

BUTLER, LANZ & WAGLER, L.C.
REGISTERED INVESTMENT ADVISOR



What is BLW Market Track?

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BLW Market Track is the proprietary investment management process pioneered by Butler, Lanz & Wagler, L.C. This process objectively answers the two most important questions investors have at any given time: (1) "*What* should I buy (or sell)?", and (2) "*How much* should I buy (or sell)?"

Since investment decision-making involves two questions, BLW Market Track is a two-step process that answers each of them. Addressing *What* to buy (or sell), BLW Market Track utilizes a broad range of asset classes to provide extreme diversification beyond stocks and bonds with tools to make money should each asset class move higher or lower.

How much to buy or sell is determined by how much risk is involved. Risk is a function of supply and demand conditions for any given investment, and those conditions are determined by the business cycle.

So, how can your portfolio benefit from BLW Market Track?

- BLW Market Track will identify the current phase of the business cycle so we'll know where *the risk and potential* returns are in the market. Now we can anticipate changes in trends before they happen.
- Your portfolio will change slowly over time because risk and reward relationships change slowly over time. In other words, your portfolio will be dynamic because risk is dynamic.
- Since BLW Market Track considers the entire investment universe, your portfolio will be significantly more diversified than what most professionals recommend. BLW Market Track considers US and emerging market stocks, precious metals, real estate, commodities, bonds and currencies as well as other asset classes with a low correlation to the domestic equity markets.

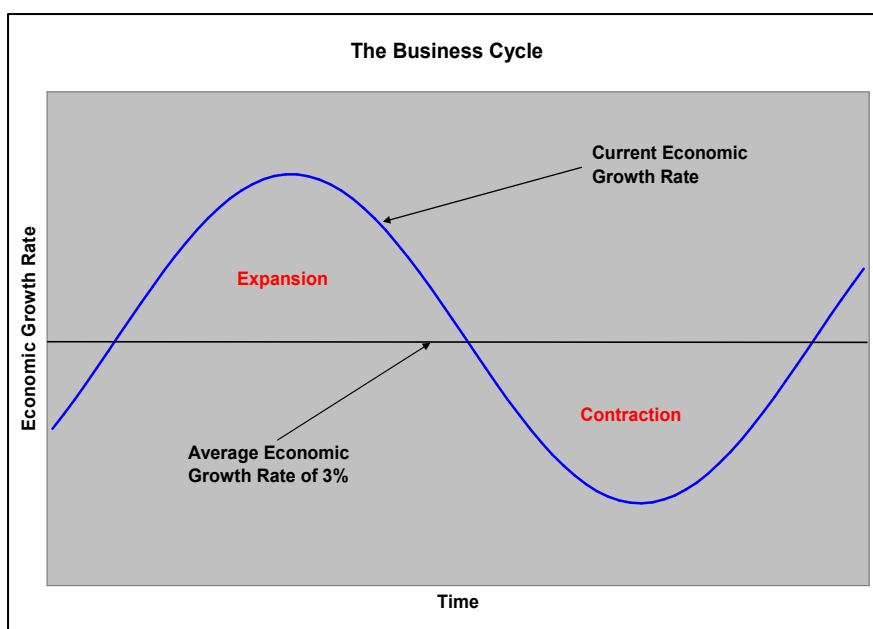
Read on to learn more about how these key benefits of BLW Market Track helped our clients avoid the market crash of 2008 and how it is prepared to address the environment going forward.

BLW Market Track Determines the Phase of the Business Cycle

Before we get into the importance of the *phase* of the business cycle, we should first talk about the business cycle itself. Economists call the propensity of a free-market system to oscillate between periods of contraction and expansion “the business cycle”. The top chart on this page may help you visualize the business cycle.

