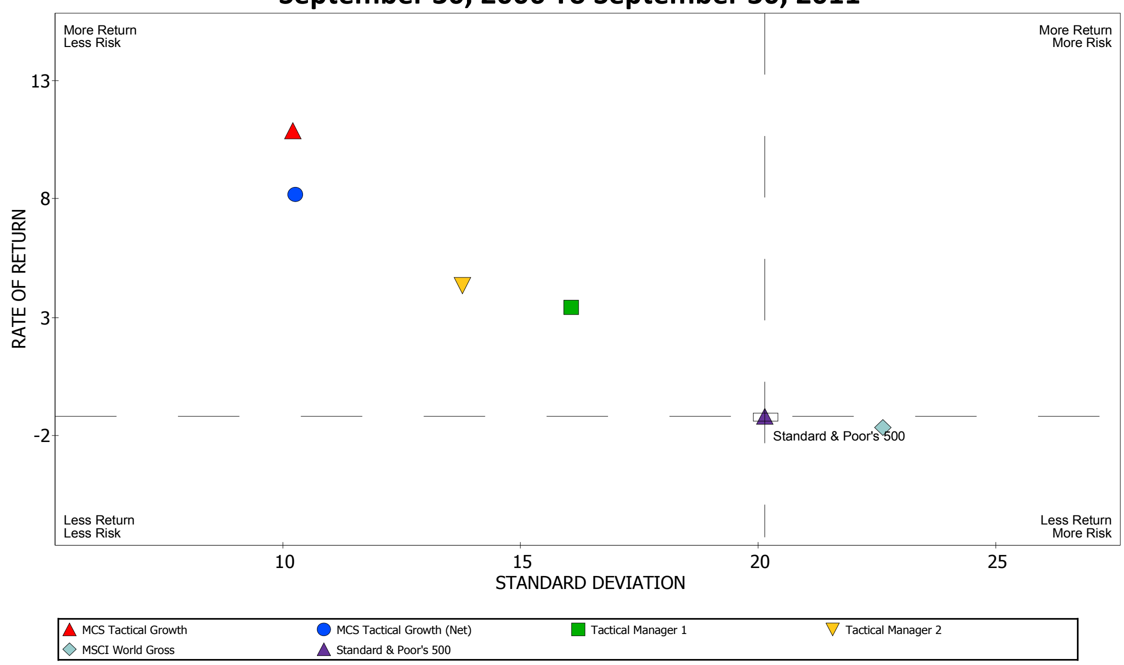


	Year To Date	1 Year	3 Years	5 Years	Since Inception
MCS Tactical Growth	-3.40	-2.51	6.77	10.90	11.85
MCS Tactical Growth (Net)	-5.34	-5.11	3.82	8.22	9.59
Tactical Manager 1	-12.31	-5.53	4.20	3.42	N/A
Tactical Manager 2	-6.49	-1.13	3.55	4.32	5.66
MSCI World Gross	-11.82	-3.83	0.50	-1.68	0.88
Standard & Poor's 500	-8.68	1.14	1.23	-1.18	0.72

Source: PSN Informa, please see disclosure at end of presentation

Compare the risk/reward global equity chart with the same managers.

Metropolitan Capital Strategies
Total Risk/Reward
September 30, 2006 To September 30, 2011



Source: PSN Informa, please see disclosure at end of presentation

Many institutions and endowments have gone to heroic measures such as freezing salaries, laying off staff, delaying capital improvements, and asking donors to give more in order to offset inadequate performance. Why then are these endowments not pursuing tactical strategies? The simple answer is their asset allocation does not include a slice of the pie for a tactical manager. Tactical managers don't fit "neatly" into a slice.

These pies are the result of the implementation of Modern Portfolio Theory (MPT) in portfolio management. MPT took off in the 1970's, almost two decades after Harry Markowitz published his work in 1954. The theory assumes that investors are risk averse. In other words, given two assets that offer the same expected return, investors SHOULD prefer the less risky one, and that diversification reduces risk. Most investors are schooled in MPT and employ it in their portfolio management. For those not familiar, the foundation of MPT is the establishment of a formal risk/return framework for investment decision-making. By defining investment risk in quantitative terms, Markowitz gave investors a mathematical approach to asset selection and portfolio management.

