

RUSHMORE INVESTMENT ADVISORS, INC.

Equity Market Overview – 3Q10



~ Yes, the train left the station and the Dow Jones rallied from 6,600 to 10,800, a 64% gain prior to the NBER declaring the recession over ~

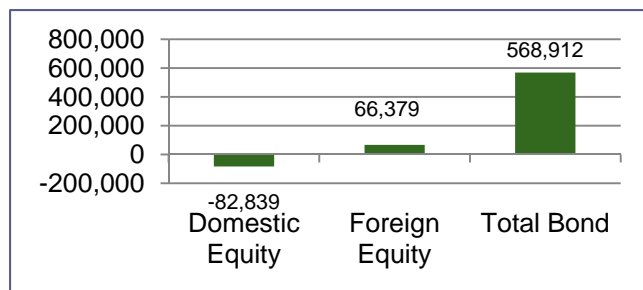
The National Bureau of Economic Research (NBER) declared the “great recession” over in September. The recession that began in December 2007 lasted 18 months and is the longest lasting recession since World War II (Chart 1).

Chart 1:



The NBER does not make an official declaration until final revisions to the National Income and Product Accounts are released. While prudent, we all know the markets do not wait for press releases from policy groups to make a statement on where the economy is headed. While the S&P 500 appreciated 69% from the March 2009 lows, investors fled the equity market in droves. **Sad!** Since March 2009, there has been a net negative \$82.8 billion flow from domestic equity funds, while a staggering \$568.9 billion poured into bond investments (Chart 2).

Chart 2:



Source: ICI

Over the past several quarters we have characterized the equity market as the “Missouri Show-Me” market, as well as a “Stair-Step” market. Both descriptions continue to be appropriate in that investors are clearly reluctant to allocate cash to equities, resulting in a market that responds quickly to sentiment changes followed by range bound trading activity.

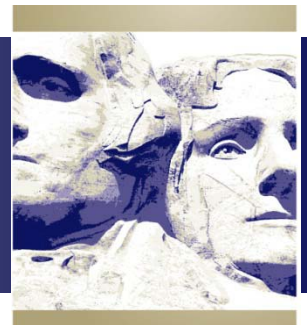
Investors should not shun equities! Unfortunately, history has shown us that many investors will keep cash on the sidelines or practice rearview mirror investing - chasing the latest winner and assuming that current asset class leaders will continue to outperform. We doubt that ten years from now fixed income or gold will be the standout asset classes they are today. History also indicates that the investor will begrudgingly return to equities, but only after the market has moved significantly higher. Behavioral finance research has shown that investment pitfalls include an over focus on short-term information such as newspaper headlines, while discounting longer-term developments.

The market rebounded in 2009 due to government stimuli, albeit weak and misapplied. The economy is now pausing between the government stimuli stage and the corporate investing stage. Investment grade bond yields reached a record low 3.7%. Corporations are taking advantage of the extremely low borrowing costs to fund acquisitions, increase dividends, and buy back stock. All are strong indicators that corporate leaders are indeed optimistic. Additionally, corporate default rates are down to pre-crisis levels and the credit market remains highly accommodative. The corporate investing stage has definitely begun and will likely drive the market in another powerful post mid-term election move.

Mid-Term Elections

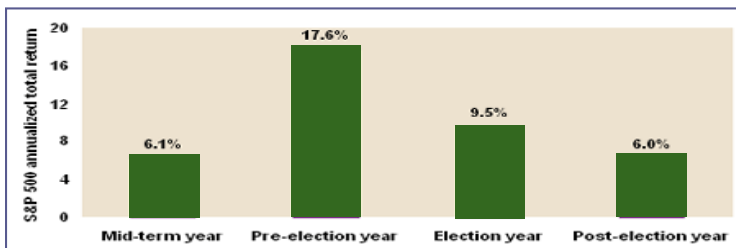
The results of the mid-term elections, in our opinion, will provide multiple positive catalysts to drive the market higher. If past election cycles are any indication, we are entering a

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market “sweet-spot.” On average, pre-election year returns are a significant 17.6%, 8.1 percentage points higher than the 2nd best year of typical election cycle returns (Chart 3).

