



DAVID R. KERN

ASSET MANAGEMENT
Dynamic Asset Allocation Strategies

www.davidkern.com

Investment Programs (Alternative Strategies)

David R. Kern Asset Management offers two categories of investment programs to our clients: Dynamic Portfolio Allocation Programs and **Alternative Strategies Programs**. The Dynamic Portfolio Allocation Program offers diversified portfolios of securities tailored to individual clients' risk tolerance levels, while the Alternative Strategies Program offers non-traditional exposure to asset classes of particular interest. The Alternative Strategies are suitable for a portion of an investor's portfolio as a diversification tool.

- David R. Kern Asset Management
 - Registered Investment Adviser.
 - Investment vehicle designed for active management, allowing unlimited reallocation without transaction costs.
 - Electronic trading systems replace emotion with discipline and rules.
 - Proprietary software designed to combine technical analysis, pattern recognition, and sentiment indicators.
- Risk Management Priority
 - All systems designed to minimize downside volatility of the program.
 - At any time, the entire program can be moved to money market funds to avoid market risk, and provide liquidity.
 - Multiple management systems used for each invested position as part of risk management process.
- Experienced Management Team
 - David R. Kern, CLU, ChFC, has experience advising investors and designing individualized investment strategies since 1983.
 - Brian Kern, PhD, has years of experience designing and testing management system automation programs for a scientific approach to investment. He brings a strong academic background in mathematics and designing system algorithms.

Alternative Strategies – For Institutional or Individual Investors:

The Alternative Strategies are tactical allocation programs using a dynamic approach to risk management, and to generate positive alpha. Many of these programs use alternative class mutual funds not normally found in conventional allocation models. Our Dynamic approach is designed to reduce downside volatility in periods when an asset class is experiencing a decline. These programs generally have a low correlation with broad market Equity or Bond portfolios. These programs may be used to compliment conventional allocation models for additional diversification. For many years, institutional investors, such as Ivy League endowments and pension funds have used a broad range of asset classes and investment strategies in an attempt to capture more consistent returns, and reduce risk in a variety of market conditions. These programs may not be suitable for all investors. The minimum investment in these programs is \$50,000. Past performance is not predictive of results in future periods. Investments are not FDIC insured, nor are they deposits of or guaranteed by a bank or any other entity, and investors may lose money.

Characteristics common to these focused dynamic strategies may include:

1. **Risk Management** – Alternative Strategies first priority is managing down side volatility and involves variable exposure to each of the mutual funds representing the investment objectives of the program. When a manager generates returns not explained by movements in a market, the term is referred to as alpha. The measurement of alpha is usually compared to a benchmark, with positive alpha outperforming the benchmark.
2. **Liquidity & Transparency** – The Mutual fund platforms used are designed for active trading without restriction or transaction costs. The funds act as custodians for investor's money.
3. **Multiple Signals** – All programs use non-discretionary computer based rules with many signals in each system.
4. **Long and Short Opportunities** – Challenging market conditions call for strategies to handle up, down, or sideways market environments. These programs seek positive returns in all market environments. Hedging strategies may also be included.
5. **Leverage Funds** – Some programs use leveraged funds to allow broader diversification of management systems or fund choices. Leveraged funds also allow exposure to an asset class exceeding 100% for concentrated objectives. Most programs are available without leverage based on individual preference.
6. **Special Risk Factors – Manager Risk**
Investors in these programs are exposed to systems designed by the investment advisor manager. Past performance is no indication that any specific investment will be suitable or profitable for the investor. The future impact of changing fundamental factors in worldwide political and economic events is unknown. The strategies used by the manager in any of these programs may not respond to future fundamental conditions as they have in the past.

Programs in Alternative Strategies Series:

1. **Global Diversified Alternative** – Dynamic systems combine broad market index funds with sector funds. Fund selection is based on momentum, with concentrated positions and leveraged funds. This program identifies short term profit opportunities in asset classes where the long term trends are showing better relative strength to other fund choices. This program is the most diversified of the Alternative Strategies Series and is suitable for a capital appreciation investment objective.
2. **Global Alpha Long/Short** – Investment objective is aggressive growth by investing in International Index funds designed to follow the MSCI-EAFE index and the B.O.N.Y. Emerging Market ADR Index. Domestic index funds include the S&P 500, 400 (Mid Cap), and 600 (Small Cap). Funds are used that include the ProFunds Ultra Series funds, leveraged 2x Beta the index. Both long and short funds are used.
3. **International Alpha** – The objective is capital appreciation and better risk adjusted returns when compared to broad international indexes. Tactical strategies are used on developed markets at the Rydex SGI family, and emerging market index funds available at ProFunds.
4. **Natural Resource and Hard Asset** – The investment objective is capital appreciation using traditional inflation hedges. This program's broad focus is on asset classes that have historically been associated with natural resources and inflation hedges, including gold, energy, real estate, and commodities. The sectors used include precious metals, energy, basic materials, utilities, and real estate. This program is most suitable as a portion of a diversified portfolio.
5. **Hard Asset Alternative** – Alternative asset class management. Investment objective is capital appreciation and low correlation to broad market returns. Strategies include asset classes associated with direct ownership of traditional inflation hedges. This program includes Real Estate using a mutual fund that follows a REIT Index, Gold using a precious metals fund that tracks the Philadelphia Gold and Silver Mining stock Index (XAU) and non-correlated asset classes including money market and U.S. Government Bond funds. This program is most suitable as a portion of a diversified portfolio.
6. **U.S. Government Bond Program** – Investment objective is growth and income. This program uses only U.S. Government bonds and money market funds in formats that allow long and short positions.

The Active Management Challenge

Investment Formats

The investment formats we offer are based on special mutual funds representing alternative asset classes. Our fee-based service seeks to avoid transaction costs or commissions based on transferring investor monies from one fund to another. A broad range of investment selection choices and investor liquidity are primary determinants in the investment platform used for our Dynamic Asset Allocation Programs. Mutual fund families suitable for these strategies include ProFunds and Rydex SGI. Investors should review the prospectus of the fund family for risk and expense associated with the funds. At any point in time, we may hold multiple asset classes and funds, or be totally in the safety of money market funds, where there is no market risk.

Our Philosophy

Our philosophy is that all asset classes fall out of favor at times, and the decline is enough to damage a long-term portfolio's chance of success. We believe that if an asset class is experiencing a decline in demand, it should be minimized or avoided altogether. The key to long-term success is first to manage downside volatility, and second, to select those investments providing strong demand.

Strategic Investing – Conventional “Buy & Hold”

The investment advisor community has developed a variety of strategic asset allocation models including equities, bonds, and fixed income asset classes. These conventional allocation models allow continuous exposure with occasional rebalancing, or a realignment of investment choices as investment return experience becomes available. During periods when the asset classes in these models decline, the losses in these passive portfolios may be greater than an investor's risk tolerance and expectations.

Tactical or Dynamic Asset Allocation

Our statistical process is based on the premise that the price of a fund or asset class tells the story about demand, and discounts everything known by investors at the time. Markets for all asset classes tend to trend up, or down, or go sideways in trading ranges. Our systems are designed to incorporate all of these influences on price change and select opportunities for gain.

The primary tenet of investing is uncertainty of the future. The process for selection of when and how much to invest is our primary concern. All of our Focused Dynamic Strategies are based on pattern recognition, and technical analysis. Systems are designed to process multiple factors that influence price change in each asset class. These non-discretionary systems are combined and blended in each program with the primary objective to manage downside volatility, and second to generate positive returns consistently.

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