



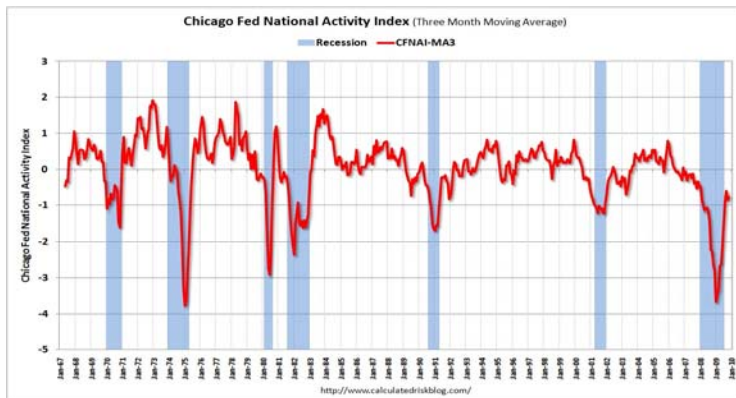
## Equity Market Overview – 4Q09 *The Road to Recovery*

What a difference a year makes. Last year at this time the S&P 500 was down over 38%, the country was gripped by fears that our financial system was in peril, and the S&P 500 was on track to post its first quarterly aggregate earnings loss ever. Fast forward twelve months and not only have the financial markets reversed course but consumer and business sentiment is trending higher, and a number of indicators show the economy continues to recover from what was one of the most serious recessions since the 1930's. These indicators include:

- 1) Higher GDP Growth Forecast
- 2) Improved Consumer Sentiment and Spending
- 3) Declining Unemployment Claims
- 4) Stabilized Credit Market

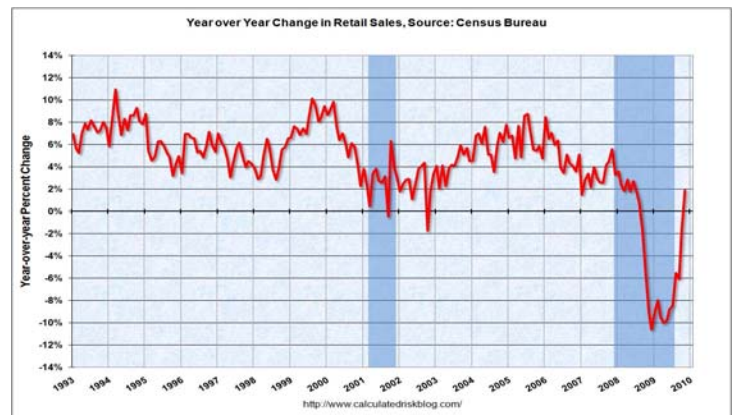
Since the end of the 3rd quarter of 2009, economists have raised their 4th quarter GDP growth forecast from 2% to a current estimate of 3.9% growth. While the jump in the estimate is significant, we are not surprised by the higher forecast as historically the more severe the recession, the bigger the ensuing recovery. An excellent depiction of the economy's improvement is the Chicago Fed National Activity Index (Chart 1). The index is a broad measure of U.S. economic activity that includes data on production, income, employment, consumption, housing, sales, orders and inventories. The November three-month-moving average of -0.77 indicates the economy is operating below its full potential but has bounced back from severe economic contraction.

**CHART 1:**



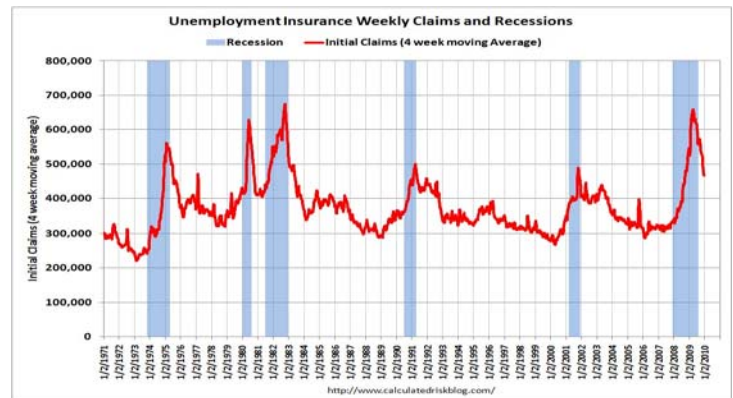
The improvement in the economy is not isolated to just replenishment of low inventories, but also from healthier consumer sentiment and spending. The consumer has transitioned from panic about job security and investment losses to guarded optimism which can be seen in the recovery of retail sales (Chart 2).

