OUR INVESTMENT METHODOLOGY

Our investment objective is to craft a portfolio designed to participate in market gains and limit losses in declining markets. We accomplish this using a combination of strategies.

We start by first building our portfolios based on Modern Portfolio Theory (MPT) which tries to maximize return and minimize risk by carefully choosing different assets. MPT is widely used in practice in the financial industry and several of its creators won a Nobel Prize for theory.

MPT is a mathematical formulation of the concept of diversification in investing with the aim of selecting a collection of investment assets that has a collectively lower risk than any individual asset. This is possible because different types of assets often change in value in opposite ways. For example, when stock values decline bond prices often increase and vice versa. In other words, a collection of both types of assets can theoretically have lower risk than if held individually.

So based on MPT our stock or equities are allocated between:

- **Large capitalized companies —** Market capitalization of 5 billion or more.
- **Medium capitalized companies —** Market capitalization of 1 to 5 billion dollars.
- **Small capitalized companies —** Market capitalization of 250 million to 1 billion dollars

These three areas are further divided between:

- **Value companies —** Value companies or stock in these companies are deemed to be undervalued in price and are likely to pay higher than average dividends.
- **Growth companies —** Growth companies or stock in these companies are deemed poised for rapid growth and put emphasis on gaining market share.
- **Blend —** These are companies or stock in companies that fall between growth and value.

(Note: no more than 5%-10% of our positions are in any one industry.)

Bonds or fixed income securities are an essential asset group which produces income in addition to lowering volatility.

Our bonds are allocated between:

- **Government Bonds —** Treasuries and Treasury Inflation Protected Securities (TIPS)
- **Corporate Bonds —** Investment grade, high-yield, floating-rate bank loans both domestic and international

Bonds can be further divided between:

- **Short-term maturities —** 1 year or less
- **Intermediate-term maturities —** 1 to 15 years
- **Long-term maturities —** more than 15 years

Every one of our portfolios consists of all of these different types of asset classes. The percentage we have in each area depends on your risk tolerance which is determined by our risk assessment and the relative strength of the market.

The next step is the investment selection depending on your individual situation. Our investment selection is based on not only competitive advantages they may have, but for investments that we believe will stay competitive. Our investment committee researches, tests and scrutinizes everything from strategies, costs, risk, manager tenure, and Alpha, (a measurement which represents the value a portfolio manager adds to or subtracts from a fund's return).We repeat this process on a quarterly basis.

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DISCLOSURES

Investing involves risk, including loss of principal. An investor's shares, when redeemed, may be worth less or more than the original investment price. This is not a recommendation to buy or sell securities, or of any particular asset allocation strategy. The products discussed may not be appropriate for all investors. Each investor's portfolio must be constructed based on the individual's financial resources, investment goals, risk tolerance, investing time horizon, tax situation and other relevant factors. Please discuss with your financial advisor before implementing an investment plan.

Diversification does not ensure a profit nor protect against loss in a declining market.

Mutual funds, exchange traded funds (ETF), and variable annuities are sold by prospectus. An investor should carefully consider the investment objectives, risks, charges and expenses of a mutual fund, ETF, variable annuity and the variable annuities underlying investment options before investing. This and other information is provided in the product and underlying fund prospectuses. Contact your advisor or the investment company to obtain a copy of these prospectuses, which should be read carefully before investing.

Annuities are long-term investments designed for retirement purposes. Withdrawals of taxable amounts are subject to income tax and, if taken prior to age 59?, a 10% federal tax penalty may apply. Early withdrawals may be subject to withdrawal charges. Optional riders are available at an additional cost. All guarantees are based on the claims paying ability of the insurer. An annuity is a tax-deferred investment. Holding an annuity in an IRA or other qualified account offers no additional tax benefit. Therefore, an annuity should be used to fund an IRA or qualified plan for annuity features other than tax deferral.

An exchange-traded fund (ETF) is an investment company that typically has an investment objective of striving to achieve a similar return as a particular market index. ETFs carry a certain level of risk for investors including: market risk, supply and demand, tracking error and excessive trading. Since share price is determined by market supply and demand forces Investors may purchase shares at a premium or discount to their net asset value. Due to investment timing, allocation and holding periods for cash and other fund assets, performance may not completely replicate the performance of the funds stated benchmark. The ease and frequency of inter-day trading could lead to increased trading or management fees which could reduce or eliminate any tax efficiency.

Stock and bond values fluctuate in price so that the value of an investment can go down depending on market conditions. Stock prices may fluctuate due to stock market volatility and market cycles, as well as circumstances specific to a company. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in higher-yielding, lower-rated corporate bonds are subject to greater fluctuations in value and risk of loss of income and principal.

A Real Estate Investment Trust (REIT) invests in and owns properties. Investments in REITs are subject to the inherent risks of direct investment in real estate such as price fluctuation, liquidity, and concentration risks. Special risks associated with investing in real estate also include the possibility of declining real estate values, the possible lack of availability of mortgage funds, and changes in interest rates.

Certificates of Deposit (CDs) are FDIC insured. The FDIC protects depositors against the loss of their deposits if an FDIC insured bank or savings association fails. FDIC deposit insurance covers the balance of each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured bank's closing. The standard insurance amount of $250,000 per depositor is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to $100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at $250,000 per depositor. They do not necessarily protect against a rising cost of living. The FDIC insurance on CD's applies in the case of bank insolvency, but does not protect market value. Other investments are not insured and their principal and yield may fluctuate with market conditions.

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