

RUSHMORE INVESTMENT ADVISORS, INC.

Equity Market Overview –4Q10



~ The Classic Ending of a Correction - *Safe Havens/Bonds Burst!* ~

A columnist for the *Wall Street Journal* wrote on December 22, 2010, “**The case is simple: Stocks are attractive relative to other asset classes, given cash-rich balance sheets, strong earnings, and global growth.**” We couldn’t agree more! These and other factors are the reason the S&P 500 was up 10.2% in the 4th quarter and we believe will drive the market higher in 2011.

The quarter had many positive elements -

- Bush-era tax cuts were extended
- Power shift in Washington
- Philosophy shift by Obama
- Corporate earnings continue to improve
- Stock buy-backs proliferate
- Fund flow discrepancy between bond and equity funds has reversed
- Bonds are taking a beating, gold may be next

And most importantly, the economy continued to improve and reduced fears of a double dip recession.

***As constant as the sun rising in the east,
The typical investor buys high and sells low.***

We know from experience that remaining true to an investment plan provides superior long term returns. Regardless of the asset class, be it bonds, commodities or equities, ignoring fundamentals and risk by simply chasing returns will create financial disaster. It has just happened to those that sold stocks on the decline and invested in bonds. Fear drove investors into bond funds during the last two years while equity prices soared and yields dropped to extremely low levels. Some foolish investors even purchased treasuries with a locked in loss! Those marginal investors are now

experiencing precipitous drops in principal value as yields increase to more appropriate levels given the economic environment.

During the 4th quarter the yield of the 10-Year U.S. Treasury Note climbed from 2.52% to 3.30% with the price falling from over \$100.00 to \$93.25. That means that an interest rate increase of .78% caused a principal loss of **6.75%**. Those who sold stocks to buy bonds never listen, never learn from their mistakes. By reacting to panic those fixed income investors wiped out almost three years of interest returns in one month. The Bank of America/Merrill Lynch 10-Year Index fell 8% in the period. Indeed, those who flocked to the hottest asset class didn’t just lose the 8%, they also missed the double digit gains of the equity market; a tough lesson for not adhering to one’s long-term investment plan. This is how an equity correction is completed. Sell stocks low, buy bonds while equities soar and then take a bath in bonds.

In this Issue:

Overview.....	Page 1
The Case for Being Bullish.....	Page 2
Valuation	
Stock Buybacks	
Fund Flows	
Earnings Growth	
MLPs – A New Asset Class for our Investors.....	Page 4
Outlook – Economic Recovery Extended.....	Page 4
Consumers	
Corporations	
Banks	
RIA Portfolio Characteristics & Performance.....	Page 6

RUSHMORE INVESTMENT ADVISORS, INC.

Equity Market Overview –4Q10



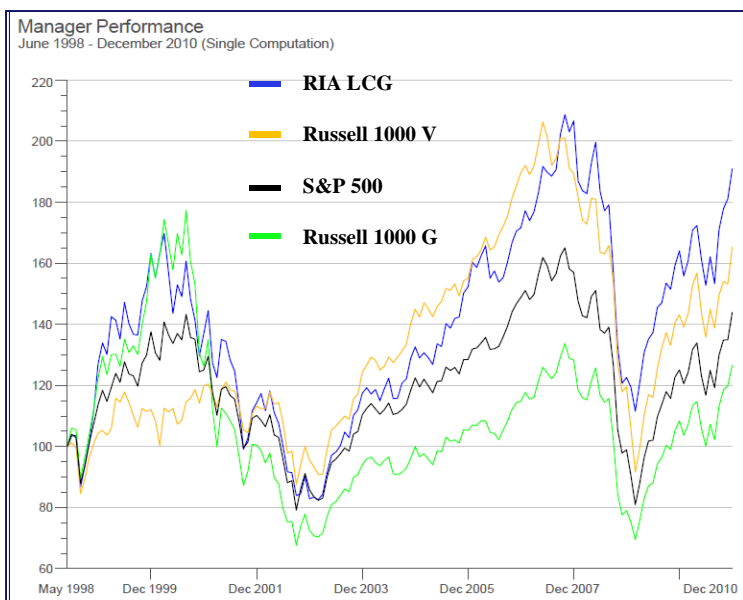
The Case for Being Bullish

The current level of the equity market does not reflect the overall health of the economy, and importantly, the domestic and global growth likely to occur over the next several years. The RIA investment team remains bullish on equities for many reasons, including:

Valuation - The market remains at a discount with the Large Cap Growth segment representing the greatest undervaluation. The Large Cap Growth segment ended the year trading at only 14.6x earnings compared to a 20-year average of 21.2x. That equates to just 69.2% of its historical valuation.