**Chart 2:**



Unemployment, usually the last of economic indicators to turn, is showing signs of improvement. Four-week moving unemployment claims (Chart 3) are significantly down from their highs earlier in 2009 and a survey conducted by Manpower showed that 7 out of 10 industries are expecting to add workers in 2010 citing expected higher revenues.

**Chart 3:**



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The recovery in the equity markets pale in comparison to the sharp rebound in the debt markets. During the quarter, corporations issued record levels of new debt and despite the surge in offerings, corporate spreads narrowed (Chart 4). Furthermore, the government bond yield curve has steepened. These are classic post-recession indications the economy is on the road to recovery and a stabilized credit market bodes well for the equity markets.

Chart 4:



Source: Bloomberg

## Potential Headwinds?

A number of market observers have pointed to two potential developments going into 2010 that could lead to a stagnate or lower market: 1) The Federal Reserve (Fed) raising interest rates and 2) a stronger U.S. Dollar. We believe these potential headwinds are not of significant concern as we will explain below.

### Fed Tightening

The Fed has stated it intends to keep interest rates low for an extended period of time, yet as the economy improves, the Fed may choose to begin raising rates as early as the 2nd half of 2010. In raising rates modestly from the current range of 0.00% - 0.25%, the Fed remains true to its word of "low."

Despite conventional wisdom that equity markets sell-off after Fed rate increases, history demonstrates otherwise. Since 1957, the Fed has initiated eight tightening cycles following recessions and only twice has the market finished lower. In fact, on average the market gained 9.3% over the next six months compared to the previous three months following the initial rate hike (Chart 5).

Chart 5:

End of Recession	Fed Rate Hike	Pct Chg 6 Mos Post from 3 Mos Prior
Apr-58	Jul-58	26.30%
Feb-61	Jul-61	9.80%
Nov-70	Mar-72	8.30%
Mar-75	Dec-76	-7.00%
Jul-80	Aug-80	13.60%
Nov-82	Mar-83	15.70%
Mar-91	Feb-94	-1.70%
1-Nov	4-Jun	9.60%
<b>Average</b>		<b>9.30%</b>

Source: Deutsche Bank

Intuitively it makes sense that interest rates will rise as the economy improves. It would not surprise us if GDP growth is higher-than-expected and the Fed will be forced to find the right balance of stimulating growth while containing inflation. In our current low-interest rate environment, a Fed Funds rate increase to 1% over the next four quarters, would be low by historical standards and remain accommodative for business growth.

### Stronger Dollar

Equity markets have had an inverse correlation with the U.S. Dollar since 2002 and have grown more pronounced with the market's recovery since March 2009, leaving many market observers to ponder if a stronger dollar equates to a weaker equity market. We believe the negative correlation will in fact reverse and place no additional pressure on equity markets. Since 1973 the dollar and the S&P 500 have had a slight positive correlation with cycles of extreme positive and negative correlation. The current inverse correlation has recently begun to decouple with both the market and the dollar rising as investors contemplate higher domestic interest rates. A stronger dollar is a sign of a strong U.S. economy and will instill confidence not only in the U.S., but globally.

