MARKET OUTLOOK

A publication of Strategis Financial Group and MarketOwl.com

Understanding active management

At Strategis Financial Group, our method of managing investment assets is non-traditional. We describe it as active management, which includes active risk management and active asset allocation.

Those terms don't really provide a complete description of what we do or how we do it. But we think it is important for our clients and prospective clients to understand our philosophy and methodology.

Understanding client needs

Anyone contemplating having an account with Strategis will be asked to complete a risk evaluation worksheet. This form asks detailed questions about one's personal life and probing questions about one's financial and investment experience.

Sometimes an individual questions why we need to know such detailed personal information. As a registered investment advisor, we are required by law to know as much about one's personal financial situation as possible. This enables us to make investment recommendations and decisions that are appropriate for an individual's needs and circumstances.

Strategis currently has seven managed investment strategies. Some use mutual funds as the investment vehicles, some use exchange-traded funds (ETFs), and one uses stocks.

After reviewing one's individual investment needs, a Strategis advisor will recommend an investment plan that may include one or more of these strategies.

About our methodology

In making investment decisions, Strategis uses a combination of technical, fundamental and cyclical analysis. Then we add an extra component of mathematical evaluation.

Fundamental analysis helps us assess overall market health. This is generally a broad-based approach considering economic elements like unemployment, money supply, consumer sentiment, retail sales reports, etc.

Cyclical analysis is used to assess both the market and individual investment vehicles. Tools like stochastic oscillators are used to determine whether a market, sector, or individual issue is overbought (meaning buyers have bid up its price) or oversold (meaning sellers have driven down the price).

Strategis uses a wide array of technical analysis tools to evaluate markets and individual investment vehicles. These include moving averages, relative strength, moving average convergence divergence (MACD), summation, advance/decline, standard deviation, beta, bollinger bands, etc.

The chart above illustrates the use of a 50-day moving average (the gold line on the top portion of the chart), as well as a MACD (middle portion) and RSI (bottom). In this instance, each of these indicators is showing that at the most current date of the chart, the S&P 500 was dominated by technical weakness.

We check individual positions and the markets daily—usually several times each day.

Unfortunately, none of these tools is foolproof, whether used alone or in combination. In many ways the process is similar to forecasting the weather. Even with many advanced tools and lots of historical data, it is impossible to be totally accurate in one's predictions.

The proprietary element

There is one aspect of our methodology that makes us different from any other advisor. Our chief strategy creator and consultant is Rod Jackson. He has created a mathematical system for comparing and evaluating investment vehicles.

Mr. Jackson's system looks at each position in comparison with other possible alternatives. It is a filtering process.

It is similar to going to an optometrist's office to get fitted for eyeglasses or contacts. The optometrist asks the patient to look through two different lenses and then to identify which offers the clearest view. After looking through many alternatives, the best prescription is identified.

Mr. Jackson's filtering system looks for things such as upward momentum of an investment, volatility, liquidity and more.

The process requires a powerful computer and takes several hours to complete. Mr. Jackson runs the program every day.

Once the program identifies the top selections for a specific strategy, Mr. Jackson then does a personal fundamental review of each position to make certain there are no anomalies causing it to rise to the top of the list.

Active Asset Allocation

Strategies are differentiated by the type of investment, the selection set, and by the investment objective.

For example, the Focus Growth Strategy can invest in ETFs of traditional mutual funds. It generally holds only a single position at any given time.

In contrast, the Quantitative Equity Strategy invests in individual stocks. It can hold up to 40 stocks at any given time, but invests no more than 2.5% in any one position.

Traditional asset allocation is designed to seek diversification. The philosophy is that risk is reduced by dividing assets among different classes of investments.

The Strategis philosophy of active asset allocation is different. At times when many market sectors are showing strength, there is an attempt to seek diversification.

However, during periods of overall market weakness when only a few sectors are showing strength, assets will be positioned in the strong sectors and away from the weaker areas.

