

The Average Cost information provided is for informational purposes only and will not be reported to the IRS.

Q. WHAT IS AVERAGE COST?

- A. Average cost is the average cost basis of shares sold in a mutual fund account. This information is provided to you for each of your accounts that are not part of a qualified retirement plan (other than money market), and which were opened on or after January 1, 1993 and in which you redeemed shares.

NOTE: The Rydex | SGI funds will have cost basis information available only on shares acquired by direct purchase. Information will not be available on shares acquired through gifts, transfers and inheritance.

Q. HOW CAN THIS INFORMATION HELP ME DURING TAX TIME?

- A. This information will help you prepare your tax return for the IRS on sales of mutual fund shares during 2010. Anytime you sell mutual fund shares in a taxable transaction, you create a capital gain or loss that you must report on your income tax return. You need to know the tax basis (or cost) of your shares sold in order to calculate the gain or loss on the sale.

Basis is a way of measuring the dollar amount of your investment for tax purposes. The basis of mutual fund shares includes acquisition costs, commissions and fees paid, as well as adjustments.

Q. THE AVERAGE COST INFORMATION PROVIDED USES THE SINGLE CATEGORY METHOD OF ACCOUNTING. WHAT DOES THIS MEAN?

- A. The Average Cost Single Category is one of four IRS-approved methods for calculating gains or losses on sales of mutual fund shares. It is the method most commonly used. Please consult your tax advisor to determine whether you are eligible to use the accounting information provided and whether this is the best method for you.

Q. HOW IS THE AVERAGE COST SINGLE CATEGORY METHOD USED TO CALCULATE THE BASIS (COST) OF SHARES SOLD?

- A.
1. You should use the number and cost of all shares in your account at the time of each sale.

Example: If you purchased the following shares:

100 shares	\$10 per share	March 1, 2008
100 shares	\$15 per share	March 1, 2009
100 shares	\$25 per share	March 1, 2010
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300 total shares		

2. The basis of each share sold is calculated by dividing the total cost of all shares in the account at the time of the sale by the total number of shares in the account at the time of the sale.

Example:

100 shares	x	\$10	=	\$1,000
100 shares	x	\$15	=	\$1,500
100 shares	x	\$25	=	\$2,500
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The 300 total shares cost a total of		\$5,000		
Total cost \$5,000		=	\$16.67 (average cost per share)	
Total shares 300				

3. The cost of all shares sold is calculated by multiplying the average cost per share by the number of shares sold.

Example: If you sold 200 shares, the basis of the shares sold would be \$3,334.
\$16.67 (average cost per share) x 200 (shares sold) = \$3,334

Q. HOW DO I IDENTIFY THE SHARES THAT WERE SOLD?

A. Anytime you use the Average Cost Single Category method to figure the basis of shares sold, it is assumed the first shares acquired are the first shares sold.

Example: The 200 shares sold include 100 shares purchased March 1, 2008, and 100 shares purchased March 1, 2009.

Q. HOW DO I KNOW IF I AM ELIGIBLE TO USE THE AVERAGE COST SINGLE CATEGORY METHOD?

A. It is best to consult your tax advisor. You can use this method only if you acquired the shares at various times and prices. In addition, your shares must be held by a custodian or agent of the mutual fund to use the Average Cost Single Category method. You can also refer to IRS Publication 564, Mutual Fund Distributions, for help in determining which accounting method best fits your situation.

Q. What about adjustments made to the Average Cost of shares liquidated?

A. Adjustments may have been made to the Average Cost of the shares you liquidated because of IRS rules relating to:

1) Wash Sales—A Wash Sale is when shares are redeemed at a loss and a purchase within the same fund occurred 30 days before or 30 days after the sale. Any loss resulting from the sale is disallowed currently and added to the Average Cost of the remaining shares. Rydex|SGI's method for calculating gains on Wash Sales is First In First Out (FIFO) rather than Last In First Out (LIFO). This method provides the shareholder with the benefit of retaining older shares for reduced capital gains taxes.

2) Sales Load Deferrals—A Sales Load Deferral occurs when a sales charge is paid for the purchase of shares and those shares are liquidated within 90 days of purchase. Any loss resulting from the sales charge is currently disallowed and added to the Average Cost of the remaining shares.

Q. DOES THE IRS REQUIRE ANY ELECTIONS TO USE THIS INFORMATION?

A. Yes. You must attach an election to your income tax return for each year that the choice applies. In the form of a written statement, you should clearly show that you used the Average Cost Single Category method for determining average basis in reporting a gain or loss from the sale of shares.

Once you have elected to use the Average Cost accounting method for your mutual fund account, you cannot change to another method for that same account without the approval of the Commissioner of the IRS. If you currently use another accounting method for this account, you may switch to Average Cost by writing such on your Schedule D (Form 1040).

Q. CAN YOU DESCRIBE THE TERMS INCLUDED IN THE AVERAGE COST INFORMATION PROVIDED?

A. The information shows:

▶ **Trade date**—The effective date of your transaction. The redemption is assigned the day's share price.

▶ **Redemption amount**—The dollar amount that you receive from the redemption of your shares.

▶ **Transaction description**—A description of the reportable transaction.

▶ **Redemption price**—The price of each share on the trade date of your transaction.

▶ **Shares redeemed**—The number of shares in your mutual fund account that were sold.

▶ **Average Cost Basis**—The basis of your redeemed shares calculated by the Average Cost Single Category method of accounting.

▶ **Gain (Loss)**—The reportable gain or loss resulting from your redemption of shares.

▶ **Holding period**—This information differentiates between long-term (shares held more than 12 months) and short-term (shares held 12 months or less) capital gains/loses.

NOTE: The cost basis for each redemption of mutual fund shares from this account is separately stated on your form.

If you use the Average Cost information for tax purposes, you are responsible for the accuracy of this information on your tax return. If you have any questions regarding the use of this cost basis information, please consult your tax advisor or legal counsel. We appreciate your business and hope this information is helpful.