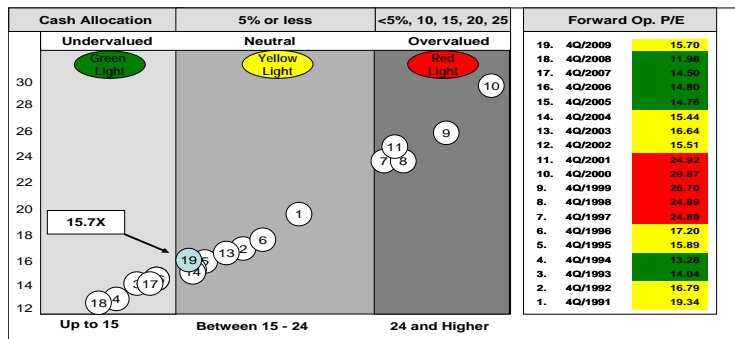
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## Earnings Growth

Earnings steadily improved as the year progressed, and 2009 operating earnings will likely be higher by 12.9% over 2008. Over the next four quarters, operating earnings are forecasted to grow by 78.9% and the price-to-forward operating earnings ratio stands at 15.7x (Chart 6). The ratio remains in the yellow range but lower than last quarter's level of 16.4x despite the higher market. At this transition stage, P/E growth will be challenging and market returns will rely on earnings growth. This is the market environment that RIA seeks as we are expert at discovering those companies taking market share in a profitable manner. Additionally, in a low-inflation, strong earnings growth environment, current market valuations are attractive (Chart 7).

Chart 6:



Source: Rushmore Investment Advisors, Inc.

Chart 7:

Economic / Earnings Outlook - as of 12/31/09					
	2006A	2007A	2008A	2009	2010E
Annual Real GDP	2.80%	2.00%	1.10%	-2.50%	3.00%
CPI	3.23%	2.87%	3.85%	-0.30%	2.00%
<b>S&amp;P 500</b>					
Earnings Reported	\$ 81.51	\$ 66.18	\$ 14.97	\$ 49.26	\$ 55.62
Earnings Operating	\$ 87.72	\$ 82.54	\$ 49.49	\$ 55.91	\$ 75.27
Operating Chg. Y-Y (%)	14.77%	-5.9%	-40.0%	13.0%	34.6%
P/E Reported	17.40x	22.19	60.34	22.64	21.93
P/E Operating	16.17x	17.79	18.25	19.94	16.21
Dividend Yield	1.75%	1.89%	3.14%	1.95%	2.35%
	Close 12/31/2006	Close 12/31/2007	Close 12/31/2008	Close 12/31/2009	Est 12/31/2010
S&P 500	1,418	1,468	903	1,115	1,230
12 Month Forward Reported P/E	21.43	20.24	21.38	20.05	
12 Month Forward Operating P/E	14.80	14.50	10.98	14.81	
DJ Industrial	12,463	13,265	8,776	10,428	11,400
Fed Funds Target Rate	5.25%	4.25%	0.0% - .25%	0.0% - .25%	0.50%
10 Year T-Note	4.71%	4.03%	2.25%	3.84%	4.50%

Source: Factset and www.standardandpoors.com

## Summary of Style Performance

The market continued to advance in the 4th quarter with all major indices posting gains. The Dow Jones Industrial (Dow) rose 7.4% and for all of 2009 increased 18.8%. The S&P 500 (Total Return) was higher by 6.0% and was up 26.5% for the

full year. The best performing major index in 2009 was the NASDAQ Composite, higher by 43.9% for the year, 6.9% in the 4th quarter, and up 78.9% from the March 9th low. The NASDAQ's superior return was driven by strength in the Technology sector which was the best performing sector in the 4th quarter and the year with gains of 62.8% and 11.3% respectively. Ironically, the Technology sector, which historically has been considered a higher-risk sector, has been the market leader in-part due to the defensive characteristics of many technology companies.

The Financial sector was the only sector not advancing in the 4th quarter, with the S&P Financial Index down <1.71%>. The modest decline can be attributed to many of the stocks rebounding too far too fast in the 2nd and 3rd quarters. The Index jumped 64.3% from April through September 2009.

Aided by the Technology sector, Growth indices continued to outpace their Value counterparts in the 4th quarter with the Russell 1000 Growth Index (R1000G) climbing 9.0% compared to 5.3% for the Russell 1000 Value Index (R1000V). For the entire year, the R1000G significantly outperformed the R1000V, rising 38.6% compared to 20.9%.