Growth outperformed Value in the 4th quarter and all of 2010. Growth as a style is the most discounted equity style and continues to have the greatest upside potential. The chart below illustrates the RIA US Large Cap Growth portfolio has outperformed not only the Growth Index but also the Value and S&P 500 indices since 1998.

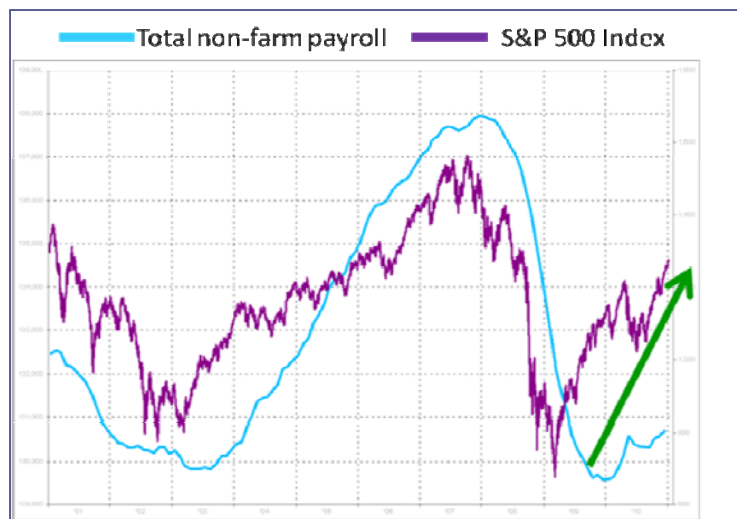
Exhibit 1:



Source: Zephyr

Jobs – The ultimate economic indicator is improving with initial claims declining and payrolls increasing. During the recession 8.5 million private jobs were lost with job creation not beginning until early 2010. Of course, the market did not wait for job creation to rebound, with the S&P 500 up 65% from March 2009 through December 2009. In the recovery, private payrolls have increased by 1.2 million jobs with the market advancing 12.8% in 2010. We are confident payroll growth will continue to accelerate and serve as a strong market foundation for an extended period as suggested in Exhibit 2.

Exhibit 2:

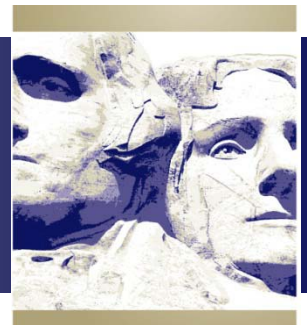


Source: Factset

Stock Buybacks - Corporations know the market is undervalued. S&P 500 companies spent almost \$80 billion in stock buybacks in the 3rd quarter which is up 128% from a year ago. CEOs are buying their stock because it is cheap and recognize it's a great way to enhance earnings per share and boost shareholder return.

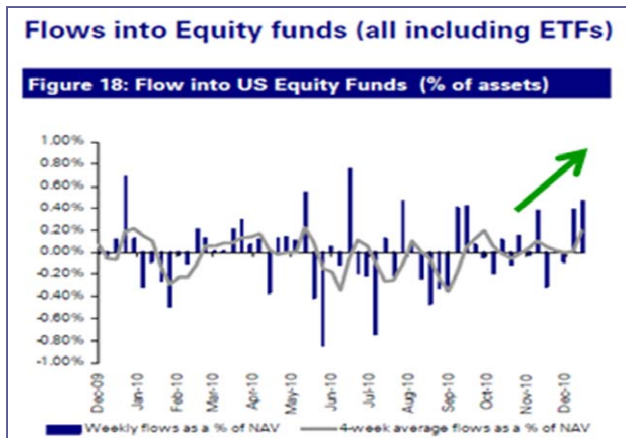
Fund Flows - Last quarter we highlighted the incredible difference between capital flowing into fixed income and the outflows from equities despite numerous indications of the market's recovery. Our expectation is for this fund flow to

RUSHMORE INVESTMENT ADVISORS, INC.



reverse over the next several years. In fact, in the 4th quarter capital flowing into equity funds began to turn positive.

