XTF

Transforming the Way Americans Invest.

XTF SEPARATELY MANAGED ACCOUNTS

Dynamic Portfolios of Exchange-Traded Funds

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XTF is dedicated exclusively to delivering comprehensive financial solutions using exchange-traded funds (ETFs). **Our philosophy is built on the belief that ETFs are a superior alternative to mutual funds and offer substantial benefits to investors.** We deliver investor education, research and market information about ETFs through our website, xtf.com. We also support financial advisors and their clients with asset allocation, portfolio construction and ETF trading platforms, including separately managed accounts for high net worth investors.

XTF Market Making, LLC is a member of the American Stock Exchange and a recognized market-maker in ETFs. Indeed, XTF's position as a leading market maker in ETFs underlies its ability to offer cost-efficient and effective access to these innovative investments.

Wanted:

A More Efficient Approach to Long-Term Growth

"There are three indispensable elements in every successful investment program: a prudent asset allocation strategy, long-term investment discipline and keeping expenses as low as possible." *Sander Gerber, Chairman & CEO, Gerber Capital Management*

Building wealth through investments has become a more complex and difficult task than it was for previous generations of Americans. Since the start of the new century, choosing individual stocks and bonds has proved risky for many investors, requiring a depth of specialized knowledge that few possess. Pooled investments, such as traditional mutual funds, offer professional management and diversification, but high fees typically erode their returns compared to unmanaged market indexes.

What's required is a new kind of investment that helps individuals participate fully in the opportunities of the financial markets while managing the risks and other factors than may reduce returns. Such an investment should be tailored to who you are as an investor and your attitude toward risk. It should help you put time on your side by disregarding short-term events in favor of longer-term trends. It should include a well-defined approach to managing risk, and a disciplined process in which investments are periodically rebalanced to reflect changing goals and markets. It also should pay careful attention to minimizing fees, taxes and other expenses.

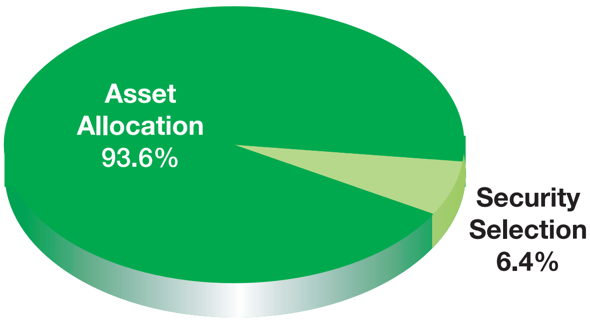
The key to building wealth lies not in the stocks you pick, but the asset classes you own.

"Asset allocation may be the most important aspect in explaining portfolio performance." *Gerald W. Buetow and Hal Ratner, "The Dangers in Using Return Based Style Analysis in Asset Allocation,"* ***The Journal of Wealth Management,*** *Fall 2000*

For decades, a strategy called asset allocation has been a hallmark of growth investing. In a landmark academic study, researchers demonstrated that the way in which assets are apportioned among stocks, bonds and cash accounts for a vast majority of the average portfolio's performance over time.[1] In contrast, the study concluded that individual security selection determines relatively little of the average portfolio's returns. Similar studies have revealed that portfolios containing a strategic mix of stocks and bonds produced highly competitive returns with reduced levels of risk. That's because different types of investments — those with low performance correlations — respond differently to the same economic forces, helping to smooth out market volatility.

What Drives Investment Performance?

Results of 1986 Study



Source: "Determinants of Portfolio Performance" by Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower

[1] Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, "Determinants of Portfolio Performance," Financial Analysts Journal, July/August 1986

Just because an investment did well last year doesn't mean it will do well this year.

"Our exercise confirmed that rebalancing matters. True to the conventional wisdom, selling winners and adding to losers limited the portfolio's volatility and damped its returns compared with the portfolio we left untouched." Peter Di Teresa, Senior Analyst with Morningstar, "How to Rebalance Your Portfolio," August 1999

As the lawyers like to say, "Past performance is no guarantee of future results." Nonetheless, "chasing winners" is a pitfall that has trapped many investors who shifted assets from recently lagging investments to others that recently have performed well. Market conditions and economic fundamentals evolve over time, and the investments that led the markets in one environment may trail the averages in others. Investors who quickly adapt their investment tactics to changing market conditions should be in a better position to capture the opportunities and confront the challenges that these changes provide.

