INVESTMENT POLICY STATEMENT
Southland Investments
By: Ulli G. Niemann — Registered Investment Advisor — 714-841-5804

This Investment Policy Statement (IPS) is designed to help prospective clients gain a better understanding of our Trend Tracking Investment Methodology (TTIM). We have attempted to answer the questions that have come up over the years in order to assist you in considering the pros and cons of following trends as opposed to a simple Buy and Hold philosophy.

Objective

The objective of Trend Tracking as an investment approach is two-fold:

1. **To be in the market** during major up trends and

2. **To be out of the market** during major down trends.

Bear markets have proven historically to have the power to destroy any portfolio, no matter how well diversified. Our approach is to be proactive and avoid a devastating loss in a downtrend.

General Investment Philosophy

1. Our approach is a diversified one in that we use all markets for which no load mutual funds and ETFs are available.

2. The approach is to identify “long-term” trends in the markets we follow. This is done via our general Trend Tracking Indexes (TTIs) for domestic and international markets. For country, sector and bond funds/ETFs, we use their individual long-term 39-week SMAs (Simple Moving Averages).

3. Our selection and investment process is disciplined and designed to avoid emotional decision-making. All procedures were developed during a time when we could be objective so that no major decisions ever need to be made under stress when the “market heat” is on.

4. Risk control is priority number one as every initiated position is tracked daily along with its trailing stop loss point.

Terminology

No matter which investment method you are employing, a simple fact is that after buying a no load mutual fund or Exchange Traded Fund (ETF), you will not be able to sell at a higher price if there is no upward trend. For our approach, we identify a trend first and only then make the investment.

We then track the investment until the trend ends. The end of a trend occurs when prices reverse and eventually trigger our pre-set trailing sell stop points.

An up trend is established for use with our methodology when a price moves above a fund’s own 39-week simple moving average (SMA) by a certain percentage. Or, on a broader basis, this happens when the SMA crosses above the trend lines of our proprietary Trend Tracking Indexes (TTIs) for domestic and international funds/ETFs.

Conversely, a down trend is established when the opposite occurs.

For example, the following chart demonstrates the use of our entry and exit points. The small blue arrow (lower left hand corner) represents the buy and the small red one (upper right hand corner) the sell:

As you can see, the large red arrows show the beginning and the end of the trend. Please note that we never buy at a bottom or sell at the top, since these points can only be determined after the fact.

Types of Securities

There are only 2 types of securities we currently use with our Trend Tracking methodology:

1. No load mutual funds, with no transaction fees, as they are offered via our custodian, Charles Schwab & Co.

2. Exchange Traded Funds (ETFs) as offered by the marketplace with a preference on those with high volume. Higher volume funds can handle our large orders quickly and without much slippage in price.

Markets Used

Trend Tracking is suitable for use with all markets. We have invested in no load mutual funds/ETFs in the following arenas: Domestic, International, single Countries and Sectors along with all sub-categories (orientations).

Risks

Most investors are familiar with the Buy and Hold approach. You make money during bull markets and lose most of it during bear markets—such as those we've seen from 2000 – 2003. The risk is unlimited with this philosophy, as many investors have shared with me, because they have held a bull market asset in a bear market, which caused losses (Draw downs) of 50% or more.

With Trend Tracking, we set up a clearly defined risk limit. Upon executing the purchase of an investment, we immediately establish a trailing sell stop point of 7%. In other words, as prices rise, the stop loss point rises as well. This essentially fulfills 2 functions:

1. **It limits our losses** in case the trade goes against us, and

2. **It locks in our profits** if prices continue to rise until the trend ends

As you can see, Trend Tracking, along with the disciplined use of trailing sell stops, greatly reduces the risk.

For example, if we allocate 10% of portfolio value to a certain ETF, and prices decline right away and trigger our sell stop, our risk is to lose about 7% of the 10% investment. That means the effect on the total portfolio is about -0.7%. (Be aware, however, that the final price maybe slightly better or worse than the 7% loss objective due to market conditions.)

This sensible approach allows us to keep these losses small; they are not only part of investing but necessary in order for us to be prepared and ready to participate in the next major up trend whenever it presents itself.

Sometimes it may take several buys and sells, also called whip-saw signals, before the major trend establishes itself. Investor patience is a requirement!

Profit Taking

We operate on the principle of cutting our losses short and letting our profits run. Our method allows us to maximize both. Profits are taken naturally when the trailing sell stop eventually signals the end of the trend. That means we do not have a specific profit objective, because that would limit the upside potential. At the same time, we do not simply let it all ride and hope for the best. Our trailing sell stop dictates that we get out of an investment before its price can fall too far.

When having to take small losses from time to time as described above under “Risks,” we need to make sure that winning positions are larger than losing ones. That increases the odds of coming out ahead over time but also requires shooting for absolute returns as opposed to having a fixed profit target.

Since no one can predict the end of a trend, it makes no sense to get out of a position early and leave potential profits behind. This can be difficult for clients psychologically, but the key to understanding this approach is the fact that by trying to protect profits prematurely, you are severely limiting your upside potential.

While every investor wants his portfolio to go up some 10% every year, year after year, this will not happen and is not a realistic expectation. It is possible, but not guaranteed, to have 10% annual growth as an average over time, however not as a solid yearly event.

Emotional Makeup of the Client

As with any investment approach, it is important for you to realize your risk tolerance and attitude towards the marketplace. When using our trend tracking approach, portfolio fluctuations will happen, as they do with any investment methodology. This is why a long-term view of the investment horizon is important. We recommend using a 6-year period for evaluation.

Historically, our managed portfolios have fluctuated within the 10% range, but there is no assurance that this will be similar in the future.

If you can't stomach seeing your portfolio fluctuate at all, you should not be investing. CDs or other investments with no market risk would be more suitable for you.

Shortcomings

Trend Tracking has its shortcomings as well as its strong points. When markets are not in clearly defined trends, either up or down, we may be stuck in a sideways pattern. It is common during those times, that markets make several attempts to "break out," which may cause us whip-saws. These are buy signals followed by sell signals within a short period of time causing us trades with nothing to show for them, other than a small loss.

While these whip-saws are annoying, they are simply part of investing. Participation is necessary since we can't predict if the next Buy signal is the one that will lead to a new major trend, which will reward us for the past whip-saws.

For example, take a look at the chart below, which demonstrates a whip-saw pattern followed by the major trend:

If we did not participate in the whip-saw, we would also miss out on great profit opportunities.

Summary

Life itself is a risky proposition. Balancing risk and reward is the basis for our Trend Tracking method. We attempt to reduce risk by cutting our losers short, and we are increasing reward by letting our winners run. Along the way, we try to diversify and use non-correlated assets to further withstand the whims of the marketplace by using my SimpleHedge Strategy.

While trend tracking is not a perfect investment approach, it's still better than anything else I have found after 25 years in the investment arena.

Southland Investments:

____
Ulli Niemann

___________________________________ ____________________
Client Date

___________________________________ ____________________
Client Date

Rev. 4/2008