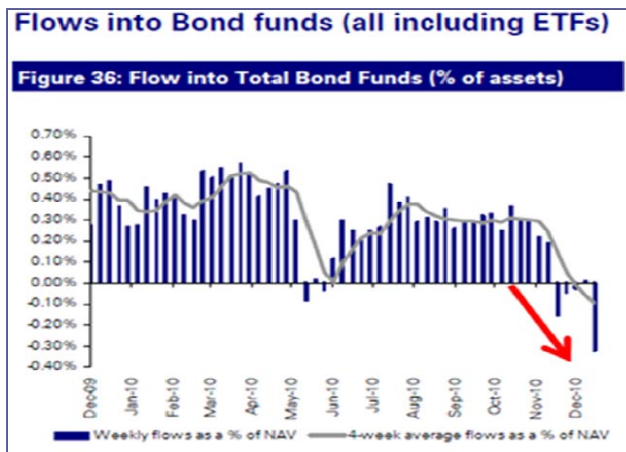
Exhibit 3:



Source: Deutsche Bank

Bond fund flows are the exact opposite. Outflows from bonds were over \$14.5 billion in December and the highest level of outflows since late 2008; A sharp reversal! We anticipate outflows to continue in bonds and provide a tailwind for equities.

Exhibit 4:



Source: Deutsche Bank

In conjunction, yield on longer-term Treasuries rose. The increase in rates has steepened the yield curve, with no one benefitting more than banks. As the spread between short term interest rates and longer dated yields widens, lenders profits improve, which then encourages the bank to lend more – a key ingredient in making this a sustaining private sector driven recovery.

Earnings Growth - The S&P 500 earned \$21.58 per share in operating profits in the latest quarter which is the highest since the 2nd quarter of 2007 and is approaching the record levels posted in 2006 and 2007. Operating earnings for 2010 are expected to be up an astounding 47%.

Exhibit 5 :

Economic / Earnings Outlook - As of 12/31/10						
	2006A	2007A	2008A	2009	2010E	2011E
Annual Real GDP	2.80%	2.00%	1.10%	-2.50%	2.80%	3.00%
CPI	3.23%	2.87%	3.85%	-0.30%	1.60%	1.50%
S&P 500						
Earnings Reported	\$81.51	\$66.18	\$14.97	\$50.97	\$74.57	\$86.84
Earnings Operating	\$87.72	\$82.54	\$49.49	\$56.86	\$83.68	\$94.79
Operating Chg. Y-Y (%)	14.77%	-5.9%	-40.0%	13.0%	47.2%	13.3%
P/E Reported	17.40x	22.19	60.34	21.88	16.87	16.12
P/E Operating	16.17x	17.79	18.25	19.61	15.03	14.77
Dividend Yield	1.75%	1.89%	3.14%	1.95%	1.78%	1.75%
	Close	Close	Close	Close	Close	Est
	2006	2007	2008	2009	2010	2011
S&P 500	1,418	1,468	903	1,115	1,258	1,400
12 Mo. Fw d. Reported P/E	21.43	20.24	21.38	20.05	14.86	15.55
12 Mo. Fw d. Operating P/E	14.80	14.50	10.98	14.81	13.76	15.00
DJ Industrial	12,463	13,265	8,776	10,428	11,578	12,660
Fed Funds Target Rate	5.25%	4.25%	0%/ .25%	0%/ .25%	0%/ .25%	0.25%
10 Year T-Note	4.71%	4.03%	2.25%	3.84%	3.30%	3.75%

* Values are actual historically, but estimated going forward

Based on a more comprehensive measure, the quarter was a record-breaker. According to the U.S. Commerce Department, quarterly profits for all U.S. companies totaled \$1.659 trillion. That beat the previous high of \$1.655 trillion recorded in the 3rd quarter of 2006. Clearly, the economy is headed in the right direction and investors should not ignore the signals.

RUSHMORE INVESTMENT ADVISORS, INC.

