

8th Annual Financial Planning Symposium

How To Survive The Death of Modern Portfolio Theory

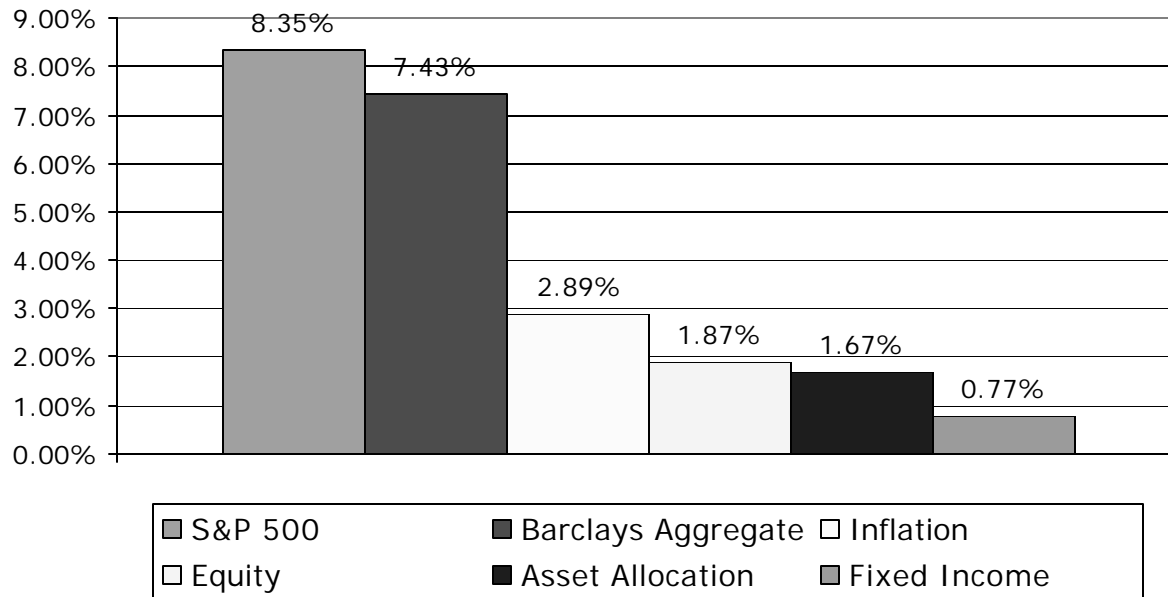


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Emotional Asset Allocation Reality

