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Hanlon Reduces Commitment to Domestic High Yield Corporate Bonds

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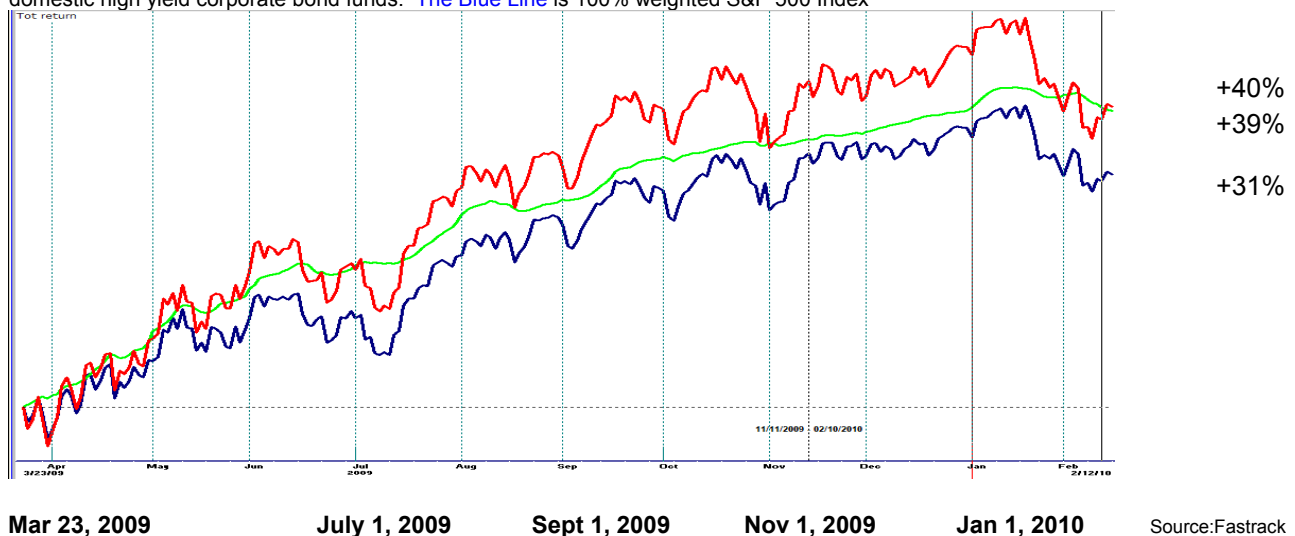
Almost one year ago, Hanlon Investment Management made a large investment in high yield corporate bond funds (HY), where available, in our client accounts after we saw a “generational” opportunity develop. That opportunity was brought on by the devastatingly sharp drop in HY prices experienced in late 2007 and all of 2008.

Since that time we have been very satisfied with the returns provided by HY. However, as the calendar turned to 2010, HY have begun to back down some. With constant attention to risk management, our research models have now turned less positive on the high yield corporate bond fund asset class and **as such we have reduced our commitment to this asset class by approximately 30%**. Proceeds will be directed to money market funds for the time being because there are no other asset classes that meet our requirements for investment at this time. Of course this can change at anytime in the future.

It has been a very good ride. Please see below a comparison chart of HY versus an average of some widely followed major equity indices and the S&P 500 Index. Clearly one can see that HY have not only performed as well as the simple equal weighted average of these equity indices, but more importantly have done so with less volatility – the green line below is the smoothest; that is the high yield corporate bond average index!

March 23, 2009 to February 12, 2010 – Equities versus High Yield Corporate Bonds

The Red Line is a global equally weighted index composed of five major global equity indices (20% S&P 500 Index, 20% Russell 2000 Index, 20% Nasdaq OTC Composite, 20% iShares MSCI EAFE Index, 20% iShares MSCI Emerging Markets Index). **The Green Line** is a high yield equally weighted index composed of two hundred twenty domestic high yield corporate bond funds. **The Blue Line** is 100% weighted S&P 500 Index



