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Risk 3.0™: Investment Solutions for the New Market Realities

In spite of the stock market rebound from its March 2009 lows, the 2007-2009 bear market still looms large in the minds of investors. Investors have lost faith in the conventional methods of portfolio management. The recent "gold standards" of portfolio management, Markowitz Portfolio Theory and The Endowment Model, failed to effectively protect investors during the most recent bear market. Investor confidence was not merely shaken, but shattered. Risk was either improperly measured, or considered a distant second to return. In this paper, we introduce a new approach to portfolio management that builds upon prior work. The main contribution is that risk is placed first and liquidity risk, credit risk, transparency risk, and systemic financial risk are explicitly considered. The portfolio is then optimized, using human judgment, for the current market outlook.

Due to a variety of fundamental factors in the economy and the markets, we believe investors are facing an extended period that will be characterized by slow growth and heightened volatility, punctuated by periodic crisis. We term this market outlook, which will be further detailed in this paper, the "new market realities." Risk 3.0™ is an investment framework that is well equipped to effectively manage the new market realties and capitalize on its expected opportunities.

TABLE OF CONTENTS

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1. INTRODUCTION

All bear markets are painful for investors, but the 2007-2009 bear market that occurred across many asset classes in the midst of The Great Recession was a game changer. The S&P 500 fell 37% in 2008, and 53% peak-to-trough for 2007-2009, while most international equities lost in excess of 40% (58% peak-to-trough for the MSCI World ex-US). Hedge funds preserved capital in the 2000-2002 bear market, but lost a shockingly large 18% on average in 2008 (25% loss peak-to-trough). Many investors were surprised to learn that some hedge funds had no true hedge at all. U.S. Treasuries were the only asset class that provided reasonably attractive returns in the throes of the bear market, but due to their low yields at the time, few investors were concentrated in these “safe haven” securities. Historically, a portfolio comprised of nearly all U.S. Treasury securities has never been a way to build material wealth over any long-term period of time – and notwithstanding its “safe haven” status, this asset class has also experienced its own sub-periods of large losses. In this harsh market environment, previously highly regarded investment approaches such as Markowitz Portfolio Theory, Portfolio Insurance, and The Endowment Model proved to be inadequate.

For example, Markowitz Portfolio Theory relies on return variability as its measure of risk and is silent on the liquidity, transparency and systemic financial risks that nearly destroyed the global capital markets. In addition, the Markowitz Model relies on the notion of correlation to prescribe a diversified portfolio. However, during the financial crisis, correlations across nearly all asset classes spiked to 1, taking down most asset classes in unison. The value of Portfolio Insurance was thoroughly discredited decades ago during the Crash of 1987, yet it still remains in use in some corners. Portfolio Insurance, now called Program Trading, is a computer-driven, momentum-oriented strategy that buys as the market rises and sells as it falls, and ultimately poses a risk to the financial system if followed en masse. During market extremes, Portfolio Insurance becomes a financial game of musical chairs with investors all running to the exit at the same time. Furthermore, investors often seek to purchase portfolio insurance after a market shock. By then it is often too expensive and too late.

The Endowment Model, perhaps the last bastion of Modern Portfolio Theory, navigated the bear market in the aftermath of the Internet Bubble in fine fashion, suffering minimal losses. However, its shortcomings were revealed during The Great Recession. Its overreliance on leverage and illiquid assets to achieve its historically superior risk adjusted returns proved to be its Achilles’ heel. **Table 1** on the next page provides an estimate of the returns of a stylized Endowment Model in 2008, resulting in a clearly

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Table 1: Performance of a Stylized Endowment Model Portfolio in 2008