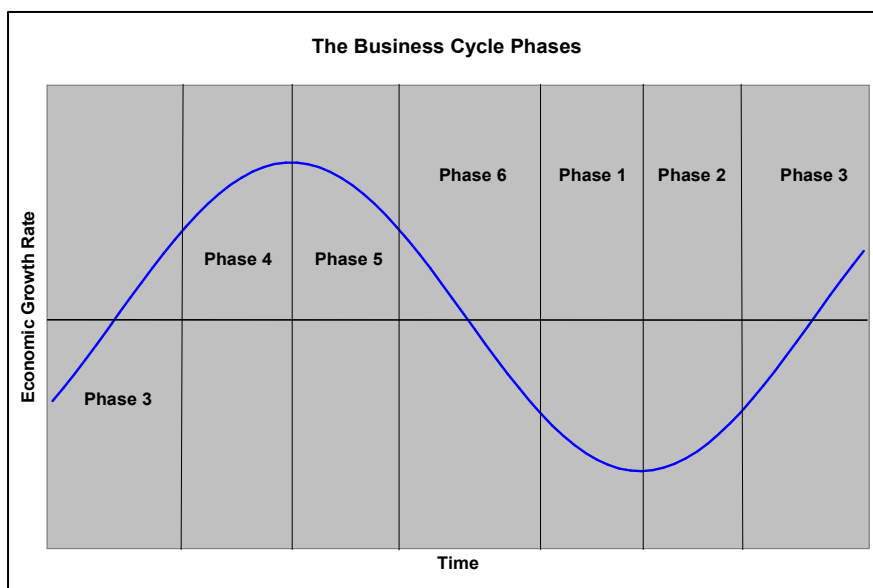
One full "cycle" is measured by peak to peak or trough to trough. We can assign names for different segments of each cycle based on certain economic indicators. These segments are called *phases*. BLW Market Track tells us which phase of the business cycle we're in. The bottom chart should help you visualize business cycle *phases*.

Different asset classes have dramatically different performances over a business cycle, and this is exactly why it's important to know which phase of the cycle we're currently in. If we know what