## International Markets

During the quarter, international returns were similar to domestic returns, yet emerging markets continued to lead global markets and finished the year with spectacular annual returns. The MSCI Indices for Brazil, China, and India appreciated 11.8%, 7.3% and 6.5% respectively. For 2009, those indices had gains of 121%, 56%, and 99% respectively. Most European indices had mid-single digit quarterly gains with the exception of the MSCI Austrian Index which was lower by <10.2%> as concerns grew over the country's exports and relatively high debt. Other areas of weakness included Middle Eastern markets as a result of the Dubai World's financial crisis and Greece was pressured by concerns over its national finances.

## Outlook

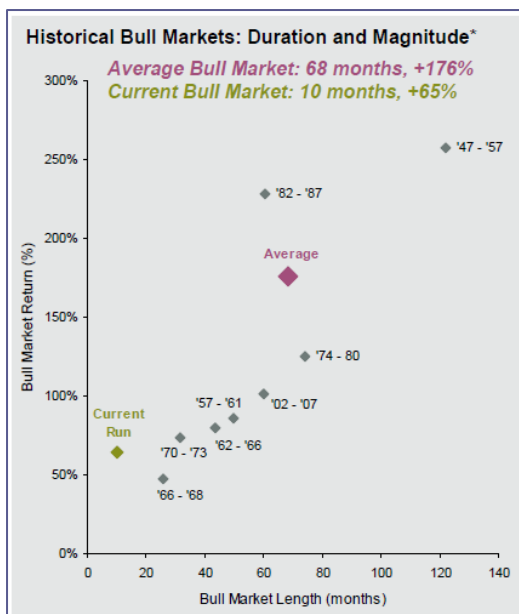
We continue to be optimistic that equity markets will advance in 2010 as the economy continues to recover. In a survey conducted by Russell Investments, 79% of investment managers expect equity markets to increase in 2010, the highest level since the survey was started in 2005.

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Economists from the major investment banks are forecasting the S&P 500 to climb almost 10% to 1,223. Furthermore, a Morgan Stanley survey of stock analysts reported that 72% believe there is greater potential for earnings estimates to be revised upward in 2010. There are many indicators validating the analyst's positive sentiment, including rising consumer confidence, improving employment environment, and a rosier manufacturing sector. Chart 9 below provides context to how early we are in the recovery cycle. To match *average* bull markets, the S&P 500 would need to reach 1,767 (a 58% increase from current levels) and last another 58 months (4 years and 10 months).

Chart 8:



Source: JP Morgan

## W Shaped Recovery

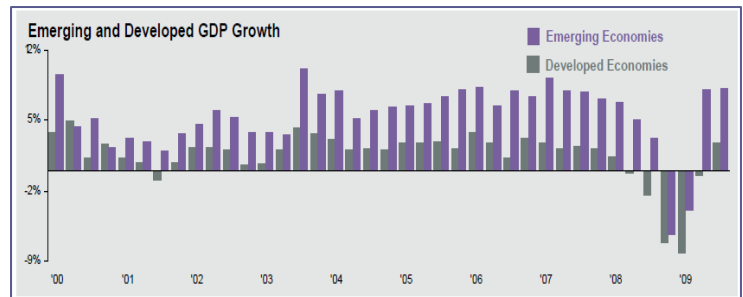
What are the chances of a double dip recession? We believe there is little chance that the economy will experience a second contraction. First, double-dip recessions are rare with the early 1980's being the only example. During that period, the Fed was forced to be aggressive in rate hikes to fight inflation, crimping real economic growth. From June of 1980 to December of that year the Fed moved the Funds Rate from 8.5% to over 19%. Contrast that with today where inflation remains contained and the Fed will have the option of raising rates in a more moderate pace. Secondly, as we have commented on previously, American corporations have

become leaner and more efficient. Companies drastically lowered capital spending beginning in 2008 and by the end of 2009 had built up substantial cash stock piles. Cash now accounts for 9.7% of assets versus a historical average of 6.2%. The higher level of cash in addition to the healthier credit markets will likely lead to greater mergers & acquisitions and businesses more willing to fund promising market expanding opportunities. It should be noted that it is normal for economies to witness a deceleration of growth as it transitions from stimulus related effects to a more normalized rate.