Whether the market is weak or strong is determined by measurements such as comparing advancing issues versus declining issues, numbers of stocks making new highs compared to those making new lows, and comparing relative strength indices.

By positioning more assets toward strength, at times this could result in a portfolio that is overweighted in specific market sectors. Some would argue that risk increases as a result. A contrary opinion is that it is even more risky to remain in market sectors that are declining.

During the 2000-2002 bear market and during the current bear market that began in October

Investment Company Act, Rule 3a-4

As your investment advisor, we are required by the Investment Company Act, Rule 3a-4, to make recommendations in accordance with your individual needs and financial circumstances. We must also periodically check to ensure that these needs and circumstances have not changed. So if there have been changes in your financial circumstances, please contact your advisor at **1-800-279-3377**. We will be happy to make any necessary adjustments in your portfolio selection.

Important Investor Information:

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance of any specific Strategis strategy will be profitable or reach its performance objective. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be either suitable or profitable for a specific investment portfolio. Certain portions of this newsletter contain a discussion of various positions and beliefs as to current and anticipated market conditions, which are based upon professional judgment. However, there can be no assurance that any such position or belief will prove to be correct. In addition, due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or belief(s). Finally, no reader should assume that any such discussion serves as a substitute for personalized advice from Strategis or any other investment professional.

Securities offered through Stonehurst Securities Inc., a Registered Investment Advisor/Broker Dealer

The chart above illustrates how potential risk and potential reward increase as investments become more aggressive. The Actively Managed side illustrates how Strategis Financial Group strategies compare on a risk/reward scale to a traditional buy and hold approach.

2007, traditional asset allocation failed to provide portfolio protection. Diversification accomplished little to protect investors from risk because virtually all market sectors declined with a high degree of correlation.

The Strategis methodology provides an additional alternative layer of risk management. During the mathematical filtering process, a money market position is included as an investment option in each strategy.

When market risk increases, the money market fund will begin rising to the top of the selection process as it begins to outperform other investment alternatives. As a result, assets in each strategy will be allocated to money market positions as warranted. As we saw during 2008 and so far in 2009, during periods of high market risk, 100 percent of portfolio assets could be allocated to a money market fund.

Bear market recovery plan

After a major bear market occurs, a fear of many investors is that if they are out of the market, they will miss out on a recovery. This is one of the major arguments of those who advocate a buy-and-hold philosophy.

At Strategis Financial Group, we believe that the same technical tools that tell us when it is time to get out of the market will help us identify when market momentum (and market risk) is at a low point. That helps us determine a time to reinvest into the market.

Because most of the tools we use are lagging indicators, rarely can we pinpoint exact market bottoms or tops. But this can work to our advantage to help avoid being whipsawed by short-term market moves.

Our goal is to participate in long-term upward trends and to avoid major downtrends. If we capture two-thirds of a major rally and miss two-thirds of a severe bear market, we have achieved our portfolio management objective.

Of course, past performance is no guarantee of future results and their is no guarantee we will be able to achieve our management objectives.

