

Reallocation Commentary

August 10, 2005

For the second time this quarter, we are increasing the Tactical and Balanced Portfolios' exposure to the Energy sector. This sector has been a strong market leader for quite some time, yet with earnings and long-term growth rate estimates rising sharply, prices have yet to fully catch up with our estimation of intrinsic value. Within the sector, we estimate that the oil & gas drilling industry is trading at a ten percent discount to its intrinsic worth, and is the primary target of this addition to the Energy sector.

To raise proceeds for our increased exposure to the Energy sector, we are paring back positions in the Leisure & Consumer Staples sector. While the sector remains undervalued, the majority of industries within it lack market beating relative strength. The Consumer Staple component of this sector has been particularly weak relative to the broader market. Since the recent April 20, 2005 low on the S&P 1500 Index, the S&P 1500 Consumer Staples Index has risen 3.66% through August 11th, compared to the broader S&P 1500 Index gain of 9.24%.

Past performance does not guarantee future results. Opinions and forecasts regarding industries, companies, and/or themes, and portfolio composition and holdings, are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security.

An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. There are risks associated with small- and mid-cap investing such as less liquidity, limited product lines, and small market share.

The unmanaged Standard & Poor's (S&P) SuperComposite 1500 Index is a broad-based, capitalization-weighted index comprising 1,500 large-cap, mid-cap, and small-cap U.S. companies. The unmanaged S&P SuperComposite 1500 Consumer Staples Index tracks the performance of companies that comprise the Consumer Staples Sector as determined by S&P. Total return figures for the unmanaged indexes include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. The Portfolios' composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

Index Data Source: Bloomberg