



2011 Second Quarter Investment Outlook and Commentary

To Our Investors,

As we hit the mid-year mark, 2011 is shaping up to be another good year for Sizemore Capital Management and our clients. **Through the first half of the year our actively-managed Tactical Portfolio returned 8.2%, outperforming the 5.9% for the S&P 500 Total Return Index and with less volatility.**

Investors were apprehensive in the second quarter. Continued instability in the Middle East, recurring fears of a sovereign debt meltdown in Greece and other European countries, and an American economy that appears to be weakening again all conspired to send stocks and other risky assets sharply lower. Sizemore Capital Management's portfolios were well prepared for this kind of environment, however, and we enjoyed a strong quarter marked by investor rotation into the sectors that we favored.

Portfolio Review

SCM Strategic Portfolio Allocations

Our returns for second quarter 2011 on the passive **Strategic Portfolio Allocations** were the following:

Preservation of Capital	1.7%
Conservative Income	5.1%
Growth and Income	5.6%
Growth	5.6%
Aggressive	6.0%

The Growth and Income, Growth, and Aggressive allocations soundly outperformed the S&P 500 in the second quarter, erasing much of their underperformance in the first quarter. Master limited partnerships, which are an important constituent of all three portfolios, have underperformed thus far in 2011, as have emerging market equities. The relative underperformance of these two sectors has been a drag on the performance of Sizemore Capital Management's Strategic Portfolios. Real estate investment trusts and high-dividend stocks have been the best performers in 2011, followed by U.S. small cap equities.

The Strategic Portfolio Allocations are long-term allocations, and Sizemore Capital Management does not actively manage them; we simply rebalance them on an annual basis and periodically, as market conditions warrant, do a strategic review. In light of the historically low yields that are currently prevalent in the bond market today, we believe that such a review is now prudent.

An allocation to bonds serves two purposes. Firstly, bonds have an expected return based on the steady stream of coupon payments and the potential for capital gains from falling yields. But secondly, and arguably more importantly, an allocation to bonds serves as a "shock absorber." When the markets hit a rough patch—as they did in the second quarter—bonds provide stability and lessen the overall volatility of the portfolio.

This latter role, as a portfolio shock absorber, is still an important reason to have exposure to bonds. But unfortunately, given the current low-yield environment, we cannot expect much in the way of returns. The 10-year Treasury note barely yields 3%, which is less than the dividends paid by many of the other holdings of the Strategic

Portfolios. Furthermore, it is not realistic to expect significant capital gains in bonds. In order for bond prices to rise, the yield—which is currently near all-time lows—would have to continue falling, and yields can only fall so far.

Unlike many managers, Sizemore Capital Management is not *bearish* on bonds, per se. Our forecast is that the 10-year Treasury note trades in a range of 3-4 percent for the next 5-7 years, implying flat or slightly positive returns. But while we are not bearish, we most certainly *are* realistic. And even under the most optimistic assumptions, the current allocation to bonds in the Growth and Income, Growth, and Aggressive portfolios is likely to be a drag on performance going forward. Furthermore, after a long period in which bonds appeared undervalued versus stocks after adjusting for risk, today the precise opposite would appear to be true. Though stocks can be expected to be volatile, at current prices they would appear to be undervalued relative to bonds.

The diversification benefits of bonds and their role as a shock absorber make an allocation to them a necessity. But it is our view that the protection offered by bonds must be weighed against the lackluster returns that we expect going forward. On balance, we believe that a smaller allocation to bonds and a larger allocation to high-dividend stocks, master limited partnerships, and real estate investment trusts is appropriate.

Sizemore Capital Management intends to implement the following changes over the course of the third quarter:

Growth and Income Allocation

Sector	Ticker	Change	New Allocation
1-3-Year Treasury	SHY	(5.0%)	5.0%
Diversified Bonds	AGG	(2.5%)	7.5%
Municipal Bonds	MUB	(2.5%)	7.5%
High-Dividend Stocks	DVY	5.0%	20.0%
Master Limited Partnerships	AMJ	5.0%	10.0%

Growth Allocation

Sector	Ticker	Change	New Allocation
1-3-Year Treasury	SHY	(2.5%)	2.5%
Diversified Bonds	AGG	(2.5%)	7.5%
Real Estate Investment Trusts	VNQ	2.5%	10.0%
Master Limited Partnerships	AMJ	2.5%	10.0%

Aggressive Allocation

Sector	Ticker	Change	New Allocation
1-3-Year Treasury	SHY	(2.5%)	2.5%
Real Estate Investment Trusts	VNQ	2.5%	7.5%

While these changes may slightly increase portfolio volatility in the years ahead, we believe that any mild increase in volatility will be justified by the higher expected return. Importantly, the portfolios keep that all-important “shock absorber” through the continued exposure to bonds and Sizemore Capital Management’s rebalancing strategy.

All clients whose portfolios will be affected by these changes will be consulted before the changes are made to ensure that they are consistent with the client’s objectives.

SCM Tactical ETF Portfolio

The SCM Tactical ETF Portfolio was well positioned for the market conditions we experienced in the second quarter of 2011. **We expected investors to shift out of the more speculative and cyclical sectors and into more value-oriented sector such as utilities, telecom, health care, and high-dividend stocks in general.** Our portfolio moves proved to be a little too early, and we underperformed in the first quarter. But the volatility of the second quarter vindicated our choices, and the portfolio made significant gains even while the broader market was selling off. Through the first half of 2011, the Tactical ETF Portfolio returned 8.2%, outperforming the S&P 500 total

return of 5.9% Sizemore Capital Management made no changes to the Tactical Portfolio during the second quarter of 2011.

Looking Ahead

We believe that our portfolios are well positioned for the market conditions we see for the remainder of 2011. We expect the bull market in stocks to continue, but in the “post-QE2” environment we believe that less speculative, dividend-focused sectors should continue to outperform relative to their more cyclical peers.

Though it is too early to say definitively, it would also appear that the tight correlations between risky assets—and particularly between stocks and commodities—that has persisted since the start of the bull market in 2009 is starting to break down. The Federal Reserve’s quantitative easing programs produced excess liquidity, which had the effect of inflating practically all risky assets. As this excess liquidity continues to drain out of the financial system, correlations should return to something closer to their historic norms.

Sizemore Capital Management expects to see continued weakness in most major commodities as investor interest turns to more attractively-priced asset classes. At the same time, we expect investors to “rediscover” emerging market equities. Due to fears of inflation and “overheating,” emerging market equities have underperformed their developed-world peers in 2011. We expect emerging markets to lead in the next 6-12 months.

Announcements

We do have one exciting announcement to make. Sizemore Capital Management is joining the Covestor platform and subscribers to the <http://covestor.com> website will be able to invest in the Tactical ETF Portfolio starting at the beginning of August. A second portfolio mirroring *The Sizemore Investment Letter* Portfolio will follow. Covestor allows investors will smaller portfolios to mirror the investment strategies of their managers, and this allows Sizemore Capital Management to reach new clients that we would ordinarily not be able to serve. We consider this an exciting new avenue for growth.

Here’s to a strong second half of 2011.

Respectfully,



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