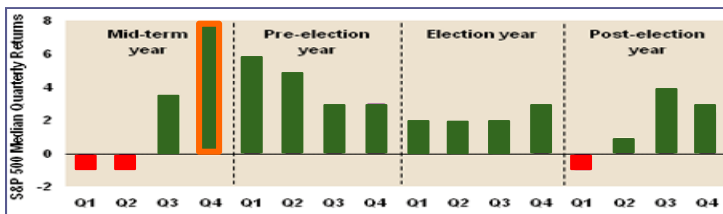
Chart 3:



Source: The Leuthold Group; Dec 31, 1926 – Dec 31, 2009

One surprising statistic is that the highest average quarter within the election cycle is not even in the pre-election year, but rather during the 4th quarter of mid-term elections (Our current quarter – See chart 4).

Chart 4:



Source: Ned Davis Research; Dec 31, 1929 – Dec 31, 2009

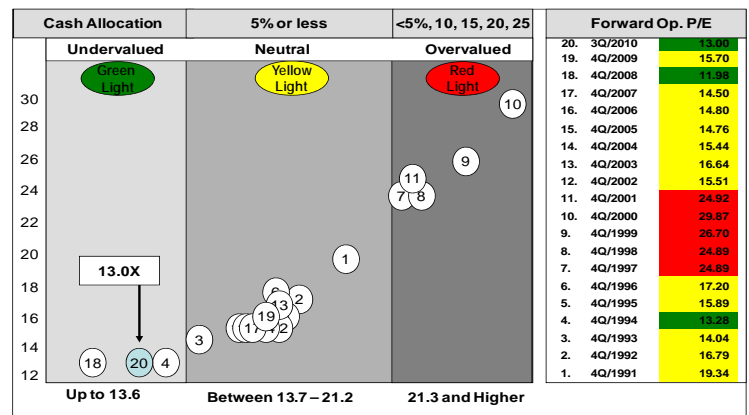
The variance in quarterly returns based on the election cycle is surprising. And while we are not advocating market timing or suggesting an investment plan around election cycle patterns, we do believe it reinforces our view that the market has multiple tailwinds.

Earnings Growth

Even with the S&P 500 advancing over 10% during the quarter, market valuations remain very attractive. Over the

next twelve months, S&P 500 operating earnings are expected to be \$87.58, which is 19.6% above the \$73.22 posted in the previous four quarters. The Price-to-Forward Operating Earnings (PFOE) ratio remains in the green-light range at 13.0x (Chart 5).

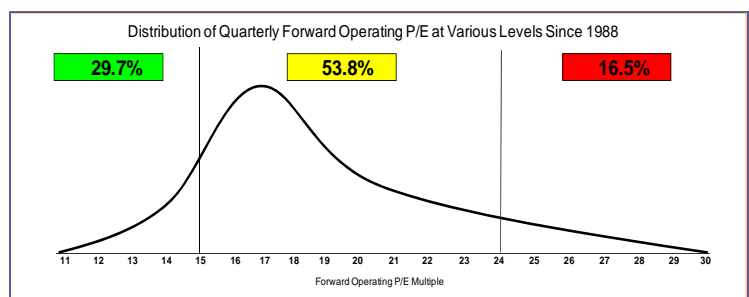
Chart 5:



Source: Rushmore Investment Advisors, Inc.

Since 1988, the PFOE has been below 14x only 16% of the time and had an average next-twelve month return of 13.5% (Chart 6).

Chart 6:



Source: Rushmore Investment Advisors, Inc.

During the market’s summer sell-off, many market analysts said earnings estimates were too high and likely to be revised

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downward, but that has not come to pass. In fact, 2010 operating earnings estimates have increased to \$82.82 from last quarter's estimate of \$81.86.

Summary of Style Performance

September has historically been one of the weaker performing months with an average negative monthly return of <0.26%> since 1929. Yet by comparison, September 2010 posted strong returns with the S&P 500 up 8.8%; the strongest September since 1939. For the quarter, the S&P 500 rose 10.7%, the Dow Jones Industrial Average (Dow) was up 10.4%, and the NASDAQ Composite had the strongest returns, higher by 12.3%.

With the NASDAQ posting the highest returns of the three primary indices, it is no surprise that the Technology sector was a market leader, up 12.9%. Yet it was not the best performing sector. The Telecommunications and Materials sectors rose 21.0% and 17.5% respectively. The market's upswing was broad-based with the weakest sectors, Health Care and Financials, up 8.8% and 5.0% respectively.