INVESTMENT	PROXY	WEIGHT	RETURN 12/31/07-12/31/08
U.S. Equities	S&P 500 (SPY)	15%	-36.81
Developed Markets	MSCI EAFE (EFA)	15%	-41.04
Emerging Markets	MSCI EM (EEM)	12%	-48.88
Private Equity	PowerShares Listed Private Equity (PSP)	7%	-64.62
U.S. Bonds	iShares S&P National Muni (MUB)	5%	1.16
International Bonds	SPDR Lehman International Treasury Bond (BWX)	9%	4.19
Real Estate	DJ Wilshire REIT (RWR)	6%	-38.83
Commodities	PowerShares DB Commodity (DBC)	11%	-31.77
Inflation Protected Bonds	iShares Lehman TIPS Bond (TIP)	5%	-0.54
Infrastructure	SPDR FTSE/Macquarie Global Infrastructure 100 (GII)	5%	-29.71
Special Opportunities	HFR Global Hedge Fund (HFRXGL)	8%	-23.10
Cash	iShares Lehman 1-3mo. Treasury Bill (BIL)	2%	1.59
	Total		-30.78

unacceptable loss of almost 31%. Rather than focusing on a single year (2008), our point is that the Endowment Model contained many risks that did not manifest themselves until a time of severe market stress. A new portfolio management model is needed, one which places risk first in its multitude of dimensions, such as variability, leverage, credit, liquidity, transparency, and systemic financial risk.

This paper outlines an innovative Risk 3.0™ approach, beginning with the importance of preserving capital, managing investor psychology, and adapting investment solutions to the new market realities of slow growth, heightened volatility, and periodic crisis. Rather than abdicating responsibility of our investment outlook to purely quantitative

Risk 3.0 evolves risk and asset management beyond the Risk 2.0 model to incorporate moderate downside and "black swan" (or large, unexpected loss) protection as a core part of its investment philosophy, while maintaining exposure to gains.

models, we believe that forward-looking human judgment should be an integral part of the investment management process. Importantly, our work is not simply theoretical. We discuss how Risk 3.0 Planned Return Strategy® – the first in a growing family of Risk 3.0™ Investment Solutions – has been successfully developed and implemented based on this process.

2. THE RISK 3.0™ APPROACH TO ASSET MANAGEMENT

The latest twists and turns across the financial markets are but a sideshow to the real story. After more than a decade of near zero returns in the U.S. stock market – achieved in dramatic, zigzag fashion – many investors have lost faith in conventional methods of wealth management. The failure of Markowitz Portfolio Theory, Portfolio Insurance, and the Endowment Model has left investors angry and disillusioned. A new approach is needed to more effectively manage the current structure of risk and return embedded in today's markets. In our view, this requires a shift in thinking from a performance-centric to a risk-centric philosophy when constructing investment solutions. We call this new approach Risk 3.0™.

We define Risk 1.0 as an investment strategy that incorporates the initial breakthroughs in portfolio theory; namely, the reduction of risk through diversification and asset allocation. In general, Risk 1.0 strategies still add value, but are sorely lacking during bear markets across several asset classes. Risk 2.0 augmented Risk 1.0 by including hedging strategies via derivatives, such as those used by hedge funds. Risk 2.0 financial strategies also add value, but may fail during times of severe market distress, and also fall short of providing investors with the comfort of having a portfolio of investments that are liquid, transparent, and fee sensitive. Despite theoretical promise, both Risk 1.0 and Risk 2.0 failed to provide investors with effective downside protection during the 2000-2002 and the (more prominent) 2007-2009 bear markets, as well as completely ignoring the threats of transparency risk, credit risk, and systemic financial risk.

Transparency risk, also known as fraud risk, took on new meaning in the aftermath of the historic Bernard Madoff fraud. In fact, the verb "Madoffed" is now part of Wall Street investing vernacular. Credit risk was also underappreciated until major financial firms, such as AIG, Bear Stearns, Merrill Lynch, Wachovia, and Fannie Mae came under severe financial stress, and Lehman Brothers actually did go bankrupt.

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Table 2: Rethinking the Evolution of Risk Management

RISK CONDITION		STRATEGY
Risk 1.0	Market Variability	Diversification, Modern Portfolio Theory
Risk 2.0	Asset Uncertainty	Insurance & Options Strategies, Use of Hedge Funds and Other Alternative Funds
Risk 3.0	Persistent Volatility & Periodic Crisis	Risk-centric Paradigm, Volatility Buffers, Crisis Protection, Liquid, Transparent, Reasonable Fees, Human Judgment

course no free lunch. The cost of the additional downside protection is "paid for" by foregoing returns during extreme upward moves in the market. Upside gains are limited by a cap, typically in the high single to low double-digit range. In our view, this is an excellent tradeoff since we believe large, sustainable upside will not materialize in the current difficult financial environment. Risk 3.0™ Investment Solutions also mitigate risks related to liquidity, transparency, and leverage. **Table 2** above summarizes how risk has evolved over time.

