



In an effort to raise the bar even higher and create more credibility and respect in our industry, Potomac Fund Management has hired Ashland Partners & Company LLP to help us in maintaining Global Investment Performance Standards (GIPS®) compliance. Ashland Partners is the leading specialty firm providing GIPS® verification and compliance consultation services to the investment management industry. Maintaining these new standards allows us to compete at the highest levels with the largest firms in the country.

### **What is GIPS®?**

The GIPS® standards are ethical standards for investment performance presentation to ensure fair representation and full disclosure of an investment management firm's performance.

Verification is the independent review of an investment management firm's claim of compliance with the GIPS® standards.

Verification tests:

- Whether the investment firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis.
- Whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS® standards.

Verification is firm wide and cannot be carried out for a single composite. A composite specific performance examination can be conducted on a particular composite, but only in conjunction with a firm-wide verification.

For more information on the GIPS® Standards, please visit [www.gipsstandards.org](http://www.gipsstandards.org).

For more information on Ashland Partners, please visit [www.ashlandpartners.com](http://www.ashlandpartners.com).

### **Why does Potomac Fund Management report both composite and representative account results?**

When Potomac Fund Management was founded in 1987 the technology was not available to construct and comply with current GIPS® verification standards. A few years ago we made the decision to bring our firm into GIPS® compliance by partnering with Ashland Partners. GIPS® require that firms must, at a minimum, have performance going back five years or since inception in order to be compliant. Potomac decided to take on the arduous task of bringing all of our records, starting in 2002, into compliance with GIPS® standards. However in order to communicate to investors the true value added from our services we needed to also keep the long-standing track record of our representative accounts. Therefore we made the decision to report both composite and representative account results.

## **Annual Disclosure Presentation 2008**

Potomac Fund Management, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>).

Potomac Fund Management, Inc. is an independent registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Beginning July 1, 2002, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least at least 10% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. Performance was calculated using actual management fees. The annual composite dispersion presented is an equal-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available upon request.

The investment management fee schedule for all composites is 2.5% on the first \$100,000, 2.0% on the portion of account between \$100,000 and \$500,000, 1.75% on the portion of account between \$500,000 and \$1,000,000, 1.25% on the portion of account over \$1,000,000.

N/A indicates that less than 6 accounts were included in the composite for the entire year.  
\*Partial year of performance.

Potomac Fund Management, Inc.'s compliance with the GIPS standards has been verified for the period January 1, 2002 through December 31, 2008 by Ashland Partners & Company LLP. A copy of the verification report is available upon request.

## GUARDIAN COMPOSITE

Year End	Total Firm Assets (thousands)	Composite Assets		Annual Performance Results		
		USD (thousands)	Number of Accounts	Composite Net	S&P 500	Composite Dispersion
2008	132,323	63,475	681	-11.56%	-37.00%	.50%
2007	154,366	74,364	708	2.08%	5.49%	.44%
2006	144,640	52,389	526	15.71%	15.79%	1.41%
2005	97,316	32,502	394	5.33%	4.91%	.37%
2004	63,714	29,191	379	10.43%	10.88%	1.26%
2003	44,630	22,768	352	21.67%	28.68%	2.27%
2002	41,526	15,300	325	-3.38%	-22.10%	.36%

***Guardian Composite** contains fully discretionary fee paying accounts invested in the Guardian investment strategy. The Guardian investment strategy seeks to preserve capital while participating in global market growth. For comparison purposes the composite is measured against the S&P 500 Index. The Guardian Composite was created May 1, 1996. Potomac Fund Management, Inc.'s compliance with the GIPS standards has been verified for the period January 1, 2002 through December 31, 2008 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Guardian Composite beginning January 1, 2002. A copy of the verification report is available upon request.*

## NAVIGROWTH COMPOSITE

Year End	Total Firm Assets (thousands)	Composite Assets		Annual Performance Results		
		USD (thousands)	Number of Accounts	Composite Net	S&P 500	Composite Dispersion
2008	132,323	8,240	98	-12.31%	-37.00%	.70%
2007	154,366	12,199	126	-3.21%	5.49%	.41%
2006	144,640	15,493	177	10.64%	15.79%	.78%
2005	97,316	8,570	105	7.85%	4.91%	.41%
2004	63,714	7,370	102	6.19%	10.88%	.73%
2003	44,630	2,457	36	26.85%	28.68%	3.15%
2002	41,526	757	13	-7.23%	-22.10%	2.15%

***Navigrowth Composite** contains fully discretionary fee paying accounts invested in the Navigrowth investment strategy. The Navigrowth investment strategy seeks to participate in global market growth while providing a moderate level of risk. For comparison purposes the composite is measured against the S&P 500 Index. The Navigrowth Composite was created November 12, 1987. Potomac Fund Management, Inc.'s compliance with the GIPS standards has been verified for the period January 1, 2002 through December 31, 2008 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Navigrowth Composite beginning January 1, 2002. A copy of the verification report is available upon request.*

## ADVISOR EXPRESS COMPOSITE

Year End	Total Firm Assets (thousands)	Composite Assets		Annual Performance Results		
		USD (thousands)	Number of Accounts	Composite Net	S&P 500	Composite Dispersion
2008	132,323	12,973	81	-7.84%	-37.00%	1.61%
2007	154,366	10,792	61	4.22%	5.49%	.42%
2006	144,640	7,846	46	11.12%	15.79%	.77%
2005	97,316	5,080	28	16.15%	4.91%	.67%
2004	63,714	4,562	28	12.58%	10.88%	.46%
2003*	44,630	1,402	10			

***Advisor Express Composite** contains fully discretionary fee paying accounts invested in the Advisor Express investment strategy. The Advisor Express investment strategy seeks to participate in global market growth while providing a moderate level of risk. For comparison purposes the composite is measured against the S&P 500 Index. The Advisor Express Composite was created January 1, 2003. Potomac Fund Management, Inc.'s compliance with the GIPS standards has been verified for the period January 1, 2002 through December 31, 2008 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on Advisor Express beginning July 1, 2003. A copy of the verification report is available upon request.*

## BULL BEAR COMPOSITE

Year End	Total Firm Assets (thousands)	Composite Assets		Annual Performance Results		
		USD (thousands)	Number of Accounts	Composite Net	S&P 500	Composite Dispersion
2008	132,323	8,215	119	-5.76%	-37.00%	1.36%
2007	154,366	9,863	126	7.39%	5.49%	.95%
2006	144,640	8,883	134	9.90%	15.79%	2.81%
2005	97,316	3,711	85	-3.19%	4.91%	.25%
2004	63,714	910	29	13.30%	10.88%	3.14%
2003	44,630	984	34	28.81%	28.68%	N/A
2002*	41,526	612	25			

***Bull Bear Composite** contains fully discretionary fee paying accounts invested in the Bull Bear investment strategy. The Bull Bear strategy seeks to outperform the S&P 500 over a full market cycle while investing only in S&P 500 index funds and cash. For comparison purposes the composite is measured against S&P 500 Index. The Bull Bear Composite was created May 31, 2002. Potomac Fund Management, Inc.'s compliance with the GIPS standards has been verified for the period January 1, 2002 through December 31, 2008 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Bull Bear Composite beginning July 1, 2002. A copy of the verification report is available upon request.*