At the same time, however, it is important to remain true to the longer-term asset allocation strategy that reflects who you are as an investor. An effective way to do so is to rebalance your portfolio periodically by trimming positions that have grown too large and replenishing those that have not kept pace. Or, you can adjust your portfolio to reflect a new allocation strategy as your needs and circumstances change. Either way, rebalancing your portfolio can give you the discipline you need to adjust to new opportunities while adhering to your long-term investment plan.

Year	Top-Performing Asset Class	Return for Year	Return For Year + 1
1999	Large-Cap Growth Stocks	**34.73%**	**-24.98%**

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Many professional money managers seek to generate higher returns than popular market indices, but few actually do so. The reason? In a word: fees. Professionally managed and diversified investments such as mutual funds actually are corporate entities with well-compensated management teams and substantial administrative and marketing costs. A fund's fee structure is designed to pay for these items as well as a profit for the management company. In an analysis of 741 U.S. equity mutual funds, low-cost funds consistently outperformed high-cost funds using similar investment styles. The same study found that each fee reduction of 0.10 percentage points produced, on average, a 0.21 percentage-point increase in returns.

By the same token, many traditional pooled investments are managed without regard to their impact on investors' tax liabilities. Mutual funds and other actively managed accounts may trade frequently, producing tax liabilities that are passed on to individual investors.

Graphic: Chart showing the eroding effects of mutual fund expenses and taxes vs. benchmark returns over time. For example:

You currently own a $600,000 investment returning a fixed rate of 6% per year with total annual expenses of 2.75%. Let's compare it to the exact same investment, but with a total annual expenses of 1.5%. The longer you own the investment, the more expenses will erode returns.

Holding Period	Return with 2.75% expense ratio	Return with 1.5% expenses ratio	Difference
Five years	$704,047	$747,709	$43,662
10 years	$826,137	$931,782	$105,645
15 years	$969,398	$1,161,169	$191,771
20 years	$1,137,503	$1,447,028	$309,525

Source: Rande Spiegelman, Schwab Center for Investment Research, April 30, 2003

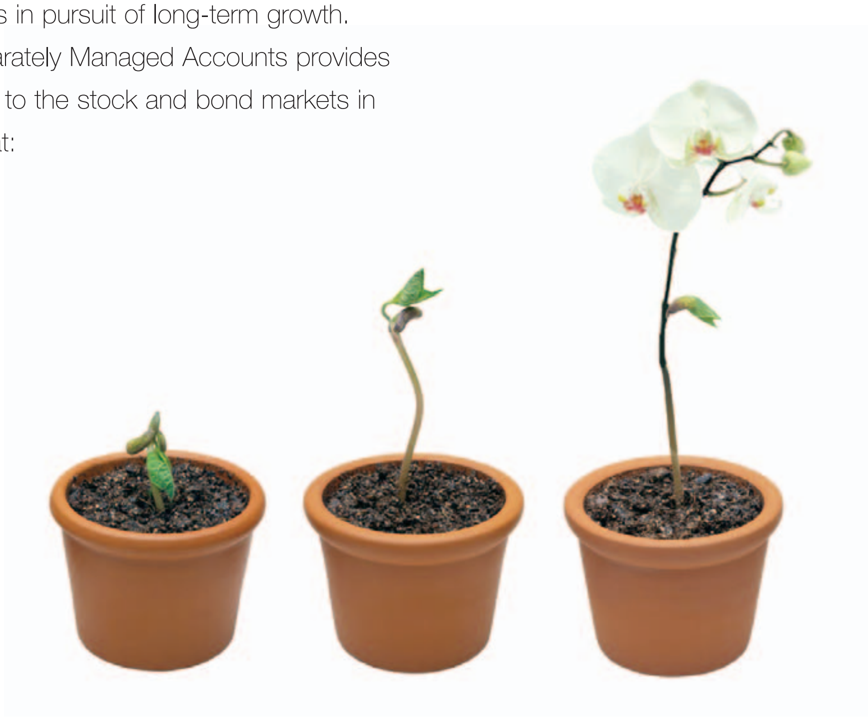
The Solution:

Separately Managed Accounts Using Exchange Traded Funds

In (year), a new type of investment was created to help investors participate in the potential gains of the stock and bond markets while enabling them to avoid some of the shortcomings of traditional securities and pooled investments. Known as Exchange Traded Funds (ETFs), these innovative investment vehicles offer the same benefits of diversification as many mutual funds, but with the liquidity of common stocks and fees that typically are a fraction of those charged by actively managed mutual funds.