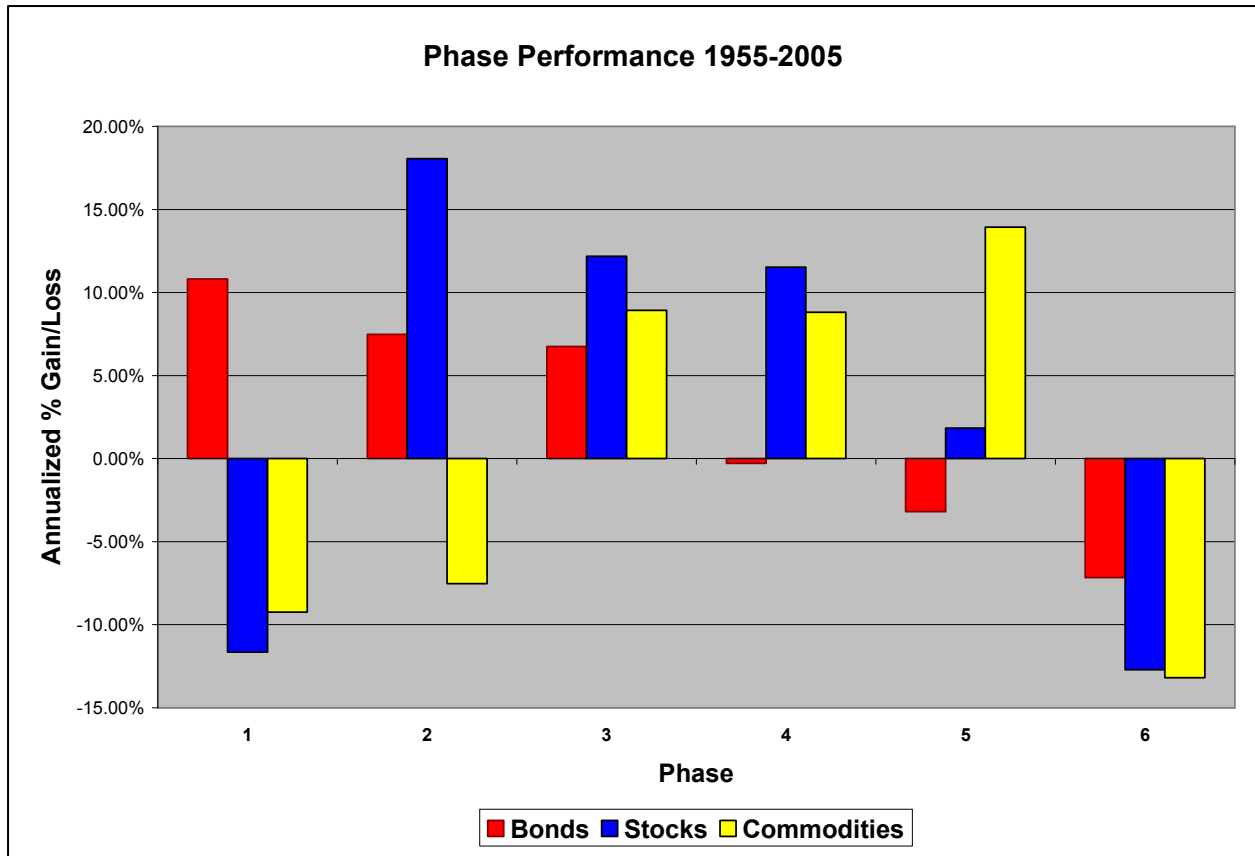


phase of the cycle we're in, we know which investments face both high and low levels of risk, and how that's likely to change over the next several months.

Martin Pring, in his excellent book *The Investor's Guide to Active Asset Allocation*, looks at the performance of three broad asset classes - stocks, bonds and commodities - in the six phases of the business cycle from 1955 to 2005. His results are presented in a chart on the next page.



When we say that the risk of owning an investment is *increasing*, we're really saying that the probability of making money on that investment is *decreasing*. Risk is properly defined as *the probability that an investment will lose value*. Notice in the chart on the next page that the risk of owning commodities (the yellow bars) is high in Phases 1, 2, and 6. The risk of owning commodities is low in Phases 3, 4, and 5. Why? Commodities have, on average, lost 10% annualized in



Phases 1, 2, and 6. On average, commodities have gained 10% annualized in Phases 3, 4, and 5. And, BLW Market Track can do this for every major asset class - not just commodities.

The bottom line is, if we know what phase of the business cycle we're in, we also know where the risk is, on average. Similarly, knowing the current phase tells us what assets are likely to make the most money. Do you see how powerful that is?

BLW Market Track Portfolios Change as the Investment Environment Does

Not making portfolio adjustments can lead to tremendous drawdowns. A *drawdown* is the percentage a portfolio is down from its previously attained peak value. For example, if a portfolio was worth \$100,000 at the end of February 2000 but was only worth \$50,000 at the end of October 2002, this investor incurred a 50% drawdown on his portfolio.

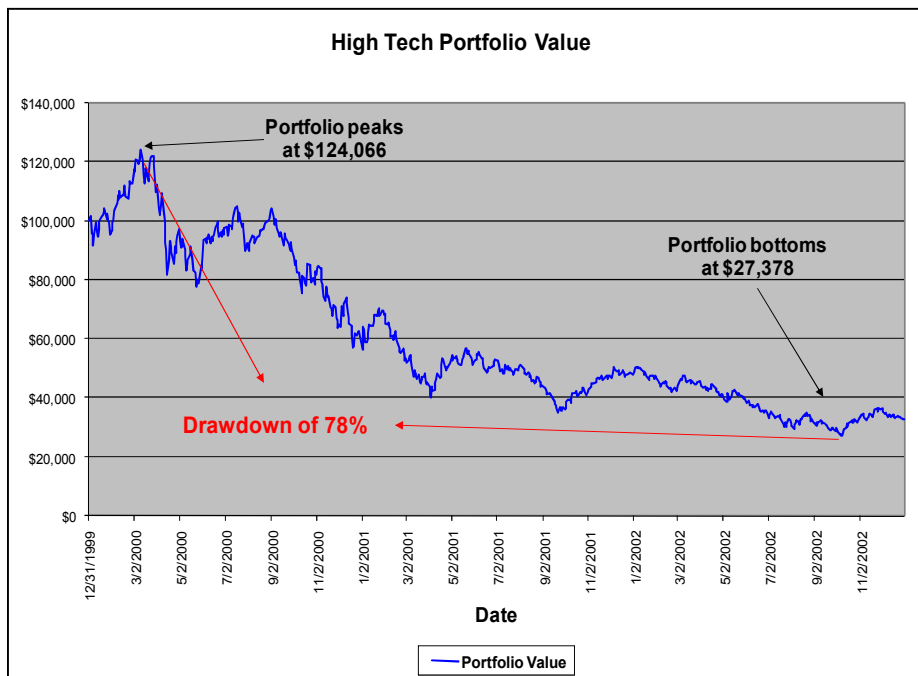
Won't this investor's portfolio get back to \$100,000 eventually? The answer is "probably," if she continues to invest in broad stock mutual funds (all bets are off if investing in individual stocks). **The problem is the time it will take to break even.**

