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# The President's Letter

1ST QUARTER 2019

## Risk is always with us

*By Jerry C. Wagner*
*President, Flexible Plan Investments*

"Nothing is certain except death and taxes." How often that phrase has been quoted since Ben Franklin penned it in a letter to his friend, the French scientist Jean-Baptiste Leroy, in the midst of the French Revolution.

With apologies to a great American and a personal hero, I would amend Franklin's axiom to "Nothing is certain except death, taxes, *and the fact that risk is always with us.*"

It's true that the risks of our American founders and the French intelligentsia caught in the days of the mob were very different—each from the other, and also from those that we face today. Even in the present world, which seems to be growing ever smaller, the risks faced in each corner of it vary widely.

What is constant is that, regardless of circumstance, location, or century, risk remains an integral part of our lives. It is an everyday element … it is always with us.

How often have we been to a funeral and said, or heard others around us say, "I just saw him last week, and now he's gone." Often we may not be aware of the risk, but it is still present and can sometimes suddenly become tragically apparent.

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We are very aware of some risk, and probably overemphasize its influence. The media, be it entertainment or network news, does seem programmed to put us in a constant state of distress. News programming has become what Dr. Norm Siegel called "a horror movie from which we don't get to go home." But I do not think that we should let this induced "culture of fear" overcome us.

On the contrary, as an entrepreneur, I believe in self-reliance … that opportunities arise from taking risk. In contrast, fear of risk can overwhelm and paralyze. Such an attitude is counter to both our national heritage and the future success of our children and ourselves.

If risk is always with us, but overfixation on it can be detrimental to living out our days, how should we think of risk? As with most fears, usually the best thing we can do is to learn more about it and how it affects us so that we can achieve some balance in our lives.

There are many types of risk. In investing, investors must cope with at least three main types and each must be approached differently.

# Unavoidable risk

The first is probably the least likely but it sometimes seems to be the most feared. It is unavoidable risk. That is a risk that something bad will happen to you, no matter what you do. It seems there are groups of people and investors that believe unavoidable risk is a quite common risk.

Actually, I think this type of risk is fairly rare. I mean, yes, Earth someday will be hit by a comet or an asteroid, and there is nothing we can do about it presently. Or the sun may explode in a supernova and, unless we've moved to a new home planet, we don't have any survivable options. But how many risks in our everyday lives ascend to that level of inevitable catastrophe?

I do think it is fair to say that just being born assures all of us that at some time in our lives something bad will happen. But what it is, and when and how bad is just not ascertainable or entirely preventable, no matter how you live.

Similarly, death is not avoidable. It is inevitable. But that's in the long run. Every day, we learn of new ways in which we can, in the short run, push off its occurrence to a later date.

Similarly, it may be said that if we step off the corner in front of an oncoming speeding truck, our death is not avoidable. But it was… just a second before we took the step off the curb.

In the same way, with investments, whether in bonds or stocks, we know that a bear market is inevitable. Up until two years ago, bonds had essentially been in a bull market for 30 years. However, before that, bonds were in a ferocious bear market during which some money-market fund yields topped 20%, bond volatility equaled that in the worst of stock bear markets, and bond values were crushed.

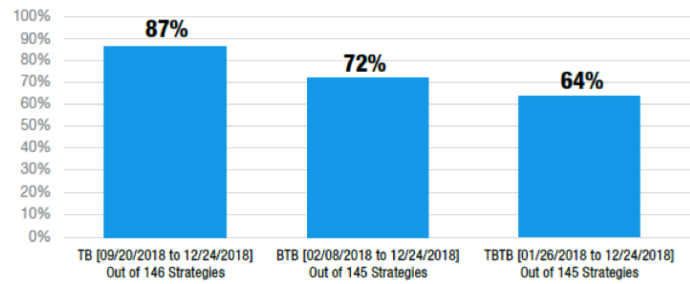
Last year we got just a small taste of what rising yields can do. Most bond investments lost money in 2018.

Stocks, of course, are not spared this type of experience. Stocks, on average, have historically experienced a loss of more than 20% every 5.5 years. We had two declines of 50% or more in the last two decades.