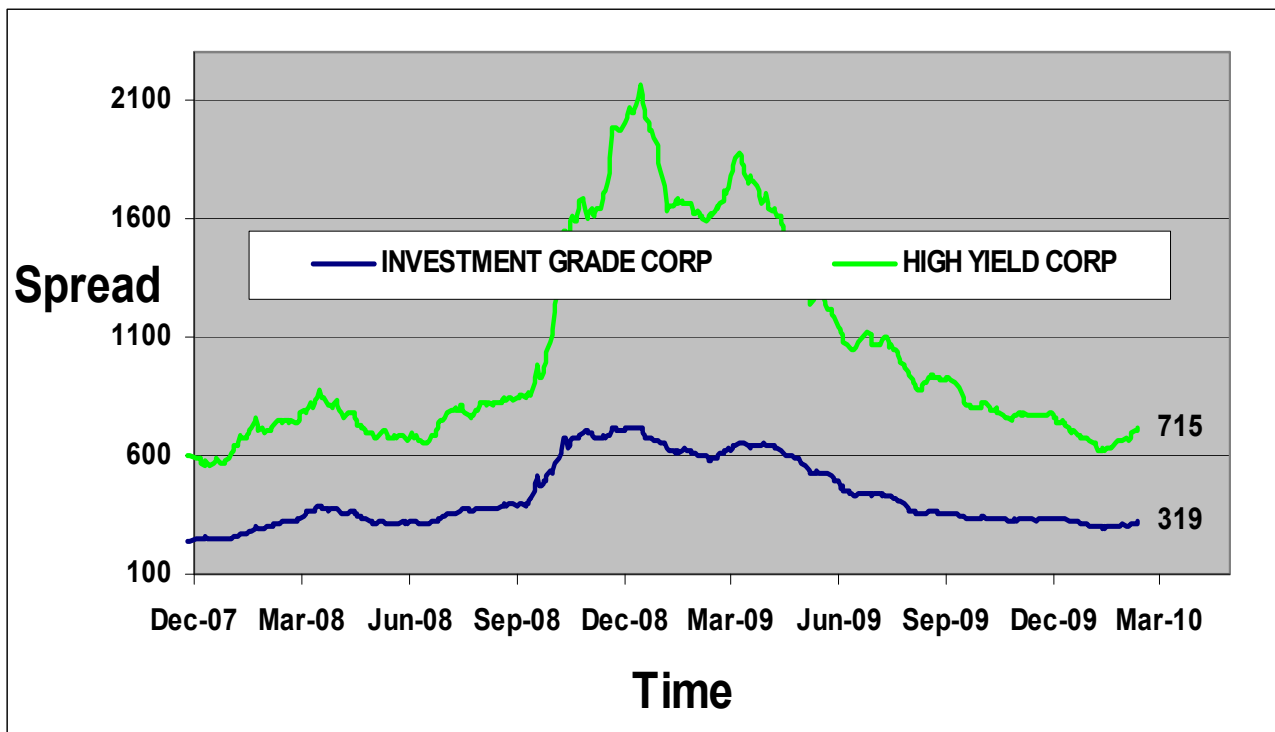
The high yield bond fund index we compose, as displayed as the green line on the prior page, continues to display one of the most stable charts in the investment universe, and of course HY continue to provide a very attractive current interest rate – they still yield in excess of 7.5% on most high yield corporate bond funds. However, you can see that the high yield bond fund index has dropped in value some in the past four weeks. We believe that some caution is warranted at this time.

Why did we not sell 100% of our high yield corporate bond fund positions?

One compelling attribute is that the HY interest rate versus US Treasury interest rate remains very attractive, with the spread on maturities of approximately 8 yrs still above 7.0%. It is shown as 715 in the below chart, which is actually 7.15%.

High Yield and Investment Grade “spreads” versus US Treasury Bonds

Source: www.MerrillLynch.com Bond Spreads



Historically speaking, the median spread level from 1986 through November 2009 is approximately 5.00% leaving nice room for spreads to tighten further just to reach their historical levels. In fact, over this time period, spreads have been lower than their February 13, 2010 level more than 70% of the time. This is one reason why we remain invested in this asset class at this time, there remains the possibility of good returns from the considerable difference in yields and the potential for capital appreciation. Market participants often find that attractive.

We remain hopeful that HY will complete its recovery phase sometime in 2010 with spreads returning to historical median levels in the 5%+ area. If spreads only get down to 6%, that will still provide us with nice gains from this point forward.

Markets can change rather quickly in this day and age. If our research models, which are updated each night after the market has closed, indicate that the risk is too high, we will continue to reduce our commitment to the HY asset class.

At Hanlon Investment Management we always have, and always will, be aware that we are not just in the money management business, but we are also very much in the risk management business.

Thank you for the opportunity to be of service.

Thank you,



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This Market Commentary contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Barclays Capital High-Yield Bond Index: An unmanaged index composed of non-investment grade corporate bond securities. Investments cannot be made in an index. Barclays Capital Aggregate Bond Index: An unmanaged index composed of securities from the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization. Indexes are unmanaged and investments cannot be made in an index. The High Yield Equally Weighted Index is an average of over 220 bond funds taken from the Investors Fastrack Database. The Global Equity Weighted Index and the High Yield Equally Weighted Index cannot be invested in directly without incurring costs. Hanlon Investment Management defines the High Yield Weighted Index to be a superior investment for its clients as having high returns and less volatility. The term "spread" is a common investment term that describes the difference in interest rates between two investments. Past performance is not guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock and bond markets involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice. Hanlon has experienced periods of underperformance in the past and may also in the future. The returns represented herein are total return inclusive of reinvesting all interest and dividends. Hanlon Investment Management, Inc. ("Hanlon Investment Management") is an SEC registered investment adviser with its principal place of business in the State of New Jersey. Hanlon Investment Management and its representatives are in compliance with the current registration and notice filing requirement imposed upon registered investment advisers by those states in which Hanlon Investment Management maintains clients. Hanlon Investment Management may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements. This Market Commentary is limited to the dissemination of general information pertaining to its investment advisory services. Any subsequent, direct communication by Hanlon Investment Management with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of Hanlon Investment Management, please contact Hanlon Investment Management or refer to the Investment Adviser Public Disclosure web site (64). For additional information about Hanlon Investment Management, including fees and services, send for our disclosure statement as set forth on Form ADV from Hanlon Investment Management using the contact information herein. Please read the disclosure statement carefully before you invest or send money. Not all HIM clients are in the strategies discussed herein.