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EquityCompass Equity Risk Management Strategy

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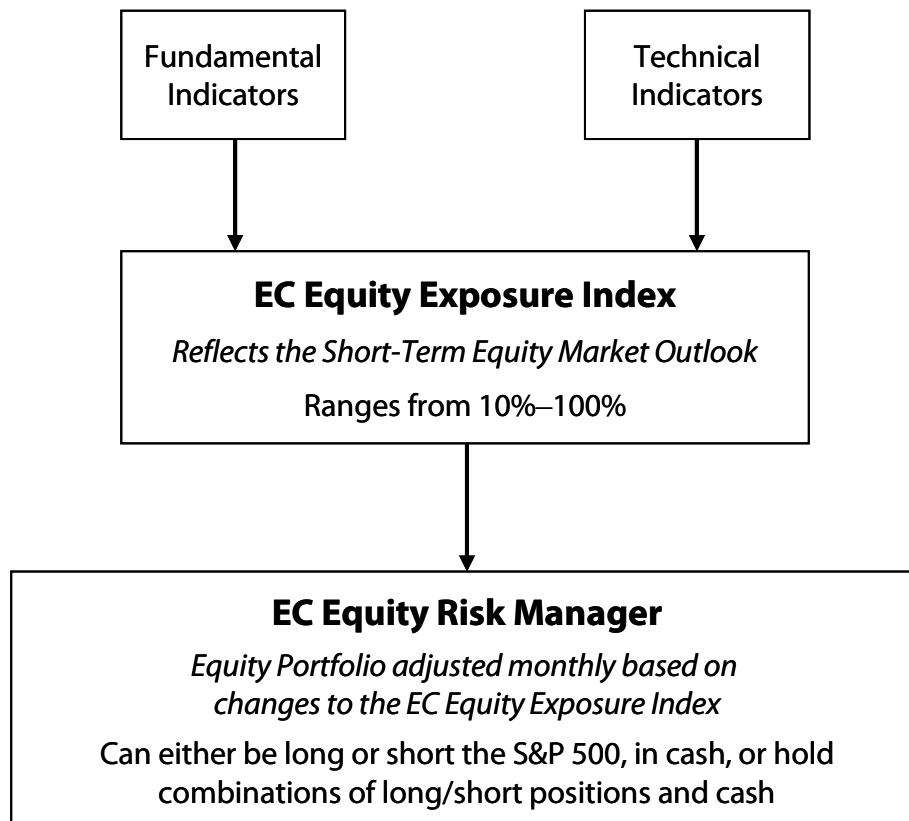


EquityCompass Equity Risk Management Strategy

U.S. equity markets witnessed two bear markets in the last eight years with equity values declining as much as 50%. The frequency of the downturns and the magnitude of their impact on personal wealth have made investors question the effectiveness of strategic asset allocation in controlling stock market and overall investment portfolio risk. A great many investors moved away from the equity markets preferring to keep their investments in safer, but passive instruments like cash. Additionally, investors have become risk averse and less confident in buy and hold investment strategies, mainly due to the uncertain economic outlook, and continue to stay on the side-lines at a time, when from an historical perspective, stocks look attractive for long-term investment.

The EquityCompass Equity Risk Management Strategy (“ERMS” or the “Strategy” or “EC Equity Risk Manager”) is a consistent and adaptable approach that seeks to provide confidence to the risk averse investor to get back into the stock market despite the prevailing uncertainty. Based on fundamental and technical indicators, the Strategy seeks to manage an investment portfolio’s exposure to the equity markets thus mitigating the risk of an extended market decline while also seeking to participate in enduring market advances. The ERMS is designed to integrate within a strategic allocation to stocks without the use of leverage or complex derivative instruments. Importantly, the Strategy allows the investor to make objective investment decisions rather than reacting to emotional pressures that usually prevail in volatile market conditions.

Diagram 1



Source: EquityCompass Strategies

EC Equity Exposure Index

The EC Equity Exposure Index (the “Index”) is a quantitatively-derived score that ranges from 10% to 100% and reflects the current favorability towards investing in stocks. A higher percentage reflects favorable conditions for investing while lower percentages are unfavorable. The Index is updated monthly by EquityCompass Strategies based on scores generated from two models — one looks forward and tracks the fundamental indicators and the other relies on historical probabilities to analyze technical indicators. The fundamental model scores range from 0% (favorable) to 100% (unfavorable) and the technical model scores range from 20% (unfavorable) to 100% (favorable). Each model score is given a weight of 50% to produce the EC Equity Exposure Index.

Fundamental Model

The fundamental model measures changes in consensus analyst estimates for the S&P 500 in the next 12 months. Two consecutive months of rising earnings expectations generate the positive signal that turns the model favorable toward stock investment. The model stays favorable until two consecutive months of decreasing expectations reverse the signal to negative. Analyst estimates are generally consistent with the market direction except in periods of major directional change, when they have been seen to lag. Since 1989 there have been seven directional changes with the most recent being a negative reversal which occurred in July 2008 (**Chart 1**).

Chart 1
Directional Changes in the Fundamental Model
(January 1990 – March 2009)



Source: EquityCompass Strategies, Bloomberg

The Technical Model

The technical model is based on the historical (1916–2008) DJIA performance. The matrix shown in **Table 1** was constructed using the variables of the then DJIA relative to its all-time high and subsequent low. The matrix was then optimized to generate scores that range from 20% to 100% to indicate the desired degree of equity market exposure that produced the best possible returns over the period. This model tries to avoid the overt bias to price momentum or mean reversion tendencies from which many technical models suffer. As detailed on a monthly basis in the **Appendix** on pages 11–13, since 1989 there have been 28 month-end index exposure changes of greater than 20%.

Table 1
Relationship Between the Current Level and the Recent Low

	Less than or equal to 10%	Greater than 10% but less than or equal to 20%	Greater than 20% but less than or equal to 30%	Greater than 30% but less than or equal to 40%	Greater than 40%
Less than or equal to 10%	100%	100%	100%	70%	100%
Greater than 10% but less than or equal to 20%	20%	50%	30%	80%	100%
Greater than 20% but less than or equal to 30%	20%	20%	100%	100%	90%
Greater than 30% but less than or equal to 40%	100%	100%	100%	20%	100%
Greater than 40%	20%	100%	20%	80%	100%

Source: EquityCompass Strategies

Index Performance

To test the efficacy of the EC Equity Exposure Index, we simulated its performance based on the S&P 500 from 12/31/89 to 3/31/09 (monthly Index values are presented in the Appendix). For example, an Index score of 80% indicates that 80% of the Index is invested in the S&P 500 and 20% in cash. The Index was fully invested (100%) for 70% of the test period (measured in months) and was invested 50% or less for 22% of the test period.

The cumulative performance of the EC Equity Exposure Index as a portfolio is shown in **Chart 2** with period return analysis in **Tables 2** and **3**. The Index significantly outperformed in large negative market declines and captured 95% of the S&P 500 gain in 11 of the 14 years with positive returns.

