



Equity Market Overview – 1Q09

A Stock Pickers Market

Fear and greed, the yin and yang of the financial markets continued to tussle throughout the quarter with fear winning the day, but we believe a third component – *hope*, has started to emerge and will lead to greater risk appetites. In the 1st half of the quarter, pessimism was truly pervasive; earnings per share of the S&P 500 went negative, unemployment continued to rise and fears of several large banks being nationalized gripped not only the markets but also the nation at-large. Despite the continued negative sentiment, the current market does differ from the 2008 historic sell-off in that it is not as indiscriminate. Investors have started to distinguish between companies and market sectors that will emerge from this recessionary period stronger. This shift within the market, along with several macro developments, has given us reason to be hopeful for the market's prospects in 2009.

Positive Developments

Historic Steps

After getting off to a rough start, the new administration, the Treasury Department and the Federal Reserve (Fed) have successfully regrouped and have made it crystal clear they will not spare any effort to jumpstart the economy. As we have stated before, it is unfortunate such intervention is needed, but is necessary to stimulate our economy.

Government sponsored initiatives thus far, include:

Relief to the banking sector via development of public-private partnerships creating a market for mortgage-backed securities and bank loans.

Approval of the \$787 Billion Economic Stimulus Package.

Quantitative easing via \$300 billion to purchase longer-term Treasuries with the goal of lowering interest rates, particularly mortgage rates.

Expansion of the Term Asset-Backed Securities Loan Facility (TALF) that invests in consumer loans.

Each of these initiatives will require time to take effect, but are aimed at mitigating the huge deflationary forces of higher unemployment, lower consumer spending and the massive deleveraging of our financial system.

Forming a Base

The deterioration of three key areas of the economy, the Financials sector, base commodities, and housing, will need to abate before other portions of the market begin to truly turnaround. While these segments may not be long-term leaders in the market's recovery, the fact that oil, copper, and Financials appear to have found a bottom is indeed encouraging. After dropping 83% from a high in May 2007 to a low in early March 2009, the S&P

Financial sector recovered 46%. As greater details emerged on the bank plan, investor sentiment improved. "Pie in the sky theory" was replaced with a viable plan. Secondly, oil has climbed to just under \$50 a barrel after falling below \$35. While no one wants to pay more at the pump it is a positive sign investors believe the global economy will rebound. Finally, better than expected housing data spurred market rallies. Both new and existing home sales increased in February, inventory of new homes for sale reached a seven-year low, and mortgage rates dropped to a 52-year low.

Valuation Controversy

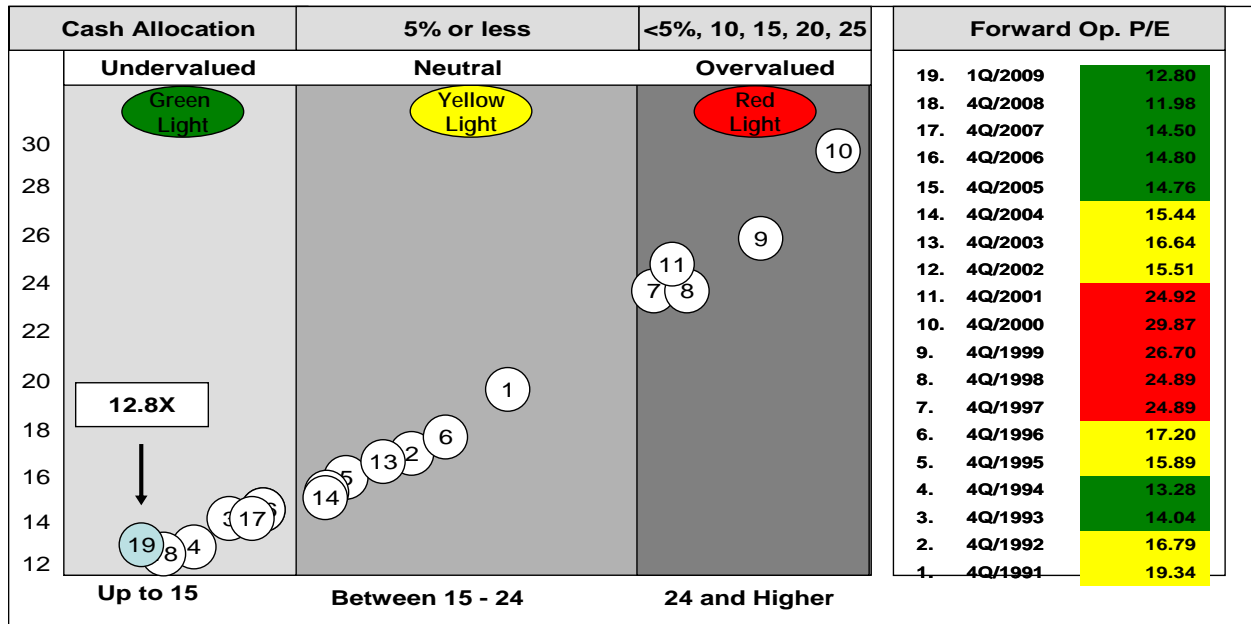
For the first time in 72 years the S&P 500 aggregate quarterly earnings-per-share (EPS) was negative for both operating and reported EPS in the 4th quarter of 2008. This was due in large part to the record setting \$62 billion loss posted by AIG and other financial institutions such as Merrill Lynch, Goldman Sachs and Morgan Stanley writing down distressed loan portfolios.