3. THE IMPORTANCE OF FOCUSING ON RISK FIRST: CAPITAL PRESERVATION AND INVESTOR PSYCHOLOGY

A core tenet of the Risk 3.0™ framework is that "return follows risk." This is supported by basic mathematics: the lower the portfolio loss in a declining market, the lower the recovery needed to restore lost value. For this reason, focusing on capital preservation is critical to increasing compound returns over time. **Table 3** on the next page illustrates this concept. For example, if an investor loses 15%, a 17.7% return is subsequently needed in order to break even. A 50% loss requires an enormous 100% return in the subsequent period to breakeven.

Furthermore, one of the enduring lessons of behavioral finance research is that the vast majority of individuals not only care about the end result (i.e., the long term value of their portfolios), but also the path along the way. When markets become volatile, investors have a tendency to deviate from well-laid, long-term plans and make poor investment decisions. For these reasons, any investment strategy that neglects to include the preservation of capital as one of its central components, in conjunction with

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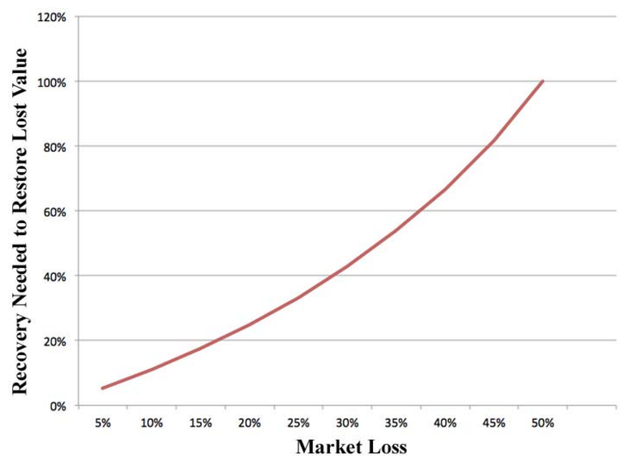
TABLE 3: RECOVERING FROM MARKET LOSSES

Portfolio Loss	Recovery Needed to Restore Lost Value
-5%	5.30%
-10%	11.10%
-15%	17.70%
-25%	33.30%
-40%	66.70%
-50%	100%



the foibles of human nature, will ultimately fail its investors. Combined with our market outlook, which is described in more detail below, the focus on capital preservation becomes absolutely essential.

4. THE NEW MARKET REALITIES: SLOW GROWTH, HEIGHTENED VOLATILITY, AND PERIODIC CRISES

The investment world may always have its star stock pickers, such as Warren Buffett or Peter Lynch, but such individuals are becoming harder to find. As has become increasingly obvious in recent years, alpha from active management, especially in developed markets, tends to be very "chunky" and is only enjoyed by those investors with the staying power to retain a long-term perspective. Staying power has become more difficult in this environment of heightened volatility and increasingly shorter investor time horizons. This new dynamic has resulted in stocks moving in lockstep with each other to nearly a greater extent than ever before. Statistically, the term correlation is used to measure the extent to which two investments move together. Correlations among stocks within the S&P 500 recently peaked in the 60% - 80% range, vs. a long-term average of 44%. Even as correlations come down from historic highs, stock picking has remained an extremely difficult pursuit.

Although the precise reasons for the increase in correlations are not fully clear, the rise in importance of macro factors and exchange traded funds (ETFs) are two important dynamics that may help explain the results. Macro factors, such as employment, interest

Notwithstanding periodic market rallies, these negative factors constitute a new market reality that will likely result in an extended period of slow growth, continued volatility and periodic crisis.

rates, exchange rates, and GDP impact all stocks, although in somewhat different ways. ETFs are analogous to actively traded index funds. Both macro and ETF oriented strategies require little to no analysis of individual company fundamentals, hence traditional stock picking skills may not be rewarded to the same extent as in the past. The investment implications of higher correlations among stock prices are clear. Namely, stocks are moving more in tandem, stock picking skills are of lesser importance, macro strategies are key, and systemic financial risk has increased.