**Investor Returns For the 20-Year Period
Ending 12/31/08**

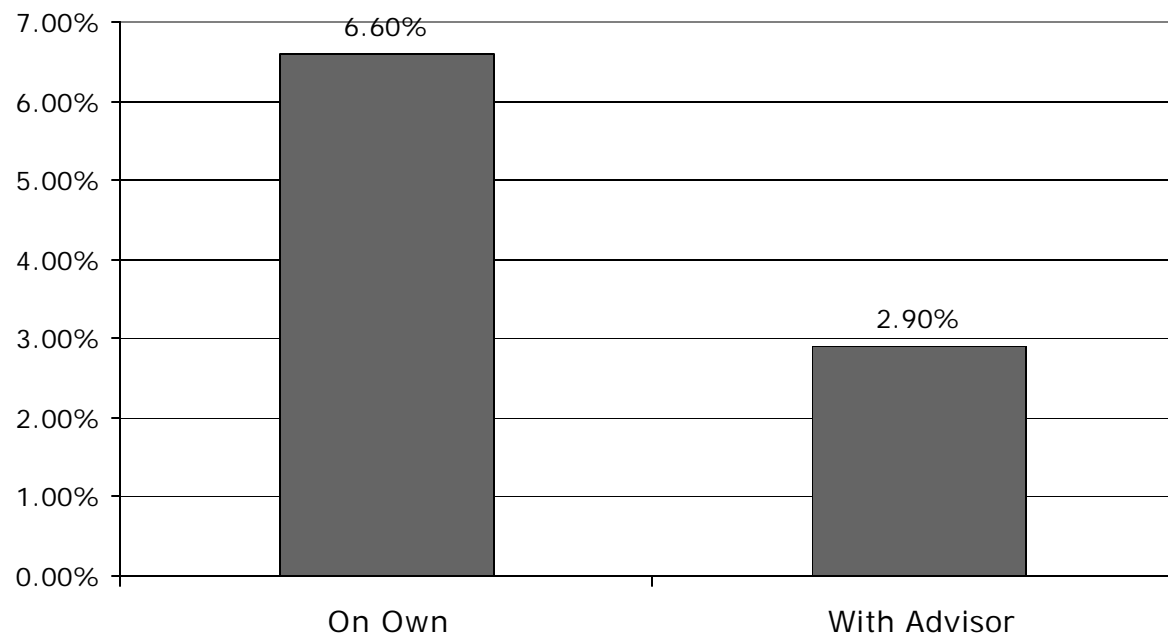


Source: Dalbar

Emotional Asset Allocation

Advisor-Assisted

BCT Study: 1996-2002

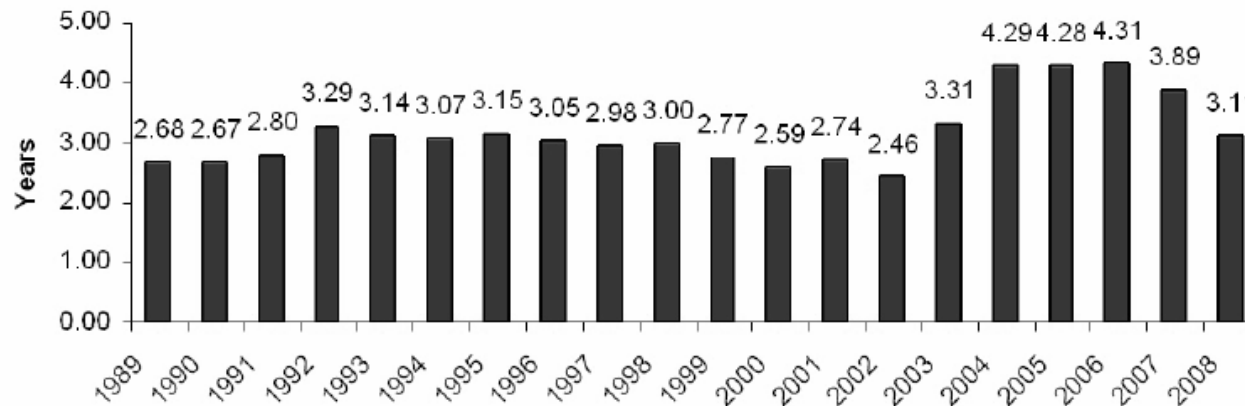


Source: "Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry," Bergstresser, Chalmers, Tufano, 2007.

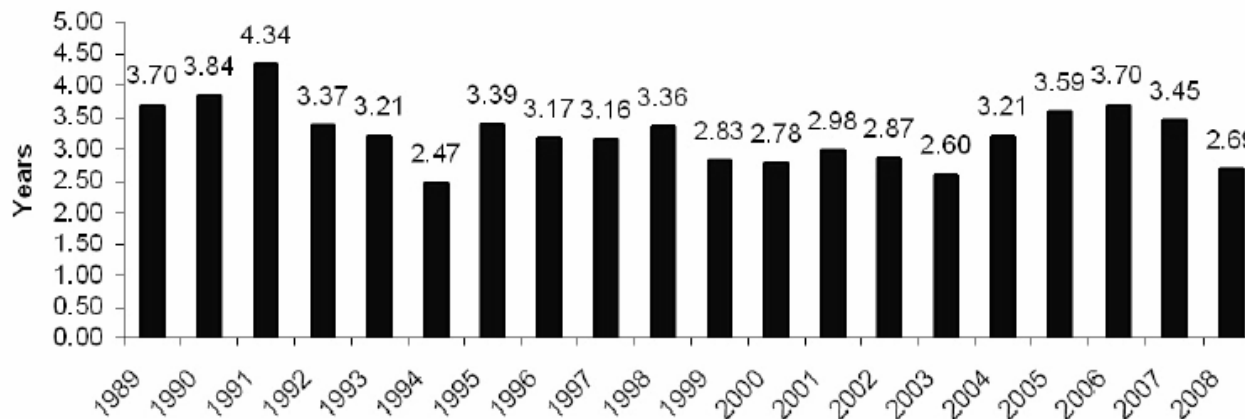
S&P 500 (1995 to 2009)



