



Equity Market Overview – 2Q09

Equity market performance during the 2nd quarter of 2009 was positive, with major indices reporting strong gains for the quarter. Since late 2007, equity markets have been difficult, yet patient and long-term oriented investors were validated in the 2nd quarter. The Dow Jones Industrial Average (Dow) increased 11.9%, the S&P 500 (Total Return) 15.9% and the NASDAQ Composite rose 20.1%. The last time the S&P 500 increased this much in a single quarter was the 4th quarter of 1998. From the market low on March 9, 2009 the S&P 500 increased 35.9%, the Dow increased 29.0% and the NASDAQ was higher by 44.6%. The Dow moved into positive territory for the year briefly during June but was unable to maintain the rally, closing the quarter with a year-to-date return of <3.8%>. The NASDAQ and S&P 500 ended the period positive in 2009, up 16.4% and 1.8% respectively.

Nothing represents the increase in investor risk appetite better than the outperformance in small cap stocks and emerging markets. The Russell 2000 Index was up 20.7% compared to 16.5% for the Russell 1000 Index as investors reversed course from the 1st quarter, shifting investments to the historically more volatile small cap space. Similarly, emerging markets such as China, Russia, India and Turkey all had 25 plus percent returns; well above returns for developed economies.

The financial crisis and recession forced the Dow to replace two of its most recognized components, General Motors and Citigroup. Cisco Systems and Travelers were added to the most widely recognized stock index in the world as it fights to remain relevant. As a price-weighted index with only 30 components, when stocks within the index drop to single digits, the Dow becomes less of a true market barometer.

Index Returns (Data as of 6/30/09)	2Q09	1 Year	3 Years	5 Years	10 Years
<i>Large Cap</i>					
S&P 500 Index (Total Return)	15.93%	-26.21%	-8.22%	-2.24%	-2.22%
Russell 1000 Growth	16.32%	-24.50%	-5.45%	-1.83%	-4.18%
Russell 1000 Value	16.70%	-29.03%	-11.11%	-2.13%	-0.15%
<i>Mid Cap</i>					
Russell Midcap Growth	20.67%	-30.33%	-7.93%	-0.44%	0.02%
Russell Midcap Value	20.94%	-30.52%	-11.07%	-0.43%	4.00%
<i>Small Cap</i>					
Russell 2000 Growth	23.38%	-24.85%	-7.83%	-1.32%	-0.89%
Russell 2000 Value	18.00%	-25.24%	-12.07%	-2.27%	5.00%
<i>Foreign Equity</i>					
MSCI EAFE Index	25.85%	-30.96%	-7.51%	2.79%	1.59%
MSCI World Index	21.05%	-29.01%	-7.48%	0.57%	-0.37%
<i>Fixed Income</i>					
Lehman US Government/Credit Intermediate	1.67%	5.27%	6.14%	4.57%	5.65%
Salomon 3-month T-bill	0.05%	0.78%	3.04%	3.02%	3.08%

Source: Zephyr Associates Inc. / Style Advisor

The rebound in equity markets can be attributed to the economy getting “less bad,” along with evidence that some indicators are signaling a turnaround. In addition, we can not overstate the importance of putting the concern over multiple large bank failures behind us. When investor sentiment tipped from fear that institutions such as Bank of America and Citigroup would follow Lehman into bankruptcy, to the realization these banks would live to lend another day, the market did indeed respond with a huge relief rally that extended well into the 2nd quarter.

Bank Stress Tests

By the time the government’s “stress-test” results

were released in May, the market had largely anticipated the findings. Investors were not surprised that several of the nation’s largest financial institutions needed to raise additional capital and perceptions over the health of our financial system moved from dire to manageable. Banks have been able to raise capital from equity markets, and firms such as Goldman Sachs, JP Morgan Chase, Morgan Stanley and a few others have fully repaid TARP funds.