Given the historically low levels of interest rates, inflation and taxes, the positive financial tailwinds of falling interest rates, inflation, and taxes that were experienced during the 1980s and 1990s, and led to a substantial expansion of market multiples, has most likely topped. Higher taxes in various forms are already present or coming soon, while a rise in interest rates and inflation seem to be all but certain; the only question is when. Valuations seem reasonable, but are not nearly as compelling as those in the early 1980s, which was the last time the economy experienced a deep recession and excessive levels of unemployment. These developing headwinds are also compounded by a stubbornly high unemployment rate and a significant overleveraging problem across the developed world. Excessive leverage is a problem facing federal, state, and local governments, as well as the consumer. In aggregate, we term this confluence of negative factors the "new market realities."

Notwithstanding periodic market rallies, these negative factors constitute a new market reality that will likely result in an extended period of slow growth, continued volatility and periodic crisis. In this environment, investors who follow a traditional "buy and hold" approach may be dissatisfied with the results, as well as enduring unnecessary volatility. Rather than accept more risk in a macro environment with dampened return potential, investment strategies must be systematically adapted for these new market realities.

5. RISK FIRST™ INVESTING: PLANNED RETURN STRATEGY® IS OPTIMIZED FOR THE NEW MARKET REALITIES

When John Bogle introduced the first index mutual fund in 1976, it represented an improvement in passive investing. The first ETF – launched by State Street Global Advisors in 1993 – was an additional innovation. Both of these instruments allowed investors to more efficiently get the "average" returns of the market; index mutual funds allowed this by providing a prepackaged method of buying an index, and ETFs went a step further by improving on the tax efficiency and liquidity of index mutual funds.

...due to the new market realities a “buy and hold” approach is likely to be unsatisfactory and stock picking ability is likely to be of lesser value.

But at the core of these instruments is the assumption that the best passive strategy for every investor is to realize the index returns for a specific market segment – (i.e., that over a sufficient time horizon index investments will provide a worthwhile return). What if the risk-reward tradeoff of “average returns” is not good enough? In other words, due to the new market realities a “buy and hold” approach is likely to be unsatisfactory and stock picking ability is likely to be of lesser value. Given our view of the new market realities, we want to manage downside risk and enhance modest market returns in a liquid, transparent, unleveraged and reasonable-fee vehicle. Importantly, human judgment, which we use to analyze the current financial landscape, led us to create this enhanced/hedged market return strategy. More specifically, Risk 3.0 Planned Return Strategy®*:

- Doubles the price return of the S&P 500, up to a cap (typically in the 8.5% - 12% range).
  - The return enhancement component takes on increased importance in a slow growth economic environment.
- Eliminates the first 12% of price losses for the S&P 500.
  - In contrast, no hedge fund or traditional “buy and hold” strategy can guarantee loss protection.
- Utilizes a systematic, investment strategy, investing in regularly placed tranches over a period of 12 months.
  - This systematic implementation, reduces entry and exit point risk.
- Holds highly liquid and transparent positions in a separately managed account.
  - The strategy holds the S&P 500 ETF and exchange traded options on the S&P 500.
  - The Endowment Model failed during the Credit Crisis due to its overreliance on leverage and illiquid assets.
  - Lack of transparency, nearly always part of hedge funds, took on increasing importance in the wake of the unprecedented Madoff fraud.
- Charges reasonable fees of 1.2% per annum to retail investors.
  - The fees compare favorably to the average 1.3% fee in actively managed, domestic, long only equity mutual funds and are much lower than the traditional 2/20 charge of hedge funds or the non-disclosed fees on structured products sold by many Wall Street banks.

* *Note: While the pattern of returns is “set,” if the Risk 3.0 Investment Committee determines the market environment is undergoing a structural change that affects Planned Return Strategy®, the Committee will consider altering the structure of the tranches. This could include either removing the 2x upside return multiplier or decreasing the downside buffer (e.g., to 10% from 12%) or some combination thereof. Or, it could mean an increase to the upside multiplier or an increase in the downside buffer. Despite this potential scenario, Risk 3.0 Asset Management is committed to managing Planned Return Strategy® as a passive investment strategy and will make adjustments to the strategy's structure only due to a structural change in the market.*

While traditional methods of portfolio management often use 30-year data trends, we created Risk 3.0™ based on our Investment Committee's belief that return patterns are fundamentally changing.

