

Background

Policy Portfolios are defined as portfolios which provide diversified asset class exposure in specified proportions appropriate to the risk profile classification of the investor. In other words, the allocation proportions are determined by "Policy" for each risk profile class.

The Sherman Policy Portfolios provide an easy-to-manage group of five portfolios suitable for the entire range of client profiles. Unlike the other Model Portfolios provided in the daily Sherman Sheet, the Sherman Policy Portfolios are intended to be complete, diversified client portfolio solutions.

The Sherman Policy Portfolios differ from all other Policy Portfolios. The unique and proven Sherman Bull/Bear indicators allow each asset class allocation to be redirected to cash during Bear markets within that asset class, and the objective Sherman Portfolio Selection methods ensure that asset class allocations are invested in high-performance candidates.

Policy Levels and Allocations

The Sherman Policy Portfolios are five portfolios: **Level 1, Level 2, Level 3, Level 4 and Level 5.**

These portfolios readily map into the nomenclature in use at your firm: Level 1 might be called "Conservative", "Preservation", etc..., while Level 5 might be called "Growth", "Aggressive", etc...

Each portfolio differs in the amount of Fixed Income allocation: 80% in Level 1, 60% in Level 2, 40% in Level 3, 20% in Level 4 and 0% in Level 5.

The non-Fixed Income portion is divided evenly among four major asset classes: **Domestic Equities, International Equities, Real Estate and Resources & Materials.**

These asset classes are commonly found in the most successful endowment and institutional portfolios, and there is a large body of research supporting their use in well-diversified, high-performance portfolios.

Current Policy Portfolio Positions											
Next Scheduled Change: Quarterly recalculation of Variable positions on July 1, 2010											
Asset Class	Asset Class Status	Policy Level 1	Policy Level 2	Policy Level 3	Policy Level 4	Policy Level 5	Partition Allocation	Partition	Current Positions (for the quarter 4/1/2010 - 6/30/2010)	Symbol	New Money Symbol*
Domestic Equities	Bull since May 15, 2009	5%	10%	15%	20%	25%	1/2	Core	iShares Russell 3000 Index Fund	IWW	IWW
							1/2	Variable	iShares Russell 2000 Index Fund	IWM	IWM
International Equities	Bull since May 8, 2009	5%	10%	15%	20%	25%	1/2	Core	Vanguard FTSE All-World ex-US ETF	VEU	VEU
							1/2	Variable	iShares Emerging Markets	EEM	EEM
Real Estate	Bull since Aug. 14, 2009	5%	10%	15%	20%	25%	1/2	Core	SPDR Dow Jones Global Real Estate	RWO	RWO
							1/2	Variable	iShares Dow Jones U.S. Real Estate Indx	IYR	IYR
Resources & Materials	Bull since May 8, 2009	5%	10%	15%	20%	25%	1/2	Core	Market Vectors RVE Hard Assets Prod ETF	HAP	HAP
							1/2	Variable	iShares Dow Jones U.S. Basic Materials	IYM	GDX
Fixed Income	Bull since Jul. 28, 2006	80%	60%	40%	20%	0%	All	Core	Vanguard Total Bond Market	BND	BND
								Variable	n/a		
Cash		0%	0%	0%	0%	0%					

Each of the five Policy Portfolio Levels contains a different Fixed Income allocation ranging from 80% to 0% . The balance of the portfolio is equally allocated among the other four asset classes.

Bull-Bear Indicators and Portfolio Selection Method

Two unique and distinguishing features of the Sherman Policy Portfolios are the Bull/Bear indicators, and the Portfolio Selection method.

Bull/Bear Indicators

In the usual asset allocation strategy, allocations to an asset class are maintained through Bull and Bear markets alike, subjecting portfolio owners to dramatic losses during Bear market periods.

The Sherman Policy Portfolios use proven Bull/Bear market indicators within each asset class to determine the status of each asset class, independent of the other asset classes. When an asset class is determined to be in a Bear market, the allocation to that asset class is redirected to cash instead. For example, when the Real Estate asset class was determined to be in a Bear market in July 2007, the allocation to Real Estate was instead placed in cash for the duration of the Bear market in that asset class.

It is theoretically possible for all asset classes to be in Bear market mode simultaneously, which would result in a 100% cash portfolio. In the depths of the 2008 Bear market, all asset classes except Fixed Income were in cash, largely immunizing the Policy Portfolios from the ravages of the Bear market. When a Bear market eventually gives way to a new Bull market within an asset class, the allocation is restored from cash to equities within that asset class.