At XTF, we have placed ETFs at the heart of a comprehensive investment solution for individuals in pursuit of long-term growth. XTF Separately Managed Accounts provides exposure to the stock and bond markets in a way that:

- Manages risk-adjusted returns by apportioning assets across asset classes and investment styles to reflect who you are as an investor.
- Potentially enhances returns by automatically rebalancing your portfolio as economic and market conditions change.
- Employs a fee-conscious approach to controlling the expenses that can erode investment returns.
- Maintains tax and cost efficiency through an “indexing” strategy that tends to avoid frequent trading.



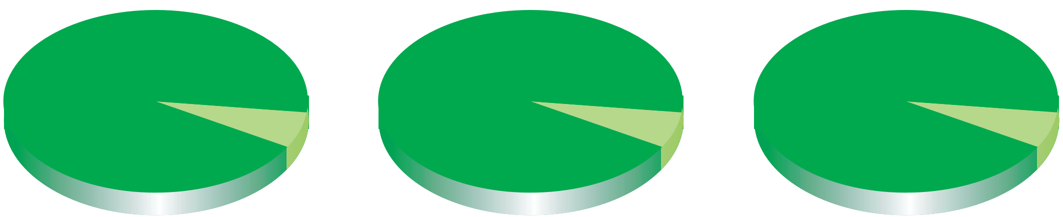
The XTF Investment Process

Step 1: Risk Budgeting

A Time-Tested Approach to Strategic Asset Allocation

XTF Separately Managed Accounts employ proprietary statistical models developed by Ibbotson Associates, a leading expert in asset allocation and market data, to calculate the optimal mix of asset classes for investors with various appetites for risk. Using a technique called "mean-variance optimization," Ibbotson's asset allocation models develop, test and analyze potential portfolio mixes to identify those that may generate the highest returns for a specific level of risk. The result is a choice of three distinct portfolios for conservative, moderate and aggressive investors, respectively. Using historical market data between 1980 and 2005, each strategic asset mix has been independently "back tested" to verify its effectiveness in producing competitive risk-adjusted returns.

Graphic: Pie charts showing generic conservative, moderate and aggressive allocations.



Step 2: Security Selection

Diversification among ETFs for Growth and Income

XTF portfolios use the strategic allocations from Ibbottson Associates as the foundation for creating portfolios comprised of eight to ten exchange-traded funds, each focusing on a specific asset class or investment style. The ETFs chosen for each portfolio and the percentage of assets allocated to each are determined by the registered investment advisors at XTF, who design each portfolio to achieve a specific rate of return and level of risk.

For example, a conservative portfolio might allocate 40% of its assets to ETFs that mirror broadly diversified fixed-income indices and 60% to equity ETFs that, on average, emphasize larger-capitalization, value-oriented stocks. In contrast, an aggressive portfolio might allocate 20% to fixed-income ETFs and 80% to equity ETFs, with greater emphasis on growth-oriented stocks toward the lower end of the capitalization range.

Graphic: Scattergram of various ETFs on the “efficient frontier”

Step 3: Performance Monitoring and Portfolio Rebalancing

Adjusting for Changing Market Conditions

Because economic and market fundamentals evolve over time, each XTF portfolio is designed to adjust automatically to major changes in market conditions as they occur. These adjustments are driven by a proprietary tactical asset allocation model created by Dr. Gerald Buetow, former Wheat First Professor of Finance and Director of the Quantitative Finance program at James Madison University and founder of financial research consulting firm BFRC Services. Dr. Buetow's tactical asset allocation model considers a wide range of economic and market data to recommend changes in the way assets are allocated between stocks and bonds as well as across various security types, investment styles and capitalization ranges. According to an independent analysis performed at Drexel University, Dr. Buetow's models have triggered 58 adjustments in tactical asset allocation between 1986 and 2005. The same analysis revealed that these tactical shifts added significantly to each portfolio's historical returns without a corresponding increase in risk.

In addition, XTF periodically rebalances its portfolios to ensure that they remain true to their original risk and return targets. This rebalancing typically involves trimming positions that have grown larger after producing above-average returns and adding to areas that have lagged.

Graphic: Area chart showing allocation drift and rebalancing.

You, Your Financial Advisor and XTF

To learn more about how exchange-traded funds and separately managed accounts from XTF can help you achieve your financial goals more efficiently, contact your financial advisor.

Like XTF's portfolios of exchange-traded funds, your financial advisor assesses who you are as an investors before tailoring investment recommendations to your distinctive needs, goals and risk tolerance. As your goals and circumstances change over time, your financial advisor can help you adjust your investment strategies accordingly. Indeed, building a long-term relationship with a knowledgeable financial advisor may represent one of your most fundamentally sound strategies in today's financial markets.

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