Risk 3.0 Planned Return Strategy® has been active since August 2009 and currently has $250 million in committed assets (as of Q1 2011). It is the first investment strategy on the Risk 3.0™ Investment Solutions platform. Other solutions include Risk 3.0 Third Rail Strategy™, which protects against "black swan" events or steep losses while retaining attractive upside potential, and Risk 3.0 Accelerated Return Strategy™, which enhances market returns during moderate to strong rising markets without significantly increasing downside risk. Planned Return Strategy® performance through 3/24/11 is included in Appendix A. For the most up-to-date performance data, please request our Planned Return Strategy® quarterly report.

6. BENDING THE RISK CURVE WITH FORWARD LOOKING HUMAN JUDGMENT

Risk 3.0™ began with the concept that investment strategies needed to better reflect the current structure of risk and return in today's markets. To achieve this risk-centric paradigm, which ultimately resulted in the creation of Risk 3.0 Planned Return Strategy® and the family of Risk 3.0™ Investment Solutions, we used a four-step approach:

1. Analyze current risk-return patterns and macro factors
2. Identify trends
3. Develop a strategic focus
4. Build investment solutions optimized for the strategic focus

6a. Current Risk-Return Patterns and Macro Factors

While traditional methods of portfolio management often use 30-year data trends, we created Risk 3.0™ based on our Investment Committee's belief that return patterns are fundamentally changing. This structural shift is due to a variety of macro risk factors that we have previously termed the "new market realities." This challenging outlook led us to pose two essential questions:

- How is the pattern of returns for the market actually changing, and how will macro factors prolong or exacerbate this trend?
- What is the opportunity for investment solutions designed for the current risk-return environment?

We needed to answer these two questions in order to develop a broad strategic focus for Risk 3.0™. This strategic focus, in turn, would guide the investment solutions to be developed and incorporated into Risk 3.0™.

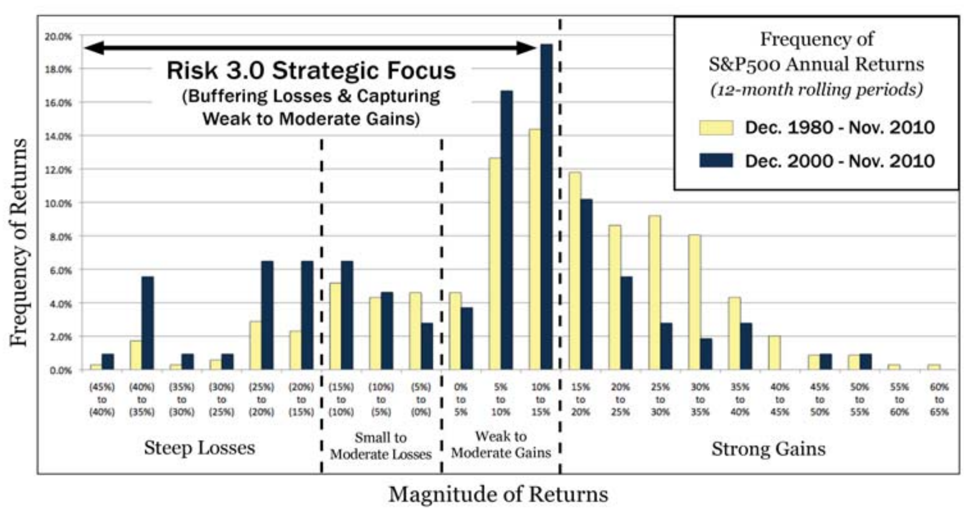
There is an obvious shift of returns toward smaller gains and larger losses.

6b. Identifying the Trending Pattern of Returns

We began our analysis by tracking data trends across a variety of market measures. **Figure 1** below shows how 12-month rolling returns of the S&P 500 have been distributed over the past 30 years (in yellow) and 10 years (in blue). For example, the figure demonstrates that S&P 500 investors experienced a loss of between 15% and 20% (for a 12-month period) about 2% of the time between January 1981 and December 2010.

