

**PORTFOLIO UPDATE**

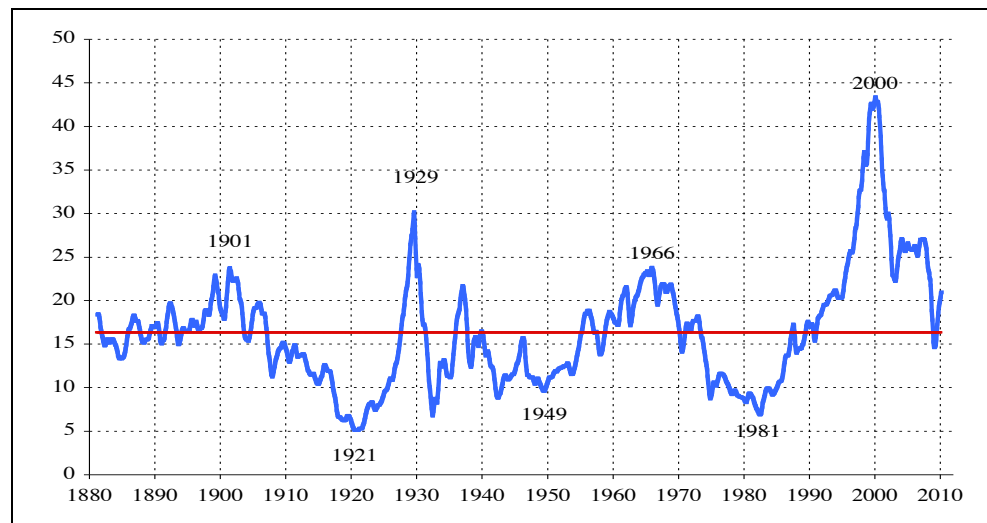
The RCM portfolio made steady progress during the first quarter of 2010, rising 3.0% (after all fees). The annual yield of the portfolio is currently about 5.8%, while the risk index measures approximately 84 (compared to the broader market which is defined as 100).

**COMMENTARY**

So far this year, the stock market continued its spirited recovery that began last year. The market was clearly oversold last March and due for a rebound, but one begins to think: is this too much too soon? Are we just re-kindling a new era of irrational exuberance?

Renowned economist Robert Shiller of Yale University studies market history and trends, and publishes an index of stock market valuation. He has revealed that the market oscillates between high and low valuations on a predictable, multi-decade pattern. The Shiller index has an average value of 16 with high points occurring around an index value of 23. Low points occur around 8.

In year 2000, at the height of the Internet bubble, the Shiller index rose above 40! That certainly was irrational exuberance. Since then, the market has been cycling downward, but has only worked its way halfway back. The index currently stands at about 22, roughly the level of a normal cyclical *peak*. If history repeats itself, the index decline will continue. The market valuation will eventually fall to low value of around 8 before a new bull market can arise.



Our portfolio focuses on yield, due to my conviction that the next few years will be a range-bound market, while the economy, corporate earnings, and the stock market itself recover from the bubble years. I foresee that, ten years from now, the SP 500 Index may well trade only a little higher than it is today. The market won't be flat during this decade – there will be rising periods alternating with declining periods, but net progress could be limited. During the rising phases, the RCM portfolio, emphasizing yield as it does, will likely fall behind the short-term gains in the market. However, I expect to make up for that during the decline phases. I still believe that emphasizing yield is the best way to reap investment returns, and control risk, during the next few years.

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Dr. Rollins has earned both the Chartered Financial Analyst® designation and Certified Financial Planner™ credential. He was awarded the CFA® designation in 2004. The CFA charter is the only credential for investment analysis and management recognized worldwide. Recipients of the CFA charter have successfully completed a graduate-level educational curriculum, and have passed a series of three sequential annual examinations. Pass rates average about 50 percent at each examination level. In 2005, he also successfully completed financial planning coursework and passed the qualifying examination for the CFP® credential.

## Company Profile

ROLLINS CAPITAL MANAGEMENT is a fee-only financial advisory firm serving individuals. Using a consistent, patient investment strategy, our focus is long-term, high-quality, personalized investments. Clients have their own individualized accounts. ROLLINS CAPITAL MANAGEMENT handles all the daily investment decisions.

## Presentation Disclosures

1. Portfolio composite returns are actual total annual returns, including stock price appreciation, dividends, corporate spin-offs and divestitures, and other occasional cash and non-cash distributions. Individual results may vary from the composite due to variations in portfolio size, and timing of deposits/ and/or withdrawals.
2. Portfolio composite returns represent an asset-weighted combination of fee-paying client accounts under management during the period specified, reported net of all withheld fees.
3. Annual portfolio composite returns and benchmark annual returns use a time-weighted calculation over the period specified.
4. Annualized portfolio composite returns and benchmark returns are calculated as the geometric mean of annual returns.
5. Portfolio and benchmark risk measures calculated using methodology provided by RiskGrades®.
6. Detailed disclosures available on request.

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