Jeremy Siegel, the renowned professor of finance at Wharton, has been critical of how Standard and Poors calculates EPS. Professor Siegel contends that since the index returns are calculated by market-capitalization weights, so should EPS figures. The S&P calculates EPS with no adjustment for company size. For example, AIG's huge loss had a disproportionately large impact to EPS despite its miniscule affect on the index price.

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Chart 1: RIA Market Risk Indicator - P/FOE Based on Forward Operating Earnings – (Cash Flow)



In an op-ed article in the *Wall Street Journal*, Dr. Siegel stated a market capitalization weighted EPS would have been \$71 for 2008; vastly different than the \$15 S&P reported (*Wall Street Journal*, February 25, 2009).

S&P responds by correctly pointing out that a \$1 earned (or lost) by the smallest member is equal to a \$1 from it's largest member. Regardless of how EPS figures are calculated, the large losses by a subset of companies is skewing the usefulness of traditional valuation metrics. This highlights the importance of valuing companies on a case-by-case basis. We continue to believe many companies are significantly undervalued considering most remain profitable and possess long-term growth potential.

Analysts are estimating positive S&P 500 EPS for the 1st quarter, and full year 2009 operating earnings to be \$62.36, resulting in a Price-to-Forward Operating Earnings Ratio of 12.8x.

Summary of Style Performance

One of the most astounding aspects of the market during the 1st quarter was the significant out-performance of Growth versus Value. The Russell 1000 Growth Index return for the 3-month period was negative <4.6%>, which is vastly superior to the Russell 1000 Value Index's return of negative <17.6%>. One reason Growth returned to favor was of course its much smaller exposure to the Financial sector. However, the majority of the discrepancy

was attributed to the Technology sector, particularly within the large capitalization space. Companies such as Apple, Google and IBM each advanced due to exceptional business models that are better able to weather a poor business environment.

Strength in the Technology sector benefited performance of the NASDAQ, resulting in the index outperforming both the S&P 500 and Dow Jones Industrial Averages (DOW). The NASDAQ was down <3.1%> compared to a decline of <11.7%> for the S&P 500 and <13.3%> for the DOW. Small capitalization names continued to take the brunt of the equity market sell-off, with the Russell 2000 Index falling <15.4%> compared to a decline of <11.1%> for the Russell 1000 Index. The small capitalization index suffered as investors maintained a bias towards the stability of larger companies, but the index also saw declines due to the fact the Financial sector accounted for over 20% of the Russell 2000 compared to 11.3% for the Russell 1000.

Correlations between global markets tend to increase when fear is the primary driver and indeed we witnessed a concerted sell-off across all global equity markets last year. Correlations continue to be high but just as market participants have begun to favor segments of the domestic market, various global areas have performed markedly better than others. Most European markets declined in similar fashion to the U.S. market, yet China's Shanghai Index and several other Asian markets finished the quarter with gains. China's stimulus package, in conjunction with the prime minister pledging 8% growth for 2009, has created optimism for the region. One particular standout in the quarter was the MSCI Israel Index posting a 16.5% gain. Its

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Chart 2: Index Returns (as of 3/31/09)	1Q09	1 Year	3 Years	5 Years	10 Years
Large Cap					
S&P 500 Index (Total Return)	-11.01%	-38.09%	-13.06%	-4.76%	-3.00%
Russell 1000 Growth	-4.12%	-34.28%	-11.28%	-4.38%	-5.26%
Russell 1000 Value	-16.77%	-42.42%	-15.40%	-4.94%	-0.62%
Mid Cap					
Russell Midcap Growth	-3.36%	-39.58%	-14.89%	-3.91%	-0.86%
Russell Midcap Value	-14.68%	-42.51%	-16.68%	-3.81%	3.13%
Small Cap					
Russell 2000 Growth	-9.74%	-36.36%	-16.20%	-5.37%	-1.60%
Russell 2000 Value	-19.64%	-38.89%	-17.54%	-5.30%	4.87%
Foreign Equity					
MSCI EAFE Index	-13.85%	-46.20%	-14.07%	-1.75%	-0.47%
MSCI World Index	-11.78%	-42.19%	-13.28%	-3.00%	-1.79%
Fixed Income					
Lehman US Government/Credit Intermediate	-0.05%	1.97%	5.63%	3.69%	5.44%
Salomon 3-month T-bill	0.05%	1.13%	3.42%	3.06%	3.19%

Source: Zephyr Associates Inc. / Style Advisor

Chart 3: S&P 500 Index



reliance on technology exports and relatively low exposure to global financial markets helped buoy the Israeli index.