Chart 2
S&P 500 Total Return Index vs. EC Equity Exposure Index
 (Cumulative Returns January 1990 – March 2009)

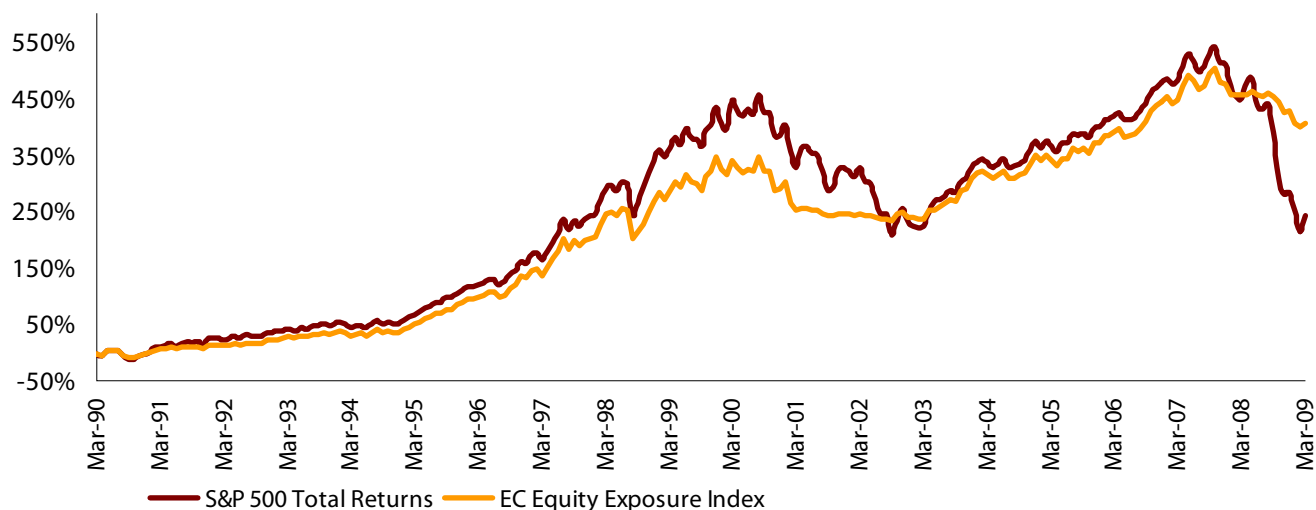


Table 2

	S&P 500 Index	EC Equity Exposure Index
Cumulative Returns		
Jan 1990 - Mar 2009	240.8%	403.8%
Jan 1990 - Mar 2009 (Excl. 2008)	440.9%	448.3%
Jan 1990 - Dec 1999	393.1%	311.8%
Jan 2000 - Mar 2009	-32.3%	19.9%
Annualized Return 1990 - 2009	6.5%	8.7%
Standard Deviation	14.9%	11.0%
Sharpe Ratio	0.29	0.59
Period Returns		
1-Month	8.8%	0.9%
3-Month	-11.0%	-4.4%
6-Month	-30.5%	-8.9%
1-Year	-38.1%	-10.0%
3-Year (CAGR)	-13.1%	1.0%
5-Year (CAGR)	-4.8%	3.9%
10-Year (CAGR)	-3.0%	2.7%

Table 3

	S&P 500 Index	EC Equity Exposure Index
Annual Returns		
1990	-3.1%	-4.4%
1991	30.5%	19.2%
1992	7.6%	7.2%
1993	10.1%	10.1%
1994	1.3%	1.3%
1995	37.6%	37.6%
1996	23.0%	23.0%
1997	33.4%	31.0%
1998	28.6%	21.7%
1999	21.0%	21.0%
2000	-9.1%	-12.8%
2001	-11.9%	-10.9%
2002	-22.1%	-2.1%
2003	28.7%	20.7%
2004	10.9%	9.9%
2005	4.9%	4.6%
2006	15.8%	15.8%
2007	5.5%	5.5%
2008	-37.0%	-8.1%
2009 (through 3/31/09)	-11.0%	-4.4%

Dividends included
 Assumes risk-free rate of 2.25% and 0% return for cash allocation
 Source: EquityCompass Strategies, Bloomberg

EC Equity Risk Management Strategy

The EC Equity Exposure Index forms the basis for the Equity Risk Management Strategy, a tactical strategy that can be employed to systematically reduce the risk of extended market declines while adjusting to capture enduring market advances. The ERMS expands the portfolio flexibility to inverse, or short, the S&P 500 when the EC Equity Exposure Index is unfavorable for owning stocks. As such, the ERMS will have a portfolio that is a combination of either long the S&P 500, short the S&P 500, or cash. Using the monthly EC Equity Exposure Index as a basis, **Table 4** shows the matrix determining the allocation to the various components of the ERMS portfolio. For example, when the composite equity allocation is 80%, the ERMS will allocate 20% to cash and 80% to the S&P 500. When the recommended equity exposure is only 20%, the ERMS will have 20% in cash and 80% inverse, or short, the S&P 500. The ERMS is updated monthly based on changes to the EC Equity Exposure Index.

Table 4
EC Equity Risk Manager Component Allocation

EC Equity Exposure Index	EC Equity Risk Manager Component Allocation		
	Cash	Long S&P 500	Short S&P 500
100%	0%	100%	0%
95%	5%	95%	0%
90%	10%	90%	0%
85%	15%	85%	0%
80%	20%	80%	0%
75%	25%	75%	0%
70%	30%	70%	0%
65%	35%	65%	0%
60%	40%	60%	0%
55%	45%	55%	0%
50%	100%	0%	0%
45%	45%	0%	55%
40%	40%	0%	60%
35%	35%	0%	65%
30%	30%	0%	70%
25%	25%	0%	75%
20%	20%	0%	80%
15%	15%	0%	85%
10%	10%	0%	90%

80% Recommended equity allocation will produce a 20% cash and 80% long S&P 500 allocation in EC Equity Risk Manager

20% Recommended equity allocation will produce a 20% cash and 80% inverse S&P 500 (short) allocation in EC Equity Risk Manager

Source: EquityCompass Strategies

ERMS Portfolio Simulation

We performed a portfolio simulation for the ERMS covering the same study period as was used for the EC Equity Exposure Index (12/31/89–3/31/09). The cumulative results of the simulation are shown in **Chart 3** and period returns are shown in **Tables 5** and **6**. The study period includes a decade of well above average performance (1990–1999) and what is shaping up as one the worst (2000–2009), providing stress conditions to test how well the ERMS was able to capture enduring market advances as well as avoid the ravages of extended market declines. Buy and hold strategies became popular in the 1990s as the fully-invested S&P 500 outperformed the vast majority of active portfolio managers.

However, the ERMS still captured the majority of the market gains with an annualized return of 16.1% versus 18.2% for the S&P 500. As far as returns since 2000, the ERMS simulated an annualized return of 4.1% versus -2.0% for the S&P 500.

The flexibility of the ERMS to position inverse, or short the S&P 500 is best demonstrated by performances in 2008. With the EC Equity Exposure Index indicating very unfavorable conditions for owning stocks, the ERMS was either in cash, or short the S&P 500 most of the year. Perhaps one of the most useful statistics from the performance simulation is the upside/downside capture ratio. The ERMS was able to capture 68.5% of the gain when the S&P 500 was rising while capturing 28.5% when it was declining. Additional performance comparison charts are presented in the addenda.

