



## **AlphaSector™ strategies protected investors from extreme volatility while delivering market-level returns during turbulent 2011**

### *Key takeaways:*

- Volatility dominated the markets in 2011, and in response the AlphaSector strategies adapted to market conditions by aggressively “de-risking.” AlphaSector Premium Index reduced overall volatility by 43% versus that of the S&P 500 in 2011.
- AlphaSector Premium Index returned 1.7% for the year, lagging the S&P 500’s modest 2.1% gain by only 40bp.

## **Sustained Market Volatility was the major challenge to investors in 2011**

In the equity markets, 2011 may have ended nearly flat, but investors experienced an uncomfortable up-and-down ride. Volatility rattled the markets, especially in the second half of the year:

- The first quarter of 2011 was **the best Q1 since 1998** for the S&P 500 TR Index. The third quarter was the **worst Q3 since 2008**.
- The VIX reached a high of 30 or more during twenty weeks in 2011, a level of volatility exceeded in only two periods since 1989: the 2002 and 2008-2009 market crashes.
- Between August 1 and December 1, the S&P 500 saw **eight declines of 5% or more and eight advances of 5% or more**. The total of sixteen such movements means that, on average, big swings were a weekly occurrence.

The headlines echoed the market swings and added to investor uncertainty. Stories on the sluggish economy at home and abroad, US government deficits, and the Euro credit crisis added to investor uncertainty. Investors responded to the heightened risk: according to Morningstar, US stock mutual funds lost \$101 Billion during 2011, the worst year since 2008.

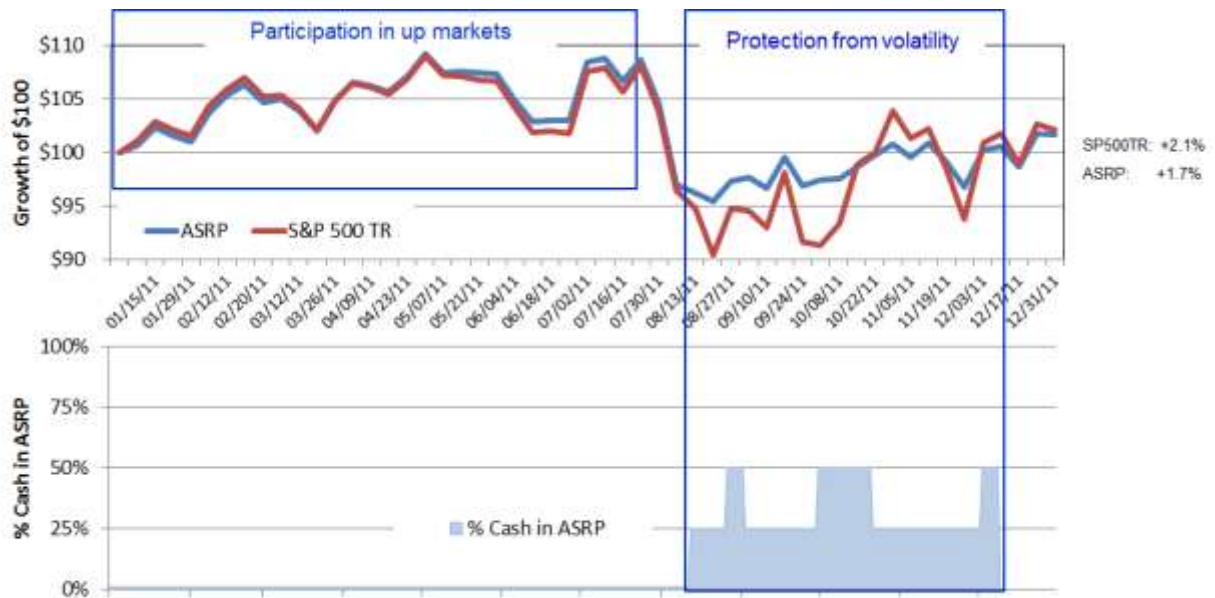
Although the S&P 500 TR Index advanced 2.1% for the full year 2011, that seemingly dull outcome conceals a year of volatility and anxiety for most investors.

## **The AlphaSector strategies protected clients from the worst of market volatility**

A key aspect of the value proposition of AlphaSector is the ability to “**de-risk the portfolio**” in volatile and negative markets. In an extended bear market, as in 2008-2009, the goal is to reduce capital loss. In periods of up-and-down swings such as 2011, the dual objectives are to 1) position the portfolio defensively to move quickly to cash if the markets deteriorate significantly, and 2) to reduce volatility and its negative impact on clients.

