

# GRADIENT TACTICAL ROTATION STRATEGY

## QUANTITATIVE APPROACH TO WORLDWIDE STOCK MARKETS

The Gradient Tactical Rotation (GTR) portfolio is a rules-based investment strategy designed to generate excess returns over global stock market indices. Asset classes from around the globe often display wide dispersions of return over time, thus creating tactical investment opportunities.

By identifying these asset classes and their subsectors, the investment team actively manages the portfolio to maximize risk-adjusted return. We utilize a proven methodology to select the most optimal global asset class sectors over full market cycles.

### OPPORTUNITY TO ADD VALUE

History has established that there is a consistently wide dispersion of returns between various global equity markets. These return dispersions provide an opportunity to make tactical investment decisions with the objective of owning strong sectors of the markets and avoiding weak ones. The GTR utilizes a quantitative, two-factor approach in its tactical investment process. The strategy defines its investable universe:

**First**, by geographic equity markets that include the **U.S., international developed and emerging markets.**

**Second**, by regional market subsectors, including both **low volatility** and **high beta** sectors of each market.

This produces an investable universe consisting of 10 global market sectors. Nine of those segments represent subsectors of volatility within each broad geographical market, with the final sector being cash (short-term Treasury bills).

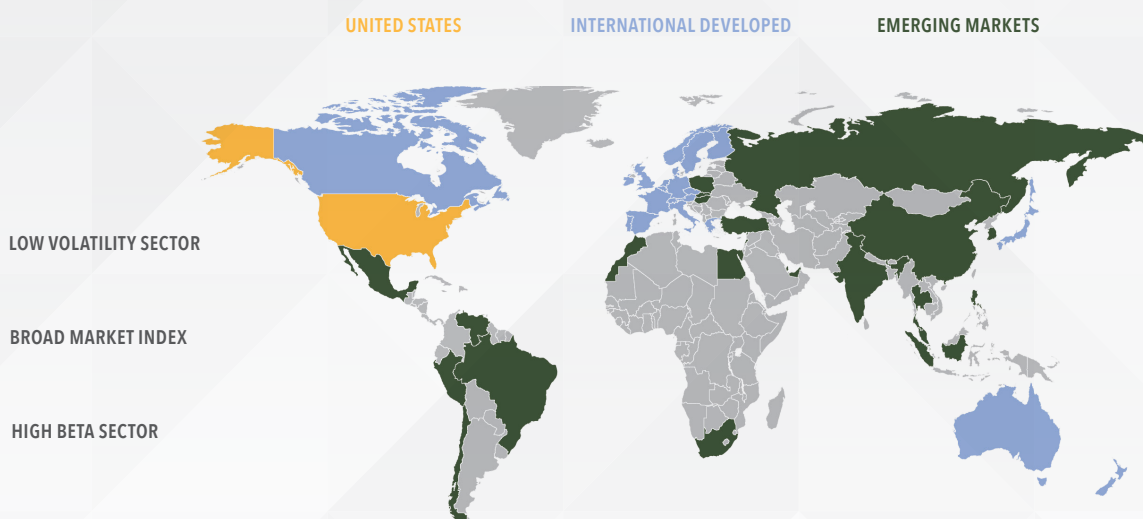
### PORTFOLIO PHILOSOPHY

The GTR utilizes a **proprietary methodology** that measures various momentum indicators to determine which market sectors are strong and which sectors should be avoided. The **identification** of global equity markets that display wide dispersions of returns is key to adding value over longer periods of time, while also controlling risk.

