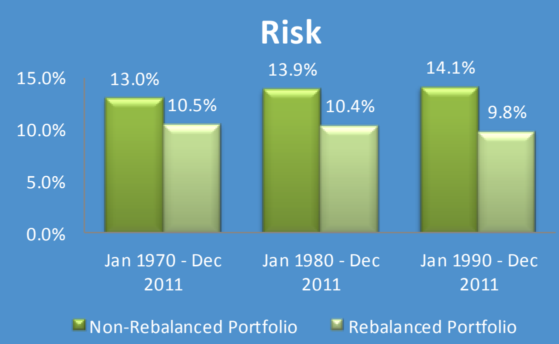
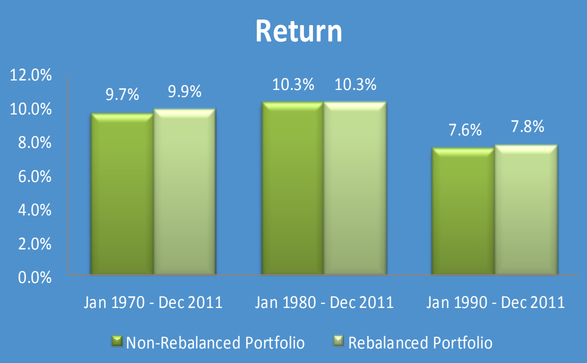
FUSION
CAPITAL MANAGEMENT

MANAGING RISK WITH PORTFOLIO REBALANCING

Over time, an investor's portfolio asset-allocation policy can get disturbed by market ups and downs. For example, stocks tend to outperform bonds in the long run. Since stocks are riskier than bonds, greater allocation in stocks can also increase portfolio risk. Rebalancing is an essential account management tool that helps keep the portfolio within the risk tolerance level that is comfortable for the investor's asset-allocation strategy.



These two charts illustrate the risk and return of portfolios that are rebalanced to those that are not rebalanced over three different time periods. Risk and return are measured by annualized standard deviation and compound annual return, respectively. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.



In all three time periods, the rebalanced portfolio had a lower risk than the non-rebalanced portfolio. For instance, the rebalanced portfolio beginning January 1980 had a risk of 10.4%, which is only 74.9% of the 13.9% risk of the non-rebalanced portfolio. In addition to reducing portfolio risk, rebalancing may also able to increase portfolio return. For example, the rebalanced portfolio beginning January 1970 had a return of 9.9%, which is higher than the 9.7% return of the non-rebalanced portfolio.

ABOUT THE FUSION INVESTMENT PLATFORM

We offer a robust investment platform consisting of many strategies that range from "conservative" to "aggressive." These strategies utilize mainly ETFs and equities and may fall under: fixed income, equity, or alternative.

Each asset class has a different risk level and return characteristic and properly allocating among these asset classes is VAMs first tenant to investing. This ensures each client is diversified. We place an enormous importance on risk management and recognize no two portfolios in one asset class are constructed the same. For example, two large cap ETFs can have significantly different risk levels. Because of this, we take great steps to monitor the standard deviation of our portfolios so our client's risk level doesn't exceed his or her maximum risk tolerance.

Anticipating shifts in the market cycle is crucial to our approach. Our portfolios are monitored on an ongoing basis and systematically rebalanced, as changes occur in market conditions, financial circumstances, or both.

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Each portfolio consists of 60% stocks, 30% bonds, and 10% cash at the portfolio begin date. The 60% stock allocation consists of 30% large, 15% small, and 15% international stocks at each portfolio begin date. The bond allocation consists entirely of five-year U.S. government bonds, while the cash allocation consists of 30-day U.S. Treasury bills. The rebalanced portfolio has been rebalanced annually. Large stocks in this example are represented by the Standard & Poor's 500® index, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Small stocks are represented by the fifth capitalization quintile of stocks on the NYSE for 1970–1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter, international stocks by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index, government bonds by the five-year U.S. government bond, and cash by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. Past performance is no guarantee of future results. Risk and return are measured by annualized standard deviation and compound annual return, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.