The AlphaSector Premium Index achieved that objective, as the following chart shows:

**When the S&P 500 Total Return Index (red line) showed extreme volatility, the AlphaSector Premium Index (blue line), provided a smoother ride for investors and yet delivered virtually identical returns.**



Source: Morningstar, F-Squared Investments

- When volatility spiked in late July and August, **the AlphaSector Premium Index reduced exposure to the most volatile sectors and assumed a defensive part-cash position.** Cash remained in the portfolio, at 25% or 50% weighting, into early December.
- The AlphaSector Premium Index ended 2011 with a one-year return of 1.7% versus 2.1% for the S&P 500 Total Return Index. AlphaSector Premium therefore came within 42 basis points of the S&P return, **but AlphaSector had 43% less volatility for the year than the S&P.** Standard Deviation for 2011 was 9.1% for AlphaSector Premium versus 15.9% for the S&P 500.
- Using Morningstar's US Large Blend Funds as a peer group, the AlphaSector Premium Index outperformed the 1.5% return threshold for Top Quartile performance and strongly exceeded the -1.2% return of the Peer Group Average. *Note: as an index, AlphaSector Premium does not reflect expenses.*

### Delivering on the real needs of investors:

- Most investors experienced 2011 as a very rough ride. They needed protection from volatility, which can create anxiety and weaken commitment to investment plans.
- AlphaSector delivered a measurably smoother, less volatile investing experience in 2011. For advisors, this can help you keep clients on track, preserving your time to build their portfolios and your practice.

See important disclosure (attached).

**IMPORTANT INFORMATION:**

“AlphaSector” is a service mark of F-Squared Investments, Inc. This material is proprietary and being provided on a confidential basis, and may not be reproduced, transferred or distributed in any form without prior written permission from F-Squared Investments, Inc. or F-Squared Investment Management, LLC (collectively, “F-Squared”). F-Squared reserves the right at any time and without notice to change, amend, or cease publication of the information. This material has been prepared solely for informative purposes. The information contained herein includes information that has been obtained from third party sources and has not been independently verified. It is made available on an "as is" basis without warranty.

Investment products that may be based on AlphaSector Indexes are not sponsored by F-Squared, and F-Squared does not make any representation regarding the advisability of investing in them. F-Squared serves as the model provider to various investment advisers and does not provide investment advice to any managed account clients, nor will it be a party to any client agreements. There is no guarantee that an investor’s account will achieve its objectives or avoid losses. Inclusion of a mutual fund or an exchange traded fund in an index does not in any way reflect an opinion of F-Squared regarding the investment merits of such a fund, nor should it be interpreted as an offer of such a fund’s securities. None of the mutual funds or exchange traded funds included in an index has given any real or implied endorsement or support to F-Squared or to this index. One cannot invest directly in an index.

The *AlphaSector Premium Index* is based on an active strategy with an inception date of April 1, 2001. Inception date is defined as the date as of which investor assets began tracking the strategy. The process of converting the active strategy to an index implies that the returns presented, while not backtested, reflect theoretical performance an investor would have obtained had it invested in the manner shown and does not represent returns that an investor actually attained, as investors cannot invest directly in an index. No representation is being made that any client will or is likely to achieve results similar to those presented herein.

Theoretical and hypothetical performance has certain inherent limitations. Backtested results in general also are subject to the fact that they have been prepared with the benefit of hindsight and reflect certain assumptions, including those described below or in the attached presentation. No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered. To the extent that the assumptions made do not reflect actual conditions, the illustrative value of the hypothetical results will decrease. The hypothetical results shown may under or over compensate for the impact of actual market conditions and other factors such as expenses.

The results shown do not reflect the deduction of any advisory fees or expenses, nor trading costs, both of which will decrease the return experienced by a client. The performance is adjusted to reflect the reinvestment of dividends. The fees and anticipated expenses will be specified in each client agreement. F-Squared’s fees will be made available upon request and are disclosed in its publicly-available Form ADV Part 2A.

The *AlphaSector Premium Index* was constructed to reflect the intended portfolio composition for client accounts that will trade utilizing the Index as its Model Portfolio. It is an index of sector-based ETFs and an ETF that reflects short-term Treasury securities. It is based on an active strategy with an inception date of April 1, 2001.

The S&P 500 Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as a representative of the equity market in general.

None of the indices referred to herein reflect the deduction of the fees and expenses to be borne by a client, whose managed account may trade and invest in different financial instruments than those in a particular index. Concentration, volatility and other risk characteristics of a client’s account also may differ from the indices shown herein. Index data is provided only for reference purposes and is not intended to suggest that any client will achieve performance similar to, or better than, an index.

F-Squared Investments, Inc. is the source and the owner of the AlphaSector Premium Index and its performance information. AlphaSector is a service mark of F-Squared Investment Management, LLC, and is used with permission.

The peer group is comprised of all open end mutual funds tracked by Morningstar that, according to Morningstar, meet the listed investment category and was selected as a relevant comparison due to the similarity in investment objective of the profiled F-Squared index.

Past performance is no guarantee of future results.

Sources: Morningstar, NASDAQ OMX, F-Squared Investments

A definition of all standard terms used in this presentation can be found at [www.morningstar.com](http://www.morningstar.com).

**All information in this presentation is the property of F-Squared Investments.  
Visit our website at [www.f-squaredinvestments.com](http://www.f-squaredinvestments.com)**