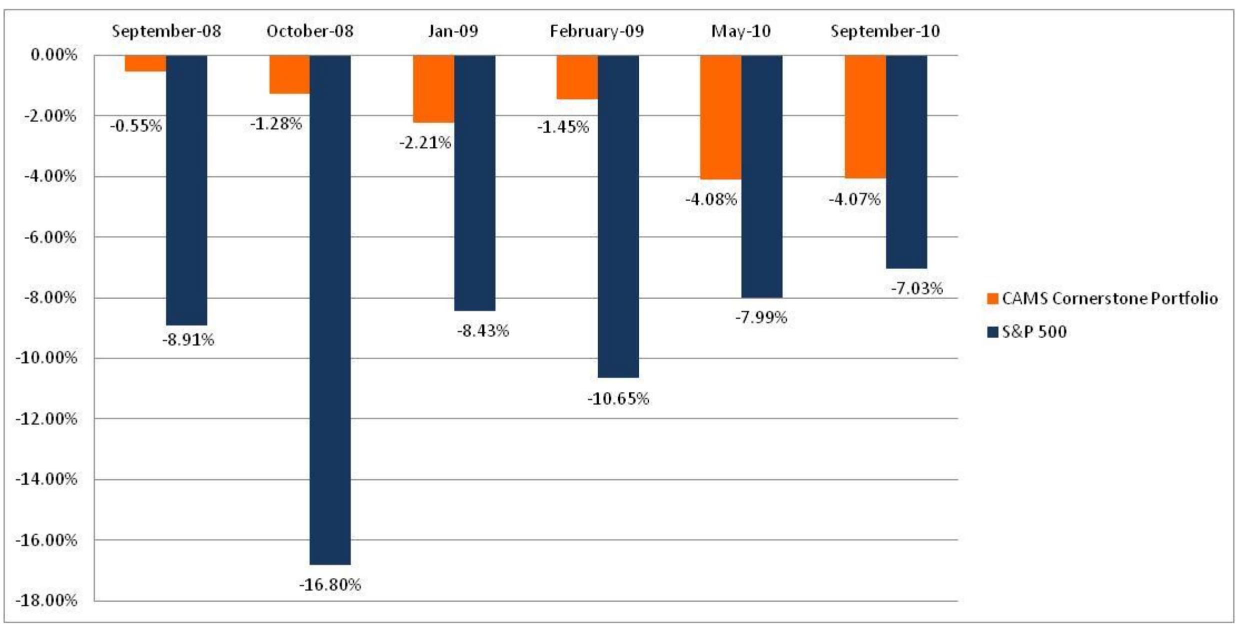
What does managing risk look like?

We recently examined the monthly returns of the S&P 500 and those of the CAMS Cornerstone Portfolio composite portfolio, what we often call our 'flagship' portfolio since its inception, July 1, 2008. We began by looking at the monthly returns of the CAMS Cornerstone portfolio, looking at highs and lows, correlations, and patterns. We then focused on the highs and lows exhibited by the S&P during that period.

The results, while not surprising, confirm our premise that by using an active management, or a tactical approach, we can greatly reduce or lessen the impact of large losses on a portfolio's value caused by the stock market's volatility. A strategy that looks to minimize risk, as Cornerstone's portfolios do, should lessen an investor's exposure to declining markets, blunting the impact of bear markets and preserving capital and the majority of prior gains. Moving out of the market prior to a major decline means you have more money to invest when the markets head upward. *(See figure 1)*

Figure 1 - Comparison of CAMS Cornerstone Portfolio and the Worst Months in the S&P 500 *(since 7/1/2008 portfolio inception, net of fees)*