Market Correlations

It should be noted that since 2008 and the beginning of the financial crisis, stocks have been trading in more lockstep with one another. Between 2000 and 2006, the correlation of stocks within the S&P 500 averaged 27%. During the European credit crisis, correlations spiked to over 80% and have stayed above 60% throughout the 3rd quarter of 2010. Higher correlations are likely the result of several developments, including increased volume from indexed exchange-traded-funds (ETFs). ETFs buy and sell based on index weights and are not traded based on active management. It is likely though, the greater cause for higher correlations is investors' perception of macroeconomic uncertainty. The result is a "risk on/risk off" market with stocks trading in concert with the prevailing sentiment du jour.

While higher correlation can be frustrating, we are confident this is a short-term trend. Not surprisingly, some market commentators like to extrapolate on short-term developments and make bold predictions. James Bianco of Bianco Research stated, "Stock picking is a dead art form, macro themes dominate the market more than ever." While such a quote will get your name and picture in the Wall Street Journal, it is not based on reality. Clearly, the broad macroeconomic environment will always impact aggregate earnings and be very important in the overall direction of the market, however to imply that every company is identical is truly ridiculous. The earnings, risk profile, growth potential and allocation of resources is unique to each company. The market will ultimately reward those companies that distinguish themselves with higher relative earnings growth and strong return on capital.

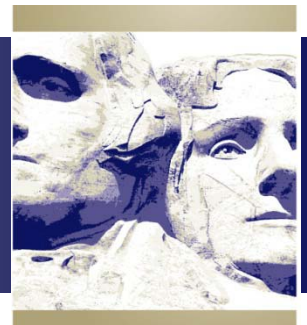
International Markets

Global equity markets also advanced in the quarter with most European markets up between 5% and 15% on a local currency basis. South American markets were very strong with the MSCI Colombia Index rising 23.6% and MSCI Chile Index up 16.2%. The stand out was the MSCI Argentina Index that appreciated 43.0% due to analysts increasing the country's GDP growth to 9.2% from the previously estimated 6.5%. The Japanese market ended the quarter up only 1.2% as the strengthening Yen threatened to undermine the country's exports. Most international returns were enhanced for the quarter as the decline in the U.S. Dollar increased dollar denominated returns.

Outlook

We remain optimistic that the economy will stay on track with its moderate but steady recovery, and believe there is a strong case for a bullish equity market. For starters, corporate earnings have continued to post strong growth and exceed analyst's expectations. As we have stated numerous times, earnings are the primary driver of price, so it follows that

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stronger profits will lead the market higher.

Secondly, we are in an ideal inflationary environment that has historically resulted in higher market valuations. Market multiples decline as inflation rises and nominal returns are eroded by inflation. One valuation rule of thumb is to subtract the Consumer Price Index (CPI) from twenty to calculate an appropriate market multiple or P/E. With the latest annual CPI being 1.1%, the target trailing P/E for the S&P equals 18.9x. The current trailing P/E of 17.1x indicates an undervaluation. Applying the 18.9x P/E to the previous four quarters of earnings, equals an S&P level of 1,268 or 11% higher.

Additionally, we would expect the headwind of net outflows from equity funds to reverse and become positive, resulting in a tailwind for equities. Dr. Ed Yardeni, of Yardeni Research, employs a relative valuation metric called the "Fed's Stock Valuation Model" (FSVM). The FSVM simply compares the S&P's forward earnings yield to the 10-year Treasury yield. With the earnings yield currently at 7.3% and the 10-Year Treasury yield only at 2.5%, it indicates a significantly more attractive equity market compared to government bonds. It is interesting to note that taking the reciprocal of 10-Year Treasury yield of 2.5% equates to a P/E of 44.4x. While Treasuries are risk free, that is still quite a premium! A combination of an increasing "risk-on" sentiment, along with reversion to more normal equity flows, would suggest a positive outlook for the equity markets.

Finally, we are entering an election cycle. As we indicated previously, an election year cycle has historically led to strong equity market returns. There is no consensus on the causes of a strong market leading up to a presidential election, but one hypothesis is that Washington's increased focus on the economy or "priming the pump" prior to the election is the impetus. Others speculate the change in Washington that frequently occurs in mid-term elections boosts investor confidence. Regardless, we believe this year's mid-term

elections have the additional catalyst of a resolution to the Bush-era tax cuts. To be sure, there will be heated debates about which tax cuts will remain. We believe the market will react positively to the legislation being finalized, as well as, the likelihood of tax cut extensions applying to more Americans than the market is currently pricing in.