Signs of a Bottom

~Housing

In addition to fear abating over the financial health of

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banks, the economy did show modest signs of a recovery or at least stabilization. The housing market continues to decline with the median home value falling 26% from its high in 2006, yet several indicators are pointing to a bottoming in residential real estate. [1] The months supply of homes on the market dropped from 12.4 to 10.2 and the price-to-income ratio is almost 20% below the historical average. [2] It should be expected that inventories need to drop further before home prices can once again appreciate, but it is none-the-less an encouraging sign.

~Credit Markets

As we have previously commented, the epicenter of market turmoil over the last 12 to 18 months has been the frozen credit markets. The mortgage crisis created an environment in which banks were reluctant to lend to one another, businesses were unable to issue new debt and corporate bond prices plummeted. During the 2nd quarter, however, credit markets staged a significant rebound. Bond prices rose and companies previously unable to tap the debt market were able to issue new debt, all resulting in a significant narrowing in credit spreads as illustrated in Chart 1. The difference in yields between 10-year high-quality corporate bonds (AA) and 10-year Treasury bonds narrowed from 300+ basis points in the 1st quarter to ending the quarter under 185 basis points. Similarly, the drop in spreads between non-investment grade corporate debt (junk bonds) and U.S. Treasuries is even more drastic, falling from 1,800 basis points to under 1,000 basis points.

~Labor Market

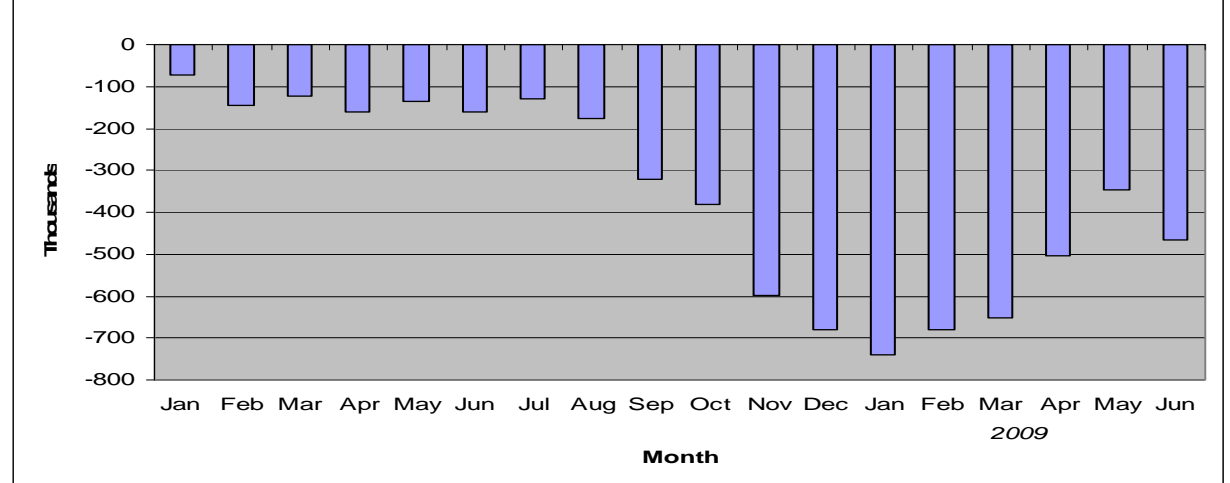
Unemployment rose to 9.5% in June and will likely

Chart 1 – Corporate Bonds



Source: Bloomberg

Chart 2 – Change in Payroll



Source: Bureau of Labor Statistics / RIA

increase over the next several months, but there are encouraging signs that the labor market has seen the worst. The economy continues to shed