Additionally, last year we had two near-20% downturns, one at the beginning of the year and the other at the end. While most of our strategies were able to outperform the stock indexes in the last 2018 down cycle, two corrections made it very clear that risk is always present and that some losses in investing are unavoidable.

**% of FPI Strategic Solutions Strategies Beating the S&P 500 Total Return**

*2018 cycles ending with the 12/24/18 market bottom*




*Source: Flexible Plan model returns after 2.25% advisory fee and applicable QFC credits.*

Yet even with this seeming inevitability, as the chart demonstrates, we can take actions to seek to mitigate the effects of these declines. Asset and strategy diversification combined with dynamic risk management can help diminish the losses, even if such protective measures cannot always avoid them entirely.

# Improbable risk

The second class of risk involves those that are improbable. These are risks that happen only a small percentage of the time. These lead us to one of two courses of action: ignoring them because they have a small chance of occurring or slipping into the paralysis of the culture of fear.

It's like the constant drumbeat of conflicting cancer research. You hear that "X" can cause cancer, but the actual chance of such an occurrence is infinitesimally small.

It has been widely reported that "half of Americans are at risk of carcinogen exposure from soda." Two facts in the research were certainly correct, about half of Americans drink a can of soda a day AND it is true that extremely high exposure to a coloring agent in soda is a known carcinogen.

Yet, delving into the research, one learns that to be exposed to the level of carcinogen that caused tumors in rats in the study would require, according to the U.S. Food and Drug Administration, the consumption of more than a thousand cans of soda a day! I like soda (or "pop" as we call it here in Michigan), but really…

Similarly, everyone has heard a story of someone who lost everything in the Depression or even in the last financial crisis. These types of market crashes are extremely rare and yet they do occur, but focusing on them can cause paralysis.

Investors suffered mightily when they lost more than half of their portfolios in 2007–2008. Then they were punished again as they sat out the bull market that followed. They overemphasized the risk of the crash of 2007–2008 repeating itself.

There was a solution to this type of risk. They could have worked with a financial adviser that would have helped them create a portfolio of strategies with both a defensive plan to exit the market and an offensive plan to re-engage. This would have been much better than having been paralyzed by fear.

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## Probable risk

The final type of risk is probable or realistic risk. This is the type of risk that we can anticipate. We're told that if you smoke, lung and breathing difficulties are likely. If you drive a car, an accident of some sort during your driving career is probable.

Probable risks are indeed everywhere around us. They permeate our lives. Yet, despite their numbers, our minds are trained to weigh them all as they appear, and then immediately take action.

The human mind was designed to deal with these probable risks in this very basic way. And it worked very well for our early ancestors. They had to decide instantly whether to fight or run, and our ancestors survived a hostile, primitive environment as a result.

But the more complex decisions called for by modern life are not so easily handled by the chemistry of our brains. Studies show that we humans are not very good at weighing probabilities. Even studies of statisticians show that they are easily misled by the circuitry of our brains to reject the more probable of two outcomes.

This is often caused by an overreliance on recent experience. For example, many of us take a down day or week or quarter in our investments and extrapolate that experience into the future, and then we become frightened.

It is also caused by the fact that humans fear loss more than they appreciate gains. In fact, the studies show that the fear of losing a dollar has a greater influence on a prospective investor's decision-making than the opportunity of a gain of more than two dollars.

As a result, it is easy to see why some investors have let the recent losses in stocks and bonds keep them from sticking to an investment plan or strategy. This fear of loss can even overshadow the joy of the most recent new highs in the stock market. It can then cause an investor in a stock, bond, or strategy to abandon that investment in the face of a recent quarterly loss.

Yet I am relatively certain that when the investor chose that stock, bond, or strategy, he or she was not relying on a single quarter's return in making that decision. Instead, they were probably persuaded by a history of higher returns earned over years, not just a single quarter.

While our mistaken weighing of probable risk can lead us down the wrong pathway, there is a very positive side to this class of risk. Probable risks are anticipatable and controllable. You can stop or limit your smoking. You can get insurance for that car accident to come. You can reformulate your portfolio.

## A solution to all three types of risk

Dynamic risk management can help you deal with all three types of risk in your investment portfolio.