Bull markets and Bear markets within an asset class typically last up to several years, so the changes determined by the Bull/Bear indicators are not frequent, but are very important!

Asset Class	Asset Class Status
Domestic Equities	Bull since May 15, 2009
International Equities	Bull since May 8, 2009
Real Estate	Bull since Aug. 14, 2009
Resources & Materials	Bull since May 8, 2009
Fixed Income	Bull since Jul. 28, 2006

When an asset class is determined to be in a Bear market, the allocation to that asset class is redirected to cash.

Portfolio Selection Method

Each asset class except Bonds contains two positions: a "Core" position, and a "Variable" position.

The Core position is designed to provide coverage of the entire asset class in a single position. For example, the Domestic Equities asset class uses the Russell 3000 as its Core position (represented by the IWV ETF, or equivalent), providing the appropriately broad coverage of the asset class. The Core position receives 50% of the allocation to the asset class, and the Variable position receives the remaining 50%. Except in the case of a change in market status from Bull to Bear (go to cash) or Bear to Bull (redeploy from cash), the Core position of an asset class remains constant and is not reevaluated quarterly.

Partition Allocation	Partition	Current Positions (for the quarter 4/1/2010 - 6/30/2010)	Symbol
1/2	Core	iShares Russell 3000 Index Fund	IWV
1/2	Variable	iShares Russell 2000 Index Fund	IWM
1/2	Core	Vanguard FTSE All-World ex-US ETF	VEU
1/2	Variable	iShares Emerging Markets	EEM
1/2	Core	SPDR Dow Jones Global Real Estate	RWO
1/2	Variable	iShares Dow Jones U.S. Real Estate Indx	IYR
1/2	Core	Market Vectors RVE Hard Assets Prod ETF	HAP
1/2	Variable	iShares Dow Jones U.S. Basic Materials	IYM
All	Core	Vanguard Total Bond Market	BND
	Variable	n/a	

Each asset class except Fixed Income contains equal allocations to a "Core" and a "Variable" position. The Core position provides coverage to the entire asset class, while the Variable position provides overweighting to its highest performing subset.

Portfolio Selection Method (cont.)

The Variable position is designed to provide overweighting to the highest-performing subset of the asset class, so that the sum of the Core and Variable positions can produce outperforming returns relative to the asset class benchmark without sacrificing the desired broad exposure to the asset class. **The Variable position is determined quarterly for each asset class.** For example, the Mid-Cap subset of the Domestic Equities asset class was chosen as the Variable position for most of 2009.

Variable Candidate Ranking Table

Each of the candidates for the Variable selection are listed in the current descending order of rank on Page 2 of the daily Policy Portfolio report. Thus the current Variable selection for an asset class in the Policy Portfolios consists of that candidate which was ranked first in its asset class at the time of the most recent quarterly rebalancing.

Policy Portfolio Candidate Rankings - Rankings by Asset Class					
Asset Class	Description	Symbol	Partition	Rank	Trend
Domestic Equities	iShares Russell 2000 Index Fund	IWM*	Variable	3	Up
	SPDR S&P 400 Mid-Cap	MDY	Variable	4	Up
	Rydex S&P 500 Equal Weight ETF	RSP	Variable	6	Up
	PowerShares QQQ NASDAQ-100 Shares	QQQQ	Variable	8	Up
	iShares Russell 3000 Index Fund	IWV	Core	10	Up
	SPDR S&P500	SPY	Variable	11	Up
International Equities	iShares Emerging Markets	EEM*	Variable	14	Down
	Vanguard FTSE All-World ex-US ETF	VEU	Core	17	Down
	iShares MSCI EAFE Index Fund	EFA	Variable	19	Down
Real Estate	iShares Dow Jones U.S. Real Estate Indx	IYR*	Variable	2	Up
	SPDR Dow Jones Global Real Estate	RWO	Core	5	Up
	SPDR Dow Jones Intl Real Estate (ex-US)	RWX	Variable	15	Down
Resources & Materials	Market Vectors Gold Miners	GDX	Variable	1	Up
	iShares Dow Jones U.S Energy Sector	IYE	Variable	12	Down
	iShares Dow Jones US Basic Materials	IYM*	Variable	13	Down
	Market Vectors RVE Hard Assets Prod ETF	HAP	Core	16	Down
	Market Vectors Agribusiness ETF	MOO	Variable	18	Down
Fixed Income	iShares Lehman Aggregate Bond Fund	AGG	Core	7	Up

* = current Variable selection for this quarter

Using the Policy Portfolios

Each of the Policy Portfolios is designed for a specific risk profile category, where Level 1 is the most conservative or preservation-oriented, and Level 5 is the most aggressive or growth-oriented.

