Verity Investments, Inc.

MEMBER, NASD, SIPC

REGISTERED INVESTMENT ADVISER

Core Allocation

December 31, 2008

Post Labor Day 2008 is a time we will certainly never forget. An already troubled financial system imploded worldwide when Lehman Brothers went under, exacerbating a developing credit crisis of stunning proportions that devastated financial markets everywhere. By November 20, the S&P 500 had plummeted 51.9% below its peak on October 9 of the previous year.

Gordon T. Wegwart
Chief Investment Officer

In this environment, mere diversification, despite its very real longer term benefits, was ineffective as assets of virtually every type were liquidated in waves of forced selling in a global deleveraging process that still continues. Fortunately, the short equity components of our risk management methodology were effective in significantly limiting portfolio declines. While we take little satisfaction in declines of any magnitude, we nonetheless seized the opportunities that emerged to further strengthen some of the components of our portfolio that we expect to hold longer term.

After sustaining some significant initial losses, we cut exposure to gold mining shares, agricultural commodities, and Chinese equities in the face of relentlessly deteriorating conditions, but later re-entered each at very attractive lower levels.

Similarly, depleted positions in Harvest Energy Trust and Aberdeen Asia Pacific Income were not only replenished but expanded at prices we had never expected to see, giving us exceptional dividend yields moving forward as well as excellent long term price appreciation potential.

> "*In the coming period, perhaps even more than normal, it will be important to distinguish between economic conditions and market conditions . . .*"

More generally, we continue to employ diverse tools, seeking to balance positions selected for their growth potential with risk management strategies designed to help navigate a still turbulent and very dangerous market. Our tactical strategy continues to favor long positions in selected U.S. equity sectors buffered by short positions in foreign equities, where we feel Europe in particular still faces an even tougher road.

Greater economic pain is all but inevitable, and a more sensible approach to credit – a good thing in the long run – surely means the recovery will be more drawn out than we all would hope. Despite this, investment opportunities will continue to emerge. In the coming period, perhaps even more than normal, it will be important to distinguish between economic conditions and market conditions, for they are very different. Markets are forward looking, and attractive investment opportunities inevitably arise even as the economy struggles, creating an environment in which discriminating investors may be able to capitalize.

While the market yields no guarantees, if we effectively contain risk while taking advantage of unique opportunities, the outlook beyond the current gloom may become quite attractive.

Target Allocation By Asset Class

42.5%	Equities - Domestic & Foreign
16.5%	Gold, Energy & Commodity Related
0%	Foreign Currency
11.5%	Equities - Short (Leveraged 200%)
4.0%	Bonds
8.0%	Bonds - Short
17.5%	Cash

About Our Methodology:

Effective investing is a process of considering risk and potential reward and seeking to overweight the odds of success while limiting the downside. Our portfolios thus reflect diversification across only those asset classes we currently believe to hold superior risk/reward profiles.

Although the time horizon of our core positions is not short term, we constantly monitor the marketplace in order to discern and adjust to changes in market dynamics and risk/reward outlook. As a result, even in areas we deem to be major long term themes, the size of allocations may fluctuate to reflect a changed shorter term outlook.

We will also seek certain shorter term opportunistic investments, but will do so only when consistent with our investment discipline.

Capital preservation is of utmost importance. This may lead us to reduce the size of investments in more volatile asset classes in response to short term concerns, but we will not eliminate them completely if our long term investment thesis remains intact.

We believe our methodology and investment discipline will serve our clients exceptionally well in all types of markets and over the long term, while providing us with the needed flexibility in an environment that may become increasingly volatile.

Kurt Preble

(800) 247-6717 x116

Kurt began his relationship with Verity in 1998 as a client. He later joined the firm in 2000 as an Account Executive and was promoted to Junior Partner in 2003. Raised in Durham, North Carolina, Kurt earned a B.S. in Business Administration from Appalachian State University and worked as a consultant with Bank of America before joining Verity. Kurt is an active member and current treasurer of the Downtown Durham Rotary Club. Kurt currently lives in Durham with his wife, Mary Lloyd, and their two children, Jack and Allison.