Thank you for your continued trust in Rushmore Investment Advisors. We know these market conditions are challenging. Please let us know if there is anything we can do to better serve you. Performance and characteristics for all Rushmore portfolios can be found on the following pages.

*The Investment
Committee*

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RIA Portfolio Characteristics & Performance

Each of the Rushmore Investment Advisors (RIA) portfolios had strong absolute performance during the quarter. While high market correlations has been a challenge, we would expect correlations to fall to a more normalized level as the macroeconomic picture improves and tax legislation is finalized. As the market correlations begin to fall, investors will rely on fundamental characteristics to distinguish superior companies. As the portfolio characteristics table on the next page illustrates, our combined quantitative and fundamental approach enables us to isolate companies with above market earnings growth, higher profit margins as well as identify companies with sustainable growth opportunities going forward.

During the quarter, RIA portfolios benefited from Energy and Technology holdings. Core Laboratories N.V. (CLB), an Energy company, is taking advantage of international growth opportunities by applying enhanced production technology to lower costs for exploration and energy production companies. Technology companies such as Juniper Networks (JNPR) and Skyworks Solutions (SWKS) were strong as communications and mobile equipment providers leverage our ever increasing demand for information. Despite the market's advance and improved sentiment, Consumer Discretionary holdings detracted from relative performance as investors continue to worry about consumers' willingness to spend.

Investment Portfolio	MTD	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Incept
US Large Cap Growth (Gross)	11.54%	11.98%	4.25%	11.34%	-5.52%	3.76%	1.43%	4.42%
US Large Cap Growth (Net)	11.54%	11.83%	3.83%	10.73%	-6.13%	2.95%	0.43%	3.35%
(Inception Date 5/31/98)								
Russell 1000 Growth	10.65%	13.00%	4.36%	12.65%	-4.36%	2.06%	-3.44%	1.01%
US Small / Mid Cap Growth (Gross)	11.34%	10.11%	4.71%	10.72%	-9.72%	-0.77%	-	3.27%
US Small / Mid Cap Growth (Net)	11.34%	9.84%	3.96%	9.67%	-10.56%	-1.76%	-	2.14%
(Inception Date 12/31/00)								
Russell 2500 Growth	13.25%	13.15%	11.09%	17.27%	-3.40%	3.09%	-	2.72%
Non-US/ADR Growth (Gross)	7.72%	13.08%	5.08%	16.37%	-6.95%	4.81%	-	6.65%
Non-US/ADR Growth (Net)	7.72%	12.81%	4.39%	15.37%	-7.70%	4.03%	-	5.83%
(Inception Date 3/31/05)								
MSCIEAFE Growth	10.64%	16.62%	4.39%	8.78%	-8.01%	3.14%	-	4.61%

See (GIPS®) disclosure.

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Summary of RIA Portfolio Characteristics

9/30/2010	Large Cap Growth	SMID Cap Growth	Non-US ADR Growth	S&P 500
Wtd Avg Market Cap (\$ in Bn's)	\$47,749	\$5,658	\$35,521	\$79,010
P/E Multiple T4Q (Reported EPS)	23.23x	32.36x	23.08x	24.05x
Forward 12-Month P/E Multiple	17.60x	25.82x	19.77x	16.32x
EPS Growth LFY %	17.37%	16.93%	25.05%	12.73%
EPS 5yr Growth %	16.37%	17.66%	15.09%	11.40%
Return on Equity T4Q	27.45%	16.34%	20.83%	17.13%
Net Profit Margin T4Q	16.47%	10.98%	13.95%	9.25%

Disclosure

RIA is an SEC registered investment advisor. Composite performance results for the RIA 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 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. 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.

RIA claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list and description of RIA composites and/or a presentation that adheres to the GIPS® standards, contact the firm at 1-800-564-8266.

As an SEC registered investment advisors, Rushmore Investment Advisors, Inc is required to provide you, our client, with an annual offering of our firm's updated Form ADV Part II and related Schedules (our "Disclosure Brochure"). This form is updated regularly, as needed, and a copy is available upon request. To receive a copy of our current Disclosure Brochure, please contact Briton Chamberlain via phone (800) 564-8266 or e-mail brit.chamberlain@rushadv.com.