Consider the math involved in taking a big drawdown. If a portfolio loses 25%, it will require a 33% increase just to break even. A 50% loss will require a 100% increase to break even. Read those numbers again until it begins to sink in - this is staggering!

Perhaps walking through an example will help. If an investor had \$100,000 but takes a 50% drawdown, the portfolio will be worth \$50,000. To get back to \$100,000 will require a \$50,000 gain. A \$50,000 gain on an initial \$50,000 investment is a 100% return.

Let's look at what would have happened to an investor who had \$100,000 in Nasdaq-like mutual funds (mainly high tech) from the beginning of 2000 through the end of 2002.

Please make mental note of the 78% drawdown in this chart. We can use drawdown numbers and some history to tell us how long it will take to break even. If an investment has historically averaged a 12% annual return, it will take almost three years to recover from a 25% drawdown (you need to make 33%, remember?) and about 8 years to make up a 50% drawdown (you need to make 100%). In the example above, this investor will have to make 353% to make up for the 78% drawdown! That will take an investment earning 12% per year about 14 years! Obviously, that's too long.



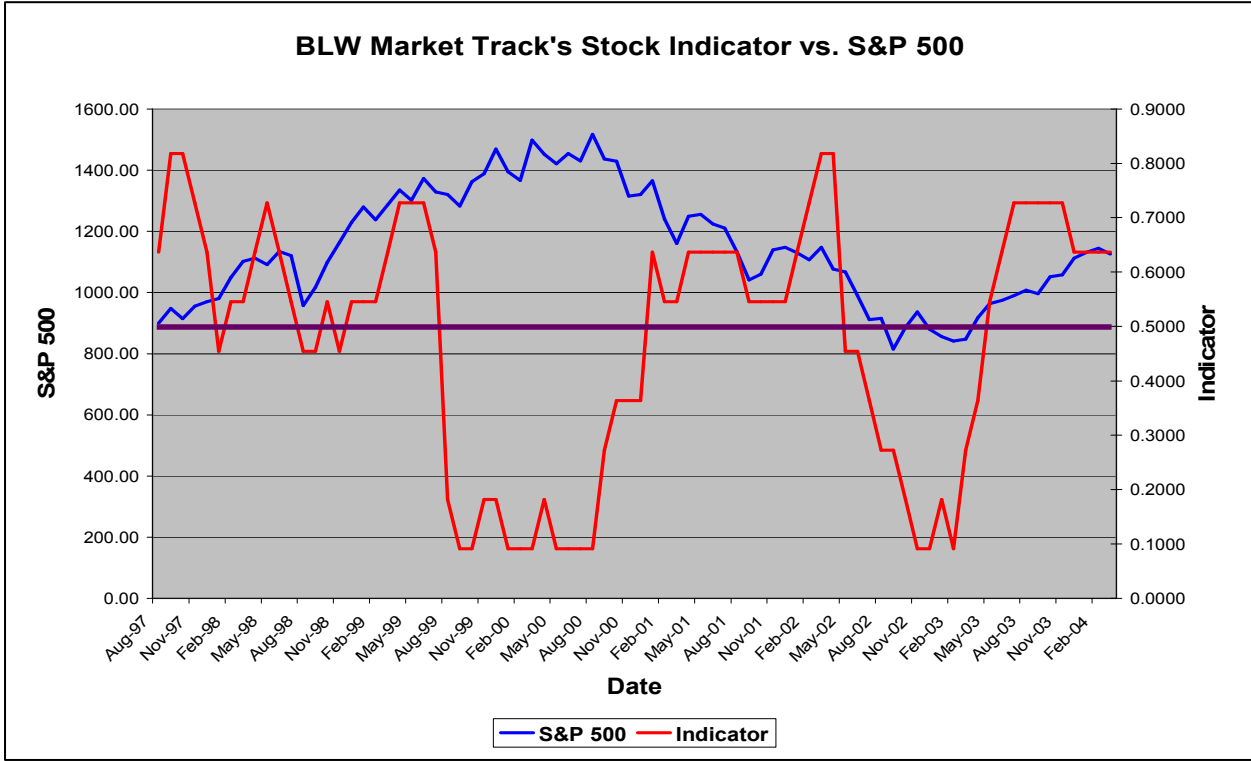
Stocks were clearly out of favor from 2000 to 2002 - especially high tech issues. But could we have avoided a tremendous drawdown in this period? The answer is "yes" - by making adjustments as it became clear that stocks were out of favor. In this time, BLW Market Track would have known that common stocks were under pressure and that we would have to be very selective in which sectors and countries to invest in.