The Policy Portfolios reallocate quarterly. Usually, there are few changes from quarter to quarter. The changes that occur are the occasional change in the Variable component of an asset class, or the even less frequent change between Bull and Bear status of an individual asset class. The Core positions are not reallocated quarterly.

When you put a client into a Policy Portfolio, determine the Variable ETF for each Asset Class by referring to the Page 1 "New Money Symbol" column. This insures that you are using the latest, most up-to-date rankings. In the example shown here, GDX (Market Vestors Gold Miners ETF) has replaced IYM (iShares Dow Jones Basic Materials) as the top performer in the Resources & Materials asset class since the time of the last quarterly change.

Current Positions (for the quarter 4/1/2010 - 6/30/2010)	Symbol	New Money Symbol*
iShares Russell 3000 Index Fund	IWV	IWV
iShares Russell 2000 Index Fund	IWM	IWM
Vanguard FTSE All-World ex-US ETF	VEU	VEU
iShares Emerging Markets	EEM	EEM
SPDR Dow Jones Global Real Estate	RWO	RWO
iShares Dow Jones U.S. Real Estate Indx	IYR	IYR
Market Vectors RVE Hard Assets Prod ETF	HAP	HAP
iShares Dow Jones U.S. Basic Materials	IYM	GDX
Vanguard Total Bond Market	BND	BND
n/a		

When deploying new money, be sure to check the New Money Symbol column on Page 1 to ensure that you are using the most up-to-date rankings.

Using the Policy Portfolios (cont.)

By default, we recommend you simply use the Policy Portfolios as-is for the intended type of client. If you wish, you can also consider customizing each portfolio in several ways:

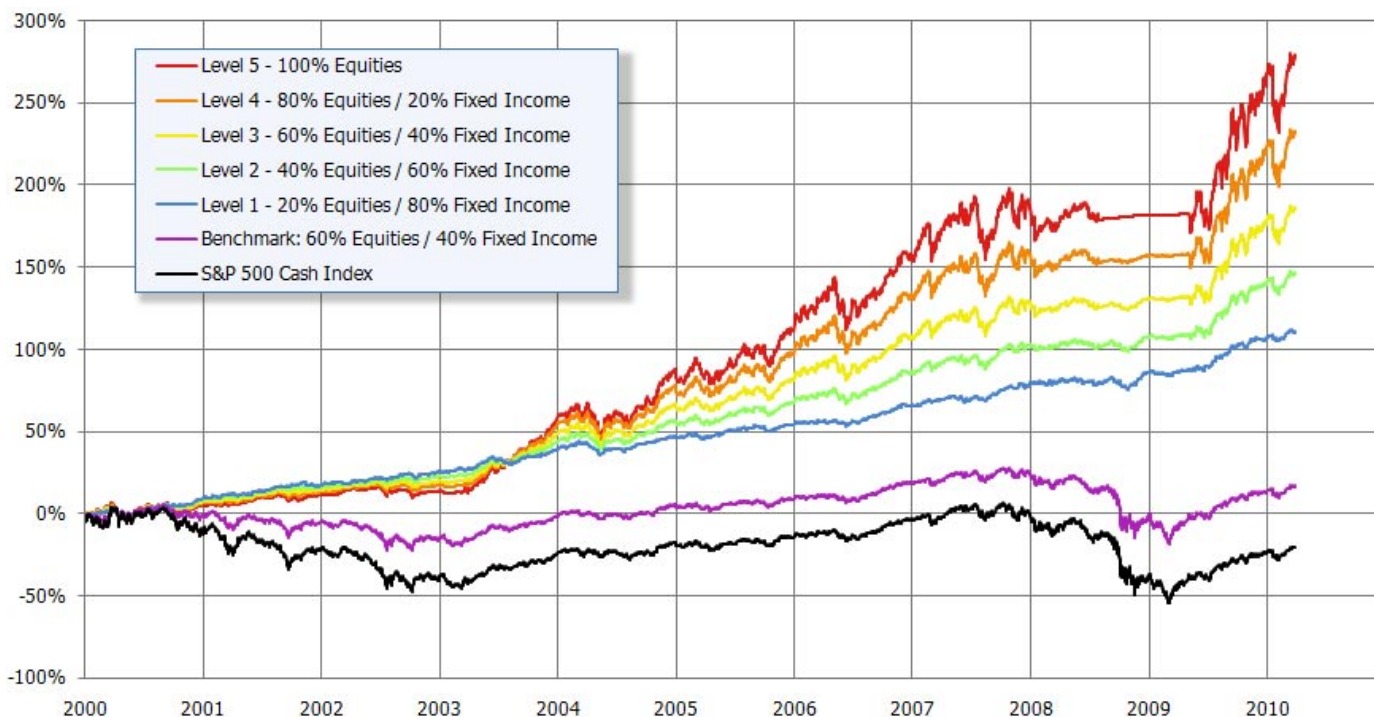
- Varying the overall allocations to each asset class.
- Substituting a different "Core" candidate within an asset class.
- Substituting a different "Variable" candidate within an asset class.
- Varying the percent dedicated to "Core" and "Variable" within an asset class from the default 50/50.
- Reallocating more frequently than the default quarterly reallocation. For example, you may wish to swap any Core or Variable position that goes from an up trend to a down trend between quarterly reallocations to the position that is most highly ranked in its asset class at the time of the trend change.