Bear markets come in two varieties: *probable* baby bears that are short, frequent, and shallow (20% or less in downside risk) and *improbable but unavoidable* super bears (when the market falls more than 20%) that are rare, long, and deep.

To cope with the baby bears, simplistic passive allocation can be an effective tool. Even better, in my opinion, is a multi-strategy core portfolio.

Multi-strategy core portfolios are suitability based and use multiple strategies that include asset-class diversification, strategy diversification, and dynamic risk-management measures instead of just the simple asset-class diversification employed by passive asset allocation. These can keep investors engaged in the market most of the time and help them avoid whipsaws and quick corrections that are sharp but shallow.

In contrast, tactical strategies (Classic, Self-adjusting Trend Following, and Volatility Adjusted NASDAQ) and dynamic rotation strategies (Evolution, Market Leaders, and Fusion) are best used in the "explore" portion of one's portfolio, designed with super bear markets in mind. The former can move completely out of stocks when necessary to avoid the 50%-plus losses of the super bear. The latter can move increasingly defensive as the market descends until at some point they move completely to cash or bonds to sit out the really steep part of the decline. Both have time-tested methodologies for returning to stocks when the coast is clear.

By combining multi-strategy core portfolios for baby bears and tactical and rotational explore strategies for super bears, an investor can build a portfolio that addresses all three types of risk. Dynamic risk management makes this possible.

Why this discussion of risk? I think it is a necessary reminder. Yes, I am concerned about those who have sat out the current market rally, which is now in its 10th year. But, more importantly, understanding the pervasiveness of risk is essential for those investors, like our clients, who have been mostly invested during this bull market.

With stocks and bonds hitting new highs, it is easy to forget this lesson. Even after the appalling losses that occurred in 2007–2009—and then the near-20% losses in 2011, 2015, and now 2018—I fear that the memory of these downturns will fade in the flashing neon lights of a quick recovery or the trek to market heights.

And, perhaps, through all of the talk and headlines heralding the new market highs, investors who have been profiting will feel that risk "has left the building." But they should never forget that every bear market begins with a bull market top—therefore, we must be ever vigilant. Passive is not vigilant—dynamic is.

Each of us must remember that risk is real and that, like death and taxes, risk is always with us. We must remember this not to be paralyzed by risk but rather to anticipate and control it.

All the best,

Jerry C. Wagner

*Jerry C. Wagner*
*President*

## FIRST-QUARTER RECAP

During the first quarter of 2019, domestic equities experienced strong performance, rebounding off last year's sell-off. Balanced funds were up about 8.5% for the quarter, while broad hedge funds were up only about 2.6%.

The NASDAQ 100 Index led the rise, increasing more than 16.5%. The Russell 2000 Index was not far behind with an increase of more than 14.5%. The S&P moved the least of the three indexes, rising about 13.5%.

Among sectors, offensive sectors significantly outperformed. Tech gained 19.77% and Energy rose 16.2%, which is a typical relationship during periods of market optimism or recovery. Health Care, which gained almost 6.5%, rose the least.

Economic fundamentals remained positive; however, some company earnings are slowing. Yet, it is likely that the equity market sell-off was overdone in the short term, which was reflected by the significant market rebound. Employment levels remained solid, indicating the current bullish period may not be over.

Safe-haven assets did not move much for the quarter as investors favored riskier assets. Gold rose 0.63% for the quarter. The broad bond market—which includes corporate and short-term bonds—also rose for the quarter, up about 3%.

The yield curve fell during the quarter and experienced brief periods of inversion when the 10-year rate fell below the 1-month rate. Rates in the 2–4 year range fell the most. This suggests that the market is expecting a decrease in economic output in the near future. However, the most oft-cited indicator for an impending recession, the inversion of the 2-year rate versus the 10-year rate, has yet to occur.

With the quarter being so rosy for equities, the majority of our strategies were up for the quarter. Those near the top were focused on equities. Those near the bottom were, on the whole, either long-term trend-following strategies (which are always slow to buy into a change in trend) or bond-based strategies. The strategies that did profit were those based on equities that are relatively quick to get back into the market after a sell-off.

