



1%@Risk

THE INVESTMENT MANAGEMENT PROCESS

Methodology and Explanation

Revised 8/26/2010

There are three (4) pages to this document which includes important disclosures.

The goal of our process and methodology to manage your downside risk is the careful development of a portfolio that will perform well within a comprehensive, multi-layered, risk management discipline that is user friendly and easy to implement.

Our Process:

After careful evaluation of a prospective client's investment objectives, risk tolerance, and financial situation, an investment management program emphasizing asset allocation is compiled (see below). Our program consists primarily of no-load Index Mutual Funds. We recommend this platform because of its cost effectiveness, broad array of choices, liquidity, and diversification benefits.

The following is an overview of the step by step process we take to determine the individual investment choices we will recommend from a platform of available investments, and how a portfolio is constructed from them in such a way as to help manage the downside risk based on the individual's risk tolerance level.

The first step is to determine which **classes** of investments we will chose from to recommend for your portfolio. The main purpose is to diversify your investments to avoid risk. We determine which classes to use by taking into consideration such factors as cash

equivalents, stocks, bonds, geographical dimension, size dimension, investment style dimension, term dimension and quality dimension among others. The goal is to provide a single fund choice in each class. We chose funds from these TEN classes:

1. US Fixed Income
2. US Large Cap Equity
3. US Mid Cap Equity
4. US Small Cap Equity
5. Foreign Fixed Income
6. Foreign Large Cap Equity
7. Foreign Mid Cap Equity
8. Foreign Small Cap Equity
9. Emerging Markets
10. Alternatives- non-traditional Investments that may include: Commodities, Currencies, Gold, Healthcare, Real Estate, Convertibles, Natural Res, Various Sector Funds, Inverse Funds, and ETFs, etc.

The second step, fund selection, determines which individual funds to use in each selected class. We choose funds that have no redemption fees, no minimum investment amount, and do not require you to hold the fund for a specific time-frame. We look at the performance of the funds, the internal costs, and other information. Detailed information on any particular fund is available in your enrollment booklet and also online.

The third step, risk determination places each of the individual funds selected into one of our five different risk



tolerance levels, also called client profiles:

1. Conservative
2. Moderately Conservative
3. Moderate
4. Moderately Aggressive
5. Aggressive

The goal is to choose funds that we recommend for each individual risk level so that each risk level holds funds suitable to meet their investment goals. For example, a conservative investor will buy more conservative funds like bond funds, while an aggressive investor may not hold any bond funds at all or hold a smaller quantity. Investment class type and investment style are also considered in determining which funds we choose for each risk level. We set stop prices on each of the funds to limit risk in down markets.

The fourth step is a very critical one! We use our unique process to determine the **allocation** amount, (the maximum number of shares of any single fund) to buy so that no more than 1% of your portfolio is at risk in any one investment.

Our process determines the allowable maximum amount of any single fund to be purchased for each different risk level. In the event that our calculation determines that the recommended maximum purchase amount exceeds the 1%@risk benchmark and would cause the individual fund purchase to go above the 1%@risk tolerance level, the lesser amount will be recommended.

In order for the reader to understand this concept we use the following hypothetical example: ***This hypothetical example is provided for informational purposes only. It is not intended to represent***

any specific investment; nor is it indicative of future results.

Consider a portfolio with \$100,000 to invest and a desire for no single position (holdings of any one fund) to risk more than 1% of the entire portfolio value. This would mean that each position should risk no more than \$1000 ($1\% \times \$100,000 = \1000).

As an example: a fund purchased at a cost of \$19 per share may have a sell action point or “stop-loss” of \$17. Selling it at \$17 per share would create a \$2 loss per share. By dividing the \$1000 maximum tolerated loss for that single position by \$2, the maximum number of shares that would be purchased is 500 ($\$1000 \div \$2 = 500$).

At \$19 per share, the cost to purchase 500 shares would be \$9,500. This would be 9.5% of the overall portfolio ($\$9,500 \div \$100,000 = 9.5\%$) with only 1% of the total portfolio at risk.

In this example, if this particular fund were a member of the large cap investment class and it is determined that large cap should be 30% of the allocation; this class of the portfolio would be approximately 1/3 complete.

After we've determined WHAT funds to use and HOW MUCH to invest, we use technical charts and a large group of market indicators combined with daily judgment to decide WHEN to own. Daily updates to our recommendations for each risk profile level are posted on our website. Both buy and sell signals are posted.

Our technical analysis is based on the study of historical price movements and



past trend patterns. There is no assurance that these movements or trends can or will be duplicated in the future.

