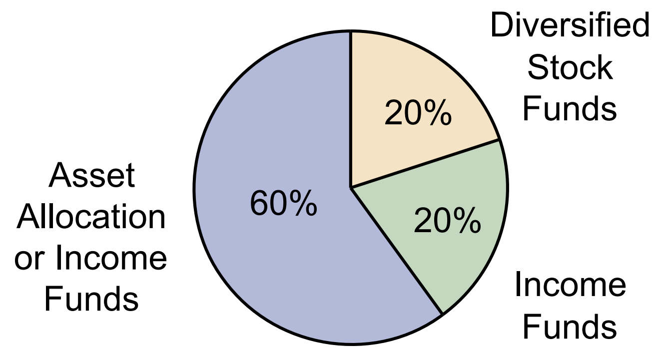
BOWERS WEALTH MANAGEMENT

Non-Sector Low Risk Portfolio



Number of funds held: 3-6
Relative Volatility: 0.4 to 0.8

The Non-Sector Low Risk Portfolio seeks long-term growth by investing in diversified stock funds, asset allocation funds, and income funds, with a neutral mix of 40% stock and 60% bond. Typically it will hold 3-6 domestic funds, representing several hundred unique stock positions, and more than 1000 unique bond positions. Foreign exposure will usually range between 0-15%. The diversified stock fund choices are normally from Fidelity's retail lineup, but we may opt to hold a non-Fidelity fund if a particular stylebox is not well-served under the Fidelity umbrella. The portfolio aims to keep ahead of inflation over the long run.

The portfolio normally includes a mix of broadly diversified stock funds and asset allocation funds, with each fund providing a degree of balance through industry group weighting differences, stylebox variation, or foreign exposure. Other factors considered include risk-adjusted performance, overall volatility, cash/bond level, expense ratio, and manager history. In the future, we may evaluate stock funds from the standpoint of active share and tracking error. This assessment provides insight into how the manager is positioning the portfolio. Studies have shown that funds with high active share and low tracking error tend to outperform their peers.

We also look for funds that have overweighted positions in industry groups that are being recognized for their long-term potential, while at the same time avoiding funds that carry heavy exposure to sectors that may carry more risk than usual. We attempt to identify these sectors through the use of a volatility model that evaluates standard deviation of daily gains and losses for various industry groups over the last 12 months. We compare each sector's result with a prior period of several years, then weight each industry group by its risk-adjusted performance over the last 12 months. Finally, we rank all non-gold sectors according to their potential. This approach gives us a view of what may be favorable and unfavorable industry groups. It's not foolproof, but we believe it may give us an edge in risk-adjusted performance.

The Non-Sector Low Risk Portfolio normally holds actively managed funds, but may invest in index funds during periods of uncertainty or if we believe large-cap stocks will lead the market. Funds from alternative asset classes – such as foreign stocks, convertible securities, high-yield bonds, or real estate – may be held if we believe their potential performance rivals that of domestic stock funds.

During bearish market conditions the portfolio may increase its weighting in income or capital preservation funds, but such defensive measures are not expected to be routine. We believe a stable allocation generates a higher long-term return than trying to boost stock exposure during bullish periods, or reduce it during a bear market.

Dedicated sector funds are excluded from this portfolio to reduce expenses and limit overall risk. ■