The top performers within our Strategic Solutions offerings included several very responsive equity strategies. WP Aggressive led the pack with a gain of about 18%. Improvements to our S&P Tactical Patterns strategy led to a performance of about 15%, beating its benchmark for the quarter. Low Volatility/Rising Dividends also performed well, gaining about 13% for the quarter.

### Top performers for the quarter

| | |
|---|---|
| WP Aggressive | 17.90% |
| S&P Tactical Patterns | 15.14% |
| Low Volatility/Rising Dividends | 12.78% |
| Market Leaders Sector Growth Ultra | 11.20% |
| QFC Market Leaders Aggressive | 10.79% |
| QFC Market Leaders Growth | 10.11% |
| QFC Market Leaders Balanced | 9.76% |
| QFC Market Leaders Moderate | 9.10% |
| Classic Faith Focused | 8.92% |
| Systematic Advantage | 8.91% |

*Strategy returns are shown after the maximum 2.25% annual advisory fee and less any fee credits where applicable.*

*Continued*

It was a challenging market for bond-based strategies and certain longer-term equity strategies. Because the market was down significantly in Q4 2018, many of our strategies began the quarter in a very defensive position and did not participate in the market's quick rebound. For this reason, strategies such as Volatility Adjusted NASDAQ underperformed, losing 3.86% for the quarter. Managed Income Aggressive was somewhat representative of the struggles that tactical bond strategies had for the quarter, falling 2.65% QTD.

Fusion portfolios were up for the quarter with relatively little relationship between risk profile and return. The reason is that the aggressive portfolios began the quarter conservatively and somewhat inversely positioned, while the conservative portfolios remained in their typical asset classes the majority of the quarter. By quarter's end, the aggressive portfolios had gained somewhat from transitioning to a long equity exposure; however, it only just made up for losses made near the year's beginning.

## Fusion returns at Strategic Solutions

| | Q1 | YTD |
|---|---|---|
| Fusion Aggressive | 2.8% | 2.8% |
| Fusion Growth | 2.1% | 2.1% |
| Fusion Balanced | 1.6% | 1.6% |
| Fusion Enhanced Income | 1.7% | 1.7% |
| Fusion Moderate | 4.2% | 4.2% |
| Fusion Conservative | 2.4% | 2.4% |

*Strategy returns are shown after the maximum 2.25% annual advisory fee.*

## Fusion returns at Schwab

| | Q1 | YTD |
|---|---|---|
| Fusion Aggressive | 2.7% | 2.7% |
| Fusion Growth | 2.0% | 2.0% |
| Fusion Balanced | 1.5% | 1.5% |
| Fusion Moderate | 4.4% | 4.4% |
| Fusion Conservative | 2.7% | 2.7% |

*Strategy returns are shown after the maximum 2.25% annual advisory fee.*

Important Disclosures

Flexible Plan provides free consultations to you to address (i) past results; (ii) any changes in your financial situation indicating a change in investment strategy; reasonable management restrictions or modifications; and (iv) your current investment objectives. These consultations are available upon request quarterly via telephone or in person at our offices.

Please remember to contact your primary investment professional and Flexible Plan Investments, Ltd., in writing, if there are any changes in your personal/financial situation or investment objectives or for the purpose of reviewing the ongoing suitability of your current investment strategy/program, or if you want to impose, add, or modify any reasonable restrictions to our investment advisory services. Please Note: Unless you advise, in writing, to the contrary, we will assume that there are no restrictions on our services, other than to manage the account in accordance with your current designated investment strategy/program.

Investment Portfolio Rating: The term "portfolio" refers to all of your accounts managed by FPI, regardless of number of strategies. The rating is based on your latest suitability questionnaire filed with us. If your account is a corporate or trust account or we have not received a suitability questionnaire from you, we utilize the historical fifteen-year standard deviation for your portfolio to determine your Rating. One of four categories is referenced: Conservative, Moderate, Growth or Aggressive. If the category referenced for you seems no longer appropriate, please contact our offices to fill out a new questionnaire.