The chart at the bottom of the page is BLW Market Track's indicator for the stock market. Levels above 50 indicate that the environment for stocks is favorable. Levels of 50 and below indicate high levels of risk in owning stocks. This indicator is used with two other similar indicators to determine the phase of the business cycle and should not be used in isolation to time the stock market.

As you can see, BLW Market track helps us avoid bad market environments. Look how neatly the indicator anticipated the top of the market in 2000. You may be thinking, though, that it looks like the indicator is showing a favorable environment from January 2001 until May of 2002 while the S&P 500 was in an obvious downtrend. In that period of time, the stocks that were weighted the highest in the S&P 500 Index were tech and telecom stocks (and companies that served tech and telecom) - the exact types of stock that were getting hammered the most. But, in those same 17 months diversified mining stocks were up 78%. Home construction stocks were up 57%. Water utility stocks were up 51%. Consumer electronic stocks were up 38%. Casino stocks were up 36%, and a host of other sectors were up over 30%. In fact, the environment was right to own *most* stocks in this time.

So the next time you call your stock broker and ask him or her if you ought to pull out of the investments you currently hold, and you get their standard reply, "Hold on - they'll come back," your response should be, "Yes, I know they'll come back but I can't wait 10 years."

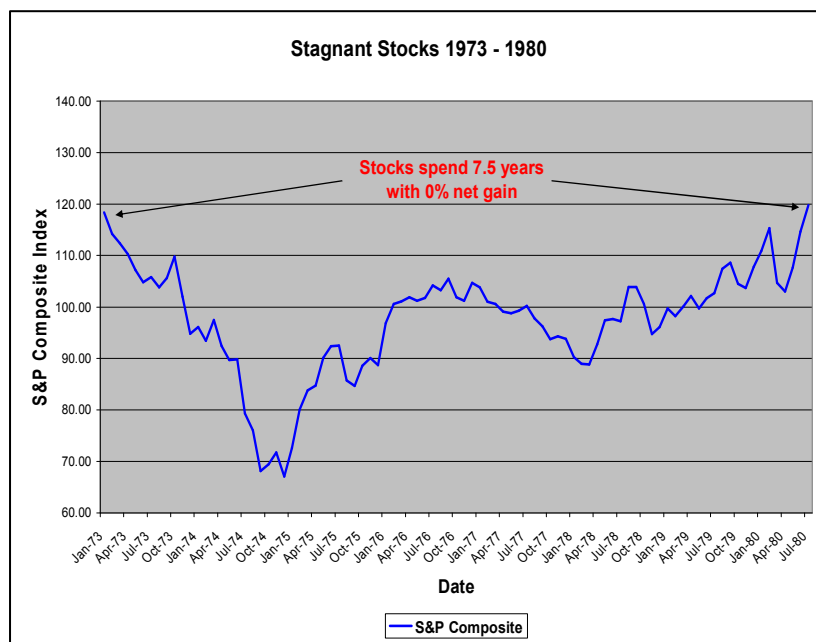
Significant drawdowns should be eliminated where possible and the only way to do that is to aggressively manage risk. BLW Market Track helps us aggressively manage risk so that we have a better chance of avoiding disaster in the next big bear market - and there *will be* a "next bear market." There always is. The question is, "Will you be prepared to change as the market does?"