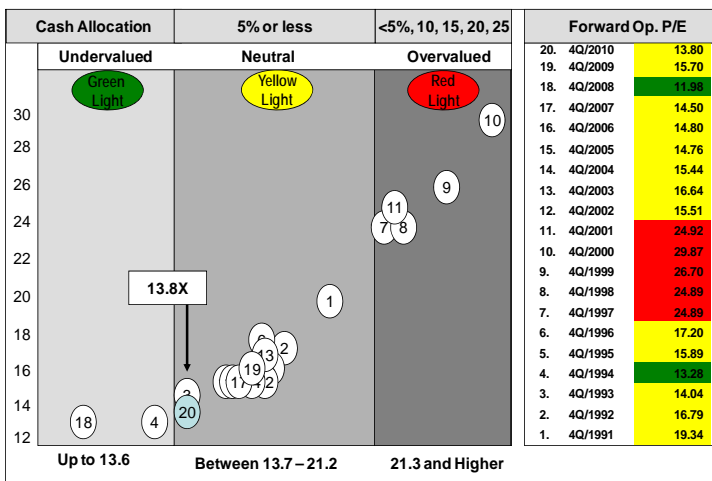


Similar to last quarter the S&P 500 appreciated over 10% but with earnings estimates continuing to rise, the market's valuations remain attractive. Over the next twelve months, S&P 500 operating earnings are expected to be \$91.42, which is 15.7% above the \$79.02 posted in the previous four quarters. Historically, entering the yellow light zone indicates the beginning of P/E expansion and currently the Price-to-Forward Operating Earnings (P/FOE) ratio is at the lower portion of the yellow light zone at 13.8x.

- MLP's "pass through" the majority of its cash flow to unit holders (shareholders).
- Unit holders receive a K-1 at year end rather than a 1099.

MLPs are generally pipeline companies and are akin to toll roads. The attraction is stable cash flows and a lower cost of capital due to the lack of corporate taxes. Additionally, pipeline MLPs will benefit from the increased investment in domestic energy infrastructure.

Exhibit 6:



Source: Rushmore Investment Advisors, Inc.

MLPs - A new asset class for our investors

During the quarter, the RIA investment committee made the strategic decision to purchase a pipeline MLP (Master Limited Partnership) in the RIA US Large Cap Growth portfolio. We thought we'd highlight the MLP asset class due to the unique characteristics. Like equities, MLPs are traded on a stock exchange and are required to file quarterly and annual statements, but differ in other respects.

- MLP's do not pay corporate income tax and avoid "dividend double taxation."
- 90% of income must be generated from designated business activities (real estate, natural resources or commodities).

Outlook - Economic Recovery Extended

While the 4th quarter unfolded as we expected, many within the industry misjudged the length to which it would take for the economy to fully recover. We are encouraged by corporate profitability and GDP growth trends, but we'll admit at the beginning of 2010 we expected the year to end with unemployment south of 9%, GDP growth consistently above 3%, and a Fed Funds Target Rate above zero.

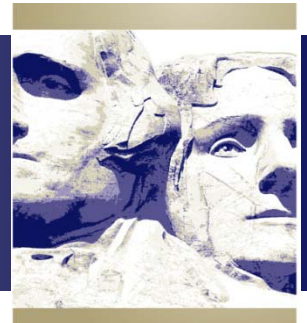
Consumers

Yes, the protracted economic recovery is frustrating, yet the extended duration can be viewed as a positive indicator of the long term health of our economy. Americans responded to the financial crisis by increasing their savings rate to over 5%. At the root of our thesis was the expectation the consumer would revert to their free-spending ways. That has not happened to the extent we predicted. We do not doubt consumer spending will increase as the jobless rate declines and sentiment improves but it will be a long time until consumers again unwisely use their homes as a substitute for true savings. The higher savings rate has contributed to the extended recovery but will lead to a healthier consumer and higher investment levels longer term.

Corporations

Corporations are essentially doing the same as consumers – hoarding cash. Corporations continue to build their war chests with \$1.93 trillion in cash, or 7.4% of assets (Exhibit 7, pg. 5).

RUSHMORE INVESTMENT ADVISORS, INC.