Volatility Barometer: The S&P500 and NASDAQ Indexes, as well as the Investor Profile reference points, are the annualized monthly standard deviation of the percentage change of the total return of those Indexes and the total return net of your advisory fees based on our hypothetical research on a portfolio of FPI strategies held in the same dollar proportion as those held in your account(s) at the end of the quarter, respectively. The standard deviation is calculated for a rolling three-year period to the end of the quarter, regardless of the time you have been invested in the strategies. The standard deviation for the actual period of your portfolio may differ, as may its relationship to that of the S&P500 and NASDAQ Indexes. Standard Deviation is a statistical measurement of the variability of the return of a portfolio from the mean average. It is one measure of volatility. When a fund has a high Standard Deviation, the predicted range is wide, implying a greater volatility, and, therefore, a greater level of risk. Investors are cautioned, however, that in calculating risk, high positive returns are treated the same as high negative returns. Thus, strategies with above average returns often exhibit high Standard Deviation. See "Risk Considerations" in FPI's Brochure Form ADV, Part 2A.

Risk Target: Utilizing the same return stream described in the Volatility Barometer description, FPI determines on a monthly basis the greatest drawdown or loss that would have been achieved from a portfolio or index high point to a low point without an intervening new high. The maximum loss shown is for the period commencing at the latest start date of your portfolio's component strategies (in no event less than five years) to the present, regardless of the time you have been invested in the strategies. The loss for the actual period of your portfolio may differ, as may its relationship to that of the Indexes. Some strategies may actually target a higher risk and exposure to risk than the S&P 500. See strategy descriptions in FPI's Brochure Form ADV, Part 2A.

Market Commentary: Adjustments and allocations discussed as occurring within your portfolio are derived from the most significant percentage holdings and changes from the first pie chart to the last shown on the accompanying statement page. Cash or money market positions referenced are derived from our trade records and do not reflect those resulting from additions to or withdrawals from your account or strategies.

OnTarget Monitor: The black line denoting your portfolio account value is derived from the actual month-to-month percent change of your portfolio. The quarter end account value reflects past fees paid, if deducted directly from your account(s). The scale of the chart is logarithmic so that all changes are represented proportionately. We base the time period on the investment time horizon provided in your suitability questionnaire response. For comparison purposes the period may have been rounded up to the next five-year period and the maximum period shown is twenty years. Twenty years is also the period used if no time horizon was provided. The green pathway reflects the result of hundreds of Monte Carlo simulations utilizing the monthly returns, net of your advisory fees based on our hypothetical research, for the period from the latest start date of your portfolio's component strategies (in no event less than five years) to the end of the quarter of a portfolio of strategies held in the same dollar proportion as those held in your account(s) at the end of the quarter. Based on these simulations, the upper-most line and targeted amount (represented with a blue field) was reached or exceeded in 20% of the simulation outcomes, the second line and target (the bottom line of the green field) was matched or bettered in 80% of the outcomes, while the lowest line (the top of the red field) was reached or exceeded in 90% of the outcomes. The circled target amount reflects the minimum value attained in 60% of the outcomes. A greater or lesser number of simulations may generate different results. The chart and the values utilized and set forth therein are for illustrative purposes only. Additions, withdrawals, extension or maintenance of the Time Horizon or strategy changes within a quarter will cause the chart to be redrawn and/or new targets and outcomes established.

The results of Monte Carlo analysis rely on many assumptions, such as expected returns, volatility, and correlation that cannot be forecast with certainty. Because Monte Carlo simulations create randomly generated scenarios, results will vary with each use over time. It is also impossible to foresee all possible situations, including some that may negatively impact a client's portfolio. Projections and other information generated by Monte Carlo simulations regarding the likelihood of investment incomes are hypothetical in nature and do not reflect actual investment results, and are not guarantees of future results. Despite the limitations, Monte Carlo analysis is still a very powerful tool to test the probability, though not the certainty, of investment success.

NO GUARANTEE OF PROJECTED OUTCOME IS EXPRESSED OR IMPLIED

Portfolio Returns Utilized: Unless otherwise noted, the strategy returns utilized in creating the charts described above are HYPOTHETICAL returns drawn from our research reports. These results were achieved by means of retroactive application of a computer model and may not represent the results of actual trading. Annual returns are compounded monthly and are inclusive of the last full trading week of the year, but may not necessarily include the last trading day of the year. Research Report results are NOT represented as actual trading or client experience nor do they reflect the impact on decision making of economic or market factors experienced during actual management of funds. Where returns or risk of your portfolio are referenced the returns are your actual account's risk and return, net of your advisory fees.

