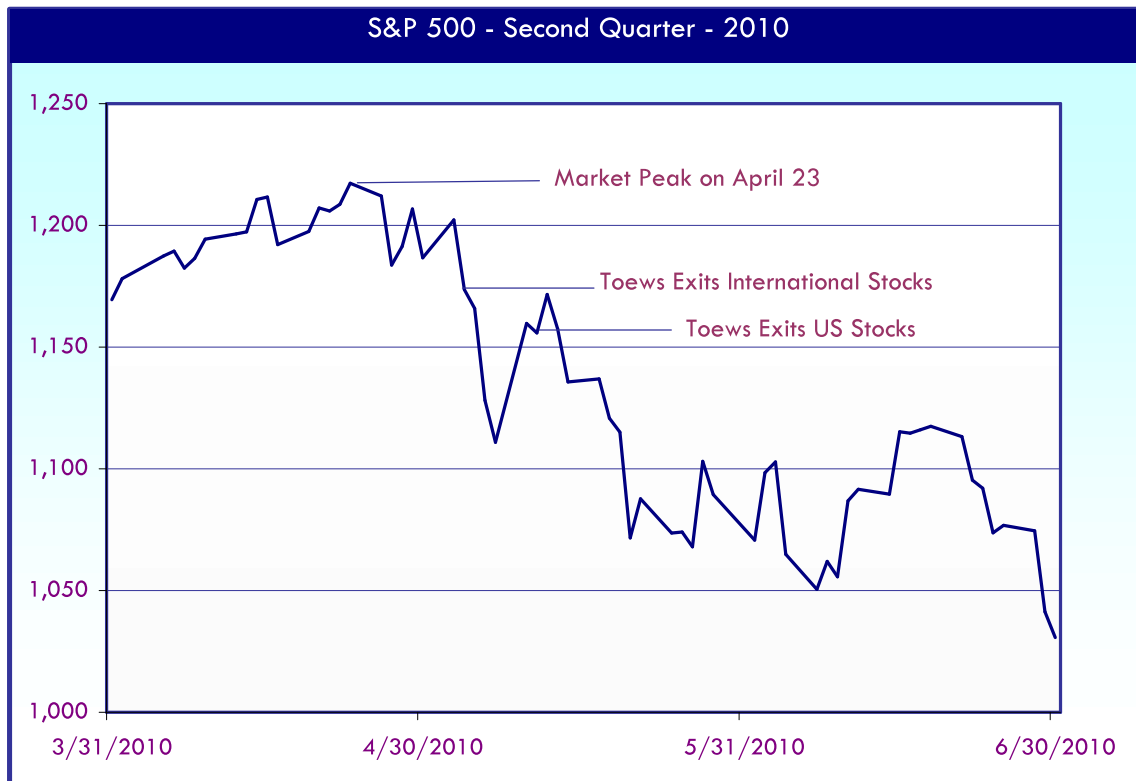


Stock Market Drops in Second Quarter *Toews Exits Stocks in Early May*

Shortly after the market hit bottom in April of 2009, we wrote that after major declines, gains were historically “decisive and significant.” The market affirmed that projection with an advance off the bottom of 65% by the end of 2009. That gain, along with robust GDP growth in the first quarter of 2010, led many to believe that the markets were signaling an “all clear” sign for investors to re-enter the stock market.

Despite signs of economic expansion, as we entered the second quarter of this year, the market turned down in the latter part of April. From the high on April 23 through the end of the quarter, the S&P 500 has lost just over 15%. The Toews system exited stocks early in May. At the end of the quarter, 100% of our US and Developed International Stock positions were held in money market instruments. We remained fully invested in high yield and high quality bonds.*



* Certain specialized Toews portfolios such as TC Sector Opportunities retain exposure to sector rotation fund choices. Portfolios based on other advisors’ programs like Litman/Gregory and Breen Financial administered by Toews Corporation are allocated fully to stock and bond positions. Dividend Strategies is also allocated fully to stock and bond positions.

How to View the Recent Downturn

There are two competing views on this downturn. One view is that this is simply a routine stock market correction. Significant stock rebounds virtually always have corrections along the way. These are defined as stock market losses of more than 10% but less than 20%, and are short lived pauses in an otherwise healthy and rising stock market.

A second perspective suggests that this is not a normal recovery. Instead of this being a correction, this view argues that significant public and private global debt issues create a high probability of entering into a second US recession, often referred to as a double dip recession. The most negative among strategists with this view suggest that this stock market decline is only the beginning of a decline that could re-test or pierce the lows seen in March of 2009. The implications of these two divergent outcomes are so profound for individual investors that we'll look at the risks of either scenario occurring. We'll also consider how our system might react should either occur.

Risk to Investors of a Correction - Missing a Stock Market Rebound

Before discussing the risk of a double dip recession, it is worth mentioning the risk to investors presented by the first scenario: the risk of a correction. Fear reigns during corrections, especially those following declines as significant as the drop in 2008. Investors, freshly back from the brink of big losses, are unwilling to tolerate a repeat. As a result, investors tend to exit stocks quickly and decisively when the market turns lower. Data confirms that in May of 2010, only one month following the beginning of this decline, almost \$15 billion left US Stock Funds, the largest outflow since the market bottom in March of 2009[†]. Once investors exit stocks, some time can elapse before they re-enter. After record redemptions during '08/'09, investors added a meager 7.8 billion dollars in the 6 months following the 2009 market bottom.[‡] In other words, **investors who left the stock market may have missed the subsequent rebound**. Based on historical data, we simply can't rule out the strong possibility that this is only a correction and that stocks will rebound from these levels. In fact, if the economy continues to grow this year and companies follow through with expected earnings, a strong case can be made that the stock market will see considerable advances from here.

