



Active Management MultiplierSM

— A Hidden Advantage

Spectrum Financial is a strong proponent of utilizing Active Management in its investment strategies through VISIONMAXXSM. The strategies are actively managed to anticipate and respond to trends in differing types of capital markets. With strategies that identify, quantify, and control elements of risk, Spectrum Financial can provide investors with reduced risk and volatility.

Spectrum's strategies are actively managed to seek steady gains while limiting losses. The goal of active management is not to buy at the exact low or to sell at the exact high. The goal is to move into cash and to side-step the volatile negative periods so that cash is available to reenter the market when an uptrend begins.

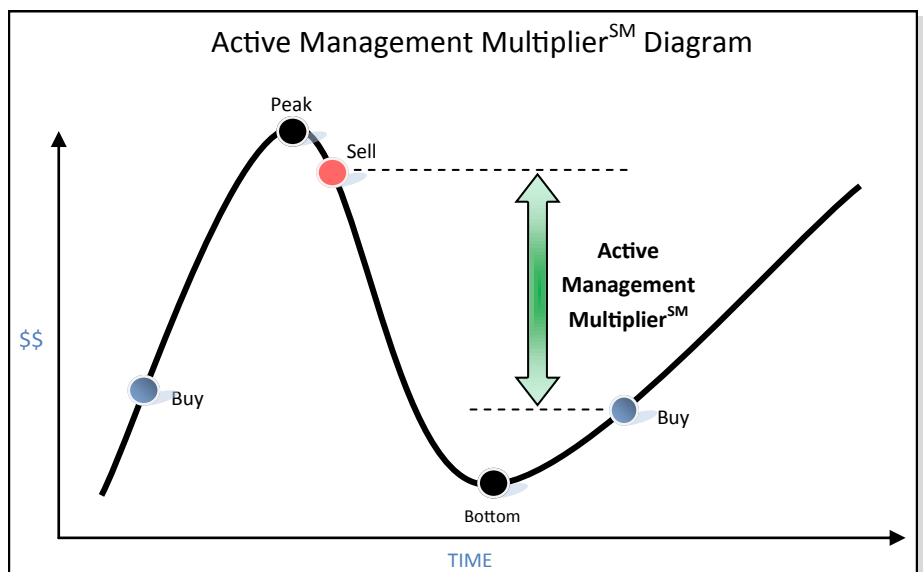
A study published in *The Journal of Wealth Management, Spring 2012*, titled "Tactical Equity Investing Across Bull and Bear Markets", examined equity data for the U.K. market for the 1980-2006 period. One of the study's conclusions is that at the beginning of a down market, tactical strategies going to 100% cash or moving to a more defensive allocation based on size and value characteristics improve portfolio performance over a "buy-and-hold" strategy.

Mebane Faber (2007, 2009) in "A Quantitative Approach to Tactical Asset Allocation" published in the *Journal of Wealth Management, Spring 2007 and February 2009 - Update*, demonstrated that investors should be "long" in the market when the asset class is in an uptrend and in cash when the asset class is in a downtrend. His study spanned over three decades, 1973-2008, and calculated the results of a buy-and-hold strategy versus an active management strategy for five (5) separate asset classes. The maximum drawdown for the buy-and-hold strategy ranged from 18.79% (10-year bonds) to 62.16% (commodities). In contrast, the maximum drawdown for the active management strategy was 9.53% showing that active management may provide significant risk-reduction over a buy-and-hold strategy.

Active Management MultiplierSM

One powerful concept underlying active management that is not readily apparent to the casual investor is the Active Management MultiplierSM. The Active Management MultiplierSM represents the advantage Spectrum Financial strategy managers have over a passive buy-and-hold strategy and is the "alpha" that investors look for in analyzing a money manager's performance.

The Active Management MultiplierSM is at work in both "normal" and "volatile" markets. In up-trending markets, Spectrum's strategy managers remain invested to benefit from capital appreciation. During their daily analysis of broad, intermediate, and short-term indicators, the strategy managers detect when the uptrend is slowing and reversing its advance. Based on a multiple technical signal consensus, the strategy managers elect to go to 100% cash to lock in profits and preserve clients' wealth. Daily signal monitoring continues as each Spectrum strategy is focused on a



different asset class that possesses its own time frame. When the technical signals indicate that the downtrend has

reversed itself and an uptrend is established, the strategy managers reenter their investment positions at a lower price. The increased cash position from the prior “sell” enables the strategy managers to purchase an ever increasing number of shares.

To clarify the Active Management MultiplierSM concept, Figure 2 below illustrates its power. The example occurs over a three-year time period and involves the purchase of \$5,000.00 of XYZ mutual fund by two investors—one using an active management strategy and one using a buy-and-hold passive strategy.

The share purchases are made in Year 1 at the beginning of an uptrend for XYZ mutual fund. Both investors purchased the stock on the same day at the same price (\$50.00). During the course of Year 1, XYZ shares benefitted from the market uptrend and its price appreciated 20% to a year ending price of \$60.00.

In the beginning of Year 2, the Active Management Investor detected that XYZ’s price uptrend had ended and a downtrend had begun. The downtrend was confirmed after XYZ lost 3% of

its price. The shares were sold at \$58.20 resulting in an account balance of \$5,820.00. In contrast, the Buy & Hold Investor did nothing and began the ride down. The end of Year 2 saw the active management investor account balance to be \$5,820.00 while the Buy & Hold Investor account balance to be only \$4,800.00.

Year 3 saw the end of the market downturn and the Active Management Investor detected an uptrend developing, and reentered his XYZ mutual fund position at \$49.44. His cash balance of \$5,820.00 enabled him to purchase 117.72 shares of XYZ mutual fund. By year-end, the fund’s price appreciated to \$57.60. Over the three-year cycle, the Active Management Investor’s account had increased 35.61% while the Buy & Hold Investor’s account had increased 15.20%. The active management strategy managers realized an annual Active Management MultiplierSM advantage of 6.80% for the three-year period.

Active Management MultiplierSM Example						
<u>Year 1 - Uptrending Market XYZ Mutual Fund</u>						
	<u>Shares</u>	<u>Buy</u>	<u>Total</u>	<u>Year-End</u>	<u>Year-End Balance</u>	
Active Management Investor	100	\$ 50.00	\$ 5,000.00	\$ 60.00	\$ 6,000.00	
Buy & Hold Investor	100	\$ 50.00	\$ 5,000.00	\$ 60.00	\$ 6,000.00	
<u>Year 2 - Drawdown Market XYZ Mutual Fund</u>						
	<u>Shares</u>	<u>Sell - 3% decline</u>	<u>Acct. Balance</u>	<u>Price Year-End</u>	<u>Year-End Balance</u>	
Active Management Investor	100	\$ 58.20	\$ 5,820.00	n/a	\$ 5,820.00	
Buy & Hold Investor	100	n/a	\$ 5,820.00	\$ 48.00	\$ 4,800.00	
<u>Year 3 - Uptrending Market XYZ Mutual Fund</u>						
	<u>Shares</u>	<u>Buy - 3% uptrend</u>	<u>Total</u>	<u>Year-End</u>	<u>Year-End Balance</u>	
Active Management Investor	117.72	\$ 49.44	\$ 5,820.08	\$ 57.60	\$ 6,780.67	
Buy & Hold Investor	100	n/a	\$ 4,944.00	\$ 57.60	\$ 5,760.00	
					Active Management Advantage \$ 1,020.67	
					Active Management MultiplierSM 6.80%	

Figure 2: Active Management MultiplierSM Example

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