KLS PROFESSIONAL ADVISORS GROUP, LLC
Complete Financial Management

Portfolio Changes

In our year-end letter we commented on the near-term improved outlook for corporate profits, underwritten by corporate cost cutting and stimulative monetary and fiscal policies of the government. We noted the "staying power" of the Fed and the Treasury with regard to these stimulative policies. Nonetheless, we also observed that an elevated level of risk remains, in particular, with regard to the balance sheets of both individuals and financial institutions.

We have recognized and have previously commented on the cyclical nature of world economies and the current increase in cyclical movement in related capital markets. In response to increased volatility in worldwide capital markets, we have determined to allocate a portion of each client's portfolio to mutual funds whose management teams are experienced tactical asset allocators. We will invest in three separate funds.

The first invests principally in stocks and bonds and allocates among asset classes based on both top-down macroeconomic analysis as well as fundamental bottom-up analysis. This fund generally regards a neutral allocation as 60% equities and 40% fixed income. The second fund is a tactical asset allocator but does not establish a neutral position based on a blend of asset classes against which it benchmarks. This fund may be more aggressive in that it will have a substantially higher equity allocation at times when the managers deem such to be appropriate. Both of these funds may invest from time to time in other asset classes including commodities. The third is a tactical fixed income fund. It does not invest in equity securities. Each of these funds will regularly employ derivatives to hedge their exposure when they deem it appropriate, and each is empowered to invest in worldwide capital markets based upon their view of both the near-term and longer-term investment merits.

We believe that these funds will add a tactical element to each of our client's portfolios that will allow for greater flexibility in rapidly changing markets. We have established an allocation among these three funds of approximately 20% in aggregate—10% to tactical fixed income, and 5% to each of the equity/blend funds. We anticipate beginning to invest in these funds in the near term.

As each KLS account is managed separately, allocations may vary based upon individual circumstances. Please discuss any questions with your KLS Managing Director.

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