Average Holding Periods: Stock Funds



Average Holding Periods: Bond Funds



Source: Dalbar

5-Year Correlations of Selected Asset Classes to the S&P 500

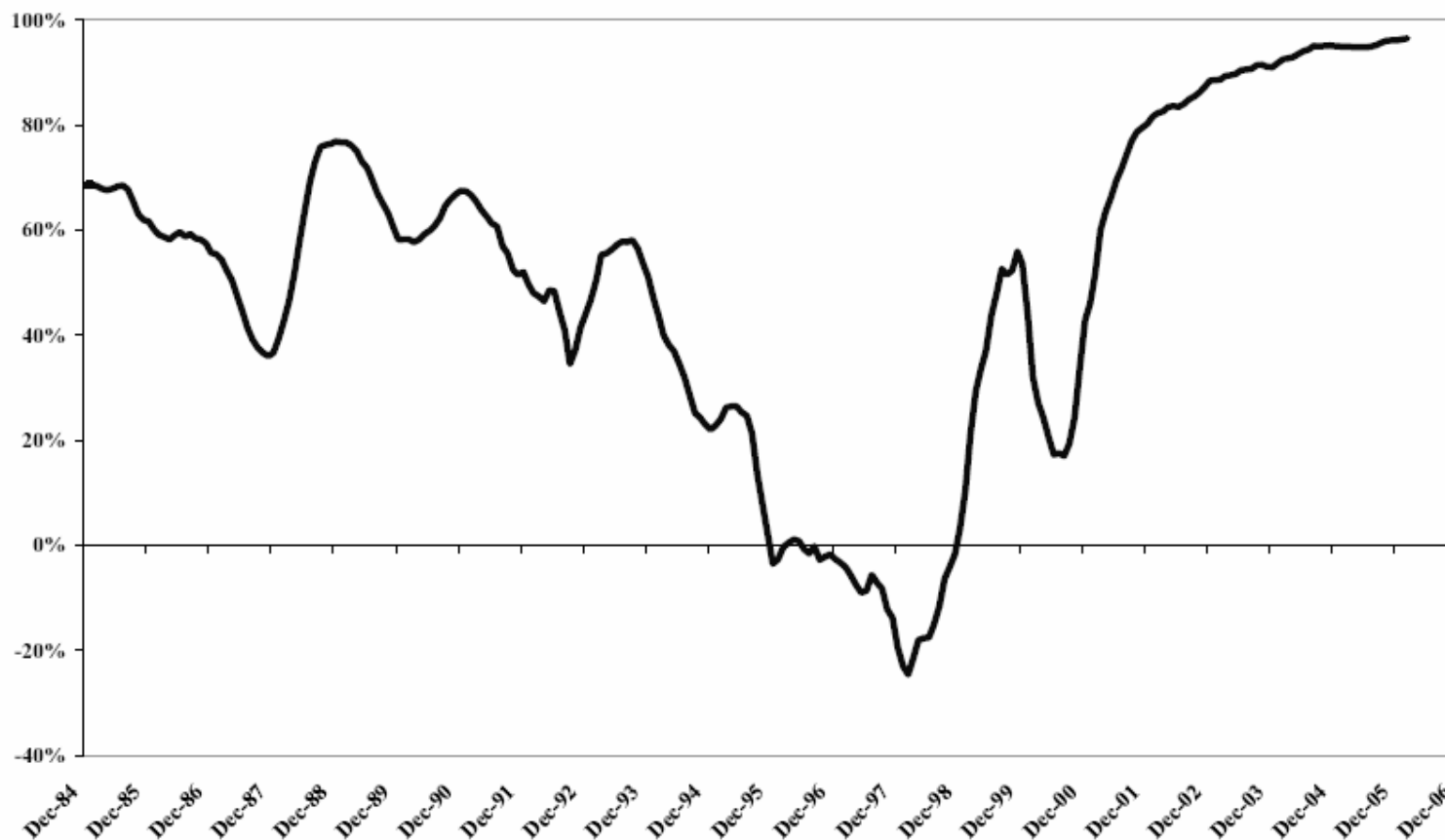
5-Year Correlations	2/28/2000	2/28/2006
T-Bills	34%	-58%
Long-term Treasuries	37%	-54%
Goldman Sachs Commodity Index	-14%	33%
Russell 2000	62%	94%
MSCI EAFE®	32%	96%
Hedge Funds	35%	96%