BLW Market Track Leads to Better Diversification

The periods where hard assets perform better than paper assets can be long - several years or more. What do we mean by "hard assets" and "paper assets"? Hard assets are real in the sense that we can touch and see them. Gold, precious metals, gemstones, art, raw land, buildings, and commodities are all hard assets.

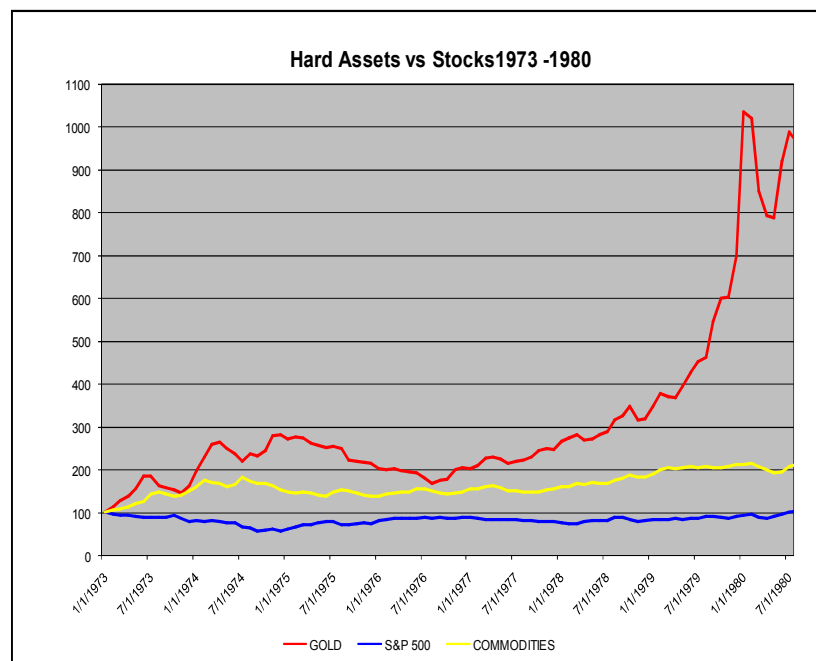
Paper assets are stocks and bonds. They're called "paper" assets because a piece of paper serves as proof of ownership (stock certificate for stocks) or creditorship (bond certificate for bonds). You can't touch "ownership," or "debt."



The distinction between things we can touch and those we cannot helps us understand why these two very broad asset classes might behave differently in different phases of the business cycle.

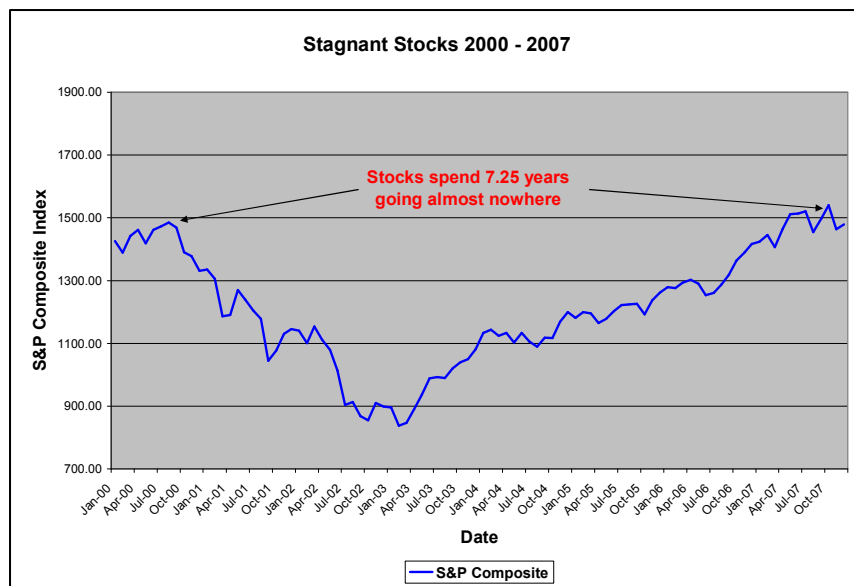
From 1973 to 1980, stocks had a net gain of 0%. For seven and one-half years stocks did absolutely nothing, as the chart to the left verifies.