Chart 3
S&P 500 Index vs. EC Equity Risk Manager
 (Rolling 12-month Returns January 1990 – March 2009)

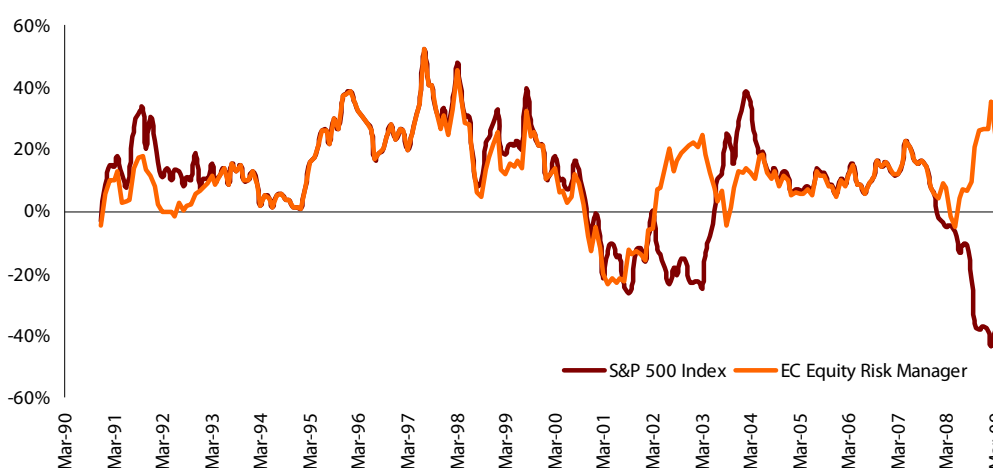


Table 5

	S&P 500 Index	EC Equity Risk Manager
Cumulative Returns		
Jan 1990 - Mar 2009	240.8%	655.7%
Jan 1990 - Mar 2009 (Excl. 2008)	440.9%	496.6%
Jan 1990 - Dec 1999	432.8%	314.0%
Jan 2000 - Mar 2009	-32.3%	93.3%
Annualized Return 1990 - 2009	6.6%	11.1%
Standard Deviation	14.9%	12.5%
Sharpe Ratio	0.29	0.71
Upside Market Capture	100.0%	68.5%
Downside Market Capture	100.0%	28.5%
Period Returns		
1-Month	8.8%	-8.9%
3-Month	-11.0%	-0.1%
6-Month	-30.5%	12.0%
1-Year	-38.1%	23.4%
3-Year (CAGR)	-13.1%	14.1%
5-Year (CAGR)	-4.8%	11.8%
10-Year (CAGR)	-3.0%	7.7%

Table 6

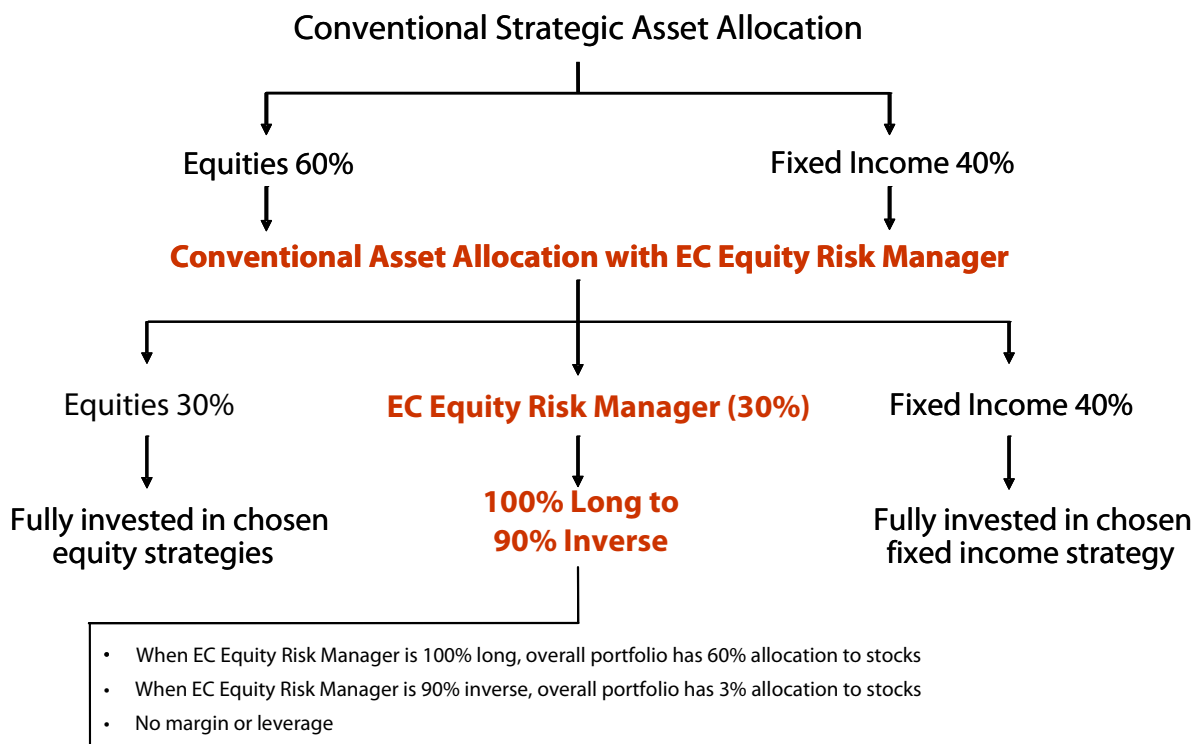
	S&P 500 Index	EC Equity Risk Manager
Annual Returns		
1990	-3.1%	-4.4%
1991	30.5%	11.4%
1992	7.6%	6.7%
1993	10.1%	10.1%
1994	1.3%	1.3%
1995	37.6%	37.6%
1996	23.0%	23.0%
1997	33.4%	31.0%
1998	28.6%	21.7%
1999	21.0%	21.0%
2000	-9.1%	-12.8%
2001	-11.9%	-13.7%
2002	-22.1%	21.1%
2003	28.7%	12.6%
2004	10.9%	9.9%
2005	4.9%	4.6%
2006	15.8%	15.8%
2007	5.5%	5.5%
2008	-37.0%	26.7%
2009 (through 3/31/09)	-11.0%	-0.1%

Dividends included
 Assumes risk-free rate of 2.25% and 0% return for cash allocation
 Source: EquityCompass Strategies, Bloomberg

Integrating EC Equity Risk Manager into Investment Portfolios

The ERMS should complement, and not replace, the strategic asset allocation to equities. Using the illustration of a 60/40 stock/bond investment portfolio, the ERMS is inserted into the equity portion of the allocation (**Exhibit 1**). In this example, we are setting the ERMS to be 50% of the amount allocated to equities. This is the maximum amount we would advise allocating to the ERMS in equity portfolios. The asset allocation then becomes 30/30/40 among stocks/ERMS/bonds. The 30% allocated to stocks pursues long-term, fully invested strategies with individual stocks, mutual funds, or separate account managers. When the ERMS is 100% long, the effect is to have 60% of the overall portfolio in stocks — consistent with the intended strategic asset allocation. When the ERMS is mostly defensive (90% short S&P 500, 10% cash), the effect is to reduce the overall exposure to stocks in the investment portfolio to 3% from 60%.

Exhibit 1



Source: EquityCompass Strategies

Chart 4 shows the performance of a simulated portfolio allocated 50% to the ERMS and 50% to the S&P 500. The combined portfolio outperforms the buy and hold S&P 500 with a significant reduction in volatility. The integration of the ERMS with a dedicated equity portfolio has several benefits to consider. Dedicated equity managers can maintain their investment focus of identifying superior long-term stocks without being unduly distracted by the inevitable bull/bear cycle. The ERMS will focus on the shorter-term conditions and help protect equity portfolios from serious market declines while also having the adaptability to participate in enduring market advances. Combining the long-term and short-term focus under one equity allocation umbrella addresses investor concerns about committing to stocks during difficult times. If history tells us anything, it is that investing in stocks when it is difficult to do so is often the best time to invest.