Source: Merrill Lynch U.S. Strategy

Strategic Asset Allocation

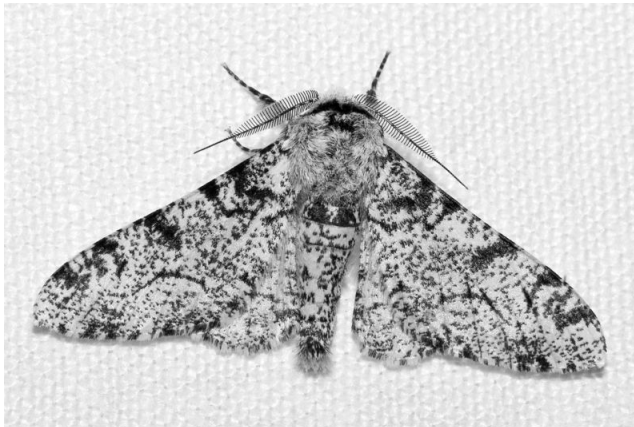
Instability of Correlations

Rolling 5-Year Correlation of MSCI EAFE® and
S&P 500 12-Month Total Returns



Source: Merrill Lynch U.S. Strategy

What can the peppered moth teach us about portfolio management?



"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

--Charles Darwin

Attributes of Trend-Following Systems

- Trend-following methodologies are adaptive
- Trend-following relies on objective data and does not forecast
- Returns are often “lumpy” and dependent on trends
- Most of the excess return is generated by a small number of trades
- Must be applied in an extremely disciplined fashion

Trend Following

- In an uncertain world, trend following relies on a single, simple, reliable core piece of information that reflects supply and demand: price. Anything that can possibly affect the price – fundamentally, politically, psychologically, or otherwise – is actually reflected in price.
- Follow the price. Yes, it is that simple. “The trend is your friend.”
- Economic systems adjust to changes in fundamentals gradually and over long periods of time, and the consequent trends are evident everywhere in human history and commerce.
- Trend following is based on an objective and systematic set of rules that enforces discipline.

Relative Strength

- At its core, relative strength is basically the measurement of performance of one security relative to another or relative to a benchmark.
- Method of ranking securities by their relative price performance. Identifies which of the trends you want to trade: the strongest of the trends.
- Academic research confirms that it is one of the most durable factors available.
- Because of its adaptive nature, we don't have to change our model.

Relative Strength Global Macro

1999 ¹	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 ²	1999-2009 ²
MSCI EAFE 22.27%	Real Estate 27.65%	Real Estate 11.69%	Commodity 23.04%	MSCI EAFE 39.17%	Real Estate 31.22%	Commodity 22.54%	Real Estate 35.50%	Commodity 20.56%	Bond 5.24%	Commodity 14.87%	Global Macro 192.51%
Global Macro 15.55%	Bond 11.63%	Bond 8.44%	Bond 10.25%	Real Estate 36.89%	Global Macro 22.18%	Global Macro 17.95%	Global Macro 28.38%	Global Macro 16.27%	Global Macro -8.99%	MSCI EAFE 8.87%	Commodity 117.73%
S&P 500 7.71%	Commodity 11.06%	Global Macro -8.13%	Global Macro 4.71%	S&P 500 28.69%	MSCI EAFE 20.70%	MSCI EAFE 14.02%	MSCI EAFE 26.86%	MSCI EAFE 11.63%	Commodity -23.74%	S&P 500 2.95%	Bond 77.71%
Commodity 7.10%	Global Macro 9.97%	S&P 500 -11.89%	Real Estate 3.63%	Global Macro 27.79%	Commodity 11.21%	Real Estate 9.63%	S&P 500 15.80%	Bond 6.97%	S&P 500 -37.00%	Bond 1.33%	Real Estate 59.42%
Bond 0.56%	S&P 500 -9.10%	Commodity -16.34%	MSCI EAFE -15.66%	Commodity 8.86%	S&P 500 10.88%	S&P 500 4.91%	Commodity 13.51%	S&P 500 5.50%	Real Estate -40.07%	Global Macro -4.34%	MSCI EAFE 17.45%
Real Estate -10.97%	MSCI EAFE -13.96%	MSCI EAFE -21.21%	S&P 500 -22.10%	Bond 4.10%	Bond 4.34%	Bond 2.43%	Bond 4.33%	Real Estate -18.15%	MSCI EAFE -43.06%	Real Estate -7.41%	S&P 500 -20.30%

¹Strategy Inception 6/30/1999, ²Updated through 5/31/2009

Real Estate = Dow Jones U.S. Real Estate Total Return Index

Bond = Barclays Aggregate Bond Total Return Index

Commodity = Reuters Continuous Commodity Index

Global Macro = Dorsey Wright's Systematic RS Global Macro Strategy (Gross)

S&P 500 = S&P 500 Total Return Index

MSCI EAFE = MSCI EAFE Total Return Index



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