



Patton Edge Strategy Performance During the 2003-2007 Bull Market

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No script.



Important Notice

The investment discipline used by the strategy is entirely quantitative and model driven. Mark Patton began managing money in 1993 and has not managed money using the Patton Edge Strategy. However, Patton has managed money using very similar long/short investment disciplines since June 2003 and long-only disciplines since April 2001.

The performance results in this Brochure (presentation) are hypothetical back-test results and do not represent the results of actual trading using client assets. The results were achieved by means of a model that was designed with the benefit of hindsight. The trades during the back-test were not actually executed – they were simulations. These simulations cannot reflect all of the complexities of actual investing and there are many material factors that would have affected actual results, including those relating to the markets in general, the impact of fees and expenses, liquidity activity and other factors, any or all of which may have adversely affected actual performance. The back-test results in this Brochure (Presentation) are not indicative of the skill of the Manager or its affiliates. Patton's clients actually had investment results that were materially different from those portrayed herein.

The historical back-test performance results in this Brochure (Presentation) reflect the deduction of management fees payable to the Manager and estimates for brokerage fees, margin expenses, and other fees and expenses, based on the Manager's experience of utilizing other similar strategies since 2003 and the fee structure for this strategy.

This Brochure (Presentation) includes information regarding the historical performance of various indices, including the S&P 500 Index. An index is an unmanaged, broad-based market index and investing in the Patton Edge Strategy is not similar to investing in an index. An index is not available for direct investment, and the securities in the index will not match the Strategy's holdings. In addition, unlike an index, the Strategy's performance will be affected by fees and expenses.

Past performance is not an indication of future results. Other performance calculation methods may produce different results, and the performance results may vary for different periods.

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Introduction

- **2003-2007 Performance Review**
- **Presentation Goals:**
 - **Provide Perspective and Understanding**
 - **Consider Possible Bear Market**

Hello, I'm Mark Patton. During the next few minutes I'm going to discuss the performance of the Patton Edge Strategy since the start of the bull market nearly 4 years ago. My goal is to help provide some perspective and understanding as to what should be expected from an investment in the Patton Edge Strategy not only during bull markets but also during bear markets and a combination of both.



Patton Edge Strategy Goal

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The goal of the Patton Edge Strategy is to reduce the risk of a total portfolio while at the same time not sacrificing long-term returns.

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The goal of the Patton Edge Strategy is to reduce the risk of a total portfolio while at the same time not sacrificing long-term returns. Clearly the performance impact the Patton Edge Strategy has on a portfolio differs during various market cycles such as bull markets and bear markets. But regardless of the market environment, the goal remains to produce positive returns and reduce portfolio risk.

Bull Markets Performance

| Bull Markets | | | |
|--------------------------|-------------|---------|------------|
| COMPOUNDED Annual Return | | | |
| | Patton Edge | S&P 500 | Difference |
| Jul '63 - Apr '65 | 12.6% | 14.6% | -2.0% |
| Oct '66 - Nov '68 | 9.0% | 17.4% | -8.4% |
| Jul '70 - Dec '72 | 18.2% | 25.2% | -7.0% |
| Oct '74 - Jun '76 | 20.9% | 38.5% | -17.6% |
| Nov '78 - Jul '81 | 13.3% | 18.3% | -5.0% |
| Sep '82 - Sep '87 | 18.8% | 26.6% | -7.8% |
| Dec '87 - May '90 | 14.8% | 24.1% | -9.3% |
| Nov '90 - Jan '94 | 17.4% | 18.8% | -1.4% |
| Jan '95 - Mar '00 | 20.8% | 27.6% | -6.8% |
| Apr '03 - Dec '06 | 6.6% | 16.8% | -10.2% |

Patton Edge Strategy consistently produces positive returns in bull markets but returns that do lag behind the S&P 500.

This table illustrates the compounded annual returns from the back-testing of the Patton Edge Strategy during each of the bull markets since 1963 with the most recent highlighted. As already discussed, the goal is to produce consistent positive returns which are accomplished in each of the periods. Though clearly the returns of the Patton Edge Strategy lag behind those of the S&P 500 during these bull markets. This is as expected given the strategy's combination of both long and short positions at all times.

Portfolio Impact

| Portfolio Comparisons | | | | |
|-------------------------------|-----------------------|---------------------------|--------------------|---------------------------|
| April 2003 - February 2007 | | | | |
| | Traditional Portfolio | Difference in Allocations | Patton Diversified | Difference in Performance |
| Allocations | | | | |
| Patton Edge Strategy | 0% | + 20% | 20% | |
| Large Cap Stocks | 50% | -20% | 30% | |
| Small Cap Stocks | 15% | none | 15% | |
| International Stocks | 10% | none | 10% | |
| Bonds | 25% | none | 25% | |
| Performance | | | | |
| Annual Compounded Return | 14.3% | | 12.8% | ▼ 10% |
| Risk Measurements | | | | |
| Annualized Standard Deviation | 7.1% | | 6.6% | ▼ 7% |
| % Down Months | 25.5% | | 27.7% | ▲ 9% |
| Average Down Month | -1.4% | | -1.2% | ▼ 14% |
| Worst Month | -3.4% | | -3.1% | ▼ 9% |
| Down Years (of 44) | 0 | | 0 | n/a |
| Average Down Year | n/a | | n/a | n/a |
| Worst Year | n/a | | n/a | n/a |
| Maximum Drawdown | -3.7% | | -3.5% | ▼ 5% |
| Longest Peak-to-Peak (Months) | 7 | | 6 | ▼ 14% |

The right column illustrates the impact of having allocated 20% of a Traditional Portfolio to the Patton Edge Strategy during the current bull market.

