

When looking at the past, often we ask ourselves many questions.

*"What if I had studied Law or Medicine instead of Business?"  
"What if I had taken that other job with a smaller firm?"  
"What if I went on that second date?"  
"What if I bought that home instead?"  
"What if I moved to another city?"*

But rarely do we ask the difficult questions in regard to our finances.

*"What if I invested in the stock market primarily when prices were rising and when they were declining I moved my investments to a money market fund?"*

*"Would I experience the great returns that the stock market has to offer?"*

*"Would my investments have less fluctuation in value?"*

*"Would I have the opportunity to liquidate my funds before a major loss?"*

*"Would I spend less time worrying about my financial assets?"*

*"Would I reduce risk and achieve higher risk-adjusted returns?"*

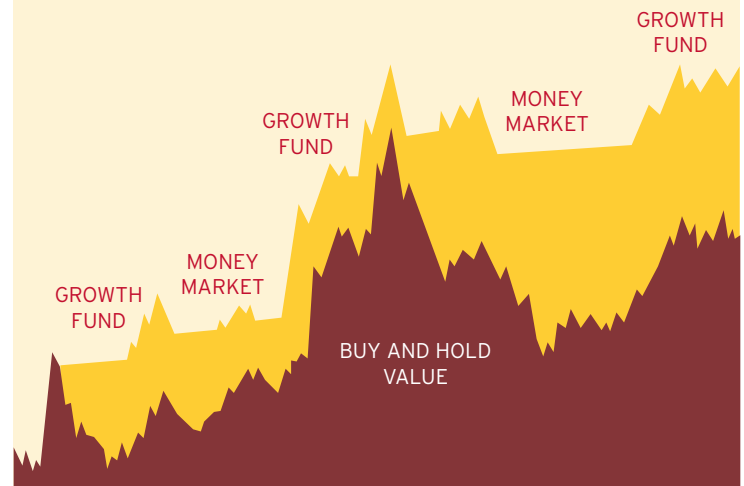
**"What if I used Active Management as an Investment Strategy?"**

... a strategy that would help to avoid down markets while benefiting from market gains that stocks have to offer. With computer technology and access to available market and economic data, Active Management is gaining much attention from individuals and investors. Professional investment managers today are applying this thought and strategy and using it alongside mutual funds, exchange traded funds, stock baskets, and variable annuities to manage client assets. Due to the results that can help to reduce the risk associated with investing in the stock market and improve opportunities for investment returns, the rate of growth for assets being managed by active money managers is growing at a dynamic rate.<sup>1</sup>

Market Events are not random. There are relationships that exist between different circumstances and the performance of financial markets. With the innovation of computer technology, investment managers can begin to understand these relationships and analyze these market trends.

When looking at the model above, one can begin to understand that during a perceived "UP" leg of the market, investments are positioned in equities to achieve the greatest return. The investments are then moved into cash or bonds when the market appears to have peaked until it is time to move them again during the next "UP" period. Active Management will not beat a buy-and-hold position each period but over time the results may appear in a manner displayed by this hypothetical model.

### The Active Advantage



Past performance does not guarantee future results. This is a hypothetical illustration only and its performance is not indicative of any particular investment strategy.

Professional investment managers use and monitor proprietary mathematical models that generate "buy" and "sell" signals as the market changes. In response to these signals, the investment manager moves their client assets between stock, bond and money market funds. The main objective of this strategy is to provide investors with the opportunity to avoid major price declines. As long as involved investors avoid these market declines and move funds during strong and weak periods, studies show that they can outperform a buy-and-hold strategy.

To explain how this theory is adaptable in actual market situations, one can look back at the stock market from 1983 through 2007. If an investor had missed the best ten days during this period his investment return would have fallen from 9.8% to 7.4%. If he had missed the worst ten days, his return would have increased to 12.9%. By missing both the best and worst ten days, one would have generated a 10.6% return, which is an 8% better return than the buy-and-hold results.<sup>2</sup> These results are due to the dramatic negative impact of bear markets, which are defined as periods when the S&P 500 has fallen at least 20%.