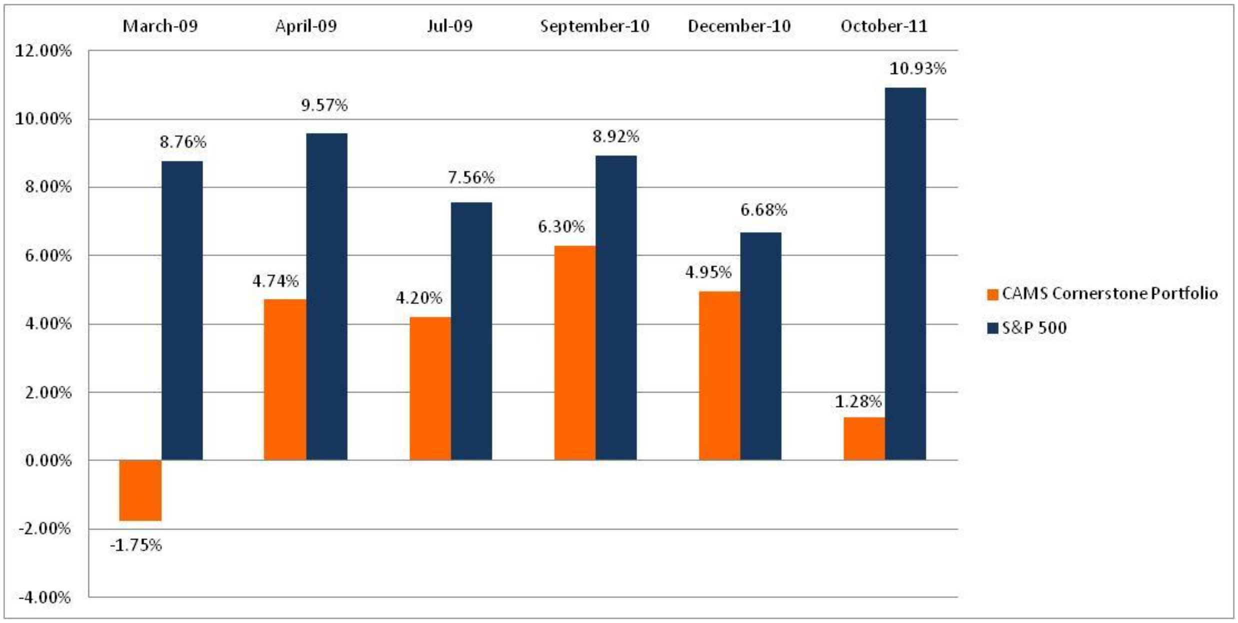
	CAMS Cornerstone Portfolio	S&P 500
September-08	-0.55%	-8.91%
October-08	-1.28%	-16.80%
January-09	-2.21%	-8.43%
February-09	-1.45%	-10.65%
May-10	-4.08%	-7.99%
September-10	-4.07%	-7.03%



Because active management focuses on downside protection, it can mean we potentially don't capture all of the upside gains in a volatile market. *(See figure 2)*

Figure 2 - Comparison of CAMS Cornerstone Portfolio and the Best Months in the S&P 500 *(since 7/1/2008 portfolio inception, net of fees)*

	CAMS Cornerstone Portfolio	S&P 500
March-09	-1.75%	8.76%
April-09	4.74%	9.57%
July-09	4.20%	7.56%
September-10	6.30%	8.92%
December-10	4.95%	6.68%
October-11	1.28%	10.93%



The reality of down markets provides the rationale for active management. Down markets hurt investors in a number of ways. First, the more investors lose in a down market, the more they lose valuable time and opportunity. Over the past 70 years, the major indices spent nearly 60% of the time sitting out bear markets and then returning to earlier highs. Only about 40% of the time, were real gains being made.

The real damage of down markets, however, is created by human behavior. Real people typically don't buy and hold. Typical investors hold on in declining markets until the pain becomes too great and then sell out, typically at the market's bottom. Discouraged by the loss, they hesitate to reinvest in equities until the market is making record highs – missing out on the opportunity to recoup their losses. Lacking a disciplined system, many investors chase the latest hot stock or sector, encouraged by the media touting the best fund, the best stocks and the best investments for the moment.

Through the use of active management strategies, Cornerstone creates investment model portfolios that moderate the volatility of the market, helping investors stay the course and benefit from the long-term gains of the market and improve risk-adjusted returns.