ETF PM

ETF PORTFOLIO MANAGEMENT, LLC

January 2012

To Our Clients and Prospects:

Watch List	2011 Return	4yr Total Return	Worst Year
Investable Benchmarks			
Income	21.2%	41%	-5%
Income & Growth	11.4%	26%	-8%
eMAC	2.3%	10%	-26%
S&P 500	2.1%	-6%	-37%
Absolute Return Strategies			
50/50 Portfolio	-5.3%	7%	-8%
Diversified Portfolio	-7.9%	4%	-8%
Aggressive Growth	-16.1%	-11%	-16%
Global Growth	-9.9%	3%	-10%
Single Sector	-17.3%	47%	-17%

Note: Worst Year is worst calendar year since 2008. Past performance is not an indication of future results. Investable Benchmark portfolios assume annual rebalancing and exclude transaction costs. Please see full disclosures enclosed and at www.etfpm.com.

In 2011, the European debt crisis drove long-term treasuries (TLT) to a gain of 34%, even after the U.S. risk-free credit rating was downgraded for the first time in history. The old sample benchmark portfolios specifically allocated an investor's "age" as their percentage in long-term treasuries for good reason.

Long-term treasuries delivered a similar 34% gain in the liquidity crisis of 2008 and a 47% gain in the Internet crash from 2000 to 2002. While the strong trend in treasuries will reverse at some point, our Income Portfolio (30/70i) now shows the performance with 70% in TLT instead of investment grade bonds (BND).

REITs (VNQ) and gold (GLD) gained 9% and 10% in 2011, while emerging markets (VWO) and silver (SLV) fell by -19% and -10%, respectively. The S&P 500 gained 2% although foreign developed equities (VEA) fell by -13%, leaving global equities (VT) down -8% for the year.

Over the past decade, the eMAC gained 117% and the Income Portfolio, using TLT, gained 141%. Until the eMAC outperforms Income, investors will be tempted to increase their exposure to treasuries using ETFs such as TLT, IEF, TIP, AGG, and BND. Strong trends in gold (GLD), silver (SLV) and utilities (XLU) are also worth noting.

The Systematic Index lost -4% last year giving trend following its fourth, and worst, full-year decline in the past 25 years. Our active management fell by -5% to -17% giving us our worst year since inception. While these losses in trend following are disappointing, they are still much smaller than the worst declines that occur in most other asset classes.

Over the past 25 years, the 60/40 mix, 60% Systematic Index and 40% S&P 500, would have lowered the worst rolling three-year return to -2%, from -38% for the S&P 500 alone. This huge reduction in risk would also have come with a 98% increase in total return. See our ETF Trend Following presentation online (slides 5-8).

Over the past seven years, ETF PM's Aggressive Growth portfolio gained 38% while the S&P 500 rose by 20%. And, over the past four years, our 50/50 Portfolio gained 7% while the S&P 500 fell by -6%.

As always, please let me know if you have any questions and note our new toll-free phone number below.

David S. Kreinces
Founder & Portfolio Manager