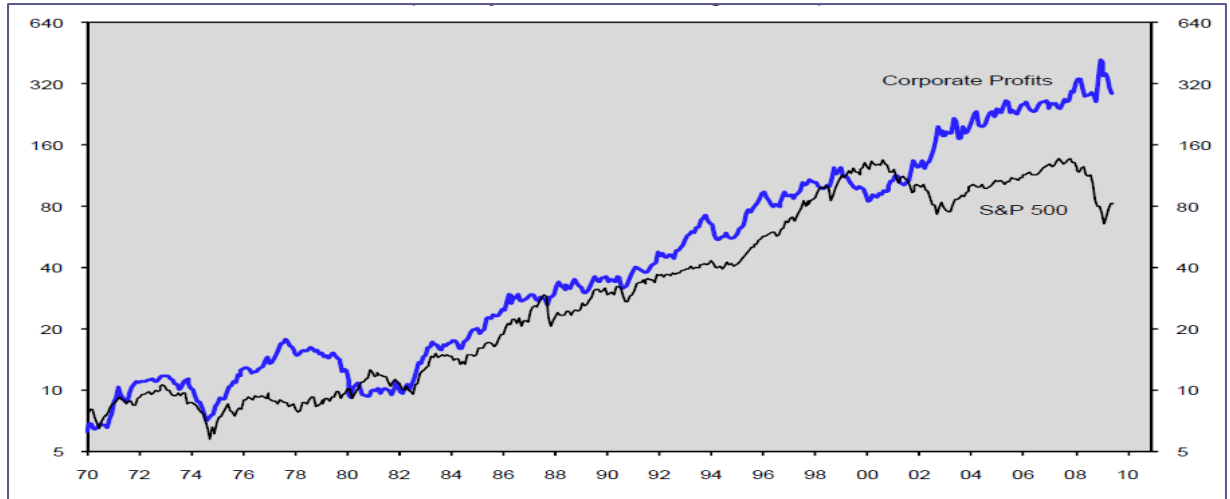
jobs but at a decreasing rate and employment is generally the last indicator to turn positive as the economy recovers. [Chart 2].

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In the near term, the economy will most assuredly show signs of weakness as housing markets experience further price declines and the unemployment rate edges above 10%. That said, we do believe the economy is reaching a bottom. The S&P 500 earnings picture drastically improved from posting its first ever negative quarterly EPS in the 4th quarter of 2008, to earning a positive \$10.12 for the 1st quarter of 2009. Dr. Arthur Laffer, a noted economist, contends that accounting rule changes have distorted historical profitability comparisons and have artificially lowered recent corporate profits. He points out that using the National Income and Product Account (NIPA) data from corporate tax returns, corporate earnings have dropped much less than indicated by GAAP EPS. Dr. Laffer also tracks "Capitalized Economic Profits" and the gap between corporate profits and stock prices is at historic levels. [3] Both metrics indicate that the market remains attractively valued. [Chart 3]

