

Investment Management for Retirement Plan Participants



**Actively Managed Fund Portfolios & Variable Annuities
New Original Technology, Not Part of Wall Street**



Harloff Capital Management, Harloff Inc.
Registered Investment Advisor
Active/Tactical Portfolio Management Firm
795 Sharon Drive, Suite 226, Westlake, OH 44145
440-871-7278 or fax: 440-925-7875
e-mail: harloff@covad.net
web page: www.harloffcapital.com



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New Original Technology

Dear Plan Sponsor and Representative:

Plan Sponsor: HCM provides investment management for retirement plan participant accounts inside retirement plans by: 1) hiring HCM on their own to manage their account, or 2) arrangement with the plan sponsor.

Employers can offer plan participants investment advisor services within the plan. The model portfolios offered by HCM consider each participant's time horizon, risk tolerance, and goals. The independent investment advisor may be a different company than the 401(k) plan provider. This was determined in opinion 2001- 09A December 14, 2001 by the labor Department's Pension and Welfare Benefits Administration.

If you are a plan sponsor or vendor, and would like more information on HCM's Tactical Asset Allocation with Bonds (TAAB) model portfolios to offer to your plan participants, please contact us today!

Representative: Please utilize these packets only in a seminar or one-on-one presentations where a knowledgeable representative is able to represent Harloff Capital Management, Harloff Inc. We use an active management style that employs **new and original** technology for money management.

We can do investment seminars for you given proper notice and at least 20 potential buying units.

Our long-term goal is to help plan participants increase their wealth. It is recommended that plan participants evaluate our service over a complete market cycle period of about 5 years where possible.



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Dear Prospective Investor:

Based on your suitability, risk profile, and time horizon,

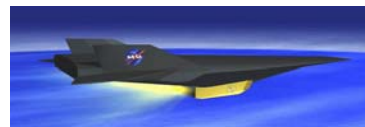
Harloff Capital Management (HCM), Harloff Inc., offers portfolio management services inside of 401(k), 403(b) and 457 government retirement plans employing mutual funds, variable insurance, and variable annuities. **We stand apart from other fee-based registered investment advisors because HCM is based on a math and science beginning.** With people living longer than ever, the need for higher investment return is obvious. Returns from bank CDs, fixed annuities, bonds, or passive buy-and-hold strategies may not be sufficient. We believe that active professional money management is the right choice for many investors. As a client of HCM, you can expect a high level of commitment and service. We do not have custody of client assets. All Funds remain titled in your name at the fund, insurance company, bank or trust company that is your custodian. We are fee-based to avoid possible conflicts of interest. We employ mutual funds, indexes, and variable annuities as investment vehicles. These vehicles provide for diversification with low trading costs. Plan participants are updated with trade confirmations from the custodian and quarterly statements, and plan participants communicate with us as often as they want.

Harloff Capital Management's unique NEW TECHNOLOGY and several investment plans allow each client and their financial advisor to customize their portfolio. We look forward to working with you to meet your financial goals.

Our Tactical Asset Allocation with Bonds (TAAB) investment plans include: (1) long term

conservative risk, (2) intermediate term conservative risk, (3) short term conservative risk, (4) long term moderate risk, (5) intermediate term moderate risk, (6) short term moderate risk, (7) long term aggressive risk, and (8) intermediate term aggressive risk, and (9) short term aggressive risk.

Prior to becoming a money manager, Dr. Harloff earned a Ph.D. in Aerospace Engineering. His math modeling background led to the development of our new proprietary investment technology to benefit our plan participants. He specializes in computer simulation and modeling and obtained two turbo-



machinery patents. In industry he developed technology for the

Space Shuttle, future single-stage-to-orbit vehicles, air-breathing propulsion, and other systems. His disciplined and scientific training in *aircraft and rocket science helps our investing process.* His stock market research began in 1970 and continues today. Harloff Inc. was formed in 1981 and registered as an investment advisor in 1994. In his article "**Dynamic Asset Allocation: Beyond Buy-and-Hold**", feature article in Technical Analysis of Stocks and Commodities magazine in January 1998, he illustrates how to beat the buy-and-hold strategy with dynamic Asset Allocation. One of his original proprietary indicators is the Harloff Value Index, HVI. This universal index quantifies investment opportunity in mutual funds, exchange traded funds, and indexes in many types of markets and countries. He continues to have Harloff Capital Management manage his own portfolios along side of client portfolios. I am confident that you will find our money management system able to perform in different kinds of markets.