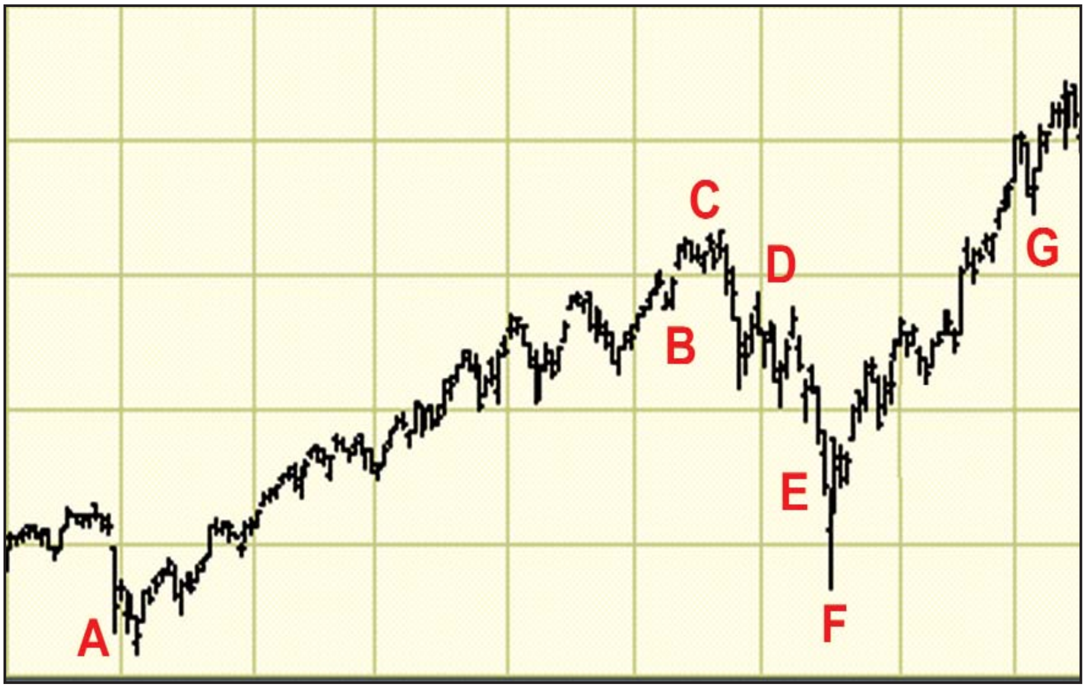
Initial trades in new accounts often lose money

Choosing exactly when to invest new account money into the market can be a tricky challenge for an investment advisor.

The chart on the next page depicts typical market action. The concept it represents is simple: buy low and sell high. We want to buy at Point A, sell at Point C and buy again at Point F. Unfortunately, it doesn't usually work that way.

When an investor becomes a client, the chance that the current market cycle will be at Point A is remote. It could be at Point B. In that case, the account would initially experience a small gain if we sold at Point C.

But what if we failed to recog



The chart above is for illustrative purposes only. It does not reflect actual trading or performance of any Strategis Financial Group strategy or client account.

nize the exact top and sold at Point D? The account could actually lose money on the trade and the investor might start to wonder about our ability to assess the markets.

On the other hand, clients who were with us when we bought at Point A would be quite pleased with our performance. Although we missed the exact market top, we still captured a nice gain and helped them avoid a sizeable loss.

Perhaps someone else becomes a client when the market is at Point D. Because the market is in a down cycle, we start the account in a money market fund. Later, recognizing that a bottom is near, we buy at Point E. But again, we failed to pinpoint the exact bottom and the account decreases in value while we wait for the market to turn up. If the client holds on until we sell at Point G, he will realize a gain.

The point is, in many cases, there is a good chance that the initial trade in one's account will not be profitable. It can take the market more than a year to go through a complete cycle. The cycles are not always regular and well defined. There are times when the market only completes half a cycle before turning back down or back up.

That is why Strategis recommends that clients plan on investing their assets for a minimum of three to five years to allow the cycles a fair chance to work in their behalf.

Experienced advisor joins Strategis Financial Group

Dave Udall recently joined Strategis as a financial advisor and investment advisor representative. He worked at Morgan Stanley prior to his association with Strategis.

Before joining the financial industry, Mr. Udall had a successful sales career in the software industry and was a top sales manager with companies like Power Quest and Symantec

He has an MBA degree from University of Phoenix and a bachelor's degree in communications from Brigham Young University.

Dave has been active in local politics and in coaching youth in baseball and basketball. He is involved in church, community and family history work.

He likes to golf, swim, hike, travel and play tennis with his wife and family. He has 12 children and is happily married to Laurel Benson Walker Udall of Calgary, Alberta.

He was born in Phoenix, Arizona, but grew up mainly in California.