ETF PM
ETF PORTFOLIO MANAGEMENT, LLC

January 2010

To Clients and Prospects of ETF PM:

The S&P 500 gained 26% in '09, after falling -37% in '08, leaving it down -20% over the two-year period. The worst stretch was -26% over the first nine weeks of '09 and the peak decline was -48% over 14 months (on a month-end basis).

After delivering double digit gains in '08, ETF PM's rules-based active management reduced risk and identified strong growth potential in emerging markets, technology, and metals. However, most of our 8% to 12% of annual risk tolerance was expended early in '09, leaving us overly defensive in an effort to protect client principal.

Watch List	2008	2009	2yr Total Return
Relative Return			
Unconventional Core	-26.0%	17.9%	-12.7%
70/30 Growth	-15.7%	3.6%	-12.7%
S&P 500	-37.0%	26.5%	-20.3%
Absolute Return			
Global Growth	20.8%	-3.4%	16.8%
Aggressive Growth	0.0%	-7.1%	-7.1%
Advanced Alpha	10.9%	-4.2%	6.3%

Note: Past performance is not an indication of future results. Relative return portfolos assume no rebalancing and exclude initial purchase transaction costs. Please see full disclosures enclosed and at **www.etfpm.com**.

While we are disappointed by the mid single-digit decline in our active management last year, we are proud to have delivered exceptionally strong performance over the two and five-year periods. Since even the best absolute return strategies will decline at times, ETF PM's investment platform offers a diverse combination of passive and active portfolios that focus on both relative return and absolute return investment strategies.

Relative Return

Relative return strategies are typically somewhat fully invested, long-only, and in-synch with the performance of the underlying benchmark index. These strategies include index funds, most passively held exchange-traded funds (ETFs), and a large number of mutual funds.

In a crash environment for a benchmark index, relative return strategies may lose well over half of their value. Conversely, in a bubble environment for a benchmark index, relative return portfolios should increase significantly.

Overall, passive indexing is widely recommended for core portfolio diversification because it often outperforms active mutual fund strategies that target relative returns. Therefore, at ETF PM, we provide free passive core ETF portfolios as the relative return portion of our investment platform.

350 Via Las Brisas, Suite 270 | Newbury Park, CA 91320 | p: 805.480.9785 | f: 805.480.1111
info@etfpm.com | www.etfpm.com

Absolute Return

Absolute return strategies are far more flexible in holding cash and/or short market exposure, and these strategies are employed in order to target positive returns in all market environments. Typically, investors use hedge funds or separately managed accounts for these strategies, and the leading managers significantly outperform the passive benchmarks long-term.

In order to deliver gains in down markets, leading absolute return strategies don't mirror passive indexes. This deviation produces a different rhythm in portfolio returns and makes the one-year performance comparison, between absolute return portfolios and passive benchmarks, less meaningful. In fact, leading absolute return strategies offer better diversification when their performance rhythm is less in-synch with passive benchmarks.

Risk Control & Total Return

History shows, especially in 2008, that almost all growth oriented investments will decline at times; whether in equities, emerging markets, real estate, or commodities, and whether in relative return or absolute return strategies. Given the randomness in short-term performance, our active portfolios focus on long-term results with an 8% to 12% annual target limitation on peak declines.

Overall, we're proud to report that the total return of ETF PM's active management has strongly outperformed while our peak declines are a fraction of the S&P 500's. Over the past five years, ETF PM's Aggressive Growth portfolio delivered a total gain of 43% while the S&P 500 returned just 2%. In addition, over the past two years, our Global Growth portfolio gained 17% while the S&P lost -20%.

The Bottom Line

ETF PM offers eight all-ETF portfolios to maximize client value through efficient diversification by asset class and by investment process. Our rules-based active management was successful in delivering gains in a widespread market crash and our free multi-asset class core portfolios provide strategic relative return with material annual income from interest and dividend yields.

In '09, ETF PM also announced the launch of our Basic Alpha portfolio and a pledge to give back. Basic Alpha is an ultra low-cost absolute return strategy with an annual advisory fee of just 0.4%. Our pledge to give back broadens our existing client partnership through a commitment to donate 15% of our annual advisory fees to our clients' schools and charities.

Thank you to our existing clients for your trust and confidence. To our prospects, we respectfully ask for an opportunity to open an account together in order to demonstrate our value proposition.

We look forward to speaking with you all soon.

David S. Kreinces
Founder & Portfolio Manager