It is up from the previous quarter's \$1.8 trillion and is the highest percent of corporate assets since 1959. It will be a multi-year process, yet companies will begin deploying the capital through hiring and capital investment. Multiple CEO surveys reported increased hiring plans for 2011. The Business Roundtable showed that 45% of the executives expect to add employees in the coming year. That is the highest level since the survey began in 2002. Unleashing this cash will trigger a period of incrementally higher economic growth.

Exhibit 7:



Source: Wall Street Journal

Banks - Lending

Another factor in the slower-than-expected recovery is constrained bank lending. Understandably, banks have had to repair their balance sheets and take a conservative approach to lending; however a steeper yield curve and more clarity in the economic outlook will be catalysts for loan growth to ramp up over the next several years.

While we expect improved lending activity, we don't believe banks will revert to the irresponsible lending that occurred during the housing bubble. The elimination of Glass-Steagall resulted in foolish lending practices as both banks and consumers acted like spoiled children demanding more and

more candy. Frankly, nothing is better for the economy than when banks lend to businesses and individuals who actually have the capacity to repay the loan! The public has demanded more responsibility and we embrace the increased accountability as the only sustainable course.

Without a doubt, the market has been aided by stimulus efforts such as the Fed's monetary actions and the tax cut extensions. The debate about inflation, government spending and the U.S. deficit will continue to rage but the stimulus effects will remain a tailwind to the equity markets and should not be underestimated.

We expect the recovery to remain steady:

- GDP growth is expected to remain steady: 2.5 - 3.5%
- Consumers continue to deleverage but increase spending
- Unemployment to slowly improve

The slow and steady outlook does not preclude a stronger equity market. In fact, many of the factors we have discussed have constrained the market. Private sector conservatism will begin to loosen and a combination of corporate cash deployment, increased lending activity, earnings growth and greater equity in-flows will be positive for 2011. We believe the RIA investment process is strategically geared to take advantage of these markets moves to benefit client portfolios.

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*

RUSHMORE INVESTMENT ADVISORS, INC.



RIA Portfolio Characteristics & Performance

RIA portfolios again posted strong absolute returns for the quarter and year. The rally of 2009-2010 has been a macroeconomic story with a cyclical and not secular growth bias. Our portfolios have participated in the cyclical bull run, yet continue to marginally lag their benchmarks short-term with the exception of our International ETF portfolio.

Market returns for 2009 were largely driven by the strength in lower quality stocks and while the “junk-rally” has abated somewhat in 2010, highly leveraged and highly speculative companies continued to significantly outperform. Our process is designed to distinguish secular growth stocks that will

outperform over an extended period. We consistently construct portfolios with superior fundamental characteristics:

- Higher Return on Equity
- Larger Profit Margins
- Lower Debt to Equity
- Greater Expected Long Term Growth

A combination of focusing on strong fundamental growth companies and avoiding highly speculative stocks create higher quality, lower risk portfolios. Short-term performance

Investment Portfolio	MTD	QTD	1 Year	3 Year	5 Year	10 Year	Since Incept
US Large Cap Growth (Gross)	5.45%	11.66%	16.41%	-2.65%	4.59%	3.35%	5.25%
US Large Cap Growth (Net) (Inception Date 5/31/98)	5.45%	11.53%	15.80%	-3.26%	3.81%	2.36%	4.18%
Russell 1000 Growth	5.51%	11.83%	16.71%	-0.47%	3.75%	0.02%	1.89%
US Small / Mid Cap Growth (Gross)	4.76%	14.19%	19.56%	-4.79%	1.98%	4.56%	4.56%
US Small / Mid Cap Growth (Net) (Inception Date 12/31/00)	4.76%	13.91%	18.43%	-5.68%	0.97%	3.42%	3.42%
Russell 2500 Growth	7.47%	16.00%	28.86%	2.21%	5.62%	4.19%	4.19%
Non-US / ADR Growth (Gross)	4.05%	5.24%	10.59%	-6.69%	5.19%	-	7.30%
Non-US / ADR Growth (Net) (Inception Date 3/31/05)	4.05%	4.99%	9.60%	-7.44%	4.41%	-	6.46%
MSCIEAFE Growth	7.86%	7.86%	12.60%	-5.58%	3.82%	-	5.79%
Global / Non-USETF (Gross)	7.56%	7.79%	13.06%	-3.77%	4.56%	-	6.05%
Global / Non-USETF (Net) (Inception Date 3/31/05)	7.56%	7.76%	12.93%	-3.91%	4.15%	-	5.59%
MSCIEAFE Growth	7.86%	7.86%	12.60%	-5.58%	3.82%	-	5.79%

See (GIPS®) disclosure.