Chart 4
S&P 500 vs. EC Equity Risk Manager & Portfolio (50% S&P 500 and 50% ERMS)
 (Cumulative Returns January 1990 – March 2009)

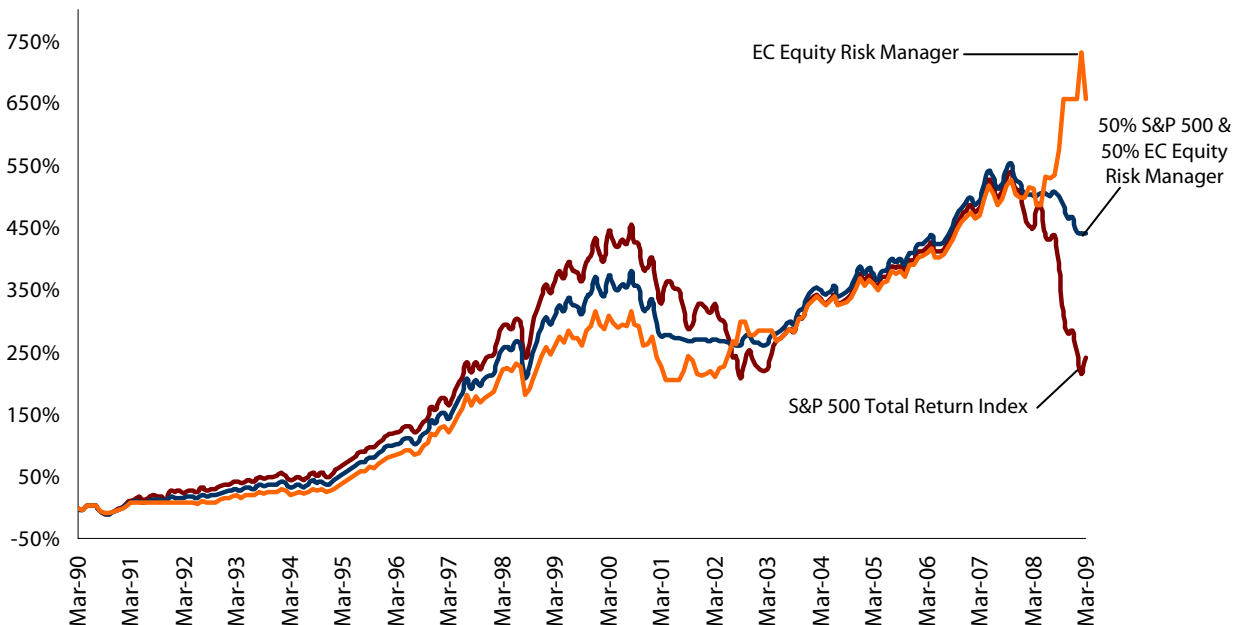


Table 7

	S&P 500	EC Equity Risk Manager	50/50 Portfolio
Cumulative Return	240.8%	655.7%	440.0%
Annualized Return	6.6%	11.1%	9.2%
Standard Deviation	14.9%	12.5%	11.2%
Sharpe Ratio	0.29	0.71	0.62

Dividends included
 Assume 0% return for cash allocation
 Source: EquityCompass Strategies, Bloomberg

Conclusion

Much of the success in equity investing can be attributed to how well an investor times his entry into and exit from the stock market. In an ideal world, the investor would correctly time these decisions to buy low and sell high, but in reality his behavioral tendencies lean toward the opposite. After suffering the worst bear market since the Great Depression, investors are understandably cautious about investing in stocks. However, it is important to have a perspective that looks beyond the trees into the larger forest. Historically, stocks provided above average returns after severe bear markets. Compared to other asset class alternatives, stocks are currently depressed and reflect a subdued outlook. While this is a near-term impediment, the long-term opportunity is that stocks will gain as the economy returns to normalcy. While there are challenges ahead, it is also important to note that this is not unique from our past nor are the political shifts without precedent.

The EC Equity Risk Management Strategy allows investors to prepare for the larger opportunity while addressing nearer-term uncertainties. The strategy introduces automatic decision-making capability that reduces downside market exposure as the economy and stock market go through a bottoming process while also providing the adaptability to participate in the ensuing market advance.

EquityCompass Equity Risk Management Strategy

Appendix: Monthly Component Allocation (January 1990 – March 2009)