There are important limitations to the original MPT formulation. For example, MPT assumes that the variance of portfolio returns is the correct measure of investment risk, and the investment returns of all securities and portfolios can be adequately represented by a normal distribution. Stated another way, MPT is limited by measures of risk and return that do not always represent the realities of the investment markets. This was certainly highlighted during the meltdown when all asset classes were dropping. Despite limitations, many still use MPT as the framework of their strategy.

Here is an excerpt from an article written by Harry Markowitz and others, entitled Does Portfolio Theory Work During Financial Crises?:

> "It is sometimes said that portfolio theory fails during financial crises because:
>
> - All asset classes go down;
> - All correlations go up.
>
> These statements are true, roughly, but should be preceded by the phrase 'As predicted by portfolio theory'...At any point in time we look back at the past, and make our estimates and decisions for the future. The future is always uncertain. At any time we should make our best estimates for 'the next spin of the wheel,' and then choose an appropriate point from the implied risk-return trade-off curve. Depending on our risk capacity, perhaps we will select a more cautious portfolio, loaded with lower beta securities or asset classes; or conversely, we will choose a point higher on the frontier, with higher yield but with higher beta securities or asset classes. If the market goes up dramatically, those with high beta portfolios will be; if it goes down they will be sad." [7]

Markowitz's mathematic concepts are at the heart of risk management, but failed to protect many investors when they needed it most. Note: I hear "A Change is Gonna Come" starting to play in the background.

All investors struggle with the meaning of risk and how to employ risk management. Volatility in the market this summer has been acute. The S&P 500 has moved 2 to 3 percent intraday numerous times, yet many investors are still "all in" with losses that need to be recaptured in a market upturn.

Investors agree that they would like to make money over an investment cycle, yet evidence shows that investors value being "in" the market more. Investors are repeatedly told that "one should not time the markets" or "cannot time the market", and as such they stay in for the long haul. How many times will the investor watch the portfolio value appreciate only to see that increase disappear? By changing the way one views investing, portfolios can use cash and other low risk asset classes to reduce losses and increase returns. It is more about what you are in and when you are in; it is not just being in.

Despite the myth of the historical long term 10% return, few if any investors have actually achieved these returns in the past decade. Despite elaborate theories and investment strategies, most investors followed the herd and thus produced subpar results.

We cannot overstate the importance of loss avoidance. In extreme times when caution is prudent – cash or cash alternatives can be a safe haven. Making profits in the market should be analogous to climbing a staircase with a step up each time one makes a profit and a pause on the landing while waiting for another low risk opportunity to grow assets.

Riding the rollercoaster is unacceptable. Very few strategies have a long term focus which would allow an investor to achieve a goal of 10-15% annualized per year. The top lesson learned from the Global Financial Meltdown: being "fully" invested at all times increases market risk, credit risk, geopolitical risk and systemic risk. All of these can cause significant damage to a portfolio which then needs to be recovered.

Now is the time to reprogram your investment strategy to include an allocation to tactical investing in order to mitigate risk and maximize performance. The non-correlation of some tactical managers to the domestic or global equity markets can greatly reduce total portfolio risk, thus resulting in better returns, especially when you need them.

Looking to the future, there are many headwinds which will add volatility and significant risk to the market. Markets, as they continue to correct, will result in longer term poor performance for investors that do not implement slight or major changes in their management styles. With low expectations for returns, it is essential to add a tactical strategy to your portfolio. We will not be surprised if many changes in investment strategies start "Blowin' in the Wind".

ENDNOTES

1. Wall Street Journal, *The Cruel Math of Big Losses*, Nov 2, 2009, Karen Damato

2. New York Times, *In Investing, It's When You Start and When You Finish*, Jan 2, 2011, Business, page 4

3. Shadow Government Statistics

4. CNNMoney.com, *Federal Reserve cuts GDP forecast for 2011*, Jun 22, 2011, Annalyn Censky

5. Elliott Wave International, Robert R. Prechter, Jr., various publications

6. Thehausercenter.org, *University Endowment Losses: Why Aren't They News?* Feb 16, 2009

7. *Does Portfolio Theory Work During Financial Crises?* Harry M. Markowitz, Mark T. Hebner, Mary E. Brunson

ADVERTISING DISCLOSURES

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, 2010 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 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 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. 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. Effective January 1, 2010, MCS 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: 0.20% vs -3.53%, 2010: 23.66% vs 12.34%, 2009: -2.85% vs 30.79%, 2008: -0.15% vs -40.33%, 2007: 21.73% vs 9.57%, 2006: 17.19% vs 20.65%, 9/30/05-12/31/05: 6.88% vs 3.16%.