ADAPTIVE ASSET ALLOCATION PORTFOLIO

Successful Investing is Managing Risk Effectively
Hansen & Associates Financial Group, Inc.

**WHO WE ARE AND WHAT WE DO**

Hansen & Associates Financial Group, Inc. is a fee-only Investment Advisory Firm located in California’s capitol, Sacramento. We are seasoned investment professionals with over a quarter-century of experience navigating investors through the capital markets.

The firm utilizes a quantitative methodology to develop tactical investment models for investors, operating pursuant to its “Limited Discretionary Authority” engaging in the implementation of one or more step-by-step qualification criteria and account rebalancing as deemed necessary by the firm.

Our portfolio management style is unique. We don’t make investment decisions based on our intuition, “interpretations” of fundamentals, or simply chasing the latest business story of the day. We use a select mechanical approach for our core investing called “Adaptive Asset Allocation.” This approach creates a responsive, dynamic portfolio structure that eliminates human emotion from the investment process and gives us the ability to execute according to our strict quantitative criteria.

Our strategy also incorporates a systematic hedging process to help mitigate risk and protect from downturns in the stock market - while still maintaining a long-term growth perspective on investing. Our performance is rooted in a rules-based process that is always transparent, repeatable, and reliable.
EVERYTHING HAS CHANGED IN THE STOCK MARKET

Stock Market 1980 - 1999

- Rewarded Buy and Hold strategies
- The stock market gained +2.03% in 1987 the year the Dow loss 22% in one day (Black Monday 10/29/87)
- Worst calendar year return was -9.73%
- The stock market had one 20 year trend

Stock Market 2000 - 2017

- Penalizes Buy and Hold strategies
- The stock market loss -38.49% in the financial crisis in 2008
- The stock market had a 10 year loss period.
- The stock market had 4 trends in 10 years
**OUR CORE INVESTMENT APPROACH**

At its core, our methodology is simple: we take an actively managed approach to investing by rebalancing more frequently than traditional asset allocation models to better align the portfolio with current market trends. Our investment model is structured to participate in a wide variety of asset classes and is enabled to quickly respond to changes in asset class risks and relationships. This gives us the flexibility to continually adapt to market changes. Here’s how we break it down:

**Our Portfolio Selection Process**

We take a top-down, or macro approach to investing. By combining two different tactical approaches (momentum and risk parity) into one algorithm, our model builds a portfolio that responds to market conditions with the objective of simultaneously maximizing return while minimizing risk.

<table>
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<tr>
<th>At the beginning of each month, we measure the trend momentum and volatility of 10 exchange-traded funds (ETFs) that track the following indices:</th>
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<tr>
<td>20-Year Treasury (ETF: TLT)</td>
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<td>MSCI Emerging Markets (ETF: EEM)</td>
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Calculate performance return for each ETF in the asset universe over the past 5 months.

Rank the ETFs from highest to lowest return and choose the top 5. Once the top 5 are chosen, we then apply a volatility metric to determine how much of each ETF to buy. Each ETF will receive a percentage weighting, and the sum of the weightings will be 100%.

We rebalance monthly so we are able to ensure that recent trends are identified and capitalized on. At the core of this approach is our ability to quickly shift away from higher risk assets when the trend dictates.
WHY ADAPTIVE ASSET ALLOCATION?

A fundamental axiom in finance is that the best estimate of tomorrow’s value is today’s value. So, that begs the question:

If current and near-term portfolio estimates are a better metric than long-term average values to make investment decisions, why not construct portfolios based on current information?

That is, why not construct a versatile portfolio that adapts over time based on observed real-time conditions? That’s exactly what adaptive asset allocation is all about.

Our adaptive allocation strategy continually reflects the current market environment, systematically adapting to changing market conditions to maintain a consistent level of volatility. By maintaining a more consistent level of volatility, the strategy aims to help protect assets and keep the portfolio focused on positive returns regardless of market direction.

BACK-TESTING SHOWS IT WORKS

The chart below illustrates how effective the Adaptive Asset Allocation strategy is in managing risk and seeking long term growth potential during the time period of 1/2007 to 3/2018. The extensive back-testing gives us tremendous confidence in the potential of our model:

Adaptive Allocation portfolio results from 2007 to 2018 are hypothetical. Results are based on back-testing data of the adaptive allocation model holding the top 5 best performing assets. The model uses a single performance window of 5 months. Volatility based risk adjustments are done based on daily volatility over the past 3 calendar months. Inverse volatility weights based on the volatility window are used to set approximated risk parity asset weights for each timing period.
MANAGING RISK DURING TURBULENT MARKETS
Below is an example of how the Adaptive Asset Allocation effectively manages risk during bear markets through its tactical methodology.

The above illustrates the allocation during the worst month of the Sub Prime Crisis by heavily weighting in a safe haven with the 1-3 year Treasury Bond ETF and reducing the exposure to the equity markets. The above is based on back tested market data applied to the Adaptive Asset Allocation methodology.
ABOUT PORTFOLIO MANAGER DAVID YELLE

David is an investment professional with over 24 years of experience in the investment management field. His career spans a wide spectrum of finance, ranging from that of a traditional Investment Advisor, to an exchange floor Trading Specialist, to Hedge Fund trader. His extensive background has given him the opportunity to trade on virtually every market in almost every country around the globe at some point in his career.

In addition to his professional career in the global capital markets, David also served for 17 years in the military, primarily with naval special operations. Not only did the military provide him with the fundamental underpinnings of discipline and self-motivation, but the experience ignited a passion for global affairs for him, which has easily translated over into the field of global finance. It’s given him a unique perspective on world affairs and the impact of global events on the financial markets.

Prior to joining Hansen & Associates, David worked for a large multinational bank, where he actively developed and executed equity, derivative and currency trading strategies for the bank’s investment management team. He also designed and managed a proprietary “portfolio insurance” product, which he used to hedge the bank’s investment portfolios against market declines. In that role, he managed all facets of the hedging process, including portfolio construction and all active trading.

David has now brought his knowledge and experience to Hansen and Associates, where he has applied his concepts to develop a range of investment products focused on mitigating investment risk and maximizing returns through tactical asset allocation.

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Successful Asset Management is Managing Risk Effectively

We invite you to experience a more-in-depth review of our portfolio strategy by meeting with our Portfolio Management Team. We will illustrate how our tactical and adaptive asset allocation approach can enhance investment expectations and portfolio growth.

Sincerely, Mark Hansen ChFC, CFP®

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