In spite of the underperformance of the Patton Edge Strategy during the recent bull market, an allocation from a Traditional Portfolio to the Strategy during this time would have still accomplished the goal of reducing the total portfolio risk. This table compares two portfolios, the Traditional Portfolio on the left with no allocation to the Patton Edge Strategy, and the Patton Diversified Portfolio on the right with a 20% allocation to the Patton Edge Strategy. The comparison covers the period April 2003 through February 2007, the most recent bull market. As the data in the right column highlights, the impact of allocating 20% of the portfolio to the Patton Edge Strategy generally reduced the risk profile of the total portfolio.

Bear Markets Performance

| | Bear Markets | | |
|-------------------|---------------|---------|------------|
| | TOTAL Returns | | |
| | Patton Edge | S&P 500 | Difference |
| Feb '66 - Sep '66 | 6.3% | -17.6% | 23.9% |
| Dec '68 - Jun '70 | 10.0% | -31.8% | 41.8% |
| Jan '73 - Sep '74 | 4.5% | -42.7% | 47.2% |
| Dec '80 - Jul '82 | 15.2% | -16.5% | 31.7% |
| Sep '87 - Nov '87 | -13.3% | -29.6% | 16.3% |
| Jun '90 - Oct '90 | 2.9% | -14.7% | 17.6% |
| Apr '00 - Sep '02 | 109.0% | -43.8% | 152.8% |

The Patton Edge Strategy has consistently produced positive returns during all extended bear markets since 1963.

With the current bull market now being about 4 years old, it's worth considering the performance from the back-testing of the Patton Edge Strategy during the BEAR markets that have occurred since 1963. This table illustrates the total return of the Patton Edge Strategy compared to the S&P 500 during each of these bear markets. As the data clearly shows, the Strategy has consistently produced positive returns during these bear markets as expected given the Strategy's consistent allocation to both long and short positions. The one exception was the crash of 1987 when the Strategy did lose value but less than half that of the S&P 500. Clearly research suggests an allocation to the Patton Edge Strategy accomplishes its goal by significantly reducing the risk of a total portfolio during the bear markets.

Full Cycles Performance

| | Full Cycles (Bull + Bear Market) | | |
|-------------------|----------------------------------|---------|------------|
| | COMPOUNDED Annual Return | | |
| | Patton Edge | S&P 500 | Difference |
| Feb '66 - Nov '68 | 9.1% | 5.6% | 3.5% |
| Dec '68 - Dec '72 | 13.4% | 4.5% | 8.9% |
| Jul '70 - Sep '74 | 11.5% | 0.1% | 11.4% |
| Jan '73 - Jun '76 | 11.4% | 0.4% | 11.0% |
| Nov '78 - Jul '82 | 17.0% | 9.6% | 7.4% |
| Dec '80 - Sep '87 | 15.5% | 18.0% | -2.5% |
| Sep '87 - May '90 | 7.6% | 7.1% | 0.5% |
| Dec '87 - Oct '90 | 13.6% | 13.9% | -0.3% |
| Jun '90 - Jan '94 | 16.2% | 11.5% | 4.7% |
| Jan '94 - Sep '02 | 19.6% | 8.5% | 11.1% |
| Apr '00 - Dec '06 | 12.6% | 0.8% | 11.8% |

During nearly every full market cycle, a combined back-to-back bull and bear market, the Patton Edge Strategy produced a compounded annual return significantly higher than the S&P 500.

I believe an investor should only make an allocation to the Patton Edge Strategy if they are willing to invest through an entire market cycle including both a major bull and bear market. I call a combined bull and bear market a full-market cycle. The accompanying table illustrates the performance of the Patton Edge Strategy as compared to the S&P 500 during several major full-market cycles since 1963. As this data illustrates, during nearly every full cycle, back-to-back bull and bear markets, the Patton Edge Strategy produced a compounded annual return significantly higher than that the S&P 500.

Conclusion

- **Performance During 2003-2007 Bull Market**
 - **Consistent with Expectations**
 - **Positive Impact on Total Portfolio Risk**
- **Investors May Want to Consider Possible Bear Market**

The performance of the Patton Edge Strategy during the current bull market has been entirely consistent with the research on the Strategy. It has produced positive returns that were below those of the S&P 500 while at the same time reducing total portfolio risk when allocating 20% of a traditional portfolio to the Strategy. With the bull market now 4 years old, investors may want to give consideration to the possibility of a bear market. As the performance results illustrate, the Patton Edge Strategy has produced positive returns in all of the extended bear markets since 1963 and could dramatically reduce the risk of loss in a portfolio in future bear markets. Thanks.