A critical driver of our investment process involves **sector rotation** or the movement of money from one asset class or sector to another in an attempt to outperform global markets. Herein lies the opportunity to add excess return on two levels:

- The tactical management of various global equity markets
- The tactical management of these equity market subsectors

## OUR INVESTABLE UNIVERSE - A WORLD OF OPPORTUNITY



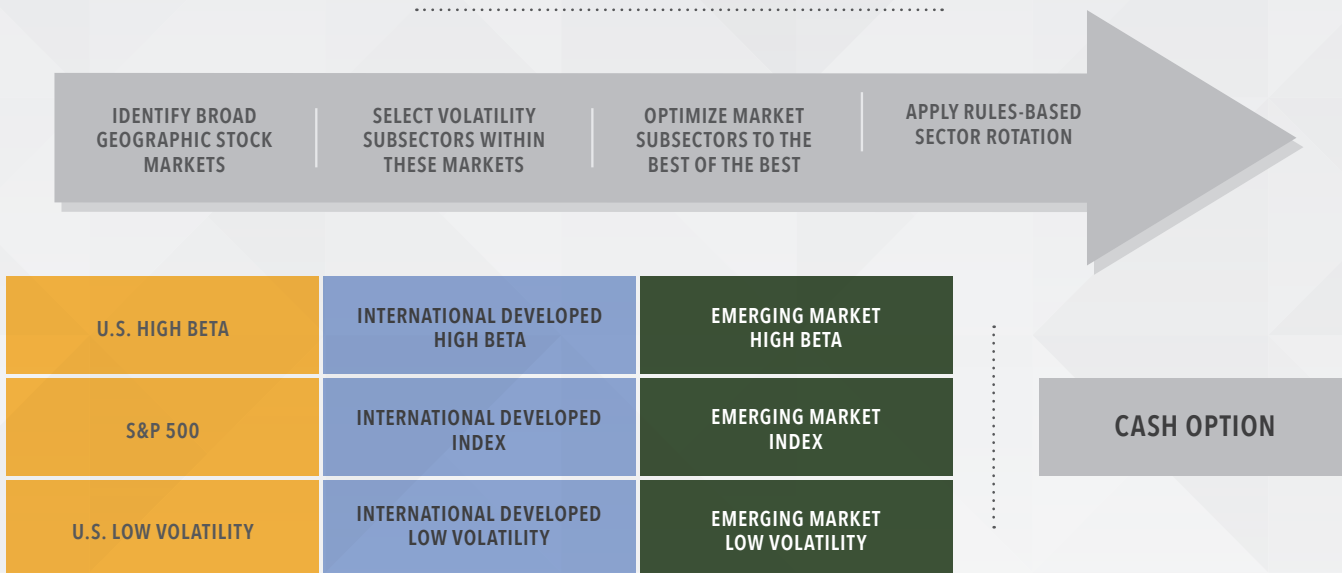
## PROPRIETARY SELECTION PROCESS

Our investment team uses a **top-down approach** using **price momentum** metrics to identify global areas of opportunity and risk. Momentum in equities is the belief that stock price trends are more likely to keep moving in the same direction than to change directions.

- Our quantitative model selects regional markets from around the globe.
- We identify sectors within each of those geographic markets that display wide performance spreads.
- The investable universe is analyzed based on momentum and volatility metrics every month.
- Global market subsectors are then optimized to select the strongest performing asset class.
- A cash position is used when all markets are in a significant and sustained decline.

We use exchange-traded funds (ETFs) to gain exposure to the single market sector our algorithms identify. The selected sector ETF contains 100 to 1,000 stocks, providing proper sector diversification and eliminating single security risk.

## PROPRIETARY INVESTMENT PROCESS



## SUMMARY

The GTR strategy is an actively managed portfolio for the long-term growth investor. The GTR utilizes a unique quantitative investment process with the objective of providing excess returns, while mitigating risk, within global equity markets. Swiftly changing market conditions occur around the world.

Momentum and volatility shifts within various markets provide opportunity to capitalize on these fluctuations. The GTR deploys both tactical management and sector rotation strategies to identify the strongest, and avoid the weakest, equity market sectors around the globe.

Please consult your independent investment advisor before making any investment decisions. The information herein is for informational purposes only and should not be used as the sole basis for making an investment decision. Investing involves risk including the potential loss of principal. For more information, please request a copy of Gradient Investments' ADV Part 2A. Gradient Investments, LLC is an SEC Registered Investment Advisor.

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