

Dynamic Asset Management

Low Risk Asset Growth for All

Overview and Procedure Summary

Dynamic Asset Management Normalized (DAMN) is a low risk, low maintenance plan for long-term investing. It is based on the principles of asset allocation, diversification, and an effective market timing strategy. Funds are invested in asset classes that historically have been poorly-correlated; several investments within each asset class provide diversification; and buy and sell signals are determined through technical analysis of the market resulting in enhanced growth by reducing losses during market downturns.

Financial resources are invested in equal amounts in the five asset classes noted below (these are followed by descriptions and the currently recommended investments). Exchange traded funds are used, the choice of which may vary depending on an assessment of economic conditions and the availability of suitable funds.

1. Fixed Income (Bonds, other Debt instruments, Cash/Cash Equivalents)—[AGG]
2. Domestic Equities (Stocks of U.S. companies)—[SPY]
3. Emerging Markets Equities and/or Debt Instruments—[EEM]
4. Hedges (Gold)—[GLD]
5. Real Estate (REITs)—[IYR]

Note that after allocating 20% of the total stake to each of the five asset classes, manual rebalancing according to a preset timetable to achieve predetermined target percentages is *not required* nor is it recommended because the portfolio automatically self-adjusts and optimizes returns while limiting losses.

Buy/sell/hold determinations utilize a simple two-moving-average strategy involving a “fast” moving average and a “slow” moving average: The trading rules are to invest in a particular class/fund when and only when its fast moving average is greater than its slow moving average, sell a fund when its fast moving average is less than its slow moving average, and keep the proceeds of closed positions in cash until a buying opportunity is signaled for that particular asset class.

One of the beauties of this system is that *decisions are not required*; one doesn't have to worry about when to be in the market or when to be out, just trade when the strategy so indicates. Although each asset class is treated separately with respect to when to buy, hold, or sell, the proceeds from the sale of all investments are comingled in the same brokerage account (which is also used for all purchases).

A central element of this strategy is that investments are checked only once every month which typically requires only about ten to fifteen minutes to complete. Very little time, therefore, must be devoted to program maintenance; you don't have to be watching the portfolio during the month, which reduces stress, and the infrequent trades (the system signals approximately five trades per year on average) results in increased portfolio value.

The following pages contain explanatory figures and results, details about the various DAMN strategies, a Quick Start Guide for initiating these strategies, Cautionary Notes, and our Disclaimer.

If you would like to learn more about this approach feel free to contact me at info@BBInvestmentResearch.com.

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May 1, 2013

Figure 1: Asset Evaluation using Two Moving Averages



Figure 1 illustrates how DAMN trading signals are generated. This example is a chart of the price movement of the S&P 500 (blue line) with moving averages of 30 days (red) and 90 days (green). Note the two instances that they cross (highlighted in circles): one in late November 2012, the other in early January 2013.

Although DAMN uses moving average crosses as potential trading signals, trades are not made until the first trading day of the month following the moving average cross. Thus the moving average cross in November was acted upon, i.e. a trade would have been made, on the first trading day in December. Similarly, the moving average cross in January indicated that a trade should have been made on the first trading day in February.

Dynamic Asset Management Normalized is successful – it makes money without experiencing periods of significant losses – because most (approximately 75%) of the trades made when following this system are winning trades and it exits the market(s) before major downturns such as we experienced in 2007-2009. But as this example illustrates, not all trades made using this strategy are winners; here we would have opened a position (bought the ETF that follows the S&P 500) at a higher price in February 2013 than we would have sold it at in December 2012.

Dynamic Asset Management Normalized:

Two Levels of Risk and Return

Dynamic Asset Management Normalized (DAMN) is currently available in two levels of risk and return: DAMN Basic (DAMN-B) and DAMN Enhanced (DAMN-E).

DAMN-B is the basic strategy. The moving averages employed are 30 day (fast) and 90 day (slow) simple moving averages of the securities' daily closing price. Note that these, and all moving averages presented in this document, are trading days, rather than calendar days. DAMN-B has been used successfully in the market by several investors for periods of from one to three and one half years.

DAMN-E differs from DAMN-B in that the moving averages that determine trade signals have been tailored for each asset class, i.e. rather than all five investment types using the same pair of moving averages as in DAMN-B (i.e. 30 day and 90 day simple moving averages), each investment type uses a unique pair of moving averages to generate trade signals. The tailored simple moving averages have been selected from all reasonable combinations of two moving averages over the trailing ten years. Historical evaluations, i.e. backtesting and forward simulations, suggest that this will result in greater gains without an apparent increase in risk. However, this strategy has not yet been tested in the market; therefore actual trade data, and evaluation of its degree of success, are unavailable.