Month	50% Model 1 + 50% Model 2		EC Equity Risk Manager Component Allocation			Monthly Returns				
	Model 1 Fundamental Model	Model 2 Technical Model	Recommended Equity Exposure	Recommended Equity Exposure	Cash	Long S&P 500	Short S&P 500	S&P 500	EC Equity Risk Manager	50% Risk Mgr. + 50% S&P 500
Jan-90	100%	100%	100%	-6.7%	0%	100%	0%	-6.7%	-6.7%	-6.7%
Feb-90	100%	100%	100%	1.3%	0%	100%	0%	1.3%	1.3%	1.3%
Mar-90	100%	100%	100%	2.6%	0%	100%	0%	2.6%	2.6%	2.6%
Apr-90	100%	100%	100%	-2.5%	0%	100%	0%	-2.5%	-2.5%	-2.5%
May-90	100%	100%	100%	9.8%	0%	100%	0%	9.8%	9.8%	9.8%
Jun-90	100%	100%	100%	-0.7%	0%	100%	0%	-0.7%	-0.7%	-0.7%
Jul-90	100%	100%	100%	-0.3%	0%	100%	0%	-0.3%	-0.3%	-0.3%
Aug-90	100%	100%	100%	-9.0%	0%	100%	0%	-9.0%	-9.0%	-9.0%
Sep-90	100%	20%	60%	-2.9%	40%	60%	0%	-4.9%	-2.9%	-3.9%
Oct-90	100%	20%	60%	-0.3%	40%	60%	0%	-0.4%	-0.3%	-0.3%
Nov-90	100%	20%	60%	3.9%	40%	60%	0%	6.5%	3.9%	5.2%
Dec-90	100%	20%	60%	1.7%	40%	60%	0%	2.8%	1.7%	2.2%
Jan-91	100%	50%	75%	3.3%	25%	75%	0%	4.4%	3.3%	3.8%
Feb-91	100%	50%	75%	5.4%	25%	75%	0%	7.2%	5.4%	6.3%
Mar-91	100%	100%	100%	2.4%	0%	100%	0%	2.4%	2.4%	2.4%
Apr-91	0%	100%	50%	0.1%	100%	0%	0%	0.2%	0.0%	0.1%
May-91	0%	100%	50%	2.2%	100%	0%	0%	4.3%	0.0%	2.2%
Jun-91	0%	100%	50%	-2.3%	100%	0%	0%	-4.6%	0.0%	-2.3%
Jul-91	0%	100%	50%	2.3%	100%	0%	0%	4.7%	0.0%	2.3%
Aug-91	0%	100%	50%	1.2%	100%	0%	0%	2.4%	0.0%	1.2%
Sep-91	0%	100%	50%	-0.8%	100%	0%	0%	-1.7%	0.0%	-0.8%
Oct-91	0%	100%	50%	0.7%	100%	0%	0%	1.3%	0.0%	0.7%
Nov-91	0%	100%	50%	-2.0%	100%	0%	0%	-4.0%	0.0%	-2.0%
Dec-91	0%	100%	50%	5.7%	100%	0%	0%	11.4%	0.0%	5.7%
Jan-92	0%	100%	50%	-0.9%	100%	0%	0%	-1.9%	0.0%	-0.9%
Feb-92	0%	100%	50%	0.6%	100%	0%	0%	1.3%	0.0%	0.6%
Mar-92	0%	100%	50%	-1.0%	100%	0%	0%	-1.9%	0.0%	-1.0%
Apr-92	0%	100%	50%	1.5%	100%	0%	0%	2.9%	0.0%	1.5%
May-92	0%	100%	50%	0.2%	100%	0%	0%	0.5%	0.0%	0.2%
Jun-92	100%	100%	100%	-1.5%	0%	100%	0%	-1.5%	-1.5%	-1.5%
Jul-92	100%	100%	100%	4.1%	0%	100%	0%	4.1%	4.1%	4.1%
Aug-92	100%	100%	100%	-2.0%	0%	100%	0%	-2.0%	-2.0%	-2.0%
Sep-92	100%	100%	100%	1.2%	0%	100%	0%	1.2%	1.2%	1.2%
Oct-92	100%	100%	100%	0.3%	0%	100%	0%	0.3%	0.3%	0.3%
Nov-92	100%	100%	100%	3.4%	0%	100%	0%	3.4%	3.4%	3.4%
Dec-92	100%	100%	100%	1.2%	0%	100%	0%	1.2%	1.2%	1.2%
Jan-93	100%	100%	100%	0.8%	0%	100%	0%	0.8%	0.8%	0.8%
Feb-93	100%	100%	100%	1.4%	0%	100%	0%	1.4%	1.4%	1.4%
Mar-93	100%	100%	100%	2.1%	0%	100%	0%	2.1%	2.1%	2.1%
Apr-93	100%	100%	100%	-2.4%	0%	100%	0%	-2.4%	-2.4%	-2.4%
May-93	100%	100%	100%	2.7%	0%	100%	0%	2.7%	2.7%	2.7%
Jun-93	100%	100%	100%	0.3%	0%	100%	0%	0.3%	0.3%	0.3%
Jul-93	100%	100%	100%	-0.4%	0%	100%	0%	-0.4%	-0.4%	-0.4%
Aug-93	100%	100%	100%	3.8%	0%	100%	0%	3.8%	3.8%	3.8%
Sep-93	100%	100%	100%	-0.8%	0%	100%	0%	-0.8%	-0.8%	-0.8%
Oct-93	100%	100%	100%	2.1%	0%	100%	0%	2.1%	2.1%	2.1%
Nov-93	100%	100%	100%	-1.0%	0%	100%	0%	-1.0%	-1.0%	-1.0%
Dec-93	100%	100%	100%	1.2%	0%	100%	0%	1.2%	1.2%	1.2%
Jan-94	100%	100%	100%	3.4%	0%	100%	0%	3.4%	3.4%	3.4%
Feb-94	100%	100%	100%	-2.7%	0%	100%	0%	-2.7%	-2.7%	-2.7%
Mar-94	100%	100%	100%	-4.4%	0%	100%	0%	-4.4%	-4.4%	-4.4%
Apr-94	100%	100%	100%	1.3%	0%	100%	0%	1.3%	1.3%	1.3%
May-94	100%	100%	100%	1.6%	0%	100%	0%	1.6%	1.6%	1.6%
Jun-94	100%	100%	100%	-2.5%	0%	100%	0%	-2.5%	-2.5%	-2.5%
Jul-94	100%	100%	100%	3.3%	0%	100%	0%	3.3%	3.3%	3.3%
Aug-94	100%	100%	100%	4.1%	0%	100%	0%	4.1%	4.1%	4.1%
Sep-94	100%	100%	100%	-2.4%	0%	100%	0%	-2.4%	-2.4%	-2.4%
Oct-94	100%	100%	100%	2.2%	0%	100%	0%	2.2%	2.2%	2.2%
Nov-94	100%	100%	100%	-3.6%	0%	100%	0%	-3.6%	-3.6%	-3.6%
Dec-94	100%	100%	100%	1.5%	0%	100%	0%	1.5%	1.5%	1.5%
Jan-95	100%	100%	100%	2.6%	0%	100%	0%	2.6%	2.6%	2.6%
Feb-95	100%	100%	100%	3.9%	0%	100%	0%	3.9%	3.9%	3.9%
Mar-95	100%	100%	100%	3.0%	0%	100%	0%	3.0%	3.0%	3.0%
Apr-95	100%	100%	100%	2.9%	0%	100%	0%	2.9%	2.9%	2.9%
May-95	100%	100%	100%	4.0%	0%	100%	0%	4.0%	4.0%	4.0%
Jun-95	100%	100%	100%	2.3%	0%	100%	0%	2.3%	2.3%	2.3%
Jul-95	100%	100%	100%	3.3%	0%	100%	0%	3.3%	3.3%	3.3%
Aug-95	100%	100%	100%	0.3%	0%	100%	0%	0.3%	0.3%	0.3%
Sep-95	100%	100%	100%	4.2%	0%	100%	0%	4.2%	4.2%	4.2%
Oct-95	100%	100%	100%	-0.4%	0%	100%	0%	-0.4%	-0.4%	-0.4%
Nov-95	100%	100%	100%	4.4%	0%	100%	0%	4.4%	4.4%	4.4%
Dec-95	100%	100%	100%	1.9%	0%	100%	0%	1.9%	1.9%	1.9%
Jan-96	100%	100%	100%	3.4%	0%	100%	0%	3.4%	3.4%	3.4%
Feb-96	100%	100%	100%	0.9%	0%	100%	0%	0.9%	0.9%	0.9%
Mar-96	100%	100%	100%	1.0%	0%	100%	0%	1.0%	1.0%	1.0%
Apr-96	100%	100%	100%	1.5%	0%	100%	0%	1.5%	1.5%	1.5%
May-96	100%	100%	100%	2.6%	0%	100%	0%	2.6%	2.6%	2.6%
Jun-96	100%	100%	100%	0.4%	0%	100%	0%	0.4%	0.4%	0.4%
Jul-96	100%	100%	100%	-4.4%	0%	100%	0%	-4.4%	-4.4%	-4.4%
Aug-96	100%	100%	100%	2.1%	0%	100%	0%	2.1%	2.1%	2.1%
Sep-96	100%	100%	100%	5.6%	0%	100%	0%	5.6%	5.6%	5.6%
Oct-96	100%	100%	100%	2.8%	0%	100%	0%	2.8%	2.8%	2.8%