"Net of your advisory fees" means the advisory fees and Quantified Funds ("Affiliated Funds") credits reflected in your account in the first period shown on your OnTarget Monitor chart. Currently, your rate could be higher or lower as the value of your account changes. For example, under the FPI fee schedule as the assets under management increases, the fee rate can decrease. Other fees may apply, as well. All expenses are required to be disclosed in each investment's prospectus, available from your financial representative and the product provider. Various minimum-holding periods for each fund may be utilized to comply with trading restrictions. Fund or Advisor may change these periods. Actual investment performance of any trading strategy may frequently be materially different than the results shown.

"Model Accounts," where referenced, reflect actual accounts. Accounts used are based on the account longevity and its activity. The returns of the Affiliated Funds, sub-advised by Flexible Plan, reflect the actual price changes. The Affiliated Fund returns, while believed representative of actual results, may not necessarily represent the actual experience of any client.

If single strategy account histories are unavailable, statistics applicable to such accounts are derived from the exchange history files of each strategy used. Actual buy-sell trading signals and pricing are used in conjunction with such files to create the applicable statistics for each model account. These exchange-history derived returns are believed representative of each strategy's actual results, but the results do not represent the actual experience of any client during the period. Therefore, these results may not reflect the impact that material economic and market factors might have had on the results. Nor do they reflect any problems of execution or pricing that may have been encountered in the actual implementation of the buy and sell signals shown in the exchange history files, the effect of which has not been determined, and may be indeterminable.

Enhancements have been made in our methodologies, which are believed to have had a positive effect on returns. The amount is not precisely quantifiable, but as actual price history is used, the effect of these enhancements is reflected. Continued development efforts may result in further changes.

Utilizing performance between selected dates may not be indicative of overall performance. Inquiry for total results is always advised. Return examples given will vary based upon their volatility as they relate to the indices shown. Other accounts, investments and indices may materially outperform or under perform. Various investments used may no longer be available due to the result of periodic review, consolidations and/or exchange conditions imposed.

Investment management fees range from 0.35% to 2.6% annually and are prorated and charged not less frequently than quarterly in arrears. Use of the Affiliated Funds will generate an annual maximum credit of 0.65%. As a result, actual fees may vary. Unless otherwise noted, if after fee Fund returns are referenced, they will be shown net of between 1.95% and 2.1% fee depending on platform, which assumes 100% usage of the Affiliated Funds. Otherwise the maximum fee is applied. When returns are shown from strategy inception, the maximum Strategic Solutions Establishment Fee of 1.2% has been deducted. All mutual fund fees and expenses are included to the extent they are reflected in net asset value and not offset against management fees. As tax rates vary, taxes have not been considered.

**Prior to August**, **2013**, "Proprietary Funds" meant Evolution Managed Funds ("EMF") as to which Rafferty Asset Management, LLC (see below) served as investment adviser and Flexible Plan Investments served as sub-adviser to the EMF. The credit generated from 100% investment in EMF ranged between approximately forty-five (45) and sixty (60) basis points per annum. **From and after August**, **2013**, "Proprietary Funds" means the Quantified Funds and The Gold Bullion Strategy Fund (collectively 'sub-advised funds' or 'SAF') as to which Advisors Preferred LLC (see below) serves as investment adviser and Flexible Plan Investments serves as sub-adviser to the SAF. The credit generated from 100% investment in SAF ranges between approximately fifty (50) and sixty-five (65) basis points per annum.

Advisors Preferred, LLC serves as the Quantified Funds Investment Adviser and Flexible Plan Investments, Ltd., serves as the sub-adviser. Read the Quantified Funds Prospectus and Flexible Plan Investments' Brochure Form ADV Part 2A carefully before investing. You should carefully consider the investment objectives, risks and the charges and expenses of the Quantified Funds before investing. The Quantified Funds SAI and Prospectus contain information regarding the above considerations and more. You may obtain a Prospectus by calling Advisors Preferred LLC at (888) 572-8868 or writing Advisors Preferred, LLC 1445 Research Boulevard, Ste. 530, Rockville, MD 20850 or download the PDF from: www.goldbullionstrategyfund.com or www.quantifiedfunds.com.