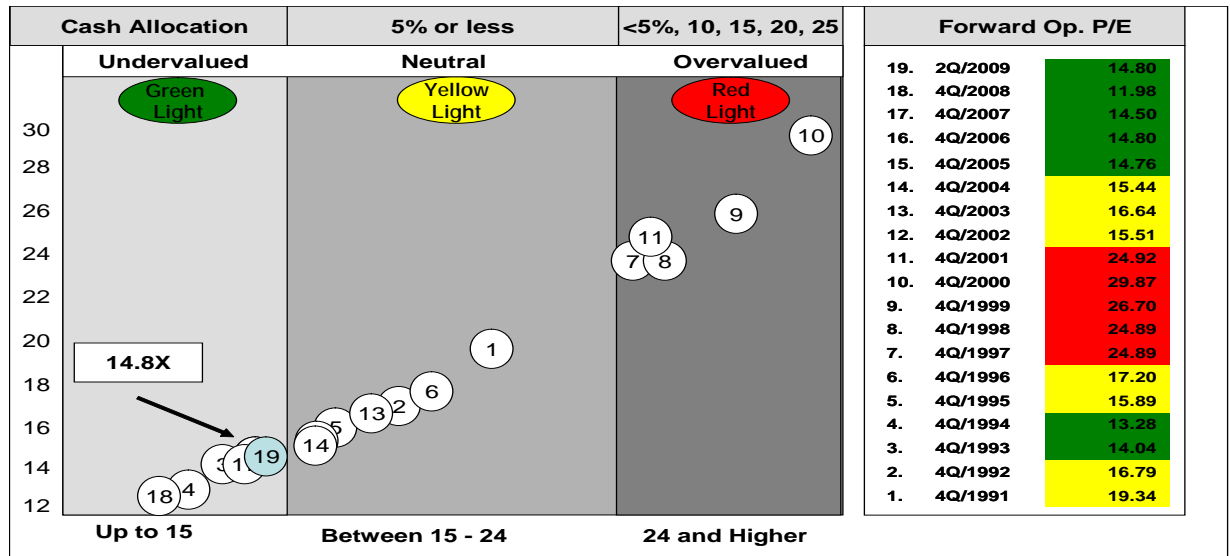
Chart 3: Capitalized Economic Profits



Source: Laffer Associates

Additionally, even with the jump in the S&P 500, our traditional Price-to-Forward Operating Earnings Ratio remains in the "Green-Light" range at 14.8x. [Chart 4]

Chart 4: RIA Market Risk Indicator - P/FOE Based on Forward Operating Earnings



Source: Rushmore Investment Advisors, Inc.

Outlook

Missouri Market – Show Me the Earnings

In late 2008 and early 2009 companies responded to the deteriorating economic environment by aggressively cutting costs to offset declines in revenue. As the market advanced during the quarter, investors showed a willingness to look beyond the current results and reward companies that had slashed expenses with an eye to earnings growth in late 2009 and beyond. Over the next several quarters, we believe the market will seek continued

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signs of a recovery but become less willing to give companies the benefit of the doubt. It is relatively easy to layoff workers and cut back production, but only superior organizations are able to be opportunistic and find ways to grow market share and offer products and services with secular growth opportunities.

Inflation projections are expected to play a major role in investor sentiment and will be a factor in which sectors and industries outperform in the coming quarters. Many fear that the massive expansion of the Federal Reserve's balance sheet

and increased government spending will lead to unmanageably high inflation. While it is true that in "normal" economic times this would be inflationary, there are several deflationary forces that remain. High unemployment, little to no wage growth, depressed home prices and banks still reluctant to lend are all keeping inflation at bay. In fact, the expansion of bank reserves from \$47 billion in September 2008 to the current \$848 billion will give banks ample funds to lend and spur economic growth. [3]

Despite our view that inflation will not be an issue

for at least the next 12 to 18 months, we are optimistic that equities will be a more attractive option compared to the low yield from Treasuries. Additionally, we are favorably biased towards the Energy and Materials sectors; not as a protection from inflation but as sectors that will benefit from a global economic recovery.

With an economy recovering from a recession, the news headlines will most likely remain negative, detailing the poor state of the economy through lagging indicators like unemployment and last quarter's GDP decline. Conversely, the Conference Board's Leading Economic Index (LEI), which is comprised of ten leading economic indicators improved in both April and May after a long descent from mid-2007. Just as we are within a recession before the National Bureau of Economic Research declares it official, the economy will have emerged from this downturn before we see a newspaper headline announcing the recession is over. As the equity markets are a leading indicator, it is important to remain patient as the economy cycles through the current recessionary environment.

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 6/30/09						
	2006A	2007A	2008A		2009E	2010E
Annual Real GDP	2.80%	2.00%	1.10%		-2.70%	1.85%
CPI	3.23%	2.87%	3.85%		-0.50%	1.80%
S&P 500						
Earnings Reported	\$ 81.51	\$ 66.18	\$ 14.97		\$ 28.65	\$ 37.81
Earnings Operating	\$ 87.72	\$ 82.54	\$ 49.49		\$ 55.61	\$ 74.10
Operating Chg. Y-Y (%)	14.77%	-5.9%	-40.0%		12.4%	33.2%
P/E Reported*	17.40x	22.19	60.34		32.09	25.65
P/E Operating*	16.17x	17.79	18.25		16.53	13.09
Dividend Yield	1.75%	1.89%	3.14%		2.78%	2.35%
	Close	Close	Close	Close	Est	Est
	12/31/2006	12/31/2007	12/31/2008	6/30/2009	12/31/2009	12/31/2010
S&P 500	1,418	1,468	903	919	970	1,130
12 Month Forward Reported P/E	21.43	20.24	21.38	29.60	25.68	
12 Month Forward Operating P/E	14.80	14.50	10.98	14.80	13.09	
DJ Industrial	12,463	13,265	8,776	8,447	9,600	10,600
Fed Funds Target Rate	5.25%	4.25%	0.0% - .25%	0.0% - .25%	0.0% - .25%	0.015
10 Year T-Note	4.71%	4.03%	2.25%	0.0352	0.025	0.035