Make no mistake; this is NOT market timing! Our experience has been that, in general, the most risk a client takes is at the time of the initial setup of the account, when the investments are first made. While we do not consider “Buy and Hold” philosophy in our decisions, it is our intention to hold for the long term **provided the investments are profitable**; and frankly, to sell them when the markets and/or the investments indicate abnormal downside risk and hit their assigned stop prices. The downside risk calculations help to determine the proper stop-loss limit is placed on each fund selection.

We are careful to choose those funds are considered to have a good upside potential as compared to the downside risk, and most importantly a positive Relative Strength. It is clear to us that to blindly “buy and hold” in a collapsing market can be catastrophic. Limiting a loss by moving to the money market, another fund or asset class, or even an inverse fund could, without question, preserve your principal and possibly provide reserves from which to fill the future investment bucket.

Managed Accounts are available for inclusion for clients on as needed basis or requested basis. We do recommend careful consideration of risk goals, available investment balances, and diversification by each individual client before investing in any of the “riskier” alternative investments. Our recommended managers are carefully selected from a small group of *low to*

negatively correlated managers who have, as part of their normal discipline, some method to identify and protect the downside risk of the investment principal, either by moving to cash, shorting the market or some other proactive action designed to prevent large losses. We carefully research managers we recommend and provide a helpful search function on our website to compare them, complete with performance data and summary of discipline.

FEES: Mutual fund investments in the platform are provided at no-load but do have internal management fees that vary from .5% - 1.7% annually. These fees are normally reflected in the returns of the fund. Feddern Group’s, annual management fee of 0.25% quarterly is charged to the Participant’s account for 401-k plans. An administration fee is charged as well depending on the company plan.

CHOOSE YOUR RISK PROFILE BELOW AFTER COMPLETING THE “DISCOVER MY INDIVIDUAL RISK PROFILE” exercise on our website or in your enrollment book.

| | |
|---|----------------------|
| WHICH RISK PROFILE: <i>(Circle one below)</i> | |
| 1. <i>Conservative</i> | |
| 2. <i>Moderately Conservative</i> | |
| 3. <i>Moderate</i> | |
| 4. <i>Moderately Aggressive</i> | |
| 5. <i>Aggressive</i> | |
| _____ Authorized Signature | _____ Date |

Disclosures, Disclaimers, and Limitations

Even with the detailed and carefully tested above process, losses can and do occur.

A client's permission is required initially to have the Feddern Group make purchases and/or sales of funds or other investments using the funds and allocations within their chosen Risk Profile. This is called a discretionary arrangement where the client agrees in advance to purchase funds as recommended by the risk profile they have chosen without being notified of each individual transaction. This applies to all of our "Do It For Me" clients.

Price fluctuations: The price of the actual execution of a buy or a sell signal could be substantially different than the signal purchase price or stop loss point set for any individual fund. Since the price of traditional mutual funds is calculated only at the end of the business day, the actual price received could be higher or lower than the agreed upon "action" price; and there is no real guarantee that losses will be limited or gains will be maximized.

All client accounts, statements, and confirmations are available online through a secure website sponsored by the custodian of the plan. The Feddern website is a tool to help you make informed decisions by providing recommendations, resources and tools and does not retain any of your actual account information. Please see your custodian for your actual account data.

An additional variable to our downside-risk management process is the possibility that the price of any fund rises dramatically over time. In order not to receive false sell signals in a rising market, the "stops" do not necessarily follow the rising price dollar for dollar. Therefore, in this scenerio there could be a larger amount at risk because of the new, higher value.

In situations beyond our control, such as the attacks on 9/11, more risk may be incurred. In this example the markets were closed for a week

and then re-opened substantially lower with a "gap" down and didn't offer an opportunity for the investor to liquidate in the interim. Other event driven market problems such as war, natural disasters, and other unforeseen events such as the manager leaving, the fund closing, merging or being bought out, as well as adverse legal actions could result in a change in the price of any fund from one day to the next beyond the action point. Therefore, there are no guarantees that the stated objective will be accomplished.

General disclosures: Investing in small company stocks is generally more volatile than those of large company stocks. Also, investing in foreign securities presents additional, unique risks not associated with domestic investments such as currency fluctuation and political and economic changes. This may result in greater share price volatility. We recommend careful consideration of your risk levels when choosing your risk profile and considering your choices.

Mutual Fund Fee: Most funds chosen by Feddern Group have NO redemption fee, however some funds such as some of the alternative recommendations and a few others do have minimum holding Period to avoid redemption fees. For example, the Hussman Funds have a 90-day holding period in order to avoid paying a 2% redemption fee at the time of the sale.

Managed Accounts with independent money managers will have their own separate fee schedule along with other restrictions and requirements such as minimum account size proprietary forms, disclosures, discretionary agreements among other things. Complete information, performance history, and potential use of any of our recommended outside managers is available by request. While the Feddern Group does significant due diligence to research recommended alternative managers, we cannot guarantee the accuracy of the information that they have provided to us.