But what about hard assets like gold and commodities? In the same period as the stock chart to the left, commodities were up 10.18% per year. Gold was up an amazing 35.53% per year! The chart at the lower left shows the dramatic difference in performance in this period.



What about a more recent period? As this is being written, the picture is not yet complete, but we should look at the period from 2000 to the end of 2007. The chart on the next page shows how stocks did in this period—they were virtually unchanged.

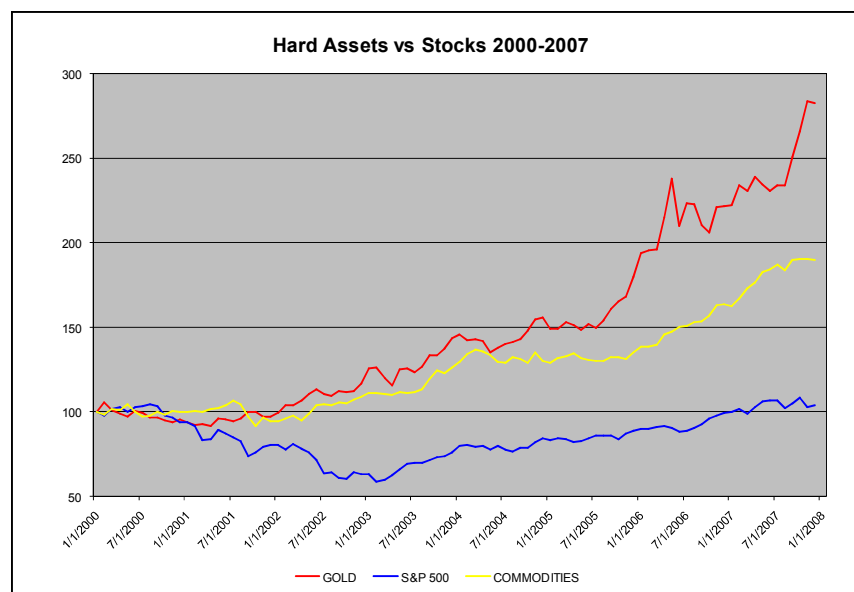
How did gold and commodities do in this period? Commodities were up about 9% per year and gold was up about 15% per year. The second chart on the next page adds commodities and gold.



The point in all this is *not* that gold and commodities do well when stocks don't. In fact, that's not true at all. Instead, the point is that you'd better have more arrows in your quiver than just stocks and bonds because paper assets go through long periods where hard assets outperform them. As the previous four charts show, sometimes hard assets outperform paper assets by a huge margin.

What will you do if stocks go nowhere for the next 10 years? By the way, there is historical precedent for this: 1929-1954; 1973 - 1980; highs made in March of 2000 still have not been attained and held.

If we focus our investment endeavors solely on a couple of broad asset classes like stocks and bonds, we'll certainly miss opportunities in other asset classes. Diversification amongst disparately correlated asset classes gives an investor the best chance of succeeding whatever the investment environment.



You should look at currencies, foreign and domestic bonds, high yield bonds, oil, commodities, gold, other precious metals, every US stock sector and stock style, foreign stocks, emerging market stocks, and "alternative investments." Additionally, you should consider the "bear market funds" that make money as these asset classes go down. BLW Market Track considers all of these options, and more.