EquityCompass Equity Risk Management Strategy

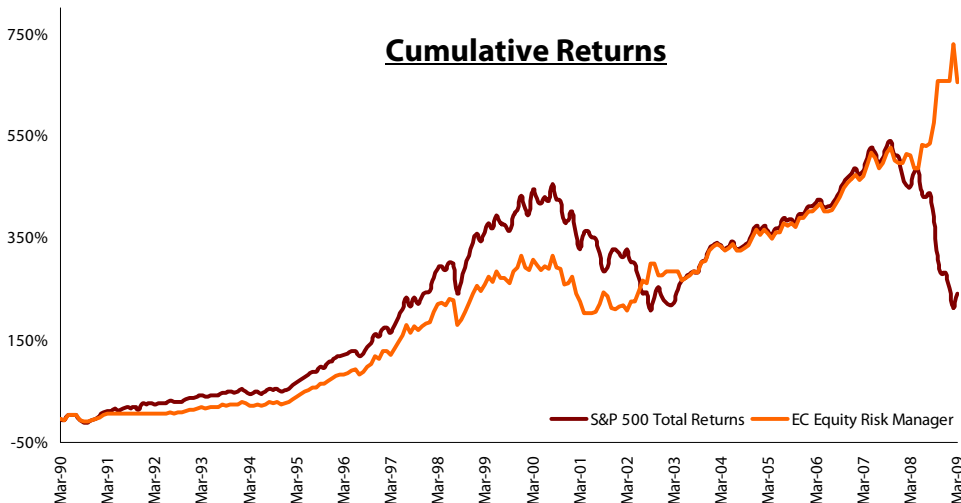
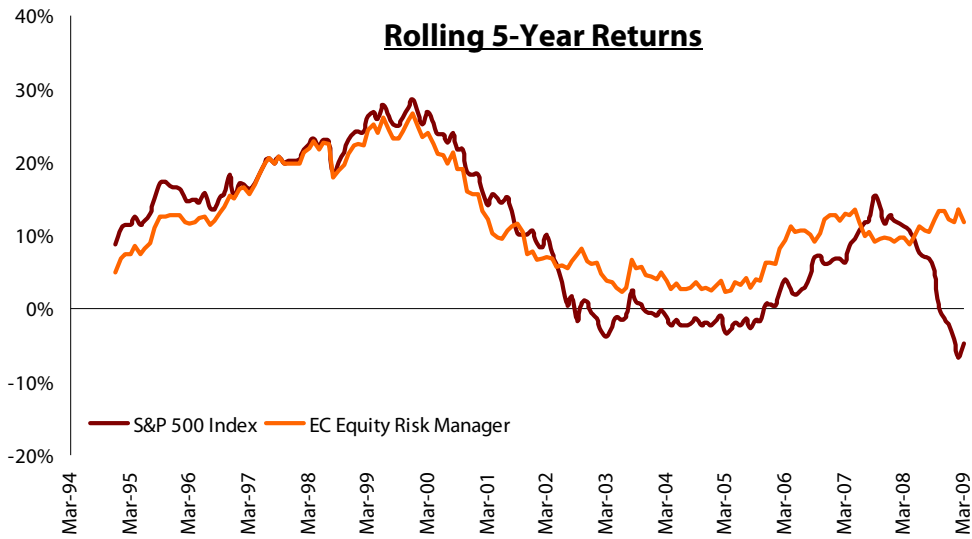
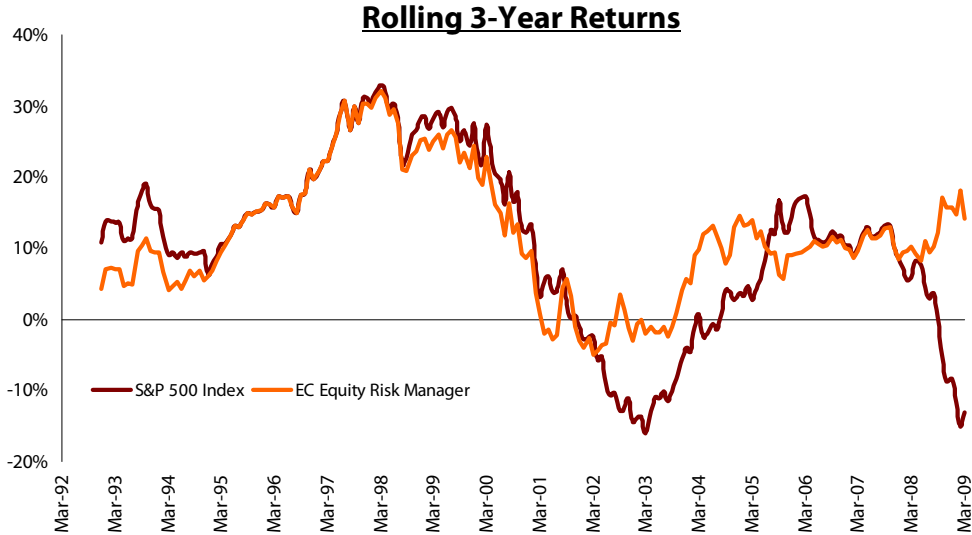
Month	Model 1		50% Model 1 + 50% Model 2		EC Equity Risk Manager Component Allocation				Monthly Returns		
	Fundamental Model	Technical Model	Recommended Equity Exposure	Recommended Equity Exposure	Cash	Long		Short	S&P 500	EC Equity Risk Manager	50% Risk Mgr. + 50% S&P 500
						S&P 500	S&P 500				
Nov-96	100%	100%	100%	7.6%	0%	100%	0%	7.6%	7.6%	7.6%	
Dec-96	100%	100%	100%	-2.0%	0%	100%	0%	-2.0%	-2.0%	-2.0%	
Jan-97	100%	100%	100%	6.2%	0%	100%	0%	6.2%	6.2%	6.2%	
Feb-97	100%	100%	100%	0.8%	0%	100%	0%	0.8%	0.8%	0.8%	
Mar-97	100%	100%	100%	-4.1%	0%	100%	0%	-4.1%	-4.1%	-4.1%	
Apr-97	100%	100%	100%	6.0%	0%	100%	0%	6.0%	6.0%	6.0%	
May-97	100%	100%	100%	6.1%	0%	100%	0%	6.1%	6.1%	6.1%	
Jun-97	100%	100%	100%	-4.5%	0%	100%	0%	-4.5%	-4.5%	-4.5%	
Jul-97	100%	100%	100%	8.0%	0%	100%	0%	8.0%	8.0%	8.0%	
Aug-97	100%	100%	100%	-5.6%	0%	100%	0%	-5.6%	-5.6%	-5.6%	
Sep-97	100%	100%	100%	5.5%	0%	100%	0%	5.5%	5.5%	5.5%	
Oct-97	100%	100%	100%	-3.3%	0%	100%	0%	-3.3%	-3.3%	-3.3%	
Nov-97	100%	20%	60%	2.8%	40%	60%	0%	4.6%	2.8%	3.7%	
Dec-97	100%	100%	100%	1.7%	0%	100%	0%	1.7%	1.7%	1.7%	
Jan-98	100%	100%	100%	1.1%	0%	100%	0%	1.1%	1.1%	1.1%	
Feb-98	100%	100%	100%	7.2%	0%	100%	0%	7.2%	7.2%	7.2%	
Mar-98	100%	100%	100%	5.1%	0%	100%	0%	5.1%	5.1%	5.1%	
Apr-98	100%	100%	100%	1.0%	0%	100%	0%	1.0%	1.0%	1.0%	
May-98	100%	100%	100%	-1.7%	0%	100%	0%	-1.7%	-1.7%	-1.7%	
Jun-98	100%	100%	100%	-4.1%	0%	100%	0%	-4.1%	-4.1%	-4.1%	
Jul-98	100%	100%	100%	-1.1%	0%	100%	0%	-1.1%	-1.1%	-1.1%	
Aug-98	100%	100%	100%	-14.5%	0%	100%	0%	-14.5%	-14.5%	-14.5%	
Sep-98	100%	20%	60%	3.8%	40%	60%	0%	6.4%	3.8%	5.1%	
Oct-98	100%	20%	60%	-4.9%	40%	60%	0%	8.1%	4.9%	6.5%	
Nov-98	100%	100%	100%	6.1%	0%	100%	0%	6.1%	6.1%	6.1%	
Dec-98	100%	100%	100%	5.8%	0%	100%	0%	5.8%	5.8%	5.8%	
Jan-99	100%	100%	100%	4.2%	0%	100%	0%	4.2%	4.2%	4.2%	
Feb-99	100%	100%	100%	-3.1%	0%	100%	0%	-3.1%	-3.1%	-3.1%	
Mar-99	100%	100%	100%	4.0%	0%	100%	0%	4.0%	4.0%	4.0%	
Apr-99	100%	100%	100%	3.9%	0%	100%	0%	3.9%	3.9%	3.9%	
May-99	100%	100%	100%	-2.4%	0%	100%	0%	-2.4%	-2.4%	-2.4%	
Jun-99	100%	100%	100%	5.5%	0%	100%	0%	5.5%	5.5%	5.5%	
Jul-99	100%	100%	100%	-3.1%	0%	100%	0%	-3.1%	-3.1%	-3.1%	
Aug-99	100%	100%	100%	-0.5%	0%	100%	0%	-0.5%	-0.5%	-0.5%	
Sep-99	100%	100%	100%	-2.7%	0%	100%	0%	-2.7%	-2.7%	-2.7%	
Oct-99	100%	100%	100%	6.3%	0%	100%	0%	6.3%	6.3%	6.3%	