Outlook

With the Financial sector falling 83% from its 2007 high, it is fair to say that a great deal of bad news has been “priced in.” The strong rebound in equity markets from significant lows is very encouraging, increasing the likelihood the market is in the early stages of a multi-year recovery. During the last bull market period, from October 2002 to October 2007, the S&P 500 gained over 100% (Chart 3) and the RIA US Large Cap Growth portfolio advanced 148%. As we have witnessed over the last 4 to 5 weeks and similarly depicted in chart 3, the equity market can and will make dramatic moves to the upside during a recovery cycle, leaving us little doubt that investors must be active in the market and looking to the future.

The economic storm that continues to swirl has made it difficult for almost all businesses, yet we have been impressed with many of the RIA portfolio holdings and their ability to respond quickly to the adverse business environment. These companies have reduced costs, continued to focus on customer value-added, and have been able to leverage healthy balance sheets into a competitive advantage. This highlights the continued importance of stock selection. A rising tide will not necessarily lift all boats. Only companies with strong competitive positions, flexible capital structures and differentiated products will possess the ability to truly thrive in this uncertain environment. In this atmosphere we continue to favor the Health Care

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and Technology sectors. Both sectors have defensive characteristics but have many growth opportunities. We are cautiously optimistic that the Material and Energy sectors possess greater upside potential in a sustained market recovery.

Over the next few quarters, market performance will likely be tied to the effectiveness of the Treasury's bank plan. If the government's incentives are sufficient to encourage private investors into providing the much needed liquidity to the distressed mortgage and bank loan markets, it will

advance us one step closer to the ultimate goal of a healthier banking system. The plan will not magically improve homeowners' ability to pay their mortgages, but it will begin the process of healing in several ways. The plan will enable greater price discovery, transfer the ownership of these "distressed" assets to stronger hands, and perhaps most importantly, will provide transparency to the actual health of individual banks.

The U.S. banking crisis has drawn parallels to the Japanese "lost decade" with its real-estate and

banking crisis of the late 1980s and 1990s. While both situations were due to over leverage and irresponsible lending, the U.S. response to the crisis has been drastically different. The Japanese meltdown was well underway by 1989 but officials did not genuinely start addressing the issue until 1998. Contrast that with our current government's response which can be measured in months instead of years. The comparison becomes one of apples and oranges. (*New York Times*, March 28, 2009)

Market volatility has come down from record highs reached in late 2008, but remains well above historical levels with the VIX (Volatility Index) remaining above 40 for most of the quarter. The dramatic up and downs make it easy to become distracted by incessant chatter regarding market direction. At Rushmore we do not know if the market will be up or down next week, but we do see encouraging signs and believe long-term investors will be rewarded over the next several years.

Thank you for your continued trust in RIA. We know these are difficult times. Please let us know if there is anything we can do to better serve you.

Performance and characteristics for all RIA portfolios can be found on the following page. Please contact us at 972-599-9550 / 800-564-8266 with any questions, or visit our website at www.rushadv.com.

*The Investment
Committee*

Economic / Earnings Outlook					
As of 3/31/09					
	2006A	2007A	2008A	2009E	2010E
Annual Real GDP	2.90%	2.20%	1.10%	-2.50%	1.80%
CPI	3.24%	2.86%	3.85%	-0.70%	1.85%
S&P 500					
Earnings Reported	\$ 81.51	\$ 66.18	\$ 14.97	\$ 34.74	\$ 41.49
Earnings Operating	\$ 87.72	\$ 82.54	\$ 49.49	\$ 62.36	\$ 69.57
Operating Chg. Y-Y (%)	14.77%	-5.9%	-40.0%	26.0%	11.6%
P/E Reported*	17.40x	22.19	60.34	22.97	23.62
P/E Operating*	16.17x	17.79	18.25	12.79	14.09
Dividend Yield	1.75%	1.89%	3.14%	2.75%	2.75%
	Close	Close	Close	Est	Est
	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010
S&P 500	1,418	1,468	903	980	1,085
DJ Industrial	12,463	13,265	8,776	9,400	10,600
Fed Funds Target Rate	5.25%	4.25%	0.0% - .25%	0.0% - .25%	1.50%
10 Year T-Note	4.71%	4.03%	2.25%	2.50%	3.50%

Source: Factset and www.standardandpoors.com

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RIA Portfolio Characteristics / Performance

Despite the broad market continuing to decline in the 1st quarter of 2009, growth investors fared significantly better than value and core counterparts, and RIA portfolios were no exception. Each RIA portfolio outperformed its respective growth benchmark and the S&P 500.