Figure 2: DAMN vs. Comparators

Metric (based on trailing 10 year data through 2012-12-31)	DAMN-B	DAMN-E	VBINX*	S&P500
Growth of \$10,000 over trailing 10 years	\$25,416	\$34,622	\$18,790	\$17,051
% Gain: Total Compounded over 10 years	154%	246%	87.9%	71.0%
Compound Annual Growth Rate (CAGR)	9.78%	13.2%	6.51%	5.48%
Five Year Rolling Evaluation: Mean Gain	57%	89%	not done	7.4%
Maximum Drawdown (for the previous 10-years) **	14%	6.5%	33%	57%
Drawdown during Crash of 2007-2009	11%	6.2%	33%	57%
Number of Declines (Drawdowns) greater than 5%	4	2	2	9
Recovery Time after Maximum Drawdown (in <u>months</u>)	22	14	37	63
Risk-Adjusted>Returns (Total Gain / Max Drawdown, i.e. a modified CALMAR ratio) ***	12.8	37.8	2.70	1.25
* VBINX is a Vanguard mutual fund that invests 60% in U.S. Equities and 40% in U.S. Bonds.				
** Maximum Drawdown: DAMN-B and S&P500, daily data; DAMN-E and VBINX, monthly data.				
*** Risk Adjusted Returns: S&P500, daily data; DAMN-B, DAMN-E and VBINX, monthly data.				

Figure 2 details the performance of DAMN-B and DAMN-E and compares them to the S&P 500 and VBINX, a Vanguard mutual fund that approximates the commonly recommended mixture of 60% stocks and 40% bonds.

The first four metrics show various ways of evaluating growth: Growth of \$10,000 over the previous 10 years, total compounded percent gain over the same time period, compound annual growth rate, and the results of a rolling period evaluation. Of these, the first three are self explanatory; they are different ways of expressing the same outperformance of the DAMN strategies compared to the Market (S&P 500) and the common balanced approach of 60% stocks plus 40% bonds.

The third metric, the rolling period study, also compared gains over the previous 10 years, but in this case gains were assessed over every five year period that began with the first of each month during the 10 previous years, i.e. the “rolling period” was five years, the periods were advanced monthly, and the total historical time covered was from the beginning of 2003 through the end of 2012. The reported data is the average of the 60 period gains for each strategy. This study indicates that for any month during this time span that the programs were begun, DAMN-B and DAMN-E would have, on average, significantly outperformed the Market.

The next five metrics estimate the risk involved with investing in any of these approaches. Maximum Drawdown and Drawdown during the 2007-2009 market meltdown indicate the losses, in percent, from the previous high for each strategy, index, or fund to the lowest level reached during the period in question. The number of drawdowns greater than 5%, a value many people would consider significant, is yet another risk measure that is greater for the Market than for either DAMN-B or DAMN-E.

The final metric, the Calmar Ratio, is one of several ways of assessing risk-adjusted returns. It is calculated by dividing the total gains of a strategy, index, or fund by the maximum drawdown that that investment experienced in the time period being evaluated.

Taken together, these data indicate that the DAMN protocols return greater gains with less risk than do either the Market or the Vanguard mutual fund.