There have been 15 bear markets between 1927 and 2009. When one omits the crash of 1929, when values declined 87%, the average loss of these remaining bear markets was 34%. During this 80 year range, a bear market began on the average of every five years, with an average duration of 17 months. Again, when omitting the crash of 1929, it took an average of 3.6 years just to return to a break even position. Not only are investors losing money during bear markets, they are also losing time. If the value of your portfolio is reduced by the average 34% in the bear market, you would need a 52% return to break even. Investors spend two-thirds of their time just trying to stay even. Only one-third of the time, were they benefiting from the stock market.

## S&P 500 Index Bear Market Study

September 1929 through 2009

Bear Market	Duration	% Decline	Time Needed To Break Even
Sept. '29 - June '32	33 Months	86.7	25.2 years
July '33 - Mar. '35	20 Months	33.9	2.3
Mar. '37 - Mar. '38	12 Months	54.5	8.8
Nov. '38 - Apr. '42	41 Months	45.8	6.4
May '46 - Mar. '48	22 Months	28.1	4.1
Aug. '56 - Oct. '57	14 Months	21.6	2.1
Dec. '61 - June '62	6 Months	28.0	1.8
Feb. '66 - Oct. '66	8 Months	22.2	1.4
Nov. '68 - May '70	18 Months	36.1	3.3
Jan. '73 - Oct. '74	21 Months	48.2	7.6
Nov. '80 - Aug. '82	21 Months	27.1	2.1
Aug. '87 - Dec. '87	4 Months	33.5	1.9
July '90 - Oct. '90	3 Months	19.9	0.6
Sept. '00 - Mar. '03	30 Months	49.0	6.8
Oct. '07 - ?	?	48.9	?

Source: Telephone Switch Newsletter, Summer 1992. Updated through 2009.

54 of the past 80 years were spent in a bear market or recovering from one to break even. Therefore, one can see the importance of working with a professional investor who uses Active Management as a strategy where the main objective is to reduce the risk of fluctuation in an investment account's value, while achieving higher returns than other investments with similar risks.

Many individuals and institutions have chosen to forego the superior performance of the stock market for the fear of short-term losses and the inability to invest long-term. For these investors, Active Management gives them the opportunity to participate in the market with the goal of reducing risk and increasing the risk-adjusted returns during the one-third time period of the stock market's great growths.

While no investment strategy is perfect, and like mutual funds, not every active manager beats the buy-and-hold results, there are studies that support the benefits of using an active manager. According to a study published in the *Journal of Portfolio Management*<sup>3</sup>, 92% of the 25 active managers tracked by *MoniResearch Newsletter* outperformed the market averages in the 1987 collapse, as did 96% during drops in January 1990 and August 1992. Furthermore, another report published in the *Journal of Investing*<sup>4</sup> shows that active investors can miss up to 20% of the bull market's rise and participate in 20% of the bear market decline, and still equal the performance of a buy-and-hold investor.

Additionally, when risk, the variability of an investment's returns over time, is figured into the returns these studies have shown that active managers consistently outperform the market.

*Ask your active money manager how to reduce risk and achieve higher risk-adjusted returns.*

**Past performance does not guarantee future results**

#### References

- 1 "Investors don't have to be big to be smart." Michael Fritz, Investment News, Oct. 1998, page 1
  - 2 "Timing Doesn't Have To Be Perfect to Beat Buy and Hold." study of the S&P 500 over a 16-year period by the Society of Asset Allocators and Fund Timers, Inc. Initially released September 2000. Updated by Hepburn Capital Management through 2007
  - 3 "Market Timing Works Where It Matters Most. . . in the Real World" The Journal of Portfolio Management, Summer, 1992. Study of 25 market timers' audited market signals from 1985 to 1990
  - 4 "Why Market Timing Works" The Journal of Investing, Summer 1997.
- 2010, Financial Communications Associates, Inc.

Please consider the investment approach, objectives, risks, charges, and expenses carefully before investing. Risk is an inherent part of all investments and an actively managed investment has the potential for loss as well as gain. Mutual funds and variable annuities are sold only by prospectus. Be sure to read the prospectus carefully before deciding whether to invest.