

January 2012,

Dear Valued Clients,

2011 was a poor year for most stock investors, especially those focused outside of the U.S. Challenging asset managers was a level of historic volatility where U.S. Treasury bonds emerged as the surprise total return champion. The year began just fine with nice moves higher in most risk assets. Spring's optimism collapsed in the summertime on a sharp increase in the Eurodebt crisis. Fear took over as investors lurched from one European meeting headline to another seeking clarity and direction. On top of this apocalyptic Eurofear, U.S. economic data weakened fueling fears of the dreaded double dip recession for the U.S. For investors, August was the cruelest of months as confidence was crushed almost overnight resulting in the highest prolonged volatility ever recorded in U.S. equity markets. A startlingly rapid 20% decline in U.S. stock prices was followed by numbing volatility in the fall months. Somewhat miraculously U.S. large cap stocks got off the mat to limp their way to breakeven for the year (small caps did not, closing the year with a -5% loss). Outside the U.S., international stock markets got hammered with European stocks down -21% and emerging market stocks down -20%. Some individual countries did far worse, notably India down -40% and Russia down -30% -- so much for the outperformance of the BRIC markets!

One of the real challenges for us and for other money managers in 2011 was not only the erratic behavior of equity markets but also the high correlation among stocks. The correlation in S&P500 stocks eclipsed 85%, an all-time high. Put another way, stocks moved together more than ever before offering few, if any, refuges. Mutual fund managers delivered their worst performance in over a decade. Stock-focused hedge funds turned in an average loss of -7% for 2011 with many entire sectors of the hedge fund world experiencing large double-digit declines. Despite our efforts, the volatility in the markets and our international exposure depressed returns for the year leaving our MTA Income strategy as the sole strategy to chalk up a gain for the year. With each of the three corrections in the second half of the year, our trend following methodology triggered protective stop losses leading us to accumulate cash. But each time, the market swung back sharply putting us a little further behind with every cycle. Fortunately the fourth quarter enabled us to recoup some losses and we have continued to build on those gains into 2012. Here are specific strategy comments:

**MTA Income – Our most conservative strategy**

MTA Income has continued to be a steady performer, gaining over 12% since its inception two years ago. A strong final quarter of 2011 delivered a 3.3% gain for the year. Much to the surprise of investors, the single best performing asset class in 2011 was long term U.S. government debt, in spite of the brief panic that ensued after the U.S. lost its prized AAA credit rating. MTA Income carried minimal exposure to U.S. government bonds which somewhat diminished our overall returns. We perceived the downside risks in U.S. government debt to be too high as the U.S. Congress played with the U.S. debt ceiling seemingly unaware of the market implications.

**MTA Balanced Portfolio – Conservative**

After a strong start to 2011, our Balanced Portfolio got caught up in the market's spring/summer turbulence, encountering losses beyond what we would normally target. The strategy shifted its mix toward more bonds/cash as stocks entered bear market territory in an effort to avoid any further drawdowns. The downside to this approach is to miss out on counter-trend rallies, such as October's one-month surge. Our modest return to equities later in the year has paid off as we hold gains in all our current positions.

**MTA Sector - Moderate**

After gaining over 48% in 2009-2010, MTA Sector posted a -11.9% loss for 2011. While posting a loss is never good, giving back some gains is almost unavoidable at some point given the significant market exposure required to cultivate the gains in the first place. Some income-oriented holdings such as Build America bonds, high yield bonds, and oil and gas pipelines somewhat buffered the strategy from the significant market volatility. Despite a rough third quarter, MTA Sector was able to mitigate losses in the last quarter of the year and maintain the long-term performance lead among our MTA Strategies.

**MTA Index and World Index – Moderate to Aggressive**

As we highlighted above, international stocks had a particularly nasty year in 2011 as debt fears gripped markets leading to a flight to quality and frequent rallies in the U.S. dollar. MTA World Index and MTA Index could not escape the carnage for reasons outlined above. As some markets crashed (recall that India was down -40% for the year) we retreated back into U.S. equities for the majority of the portfolios. With the damage behind us we expect some level of rebound in international stocks this year. Several markets - Brazil, Korea, Singapore, Malaysia - are on firmer economic footing than their North American or European counterparts. Furthermore, fundamental valuations on large Chinese and Russian companies have reached extremely attractive levels with forward price-to-earnings (PE) ratios well below 10!

**MTA Alta Vista – Moderately Aggressive**

This model-driven strategy, rather conservative in its core, sought to become a heavier hitter in early 2011 with the addition of a high-performance trading model. The initial results were very poor as a glitch in the trading model was exposed after a flurry of losing trades. The trading model was fixed and has been adding to returns over the past couple of months as we slowly regain confidence and rebuild our allocation to that piece. Markets have calmed, our models have been substantially beefed up, and we move forward with odds higher than ever for superior results.

**MTA Turbo Trading – Aggressive**

Launched in the second half of the year, Turbo has hit its stride with a couple of >5% winning trades in recent months. It's still young, but showing promise as an aggressive complement to our more conservative strategies.

It appears reasonable to expect that 2011's stomach-churning volatility will abate at least a bit as investors now should not be surprised by the magnitude of Europe's financial challenges and potential ripple effects. Barring recession in the U.S. – which the ECRI keeps telling us is right around the corner – we think the investment environment will be more favorable for our largely trend-following methods. The problems that caused such headaches for money managers in 2011 will likely offer fewer hurdles – or maybe it's just that we think we are better prepared for the extraordinary level of uncertainty underlying the current environment. We have emerged from the battles of 2011 with some scars but also better equipped to fight the next onslaught.

To future profits,

  
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