Figure 3: Growth of \$10,000
10 Year Returns 2003 through 2012

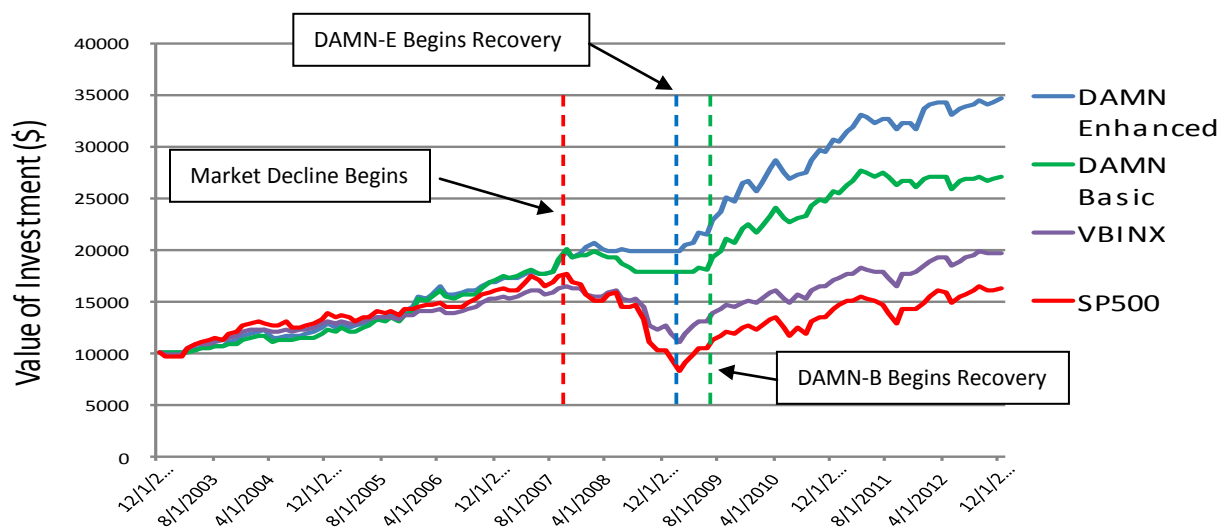


Figure 3 is a graphic representation of total gains for the S&P 500, a proxy for the Market; VBINX, a Vanguard mutual fund composed of 60% stocks plus 40% bonds; and DAMN-Basic and DAMN-Enhanced dynamic investment strategies. The performance of the strategies, index, and mutual fund during this ten year period - from the end of 2002 through the end of 2012 - clearly differ from one another: Between the highs attained in 2007 to the low point in the fall of 2008, the S&P 500 lost more than 50% of its value and VBINX lost approximately 33% of its value. DAMN-E and DAMN-B, on the other hand, lost only between 6% and 11%, respectively. This was because they exited the Market, i.e. went to cash, as the financial crisis unfolded (note the flattening-out of the growth curves that begins in early 2008 for DAMN-E and late 2008 for DAMN-B).

Figure 4: DAMN Portfolio Positions / Asset Class Status

Asset Class	Security	DAMN-B			DAMN-E		
		March 2013	April 2013	May 2013	March 2013	April 2013	May 2013
U.S. Bonds and Fixed Income	AGG	out	out	in	in	in	in
U.S. Equities	SPY	in	in	in	in	in	in
Emerging Markets	EEM	in	out	out	in	in	out
Hedges	GLD	out	out	out	out	out	out
REITs	IYR	in	in	in	in	in	in

"in" = invested (holding the indicated ETF) in this asset class

"out" = not invested; this portion of assets in cash

Figure 4 shows the asset classes used in the DAMN protocols, the ETFs that these strategies invest in, and the investment status for the past three months through April 2013. For each investment, "in" means that the ETF should be in the portfolio (DAMN-B or DAMN-E); while "out" indicates that the asset class in question should be in cash.

As noted in the procedure summary above, the determination to either be invested or to be in cash in each of the asset classes is made after the close of the last trading day of each month. A trade is indicated if there is a change from "in" to "out" or vice versa, and that trade would be made on or about the first trading day of the new month.

This once-monthly evaluation and (potential) trading protocol has the effect of freeing investors from concern over daily market action and eliminates questions about when to be in the market and when to be out, all while reducing the percentage of losing trades, avoiding significant losses, and yielding excellent asset appreciation.

Quick Start Guide

The following applies to both DAMN-Basic and DAMN-Enhanced.

- 1) Open a brokerage account dedicated to the program; a separate account facilitates record keeping. It can be either a regular brokerage account or a tax-deferred account (IRA, 401k, etc.). Consulting a trusted advisor to determine which account type would be appropriate for your situation is strongly recommended.
- 2) Deposit monies into the account.
- 3) Dedicate 20% of the total to each of the five asset classes but do not purchase anything yet.
- 4) Note that each of the five asset classes, and the investments (ETFs) that may fill them, can be in one of two states: They are either “in” or “out”; as noted above, “in” means that the moving averages for the investment(s) in question indicate that the investment(s) should be bought and held in the portfolio; “out” means that the investment(s) in question should not be in the portfolio at that time, i.e. they should be sold if in the portfolio or not purchased if not in the portfolio. Monies dedicated to asset classes that are “out” are held in cash in the brokerage account.
- 5) Thus for each asset class/ETF indicating “in”, buy the full 20% allotted to that asset class.
- 6) Do not buy an asset that is in the “out” state at this time.
- 7) Check the moving averages for each asset on a monthly basis and trade as per the strategy.
- 8) When an asset class/ETF (or multiple asset classes/ETFs) is “out” and then signals that it should be “in”, the proportion of cash to use for each asset/ETF is calculated by using the expression $1/n$ where n = the number of asset classes that are “out” i.e. that are in cash. For example, if two asset classes are “out” and one signals that it should be “in”, the expression becomes $\frac{1}{2}$ 50% of the available cash in the account would be used to purchase that ETF. Whereas if three asset classes are “out” and one signals that it should be “in”, the expression becomes $\frac{1}{3}$ indicating that 33% of the available cash would be used for *that* purchase.
- 9) If the strategy indicates that one or more asset classes/ETFs should be sold and one or more of the other ETFs should be bought at the same time, the order of trades should be to sell first and then buy.

THAT’S IT! Your DAMN portfolio is up and running.

Dynamic Asset Management Normalized

Cautionary Notes and Disclaimer

My hope is that the information contained in this document and/or disseminated by me as principal of Beiderman Investment Research (BBIR) through other media has been interesting and that it will help investors attain success. To this end I would be happy to provide additional information and answer questions you may have with respect to this approach.

Please note that although historical evaluations looking at time periods of at least five years indicate that both DAMN-Basic and DAMN-Enhanced would have gained more than the market with less volatility and with fewer losing episodes, they have at times trailed the market and have had some losing years. Furthermore, although DAMN-Basic has been used successfully by several investors, DAMN-Enhanced is quite new and consequently has not yet been tested in the marketplace.

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