The Sherman Sheet Policy Portfolios are published daily. The "At a Glance" box at the top of page 1 will highlight any changes that occur on that day. Most days, of course, will have no changes. Activity will occur on the quarterly reallocation dates, and on any date that any asset class changes its bull or bear status.

Historical Performance

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Policy Level 1	9.2%	7.9%	7.2%	10.3%	5.9%	4.4%	7.6%	8.2%	3.7%	10.5%	2.3%
Policy Level 2	8.3%	7.4%	5.9%	16.9%	9.3%	6.3%	11.2%	9.2%	2.3%	14.9%	3.0%
Policy Level 3	7.2%	6.9%	4.6%	23.8%	12.7%	8.3%	14.9%	10.2%	0.9%	19.3%	3.7%
Policy Level 4	6.4%	6.6%	3.7%	30.9%	16.1%	10.2%	18.6%	10.9%	-0.6%	23.6%	4.3%
Policy Level 5	5.0%	5.9%	2.0%	38.7%	19.5%	12.1%	22.3%	11.5%	-2.0%	28.0%	4.9%
60/40 Benchmark	-1.5%	-4.4%	-11.1%	17.4%	7.1%	2.6%	9.7%	5.0%	-21.9%	15.6%	4.9%

* Results through 3/31/2010. See home page for current 2010 year-to-date returns. Also see disclaimer below.



Legal & Disclaimer

The Sherman Sheet is published daily and distributed via the internet by W.E. Sherman & Co. LLC, 11981 Meadow Run Ct., Maryland Heights, MO 63043.

The Sherman Sheet is intended for professional use only and not for client use, and professionals should use it for informational purposes only. It is not intended as investment advice, nor as an offer or solicitation of an offer to sell or buy, or as an endorsement, recommendation or sponsorship of any company, security or fund.

The Sherman Sheet may be used by subscribers in the management of their direct client accounts. It may not be used for 3rd-party management (management of accounts whose advisor-of-record is not the subscriber). Please contact Bill Sherman to make arrangements for the use of The Sherman Sheet in such 3rd-party management circumstances.

The Shermanator and the US Intermediate-Term Model were both introduced in early 2004. The construction of the Shermanator has not changed since introduction. However, the Intermediate-Term Model has been improved numerous times over the years, as recently as mid-year 2008. These changes include improvements in the interpretation of the Shermanator, as well as improvements in portfolio construction. Therefore, even though the Shermanator itself has been calculated in real time since its introduction, please consider all of the returns shown in the Intermediate-Term Model tables and charts to be hypothetical, as they are the result of applying the current Intermediate-Term Model to all prior years. The Sherman Calendar Effects Model has been implemented in real-time since April 1, 2001, and has not changed since that time. The Global ETF Model, and the Bull/Bear Longer-Term Model, were both introduced in June, 2009. Returns shown for these two models prior to June 2009 are hypothetical. The Sherman Policy Portfolios were introduced in May, 2010. Please consider all returns to be hypothetical.

The contents of The Sherman Sheet are based on data sources believed to be reliable, but no representation or warranty, expressed or implied is made as to their accuracy, completeness or correctness. We assume no responsibility for typographical errors or other inaccuracies in the content, and occasional errors may occur. Therefore, The Sherman Sheet is provided "AS IS" without any warranty of any kind. Past results are not indicative of future results.

The contents of The Sherman Sheet are confidential to paid subscribers only. The unauthorized use, release, reproduction or redistribution of The Sherman Sheet, in whole or in part, by photocopying, email, entry into a data retrieval system, or by any other means is strictly prohibited.