Where will you invest if in the next 10 years stocks go nowhere? Expanding the list of potential investment candidates only helps avoid being overly focused on US markets, or solely focused on stocks, or solely focused on paper assets like stocks and bonds. Every type of investments goes through cyclical downturns. As the saying goes, "at any given moment something, somewhere is going up." BLW Market Track helps us find that "something."

Review of BLW Market Track

Every investor is faced with two ongoing questions when managing his or her investment portfolio, whether 401(k), 403(b), IRA, trust or individual account: (1) *what* to buy or sell, and (2) *how much* to buy or sell. BLW Market Track answers both questions.

When determining what to buy or sell investors must focus on extreme diversification. A portfolio of large, mid and small cap stocks along with internationals and bonds does not provide true diversification in times of crisis as many investors have unfortunately found out. BLW Market Track analysis is a process that incorporates just about every type of investment in existence, from US stock market sectors to bond sectors, foreign equities, commodities, currencies, real estate, alternative investments and bear market funds. The US stock market is rarely the best performing asset class in any given year, and routinely goes through multiple-year periods with little or no gain. Doesn't it make sense that there should never be arbitrary restrictions placed on your investment choices?

How much to buy or sell is simply determined by how confident you are in the direction you think the investment is going. This conviction is a function of risk - the probability of being wrong, and therefore sustaining losses. BLW Market Track analyzes the current economic environment to determine which phase of the business cycle we're in and this supplies us with the probabilities we need to determine the right amounts to hold of every broad asset class.

In summary, then, we want positions that have true diversification and the business cycle will tell us *how much* to allocate to each asset class long or short.

In addition to having these two key investment questions answered on an ongoing basis, there are further benefits to allowing Butler, Lanz & Wagler, L.C. to manage your portfolio by incorporating Market Track tools.

BLW will make gradual adjustments to your portfolio as the economic and investment environments change. It's completely without merit to believe that just because one type of investment - say, gold - has done well for a number of years that that performance will continue *ad infinitum*. Gold will again experience a downtrend. Real estate will at some time in the future have outstanding gains again. And then it will have an extended period of sub-par gains. BLW Market Track will give us the information we need to make beneficial changes to your portfolio gradually because significant changes to the economic and investment environments change only gradually.

By this point, we at Butler, Lanz & Wagler, L.C. hope you can see the benefits of incorporating BLW Market Track tools into the management of your portfolio. Your portfolio will benefit from the selection of investments with extreme diversification. The phase of the cycle will guide our risk management effort. We will make adjustments to the portfolio as the environment changes. We will consider every possible type of investment for inclusion in the portfolio - even alternative investments and bear market funds.

Taking the Next Step

If what we've said here resonates at all, you may be wondering what Butler, Lanz & Wagler, L.C. can do for you in light of your own unique situation. You're also likely thinking of many questions you'd like to ask us and we would welcome the opportunity to address them.

The best way to get your questions answered is to schedule a time to come in and talk to us. Call (913) 696-1919 for a *free* one-hour consultation where we'll talk about whatever you'd like to talk about. There are at least several advantages to coming into our office to discover what it would be like to have a professional investment management firm handle your investments:

- It's free, so you'll pay nothing to check us out.
- It's confidential – we won't sell your name. Nor will we continue to contact you if you decide we're not a good fit.
- You'll have an opportunity to go over our investment management style in much more detail. We can explain how we avoided the meltdown of 2008 in detail and our outlook on the current landscape.
- It's your opportunity to interview us. Ask us whatever you want. We can give you our opinion on how you're currently situated in the markets versus where we would have you situated.

You now have a pretty good understanding of how BLW manages its clients' investments and why. We hope you can see the value and opportunity that powerful tools like BLW Market Track can provide in helping you achieve your investment goals.

Many people think they don't have enough assets for professional investment management. While it is true that we can do more for accounts over \$50,000 we have no minimums for account size. We believe that all investors should have access to professional investment management. To take the next step, simply call (913) 696-1919 and schedule a *free* one-hour consultation.

We look forward to hearing from you.