SCM SIZEMORE CAPITAL MANAGEMENT

2010 Second Quarter Investment Outlook and Commentary

To Our Investors,

The first half of 2010 ended with stocks trading at lows for the year and with investor sentiment at levels of bearishness not seen since March 2009.

Against this backdrop, our actively-managed Tactical Portfolio lost -2.20% for the first half of the year, compared to -6.55% for the S&P 500 Total Return. Our successful short position in the euro and the relative outperformance of the luxury goods and pipeline infrastructure sectors were positives for the portfolio. Our unsuccessful short position in gold was a significant drag on performance, pushing our overall returns into negative territory.

Our returns for 2010 on our passive Strategic Portfolio Allocation models were the following:

Preservation of Capital	2.52%
Conservative Income	1.95%
Growth and Income	-0.39%
Growth	-1.84%
Aggressive	-3.83%

While it is always disappointing to see negative returns, we were pleased to see that all Sizemore Capital portfolios beat the S&P 500 for the first half of the year.

Portfolio Review

SCM Tactical Portfolio

We made several significant changes to the Tactical Portfolio during the second quarter. The first was the closing of our short position in the euro. In a May 14 trade memo, we wrote,

With negative sentiment on the euro bordering on hysteria, we felt the time was right to take profits and close our short position in the common currency via the Market Vectors Double-Short Euro ETN (NYSE: DRR). All Sizemore Capital portfolios have been sold out of their positions in DRR.

As of Friday, May 14, 2010, the euro had fallen to 18-month lows to $1.2359. The euro was trading over $1.50 as recently as November.

Market conditions have now completely reversed since our initial portfolio move. In August 2009 we initiated the trade, believing that negative sentiment toward the U.S. dollar had reached irrational extremes and that the euro was being unjustifiably rewarded. We correctly pointed out that Europe's financial woes were as serious as those of the United States, if not more so. The euro's strength vis-à-vis the dollar was irrational, and shorting the euro was the correct thing to do.

Today, the negativity has shifted to the euro. The European Central Bank's response to the Greek fiscal crisis had the effect of knocking the euro off of its pedestal as the alternative reserve currency to the dollar. European stock markets are in free fall, and it is now fashionable on financial news shows to predict the dissolution of the Eurozone. When comments like this become mainstream, a trend has generally run its course. In our view, closing the short position in the euro is the correct thing to do.

At current levels, we consider the euro mildly overpriced but not enough to warrant initiating another trade. We do not anticipate making any further currency moves for the remainder of 2010.

The next significant move we made was to initiate a 10% dedicated position to the global telecom sector via the S&P Global Telecommunications Fund (NYSE: IXP). We had been following the telecom sector for most of the second quarter with interest and even made four distinct telecom investment recommendations in *SFO Magazine* and the *Sizemore Investment Letter,* of which IXP was one. This ETF gives us fair exposure to two of the remaining recommendations—Telefónica and AT&T—and a host of other solid competitors as well. For a more in depth explanation of our reasoning for this trade, please see: "Telecom is Dead. Long Live Telecom."

On June 21, we closed our short position in gold. It was not an easy decision to make given our view of the fundamentals, but at the same time we must be disciplined and follow the risk management guidelines we set out at the beginning of the trade. On June 21, we wrote,

This is a difficult move for us, but we consider it the right move. We continue to believe that gold is in an irrational speculative bubble driven by a potent combination of fear, angst, and political ideology. But as John Maynard Keynes noted, "The market can stay irrational longer than you can stay solvent." And as we wrote when we initiated this trade, "The problem with making a contrarian call is that you can be 'right' but still lose a lot of money if you are too early. Just ask anyone who tried to short the Nasdaq during the 1990s bubble."

We continue to see gold's fundamentals deteriorate. *Demand is almost entirely in the hands of new portfolio investors and hedge funds and particularly by exchange-traded funds such as the SPDR Gold Trust (**NYSE: GLD**). GLD now holds 42.05 million ounces and its holdings are up more than 7% in the past week alone, according to the Financial Times. Traditional demand for gold—such as for jewelry—have been in decline for years, as high prices have discouraged buyers. Even India—traditionally the biggest buyer of gold in the world—has substantially reduced consumption over the past five years.*

In 2009, investors purchased more gold than jewelry buyers for the first time since 1980—which happened to be the year that the last gold bubble burst and ushered in nearly three decades of declines for the yellow metal.

Gold is in a speculative bubble, and shorting it is "logical." But the truth is that bubbles can go much higher than anyone believes, and we cannot put our investors' capital at risk. Nasdaq stocks were already priced at absurdly high valuations by the mid-1990s—as Greenspan noted in his "irrational exuberance" speech—yet the bubble did not burst until 2000. Sensible investors who attempted to short tech stocks during that period would have been wiped out.

So, as bearish as we remain on gold, we are following our sell discipline and exiting this trade. *We will continue to watch the gold market and may decide to re-enter it at a later date.*

In the weeks after we closed this position, gold gave up some of its recent gains. Though we have no immediate plans to reenter the short position, this is something we intend to watch intently.

Finally, on June 25, we entered a 10% dedicated allocation to the healthcare sector. On the trade, we wrote,

In doing research for the July 2010 issue of the Sizemore Investment Letter, we reached the conclusion that U.S. Large-Cap Healthcare stocks represent a unique value at current prices. We are particularly impressed with the valuation of Johnson & Johnson, Merck, and Pfizer and see the potential for both steady income and substantial capital appreciation over the next 1-3 years. These *three companies represent more than a quarter of IYH's market cap, and the sector as a whole is attractive to us at current prices. We consider this a low-risk, high-return allocation for the Sizemore Capital Management Tactical Portfolio.*

Moving on to our existing positions, our investment in luxury consumption—The Robb Report ETF (NYSE: ROB)—continues to perform as expected. We have no immediate plans to make changes to this position.

Our core holding in the S&P 500 will also remain unchanged for the foreseeable future, as we consider stock valuations to be very favorable at current levels. The same can be said for our positions in the utilities sector.

We have been quite satisfied with our position in the Fiduciary/Claymore MLP Opportunity Fund (NYSE: FMO), though recent developments in the MLP sector have caused us to reconsider the fund itself. Several new mutual funds and exchange-traded notes have recently been released that, like FMO, sidestep the complicated tax issues associated with partnerships (i.e. filing K1s). Unlike FMO, however, these alternatives are not closed-end funds and thus cannot trade at a discount or premium to the underlying book value like FMO can. We have no immediate sense of urgency to make a change on this investment, as it would be senseless to create taxable gains if the rationale for changing positions was only marginal improvement. This is something we intend to watch, however.

Finally, we have been very happy with the performance of our two bond funds, HYG and VKQ. These two funds have provided stable income during a very volatile period in the global capital markets. We may liquidate part or all of these positions in the next quarter, however, as we believe the stock market offers better relative value. This is another issue we intend to review in the weeks ahead.

Looking Ahead

Going forward, we are most enthusiastic on the prospects for the telecom, utilities, and healthcare sectors. These three sectors have vastly underperformed the market since the March 2009 bottom, and now represent real value in our estimation. All three sectors are loaded with high-quality companies that pay solid dividends. We fully expect the S&P 500 to finish the year in positive territory. But even if it doesn't, we are being paid handsomely to wait by being overweighted in these sectors. We expect all three sectors to outperform the S&P 500 on a total return basis over the next 12 months.

Here's looking forward to a great 2010,

Charles Lewis Sizemore, CFA
Chief Investment Officer, Sizemore Capital Management, LLC