After a sharp sell off in the 4th quarter of 2008, Energy stocks, FMC Technologies (FTI), Oceaneering (OII), and Petrobras (PBR) advanced over 20% in the quarter and contributed to the portfolios outperformance. Another bright spot was holdings in the Health Care sector with strong gains from Allergan (AGN) and Life Technologies (LIFE). One possible sign that the market has begun to genuinely turn around is that Consumer Staple holdings, traditionally a safe haven for investors in economic downturns, detracted from quarterly performance. It is interesting to note that Staple companies such as Proctor & Gamble (PG), PepsiAmericas (PAS) and Diageo (DEO) were all down while Discretionary names Nordstrom (JWN) and Buckle (BKE) where up sharply.

Like we have stated before, we can not predict short term market movements but we do believe the market has potential to advance over the next several quarters. While a significant market rebound would be a welcome occurrence, it poses challenges for investors. Just as broad based sell-offs over-sell quality companies, broad based rallies can also temporarily boost lower quality names. Rest assured, we will continue to follow our disciplined process that seeks to identify and hold businesses with superior fundamental characteristics with strong growth opportunities. The following table highlights the superior fundamentals of the RIA portfolios with holdings that have higher-expected growth rates, lower debt-to-equity and higher returns on equity compared to the S&P 500.

12/31/2008	Summary of RIA Portfolio Characteristics			
	Large Cap Growth Equity	Small/Mid Cap Growth Equity	Non-US ADR Growth	S&P 500
Wtd Avg Market Cap (\$ in Bn's)	\$42,758	\$2,383	\$27,561	\$70,494
P/E Multiple T4Q (Reported EPS)	16.82x	24.64x	16.03x	15.54x
Forward 12-Month P/E Multiple	15.05x	14.45x	14.80x	15.09x
EPS Growth LFY	21.16%	27.40%	29.61%	-1.49%
EPS Growth Last 3-Yr Avg	33.84%	28.02%	30.30%	10.62%
EPS Growth Rate 5 yrs out	13.38%	14.84%	11.29%	-3.48%
Return on Equity T4Q	28.28%	19.17%	29.69%	12.71%
EBITDA Margin LFY	25.50%	28.04%	28.71%	21.74%
Net Profit Margin T4Q	13.49%	10.37%	14.42%	5.25%
LT Debt	31.53%	34.92%	56.09%	87.13%

Investment Portfolio	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
US Large Cap Growth (Gross)	-1.29%	-1.29%	-33.80%	-9.34%	0.39%	-1.62%	1.77%
US Large Cap Growth (Net)	-1.47%	-1.47%	-34.27%	-10.09%	-0.56%	-2.70%	0.66%
(Inception Date 5/31/98)							
Russell 1000 Growth	-4.12%	-4.12%	-34.28%	-11.27%	-4.38%	-5.26%	-2.53%
US Small / Mid Cap Growth (Gross)	-3.56%	-3.56%	-40.07%	-14.63%	-3.12%	-	-0.27%
US Small / Mid Cap Growth (Net)	-3.77%	-3.77%	-40.58%	-15.47%	-4.13%	-	-1.38%
(Inception Date 12/31/00)							
Russell 2500 Growth	-5.97%	-5.97%	-38.14%	-15.38%	-4.46%	-	-3.02%
Non-US / ADR Growth (Gross)	-9.53%	-9.53%	-47.64%	-11.59%	-	-	-3.10%
Non-US / ADR Growth (Net)	-9.62%	-9.62%	-48.07%	-12.25%	-	-	-3.85%
(Inception Date 3/31/05)							
MSCI EAFE Growth	-12.32%	-12.32%	-45.12%	-12.79%	-	-	-4.59%



Performance Disclosure

Rushmore's composite performance results for the Rushmore products include actual total returns for all full discretion, non-wrap accounts in this strategy. These gross- and net-of-fee composite returns are calculated on an asset-weighted basis and include transaction costs and their investment of dividends. Past performance is no guarantee of future results. Further information on performance and conformance with GIPS Performance Presentation Standards is available upon request.

Performance data quoted represents historically achieved results and is no guarantee of future performance. Future investments may be made under different economic conditions, in different securities and using different investment strategies. The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of redemption if asset values have fallen.

Performance is expressed in US dollars. Actual performance may differ from composite returns, depending on the size of the account, brokerage commissions, investment guidelines and/or restrictions, inception date and other factors, such as the timing of contributions and withdrawals. Care should be used when comparing these results to those published by other investment advisors, other investment vehicles and unmanaged indices due to possible differences in calculation methods. Consultants and investors supplied with these performance results are advised to use this data in accordance with SEC guidelines.

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