Nov-99	100%	100%	100%	2.0%	0%	100%	0%	2.0%	2.0%	2.0%	
Dec-99	100%	100%	100%	5.9%	0%	100%	0%	5.9%	5.9%	5.9%	
Jan-00	100%	100%	100%	-5.0%	0%	100%	0%	-5.0%	-5.0%	-5.0%	
Feb-00	100%	100%	100%	-1.9%	0%	100%	0%	-1.9%	-1.9%	-1.9%	
Mar-00	100%	20%	60%	5.9%	40%	60%	0%	9.8%	5.9%	7.8%	
Apr-00	100%	100%	100%	-3.0%	0%	100%	0%	-3.0%	-3.0%	-3.0%	
May-00	100%	100%	100%	-2.1%	0%	100%	0%	-2.1%	-2.1%	-2.1%	
Jun-00	100%	20%	60%	1.5%	40%	60%	0%	2.5%	1.5%	2.0%	
Jul-00	100%	20%	60%	-0.9%	40%	60%	0%	-1.6%	-0.9%	-1.3%	
Aug-00	100%	100%	100%	6.2%	0%	100%	0%	6.2%	6.2%	6.2%	
Sep-00	100%	100%	100%	-5.3%	0%	100%	0%	-5.3%	-5.3%	-5.3%	
Oct-00	100%	100%	100%	-0.4%	0%	100%	0%	-0.4%	-0.4%	-0.4%	
Nov-00	100%	100%	100%	-7.9%	0%	100%	0%	-7.9%	-7.9%	-7.9%	
Dec-00	100%	20%	60%	0.3%	40%	60%	0%	0.5%	0.3%	0.4%	
Jan-01	100%	100%	100%	3.5%	0%	100%	0%	3.5%	3.5%	3.5%	
Feb-01	100%	100%	100%	-9.1%	0%	100%	0%	-9.1%	-9.1%	-9.1%	
Mar-01	100%	20%	60%	-3.8%	40%	60%	0%	-6.3%	-3.8%	-5.1%	
Apr-01	0%	20%	10%	0.8%	10%	0%	90%	7.8%	-7.1%	0.3%	
May-01	0%	100%	50%	0.3%	100%	0%	0%	0.7%	0.0%	0.3%	
Jun-01	0%	100%	50%	-1.2%	100%	0%	0%	-2.4%	0.0%	-1.2%	
Jul-01	0%	50%	25%	-0.2%	25%	0%	75%	-1.0%	0.5%	-0.2%	
Aug-01	0%	50%	25%	-1.6%	25%	0%	75%	-6.3%	4.8%	-0.7%	
Sep-01	0%	20%	10%	-0.8%	10%	0%	90%	-8.1%	7.2%	-0.4%	
Oct-01	0%	20%	10%	0.2%	10%	0%	90%	1.9%	-2.0%	0.0%	
Nov-01	0%	20%	10%	0.8%	10%	0%	90%	7.7%	-6.6%	0.5%	
Dec-01	0%	50%	25%	0.2%	25%	0%	75%	0.9%	-0.8%	0.0%	
Jan-02	0%	30%	15%	-0.2%	15%	0%	85%	-1.5%	1.1%	-0.2%	
Feb-02	0%	50%	25%	-0.5%	25%	0%	75%	-1.9%	1.3%	-0.3%	
Mar-02	0%	30%	15%	0.6%	15%	0%	85%	3.8%	-3.2%	0.3%	
Apr-02	0%	30%	15%	-0.9%	15%	0%	85%	-6.1%	5.3%	-0.4%	
May-02	0%	30%	15%	-0.1%	15%	0%	85%	-0.7%	0.3%	-0.2%	
Jun-02	0%	30%	15%	-1.1%	15%	0%	85%	-7.1%	6.2%	-0.5%	
Jul-02	0%	20%	10%	-0.8%	10%	0%	90%	-7.8%	6.1%	-0.8%	
Aug-02	0%	20%	10%	0.1%	10%	0%	90%	0.7%	-1.4%	-0.4%	
Sep-02	0%	20%	10%	-1.1%	10%	0%	90%	-10.9%	10.2%	-0.3%	
Oct-02	0%	100%	50%	4.4%	100%	0%	0%	8.8%	0.0%	4.4%	
Nov-02	0%	20%	10%	0.6%	10%	0%	90%	5.9%	-5.4%	0.3%	
Dec-02	0%	100%	50%	-2.9%	100%	0%	0%	-5.9%	0.0%	-2.9%	
Jan-03	0%	20%	10%	-0.3%	10%	0%	90%	-2.6%	1.9%	-0.3%	
Feb-03	0%	100%	50%	-0.8%	100%	0%	0%	-1.5%	0.0%	-0.8%	
Mar-03	0%	100%	50%	0.5%	100%	0%	0%	1.0%	0.0%	0.5%	
Apr-03	0%	100%	50%	4.1%	100%	0%	0%	8.2%	0.0%	4.1%	
May-03	0%	20%	10%	0.5%	10%	0%	90%	5.3%	-4.7%	0.3%	
Jun-03	100%	100%	100%	1.3%	0%	100%	0%	1.3%	1.3%	1.3%	
Jul-03	100%	100%	100%	1.8%	0%	100%	0%	1.8%	1.8%	1.8%	
Aug-03	100%	100%	100%	2.0%	0%	100%	0%	2.0%	2.0%	2.0%	