Source: Factset and www.standardandpoors.com

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RIA Portfolio Characteristics / Performance

Each of the Rushmore Investment Advisors portfolios had strong absolute gains in the quarter and is solidly positive for 2009, although the 2nd quarter rally disproportionately benefited low quality stocks not typically held in our portfolios. Higher beta, lower-credit rated companies significantly outperformed more fiscally sound peers. We don't believe that is sustainable and will correct itself in the 2nd half of the year. We will continue to utilize our bottom-up, quantitative investment process to select companies that we believe will have superior returns over a complete business cycle.

All RIA portfolios benefited from their relative underweight in Consumer Staples but a similar underweighting in Financials detracted from performance. Individual holdings that stood out included Technology names such as Research in Motion (RIMM), Apple (AAPL), and Synaptics (SYNA). Each holding posted increases above 30% and each are leaders in smart phone technology.

The following table illustrates RIA Portfolio characteristics which are fundamentally sound and compare favorably to the S&P 500 and respective benchmarks. Recent earnings per share growth, long term growth expectations, and net profit margins highlight the superior characteristics of RIA holdings.

Summary of RIA Portfolio Characteristics							
	6/30/2009	Large Cap Growth Equity	Small/Mid Cap Growth Equity	Non-US ADR Growth	S&P 500		
Wtd Avg Market Cap (\$ in Bn's)		\$45,276	\$2,701	\$38,271	\$71,148		
P/E Multiple T4Q (Reported EPS)		14.60x	17.05x	26.31x	16.56x		
Forward 12-Month P/E Multiple		15.58x	17.70x	20.37x	15.08x		
EPS Growth LFY		17.22%	43.54%	28.06%	10.32%		
EPS Growth Rate 5 yrs out		13.03%	15.22%	13.50%	10.74%		
Return on Equity T4Q		27.46%	18.45%	28.62%	19.70%		
Net Profit Margin T4Q		13.65%	13.65%	16.23%	8.38%		
Investment Portfolio	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
US Large Cap Growth (Gross)	13.59%	11.99%	-25.20%	-4.45%	2.33%	-0.69%	2.90%
US Large Cap Growth (Net)	13.41%	11.61%	-25.73%	-5.21%	1.39%	-1.77%	1.78%
(Inception Date 5/31/98)							
Russell 1000 Growth	16.32%	11.53%	-24.50%	-5.45%	-1.82%	-4.18%	-1.13%
US Small / Mid Cap Growth (Gross)	17.85%	13.65%	-34.01%	-8.33%	-0.66%	-	1.69%
US Small / Mid Cap Growth (Net)	17.54%	13.10%	-34.62%	-9.22%	-1.70%	-	0.56%
(Inception Date 12/31/00)							
Russell 2500 Growth	21.79%	14.52%	-27.29%	-7.71%	-0.65%	-	-0.65%
Non-US / ADR Growth (Gross)	21.15%	9.61%	-38.31%	-5.80%	-	-	1.56%
Non-US / ADR Growth (Net)	20.98%	9.35%	-38.73%	-6.52%	-	-	0.79%
(Inception Date 3/31/05)							
MSCI EAFE Growth	21.72%	6.73%	-33.36%	-7.02%	-	-	0.20%



Citations

1. Deutsche Bank, 3rd Quarter Global Outlook
2. Capital Economics, United States Economic Focus, June 15th 2009
3. Laffer Associates, Supply-Side Investment Research

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.

Rushmore reports in compliance with CFA Institute Global Investment Performance Standards (GIPS). To receive a list and description of Rushmore's composites and/or a presentation that adheres to the GIPS-PPS standards, contact the firm at 1-800-564-8266.