

MDP ASSOCIATES
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TACTICAL ASSET ALLOCATION (TAA) MANAGED ACCOUNT PROGRAM

This is our newest and most flexible managed account program. It is appropriate for accounts designed to fund retirement such as 401(k) and 403(b) plans where relatively infrequent transactions are desired or are in plans that limit the number or frequency of transactions.

The first step is to develop target allocations among the asset classes (mutual funds) that will be held in the account. This can be very simple by restricting the choices to stocks, bonds, and cash equivalents. Such simple allocations are sufficient and will meet the needs of just about all investors. However, many will want to add asset classes such as precious metals, real-estate, overseas securities, and possibly commodities to the mix in order to achieve greater diversification and possibly less volatile year-to-year investment returns.

Once the target asset allocations are established, accounts are managed according to thoroughly researched risk reducing capital preservation models and periodic rebalancing. The goal is to prevent substantial drawdowns in account value such that those that would have resulted in the 2000-2002 period in accounts holding a significant proportion in stocks during the period. It is critical to avoid such negative times because doing so will enable investors to stick to their plans and thus maximize the probability that they will achieve objectives such as funding the retirement lifestyle they want. The program is designed to work with each client to determine what investment returns are needed to meet financial goals and then earn those returns over a period of years with reasonable amounts of risk.

The first accounts in this program started in February 2004, so there is not extensive actual performance to report. Moreover, given the wide range of asset classes that might be included and the variations in target allocations, it is unlikely that any results shown would be representative of the performance of another client account for the same period. Several hypothetical very long-term examples are shown on our web site at: "www.pankin.com/retire/".

The table on the next page shows the actual quarterly performance of one of the first accounts. It has a simple allocation design with targets of 75% in stocks (broad market mutual funds) and 25% in bonds (mutual funds holding intermediate to long-term government securities). When the risk reduction models indicate, this account may be partially or fully in a money market fund although it is not one of the target allocations. The returns have been adjusted for the 1% MDP Associates management fee. Only one of the eleven quarters had a loss, and it was a trivial amount, which illustrates how effectively TAA can control the ever present risks of investing.

Period	Return
2004-Q2	1.18%
2004-Q3	0.66%
2004-Q4	5.26%
2004 (9 months)	7.21%
2005-Q1	0.60%
2005-Q2	1.04%
2005-Q3	3.11%
2005-Q4	0.66%
2005	5.50%
2006-Q1	0.58%
2006-Q2	-0.11%
2006-Q3	4.80%
2006-Q4	4.27%
2006	9.79%
Total	24.18%
Annualized	8.19%

Please keep in mind that the usual disclaimers apply to all of the information presented here. In particular, past performance does not necessarily tell you what the future will bring. Also, you should not assume that any returns presented here will be achieved in the future. There can be no assurance that managed accounts will be profitable in the future, and all investments in equities, bonds, and related instruments such as mutual funds that own them entail risks that you should evaluate.

Minimum account size: \$100,000
Annual MDP Associates management fee: 1%