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Month	Model 1		50% Model 1 + 50% Model 2		EC Equity Risk Manager Component Allocation			Monthly Returns		
	Fundamental Model	Technical Model	Recommended Equity Exposure	Recommended Equity Exposure	Cash	Long S&P 500	Short S&P 500	S&P 500	EC Equity Risk Manager	50% Risk Mgr. + 50% S&P 500
Sep-03	100%	100%	100%	-1.1%	0%	100%	0%	-1.1%	-1.1%	-1.1%
Oct-03	100%	100%	100%	5.7%	0%	100%	0%	5.7%	5.7%	5.7%
Nov-03	100%	80%	90%	0.8%	10%	90%	0%	0.9%	0.8%	0.8%
Dec-03	100%	80%	90%	4.7%	10%	90%	0%	5.2%	4.7%	5.0%
Jan-04	100%	100%	100%	1.8%	0%	100%	0%	1.8%	1.8%	1.8%
Feb-04	100%	100%	100%	1.4%	0%	100%	0%	1.4%	1.4%	1.4%
Mar-04	100%	100%	100%	-1.5%	0%	100%	0%	-1.5%	-1.5%	-1.5%
Apr-04	100%	100%	100%	-1.6%	0%	100%	0%	-1.6%	-1.6%	-1.6%
May-04	100%	100%	100%	1.4%	0%	100%	0%	1.4%	1.4%	1.4%
Jun-04	100%	80%	90%	1.8%	10%	90%	0%	1.9%	1.8%	1.8%
Jul-04	100%	100%	100%	-3.3%	0%	100%	0%	-3.3%	-3.3%	-3.3%
Aug-04	100%	80%	90%	0.4%	10%	90%	0%	0.4%	0.4%	0.4%
Sep-04	100%	80%	90%	1.0%	10%	90%	0%	1.1%	1.0%	1.0%
Oct-04	100%	80%	90%	1.4%	10%	90%	0%	1.5%	1.4%	1.5%
Nov-04	100%	80%	90%	3.6%	10%	90%	0%	4.0%	3.6%	3.8%
Dec-04	100%	100%	100%	3.4%	0%	100%	0%	3.4%	3.4%	3.4%
Jan-05	100%	100%	100%	-2.4%	0%	100%	0%	-2.4%	-2.4%	-2.4%
Feb-05	100%	100%	100%	2.1%	0%	100%	0%	2.1%	2.1%	2.1%
Mar-05	100%	100%	100%	-1.8%	0%	100%	0%	-1.8%	-1.8%	-1.8%
Apr-05	100%	100%	100%	-1.9%	0%	100%	0%	-1.9%	-1.9%	-1.9%
May-05	100%	80%	90%	2.9%	10%	90%	0%	3.2%	2.9%	3.0%
Jun-05	100%	100%	100%	0.1%	0%	100%	0%	0.1%	0.1%	0.1%
Jul-05	100%	100%	100%	3.7%	0%	100%	0%	3.7%	3.7%	3.7%
Aug-05	100%	100%	100%	-0.9%	0%	100%	0%	-0.9%	-0.9%	-0.9%
Sep-05	100%	100%	100%	0.8%	0%	100%	0%	0.8%	0.8%	0.8%
Oct-05	100%	100%	100%	-1.7%	0%	100%	0%	-1.7%	-1.7%	-1.7%
Nov-05	100%	100%	100%	3.8%	0%	100%	0%	3.8%	3.8%	3.8%
Dec-05	100%	100%	100%	0.0%	0%	100%	0%	0.0%	0.0%	0.0%
Jan-06	100%	100%	100%	2.6%	0%	100%	0%	2.6%	2.6%	2.6%
Feb-06	100%	100%	100%	0.3%	0%	100%	0%	0.3%	0.3%	0.3%
Mar-06	100%	100%	100%	1.2%	0%	100%	0%	1.2%	1.2%	1.2%
Apr-06	100%	100%	100%	1.3%	0%	100%	0%	1.3%	1.3%	1.3%
May-06	100%	100%	100%	-2.9%	0%	100%	0%	-2.9%	-2.9%	-2.9%
Jun-06	100%	100%	100%	0.1%	0%	100%	0%	0.1%	0.1%	0.1%
Jul-06	100%	100%	100%	0.6%	0%	100%	0%	0.6%	0.6%	0.6%
Aug-06	100%	100%	100%	2.4%	0%	100%	0%	2.4%	2.4%	2.4%
Sep-06	100%	100%	100%	2.6%	0%	100%	0%	2.6%	2.6%	2.6%
Oct-06	100%	100%	100%	3.3%	0%	100%	0%	3.3%	3.3%	3.3%
Nov-06	100%	100%	100%	1.9%	0%	100%	0%	1.9%	1.9%	1.9%
Dec-06	100%	100%	100%	1.4%	0%	100%	0%	1.4%	1.4%	1.4%
Jan-07	100%	100%	100%	1.5%	0%	100%	0%	1.5%	1.5%	1.5%
Feb-07	100%	100%	100%	-2.0%	0%	100%	0%	-2.0%	-2.0%	-2.0%
Mar-07	100%	100%	100%	1.1%	0%	100%	0%	1.1%	1.1%	1.1%
Apr-07	100%	100%	100%	4.4%	0%	100%	0%	4.4%	4.4%	4.4%
May-07	100%	100%	100%	3.5%	0%	100%	0%	3.5%	3.5%	3.5%
Jun-07	100%	100%	100%	-1.7%	0%	100%	0%	-1.7%	-1.7%	-1.7%
Jul-07	100%	100%	100%	-3.1%	0%	100%	0%	-3.1%	-3.1%	-3.1%
Aug-07	100%	100%	100%	1.5%	0%	100%	0%	1.5%	1.5%	1.5%
Sep-07	100%	100%	100%	3.7%	0%	100%	0%	3.7%	3.7%	3.7%
Oct-07	100%	100%	100%	1.6%	0%	100%	0%	1.6%	1.6%	1.6%
Nov-07	100%	100%	100%	-4.2%	0%	100%	0%	-4.2%	-4.2%	-4.2%
Dec-07	100%	100%	100%	-0.7%	0%	100%	0%	-0.7%	-0.7%	-0.7%
Jan-08	0%	100%	50%	-3.0%	100%	0%	0%	-6.0%	0.0%	-3.0%
Feb-08	0%	20%	10%	-0.3%	10%	0%	90%	-3.2%	2.7%	-0.3%
Mar-08	0%	20%	10%	0.0%	10%	0%	90%	-0.4%	-0.2%	-0.3%
Apr-08	0%	20%	10%	0.5%	10%	0%	90%	4.9%	-4.4%	0.2%
May-08	0%	100%	50%	0.6%	100%	0%	0%	1.3%	0.0%	0.6%
Jun-08	0%	20%	10%	-0.8%	10%	0%	90%	-8.4%	8.0%	-0.2%
Jul-08	100%	20%	60%	-0.5%	40%	60%	0%	-0.8%	-0.5%	-0.7%
Aug-08	100%	20%	60%	0.9%	40%	60%	0%	1.4%	0.9%	1.2%
Sep-08	0%	20%	10%	-0.9%	10%	0%	90%	-8.9%	6.5%	-1.2%
Oct-08	0%	20%	10%	-1.7%	10%	0%	90%	-16.8%	12.0%	-2.4%
Nov-08	0%	100%	50%	-3.6%	100%	0%	0%	-7.2%	0.0%	-3.6%
Dec-08	0%	100%	50%	0.5%	100%	0%	0%	1.1%	0.0%	0.5%
Jan-09	0%	100%	50%	-4.2%	100%	0%	0%	-8.4%	0.0%	-4.2%
Feb-09	0%	20%	10%	-1.1%	10%	0%	90%	-10.6%	9.7%	-0.5%
Mar-09	0%	20%	10%	0.9%	10%	0%	90%	8.8%	-8.9%	-0.1%

Dividends included
 Assumes risk-free rate of 2.25% and 0% return for cash allocation
 Source: EquityCompass Strategies, Bloomberg

Performance Comparison
S&P 500 Index vs. EC Equity Risk Manager
 January 1990 – March 2009



Important Disclosures

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