TOTAL PORTFOLIO SOLUTIONS

# SUPER-Diversification

## Diversification *Beyond* Traditional Stocks & Bonds

**helping investors preserve and grow their assets**

Patton's Super-Diversification investment platform provides individual and small institutional investors the opportunity to emulate Yale's success. The end goal of Super-Diversification is to help investors capture more of the "free lunch" available from diversification... higher returns and less risk.

# planning, calculating &

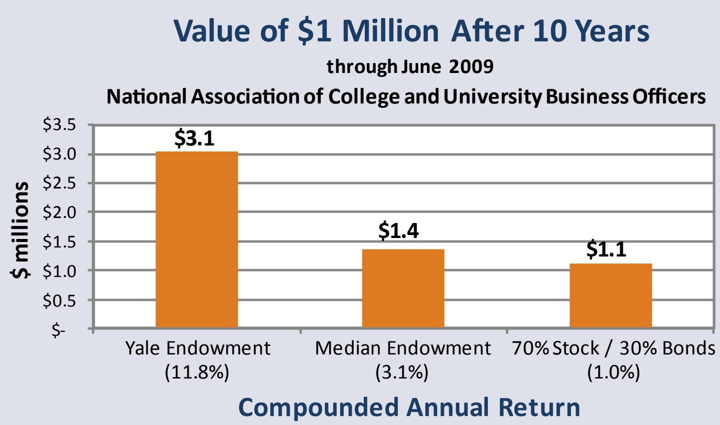
**It is up to you** to take the necessary steps to preserve your hard-earned savings, resources that assure a predictable future. You want to build a portfolio that gives you a realistic chance of earning returns that meet the investment goals you want to achieve. Patton's Super-Diversification total portfolio solution can help any investor accomplish their investing goals.

The proven strategies which make Super-Diversification a success are not an innovation of Patton Funds but instead, Patton's investment platform is designed to replicate the investment disciplines pioneered by the Yale University Endowment. Yale's phenomenal investment success (see accompanying box) has been the implementation of the best financial and academic thinking on investing.

## The only free lunch in investing!

Diversification is said to be the only free lunch in investing. Disciplined investors have proven for decades that the combination of multiple investments, such as both stocks and bonds, in one portfolio can produced both higher returns and lower risk. A large part of Yale's success has been embracing this fundamental philosophy about investing.

While the average investor embraces the opportunity to invest in both stocks and bonds, Yale has proven there are far more diversification opportunities that produce even greater returns with less risk. Yale has simply improved upon the philosophy of investing, that diversification can provide the "free lunch" every investor is looking for. Patton Super-Diversification is designed to generate these results for your portfolio.




The Yale Endowment has been governed for 24 years by Chief Investment Officer David F. Swensen. It's size is second largest behind Harvard Management Company at $16.3 billion. The Yale Endowment has maintained an 11.8% 10-year compounded annual return. Furthermore, a 2007 study of university endowments by Cambridge Associates ranked the Yale Endowment #1 based upon 20-year returns. Patton Funds endeavors to provide our investors with similar results and strives to help you accomplish your financial goals.


## Highlights of Patton's Super-Diversification

**Fees:** Minimizing fees is an important aspect of long-term returns. The management fee for a Super-Diversified Portfolio ranges from 0.4% to 1.0% annually, depending upon the asset allocation and size of the portfolio. There are no upfront or backend fees for clients in separately managed accounts.

**Safety and Security:** Super-Diversified portfolios can be managed in a separately managed account held by a third-party, unaffiliated to Patton. This provides complete security for the investor.

**Customization:** Every investor has different goals, tolerance for risk, and investment preferences. Every Super-Diversified Portfolio is customized for each investor with the ability to match the strategies desired by any investor. This includes those who may be more aggressive and growth oriented or those who may be very conservative with a primary focus on generating income.

**Liquidity:** Super-Diversified portfolios managed in separately managed accounts are 100% liquid.

**No Long-Term Commitments:** Investors with a Super-Diversified portfolio managed in a separately managed account can terminate the arrangement at anytime for any reason without penalty.

## Investors diversify with one goal in mind… less risk!

The problem facing the vast majority of investors is their overall lack of diversification. Often a portfolio includes many stocks, several mutual funds, services of several investment managers, all providing the appearance of being well diversified. Unfortunately, upon closer examination, portfolios such as this do not provide the diversification benefits an investor really needs or expects (see illustration below).

Super-Diversification overcomes this challenge for investors, by having broad range of investments in each client's portfolio.

**Portfolio of 10 Large Stock Mutual Funds**

| | Portfolio Value | |
|---|---|---|
| Fund Name | 10/31/2007 | 3/31/2009 |
| American Funds Growth Fund of America | $100.00 | $55.39 |
| American Funds Investment Company of America | $100.00 | $57.00 |
| Fidelity Contrafund | $100.00 | $57.42 |
| American Funds Washington Mutual | $100.00 | $54.94 |
| American Funds Fundamental Investor | $100.00 | $54.06 |
| Dodge & Cox Stock | $100.00 | $45.76 |
| Vanguard Windsor II | $100.00 | $51.14 |
| Davis NY Venture A | $100.00 | $50.18 |
| Fidelity Growth Company | $100.00 | $54.31 |
| Fidelity Magellan | $100.00 | $47.55 |
| Total Portfolio | $1,000.00 | $527.75 |
| **Performance Analysis** | | |
| **Portfolio % Change** | | **-47.2%** |
| **S&P 500 % Change (10/31/2007 - 3/31/2009)** | | **-46.7%** |

**The Illusion of Diversification** - Let's say an investor interested in owning U.S. stocks purchases several of the largest, well-known U.S. stock mutual funds. This investor purchased ten of these funds, both value and growth oriented for diversification, to reduce risk in his portfolio. The table shows that this portfolio performed virtually identical to the S&P 500, the U.S. stock benchmark, with a cumulative loss of 47.2% as compared to the S&P 500's loss of 46.7%. What may appear diversified provided no diversification benefits for the investor! This illustrates the illusive problem overcome by Patton's Super-Diversified portfolios.

## Super-Diversification is the implementation of the best financial and academic thinking including:

**Modern Portfolio Theory** – pioneered by Nobel laureate Harry Markowitz showing that diversification can provide both higher returns and lower risk

**Yale University Endowment** – proving that investing in a far wider range of diversification opportunities provides even higher returns with less risk

**Behavioral Finance** – the academic study of investor psychology, principles incorporated into Patton's proprietary investment strategy

**Indexing** – avoiding the "losers game" of paying higher fees in an attempt to identify managers who can outperform their specified stock or bond benchmark, a losers game that is widely documented in academic and financial literature

Mark Patton has nearly two decades of success as an investment manager. Mr. Patton founded his investment management firm in 1992 initially offering separate account, long-only, U.S equity portfolio management services. Patton later expanded its offerings with its first alternative investment product in 2002. Later this was expanded to a total portfolio solution which today is its Super-Diversification investment platform. Mr. Patton and the company's professional staff serve a select group of high net worth individuals and a limited number of institutions. Patton Fund Management, Inc. is a Registered Investment Advisor with the Securities and Exchange Commission.

Contact us for a no-obligation presentation to learn more.

**PATTON FUNDS**
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6510 Telecom Drive, Suite 195 • Indianapolis, IN 46278
1-888-779-9077 • Office: 317-630-0141 • Fax: 317-630-0143
info@PattonFunds.com • www.PattonFunds.com

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