RUSHMORE INVESTMENT ADVISORS, INC.



RIA Portfolio Characteristics & Performance

may trail but provides a foundation for long-term outperformance. Our expectation is that cyclical growth will continue to be positive but will be overshadowed by more fundamentally sound secular growth stocks that possess higher margins, higher growth and lower leverage.

Portfolio Attribution - Domestic

Variances in market capitalization returns created differences within sector attribution for the portfolios in the quarter. The RIA US Large Cap Growth (LCG) portfolio benefited from Technology holdings such as Skyworks Solutions (SWKS) as demand for mobile communications equipment increased. The Energy sector detracted from relative LCG performance while it was a positive contributor in our Small/Mid Cap Growth portfolio. Technology was also the highest contributor for the year in the LCG portfolio as well as the Health Care sector. Health Care holding, Novo Nordisk (NVO) was strong throughout the year based on encouraging results of the company's diabetes treatments.

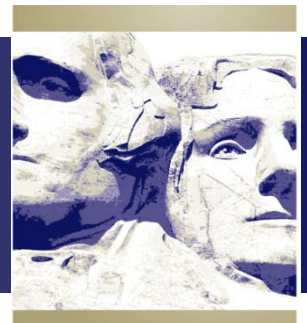
Portfolio Attribution – Non-US

Our international portfolio's relative performance was impacted late in the year by the strength of the European markets. We strongly believe emerging markets have remarkable growth opportunities and have allocated approximately 30% of the portfolio to emerging market companies. The MSCI EAFE Growth Index does not have emerging market exposure and is heavily weighted to European companies. Despite December's relative outperformance of Europe, we remain optimistic that emerging markets offer better investment potential versus the European markets.

Summary of RIA Portfolio Characteristics

12/31/2010	Large Cap Growth	SMID Cap Growth	Non-US ADR Growth	S&P 500
Wtd Avg Market Cap (\$ in Bn's)	\$43,709	\$6,337	\$37,599	\$89,803
P/E Multiple T4Q (Reported EPS)	26.25x	36.26x	25.13x	24.59x
Forward 12-Month P/E Multiple	19.62x	23.09x	19.63x	17.31x
EPS Growth LFY %	21.38%	27.39%	25.58%	19.31%
EPS 5yr Growth % (Long Term Expected Growth)	16.65%	17.60%	16.79%	11.49%
Return on Equity T4Q	24.66%	18.13%	22.16%	17.88%
Net Profit Margin T4Q	14.96%	13.86%	15.26%	9.96%

RUSHMORE INVESTMENT ADVISORS, INC.



Disclosure

RIA Large Cap Growth Equity Composite is composed of portfolios predominantly invested in domestic large capitalization growth equity securities. Prior to 9/30/2003, this investment style was referred to as RIA Core Equity Portfolios. For comparison purposes, these composite portfolios are measured against the Russell 1000 Growth Index. Composite creation date: 5/31/98.

RIA Small/Mid-Cap Growth Equity Composite is composed of portfolios predominantly invested in more aggressive domestic small and medium capitalization growth equity securities. For comparison purposes, these composite portfolios are measured against the Russell 2500 Growth Index. Composite creation date: 9/30/03.

RIA Non-US ADR Growth Equity Composite is composed of portfolios invested in multiple global/international equity, equity instruments and/or ETFs, or mutual funds. Prior to 12/31/07, this investment style was referred to as RIA International Equity. For comparison purposes, these composite portfolios are measured against the MSCI EAFE Growth Index. Composite creation date: 3/31/05.

RIA Global Equity Composite is composed of portfolios invested in multiple global/international equity, equity instruments and/or fixed income ETFs, or mutual funds. For comparison purposes, these composite portfolios are measured against the MSCI World Index. Composite creation date: 3/31/2005.

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.