The Risk of a Double Dip Recession

A growing chorus of respected strategists is sending warning signals about the possibility of a second recession. One exceptional study on the history of banking crises is outlined in the book *This Time is Different* by Carmen Reinhart and Kenneth Rogoff. Their vast study of global banking crises revealed that home prices declined for an average of 6 years and unemployment rose for almost 5 years after crises similar to the global banking crisis in 2008. Should this time prove *not to be different*, these statistics project anything but an economic recovery over the coming years. Such data takes the focus off of the immediate outcome of this stock market decline and zooms out to what may be a very challenging period of up to 5 years or more. The implications for the stock market would be dire and would make projections of a return to the stock market lows of March 2009 not only feasible, but likely.

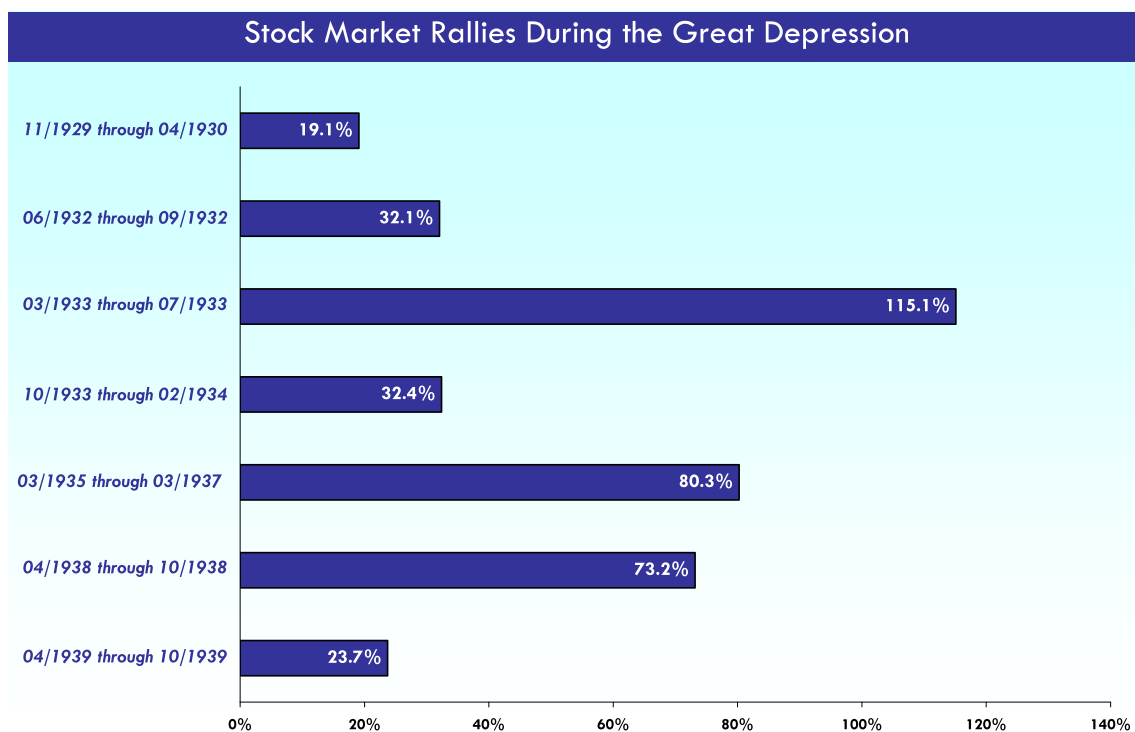
[†] Source: Morningstar Direct

[‡] Source: Trintabs Investment Research

The Toews Strategy during Crisis Environments

Our purely reactive strategy attempts to exit markets during the beginning phase of a decline and thus avoid big drops. When the market experiences big declines, it creates opportunities to buy near market lows and participate in rebounds. As a result, we are capable of producing positive returns even when the market is losing money or moving sideways. Our flagship Growth and Aggressive Growth portfolios produced returns net of all fees of roughly 50% since 2000, a period when the S&P 500 was flat.

The reason that we have been able to produce positive returns during this secular bear market is that long term declines often include not just large drops, but sizable stock market rallies. During the Great Depression, the stock market was in various stages of decline from 1929 through 1942. Despite the decidedly negative bias of the market, there were 7 bull markets with returns of roughly 20% or greater. These rallies produced average gains of 54% and lasted 7.5 months on average[§].



Cumulatively, these rallies produced total returns of 376%. We view these gains as money making opportunities no different from those that occur during long term bull markets.

Regardless of the outcome of this current decline, we strongly recommend that investors incorporate risk management tools into their portfolios. If the market continues to decline, remember that we built our system to specifically address declining markets.

[§] Source: Shiller - 2010

Disclosure

Please read the below disclosure regarding this document and Toews Corporation.

Prior performance is no guarantee of future results and there can be no assurance, and individuals should not assume, that future performance of any of the portfolios referenced will be comparable to past performance. Further, the prior performance figures indicated herein represent portfolio performance for only a short time period and may not be indicative of the returns or volatility each model portfolio will generate over a longer time period. The performance shown should also be viewed in the context of the broad market and general economic conditions prevailing during the periods covered by the performance information.

There can be no assurance that Toews will achieve its performance objectives

This document refers to the performance of the majority of Toews portfolios to illustrate the effect of Toews management on US and Intl. Stocks and high yield bonds. Performance of individual accounts varied based on the client's investment risk profile and their specific investment funds. For your individual account performance, please refer to the quarterly statement recently sent you. In addition, not all model portfolios were referenced in this letter. It is not, nor is it intended to be, a comprehensive accounting of Toews asset management. There are other portfolios that Toews manages that performed differently than what is referenced in this letter.