However, the distribution of returns for the most recent 10 years looks quite different. Instead of experiencing a 15%-20% loss about 2% of the time, investors experienced that level of loss almost three times as frequently. There is an obvious shift of returns toward smaller gains and larger losses. In aggregate, this shift is quite significant: Over the past 30 years, investors experienced losses about 22% of the time, while over the past 10 years investors have experienced losses about 34% of the time.

FIGURE 1: 30 YEAR VS. 10 YEAR ROLLING RETURNS FOR THE S&P 500 INDEX



...the next 10 years are more likely to look like the last 10 rather than the last 30.

6c. Developing a Strategic Focus

To develop a strategic focus based on the historical return data shown in **Figure 1**, we divided the S&P 500's pattern of returns into four categories:

- Steep Losses: -15% to -45% Return Range
- Small-to-Moderate Losses: 0% to -15% Return Range
- Weak-to-Moderate Gains: 0% to 15% Return Range
- Strong Gains: 15% to 65% Return Range

The shift in frequencies between the different return categories is striking, and can be most easily seen by graphing the same data as above in horizontal bars. In **Figure 2** below, each bar represents 100% of the rolling 12-month returns for a period, so if a certain level of returns occurs more frequently, it is represented by a wider portion of the bar. Based on this representation, it is easy to see that the last 10 years saw significantly more periods of losses and small-to-moderate gains.

Although past performance is not a predictor of future results, because of the new market realities outlined above, we believe this market trend will continue. In other words, the next 10 years are more likely to look like the last 10 rather than the last 30.

FIGURE 2: 30-YEAR AND 10-YEAR HISTORICAL RETURN RANGES FOR THE S&P 500

By putting emphasis on certain classes of returns… we have been able to develop strategies that are individually and collectively optimized for these new market realities.

As a result, this analysis helps us form a Risk 3.0™ strategic focus. Because of the increased prevalence of these classes of return – and our outlook that this trend will continue – Risk 3.0™ seeks to buffer losses and capture weak-to-moderate gains. Importantly, we are not simply data mining. Our current assessment of macro factors, exemplified by the "new market realities," suggests that this trend will continue for the foreseeable future.

6d. Building Investment Solutions for the Strategic Focus

By putting emphasis on certain classes of returns (Steep Losses, Small-to-Moderate Losses and Weak-to-Moderate Gains), we have been able to develop strategies that are individually and collectively optimized for these new market realities. We accomplish this goal by planning returns for an investment so that the investment works most efficiently within a predefined set of market outcomes. Risk 3.0 Planned Return Strategy® , for example, is designed to effectively eliminate small-to-moderate losses and accelerate weak-to-moderate gains. An additional strategy that we noted earlier, Risk 3.0 Third Rail Strategy™, protects against steep losses and does well in a weak-to-moderate gains scenario. And to complete the core family of solutions, Risk 3.0 Accelerated Return Strategy™ focuses primarily on small-to-moderate market gains without significantly increasing downside risk. Together, these strategies effectively provide core equity exposure designed for the Risk 3.0™ Strategic Focus – buffering losses and capturing weak-to-moderate gains. The concept can easily be extended to other asset classes, such as commodities and international investments, where investors desire exposure, but yet also want material risk management and downside protection.

7. CONCLUSION

Investors lost faith in the traditional methods of portfolio management. Previous notions of risk were either improperly measured or a distant afterthought to expected return. Our Risk 3.0™ framework uses a risk-centric process to develop and implement investment solutions. By combining trend analysis with a market outlook based on macro risk factors, it is possible to develop liquid, transparent, unleveraged investment solutions that are better suited for the current market conditions, and all with a reasonable fee structure. In our view, this approach enables investors to effectively deal with the "new market realities" of slow growth and heightened volatility, punctuated by periodic financial crises.

Our Risk 3.0™ framework uses a risk-centric process to develop and implement investment solutions.