## Globalization

Globalization is not a new phenomenon but it will play an important role in providing growth for U.S. businesses. Approximately 40% of the net income of S&P 500 company's is derived outside the U.S. With many countries such as China and Brazil expected to have expanding GDPs leading the global economy, both large and small U.S.-based companies with exposure to these areas of growth will similarly experience improved earnings. (Chart 9).

Chart 9



Source: JP Morgan

In summary, we see increased business spending, low-inflation, steep yield curve, robust international demand, and a healthier consumer as important ingredients of a "virtuous-cycle" that will drive a sustained economic recovery.

Thank you for your continued trust in RIA. 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 RIA portfolios can be found on the following page.

*The Investment  
 Committee*

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## RIA Portfolio Characteristics & Performance

All of the Rushmore Investment Advisors portfolios posted strong positive returns in the 4th quarter and for the year. Similar to previous quarters in 2009, there continued to be outperformance in junk stocks, albeit to a lesser degree. Companies with debt ratings B minus and below posted gains averaging 11.2% in the quarter, twice the returns of companies with single - A and above grade debt.

It is not surprising that holdings in those sectors with the greatest leverage to an improving economy, such as the Energy and Consumer Discretionary sectors, benefited

RIA portfolios in the quarter and the entire year. Holdings such as Nordstrom (JWN), the high-end retailer, rose 191% in 2009 while Massey Energy (MEE) grew 208%.

Rushmore's Non-US ADR Growth portfolio had a particularly strong 2009. The portfolio was up 10.8% in the 4th quarter and higher by 39.2% for the full year. This compares to MSCI EAFE Growth Index returns of 4.20% for the quarter and 29.9% in 2009. The portfolio's outperformance was driven by investments in emerging markets such as China and Brazil, as well as Material sector holdings.

### Summary of RIA Portfolio Characteristics

12/31/2009	Large Cap Growth	SMID Cap Growth	Non-US ADR Growth	S&P 500
Wtd Avg Market Cap (\$ in Bn's)	\$55,969	\$2,995	\$33,610	\$83,091
P/E Multiple T4Q (Reported EPS)	19.19x	18.63x	19.90x	21.81x
Forward 12-Month P/E Multiple	16.62x	17.50x	15.58x	26.76x
EPS Growth LTM %	5.24%	20.31%	13.61%	7.35%
EPS 5yr Growth %	12.85%	16.28%	13.20%	14.03%
Return on Equity T4Q	26.77%	15.52%	34.62%	17.98%
Net Profit Margin T4Q	10.62%	9.99%	13.64%	7.88%

Investment Portfolio	QTD	1 Year	3 Year	5 Year	10 Year	Since Inception
US Large Cap Growth (Gross)	6.84%	33.78%	-1.50%	4.34%	0.05%	4.36%
US Large Cap Growth (Net)	6.69%	32.91%	-2.22%	3.43%	-1.00%	3.24%
(Inception Date 5/31/98)						
Russell 1000 Growth	7.94%	37.21%	-1.88%	1.63%	-3.98%	0.70%
US Small / Mid Cap Growth (Gross)	5.80%	28.87%	-5.94%	-0.61%	-	3.02%
US Small / Mid Cap Growth (Net)	5.55%	27.59%	-6.82%	-1.64%	-	1.88%
(Inception Date 12/31/00)						
Russell 2500 Growth	5.57%	41.66%	-3.13%	1.99%	-	1.76%
Non-US / ADR Growth (Gross)	10.67%	39.06%	-3.50%	-	-	6.59%
Non-US / ADR Growth (Net)	10.44%	38.06%	-4.30%	-	-	5.77%
(Inception Date 3/31/05)						
MSCI EAFE Growth	4.20%	29.91%	-4.41%	-	-	4.41%

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**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.