Returns and portfolio values are provided for information purposes only and should not be used or construed as an indicator of future performance, an offer to sell, a solicitation of an offer to buy, or a recommendation for any security. Flexible Plan Investments, Ltd. cannot guarantee the suitability or potential value of any particular investment.

ADDITIONAL DISCLOSURES

**Because Flexible Plan strategies make use of publically traded mutual funds and exchange traded funds, investors should consider carefully information contained in the prospectus of these investments, including investment objectives, risks, charges and expenses. You can request a prospectus from your financial advisor. Please read the prospectus carefully before investing. Investment value will fluctuate, and shares, when redeemed, may be worth more or less than the original cost.**

**Important Risks**: Flexible Plan's strategies are actively managed and their characteristics will vary among strategies. As a manager utilizing publically traded mutual funds and exchange traded funds, the strategy is subject to the risks associated with the funds in which it invests. Mutual fund and exchange traded fund values fluctuate in price so the value of your investment can go down depending on market conditions. International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation, and the possibility of substantial volatility due to adverse political, economic or other developments. These risks are often heightened for investments in emerging/developing markets or smaller capital markets. 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 bond issuer will not be able to make principal and interest payments. Asset allocation strategies do not assure profit and do not protect against loss. Non-diversification of investments means that more assets are potentially invested in fewer securities than if investments were diversified, so risk is increased because each investment has a greater effect on performance. Investing in leveraged or inverse funds entail specific risks relating to liquidity, leverage and credit of the derivatives invested in by such funds, which may reduce returns and/or increase volatility.

Active investment management may involve more frequent buying and selling of assets. While the strategy does utilize no load mutual funds with no transaction charges, and best efforts are employed to avoid short-term redemption charges, active managed strategies can still result in charges, especially when entering or exiting a strategy. If investing within a non-tax-deferred investment, Investors should consider the tax consequences of moving positions more frequently. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification cannot protect against all market risk.

Reference to popular market indexes are included to demonstrate the market environment during the period shown and are not intended as 'benchmarks.' Index returns are after dividends. Since Index dividends are posted after the end of each month, they are retroactively prorated on a daily basis (which tends to understate returns if the end date range is inclusive of the current partial month). The Dow Jones Corporate Bond Index includes fixed rate debt issues rated investment grade or higher by national rating services. Investments by bond funds utilized in generating the above returns may not be similarly rated. The investment program for the accounts included in the profiles includes trading and investment in securities in addition to those that may be included in the S&P 500. Such indexes may not be comparable to the identified investment strategies due to the differences between the indexes' and the strategies' objectives, diversification, represented industries, number and type of component investments, their volatility and the weight ascribed to them. No index is a directly tradable investment.

ASSET CLASS RISK CONSIDERATIONS

US and Global Bonds: All investments involve risk. Special risks associated with investing in bonds include fluctuations in interest rates, inflation, declining markets, duration, call and credit risk. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size and lesser liquidity.

**Commodities:** Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. US and Global Real Estate: Investments in Real Estate are subject to changes in economic conditions, credit risk and interest rate fluctuations Global Currencies: Foreign currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by supply and demand in the foreign exchange markets and relative merits of investments in different countries, actual or perceived changes in interest rates, and other complex factors. Currency exchange rates also can be affected unpredictably by intervention (or the failure to intervene) by U.S. or foreign governments or central banks, or by currency controls or political developments.

**Long / Short Directional:** Portfolio may invest in derivative investments such as futures, contracts, options, swaps, and forward currency exchange contracts that may be illiquid or increase losses due to the use of leveraged positions. US and Global Equities: In addition to the foreign investment risks noted above, the principal risks associated with equities include market, portfolio management, and sector risks.

Historical performance information should not be relied upon as representative of investment performance of any strategy to the current date nor be extrapolated into expectations for the future. Inquiry for current results is advised.

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