APPENDIX A:

TABLE 4: Actual Returns, Planned Return Strategy® performance through 3/24/11

STRUCTURE	ISSUE DATE	EXPIRATION	UPSIDE RETURN CAP	DOWNSIDE PROTECTION	S&P 500 EX-DIVIDENDS	ACTUAL RETURN
1	8/25/09	8/27/10	12.33%	-11.96%	3.25%	6.08%
2	9/8/09	9/10/10	12.20%	-12.06%	8.63%	11.99%
3	9/22/09	9/24/10	11.48%	-12.03%	7.31%	11.42%
4	10/13/09	10/15/10	11.93%	-12.09%	9.49%	11.87%
5	10/27/09	10/29/10	11.93%	-12.06%	11.00%	11.85%
6	11/10/09	11/12/10	11.23%	-12.01%	10.02%	11.14%
7	11/24/09	11/29/10	12.21%	-11.99%	7.84%	12.06%
8	12/8/09	12/10/10	11.84%	-12.07%	13.42%	11.72%
9	12/28/09	12/30/10	10.51%	-12.00%	11.75%	10.46%
10	1/26/10	1/28/11	10.10%	-12.01%	16.91%	10.08%
11	2/5/10	2/8/11	10.62%	-12.02%	26.77%	10.61%
12	2/9/10	2/11/11	10.06%	-12.00%	24.11%	10.05%
13	3/22/10	3/24/11	8.51%	-12.01%	12.46%	8.49%
		Average	11.15%	-12.02%	12.49%	10.60%*

** Net of all commissions; before management fees*

TABLE 5: Hypothetical Returns, Planned Return Strategy® performance through 3/24/11 (SPY=130.9)

STRUCTURE	ISSUE DATE	EXPIRATION	UPSIDE RETURN CAP	DOWNSIDE PROTECTION	S&P 500 EX-DIVIDENDS	HYPOTHETICAL RETURN*
14	4/8/10	4/11/11	8.52%	-12.00%	10.93%	8.52%
15	4/16/10	4/18/11	8.53%	-12.00%	9.72%	8.53%
16	4/27/10	4/29/11	9.35%	-12.00%	10.32%	9.35%
17	5/4/10	5/6/11	10.51%	-12.00%	11.17%	10.51%
18	5/11/10	5/13/11	11.00%	-12.00%	11.88%	11.00%
19	5/25/10	5/27/11	14.63%	-12.00%	23.78%	14.63%
20	6/8/10	6/10/11	12.54%	-12.00%	23.72%	12.54%
21	6/22/10	6/24/11	11.01%	-12.00%	17.40%	11.01%
22	7/13/10	7/16/11	11.28%	-12.00%	19.33%	11.28%
23	7/27/10	7/29/11	10.72%	-12.00%	17.29%	10.72%
24	8/10/10	8/12/11	9.55%	-12.00%	16.88%	9.55%
25	8/30/10	9/6/11	12.59%	-12.00%	24.43%	12.59%
26	9/13/10	9/13/11	9.86%	-12.00%	16.36%	9.86%
27	9/27/10	9/27/11	9.61%	-12.00%	14.32%	9.61%
28	10/15/10	10/18/11	10.03%	-12.00%	11.40%	10.03%
29	10/29/10	11/1/11	9.06%	-12.00%	10.46%	9.06%
30	11/12/10	11/15/11	8.64%	-12.00%	8.54%	8.64%
31	11/29/10	11/29/11	9.25%	-12.00%	10.70%	9.25%
32	12/28/10	12/13/11	8.52%	-12.00%	4.14%	8.27%
33	1/4/11	12/27/11	8.81%	-12.00%	3.68%	7.37%
34	2/17/11	2/18/12	6.98%	-12.00%	-2.35%	0.00%
35	2/25/11	3/5/12	8.17%	-12.00%	-1.06%	0.00%
36	3/8/11	3/20/12	9.10%	-12.00%	-1.21%	0.00%
37	3/18/11	4/3/12	10.04%	-12.00%	2.31%	4.63%
		Average	9.93%	-12.00%	11.42%	8.62%*

* *The Hypothetical Return is calculated from the purchase date and excludes the option component of the price of each structure at any given time. However, the option component of the pricing disappears over time as a given structure reaches maturity. The results portrayed do not reflect the deduction of The MDE Group, Inc. advisory fee that could be equal to 1.2% per year. Actual returns will be reduced by the deduction of these fees.*

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