Very truly yours,

Sally I. Harloff

Sally I. Harloff, President
 Harloff Capital Management, Harloff Inc.

ICM Mission

Our mission is to help plan participants obtain long-term lasting wealth.

Harloff Capital Management is a money management company serving individuals and corporations. HCM offers a disciplined investment system based on many years of original market research. We employ our proprietary disciplined investment process to manage portfolios of mutual funds, indexes, and variable annuities. We seek to be fully invested when markets go up, and to protect capital in periods when markets go down. We constantly monitor a large number of domestic and international funds and try to select winning portfolios. Our goal is to buy funds that are advancing and sell funds that are declining.

We build on **plan participants' dreams** and work hard so plan participants don't have to. Our investments are along side our plan participants' money. Dr. Harloff, Ph.D., has developed our original investing strategies - no other company has our investment technology.

ICM Active Strategies vs. Passive Strategies

Paragraphs A-F, following, inform investors about the need for a professional active money manager and show limitations of the passive buy-and-hold strategy.

A) The average investor, with a sizable nest egg, needs a professional money manager. Dalbar Financial Services, of Boston, Ma., has published results of several studies of investor compound returns compared to the S&P500 compound returns for four time periods, see below. Over a 19-year period ending in 2002, the yearly compound return for the S&P500 was 12.22%, and average investor return was 2.57%. This could be due to selling out too late when the market goes down and waiting too long to go back into the market. Similar results are indicated for years ending in 1997, 1998, and 2000.



S&P500 and the Average Investor Compound Return (% per year)*

	1984-1997	1984-1998	1984-2000	1984-2002
S&P500, %	17.1	17.9	16.29	12.22
Average investor, %	6.7	7.25	5.32	2.57

*Reference: Dalbar Inc. Quantitative Analysis of Investor Behavior Study 1997, 1998, 2000, 2003 updates

B) The *buy-and-hold passive strategy* is a bread-and-butter investment style. Portfolio rebalancing may be yearly. In contrast, **HCM actively manages client portfolios with the goal of adding value.** HCM trades mutual funds at the institutional level to keep trading costs low. We are compensated by management fees.

ICM Active Strategies vs. Passive Strategies (Cont'd)

C) Modern portfolio theory (MPT) was developed in 1952. This work showed that diversified portfolios, with uncorrelated stocks, reduce portfolio volatility or risk. Yet, the return for a diversified portfolio is always less than the return of the top-performing asset. A major limitation of MPT is that accurate forecasts of investment statistics have to be made. These statistics (for return, return volatility, and statistical correlations of returns) generally are not accurate and computed portfolios are not optimal. These forecasts are usually based on historical data spanning from 3 to over 20 years. And with globalization in progress and technology advancing at a rapid pace it makes little sense to use long-term average statistics. **Portfolio re-balancing is usually yearly or quarterly and this strategy sells winners and buys losers.** These portfolios held losing positions during the bear market of 2000-2002. **In contrast to passive portfolio allocation, HCM actively manages client portfolios and rebalances portfolios more frequently than quarterly.**



D) Demographic Investing is another popular strategy. Baby boomers, born from 1946 to 1950, are investing heavily in the stock market in the decade before their retirement, 2000-2010, to fund retirement programs. This investment fuels the stock market higher. Health and drugs sectors will be in favor as the boomers both age and

demand more medical attention. In its simplest form, this is a buy-and-hold investment strategy of areas thought to be most cherished by the boomers. **This strategy held stocks and did not sell out during the recent bear market.** *The theory is obviously incomplete since it did not predict the bear market of 2000 to 2002.* **In contrast, we believe that HCM's performance based investing adds value over this strategy.**

E) Index investing is another passive buy-and-hold strategy. To obtain good investment results **the investor needs to know in advance which index to buy-and-hold.** Many pensions, insurance companies, family offices, and individual investors employ index investing. **In contrast we believe that HCM's performance based investing, with Dynamic Asset Allocation, adds value over this strategy.**

F) Myth: don't asset allocate the market. Many investors do not want to asset allocate the market because they can't do it. They swear by the buy-and-hold strategy to diversify, and don't manage. Their plan is to rebalance and over-diversify once a year. For the investor who bought and held the market in 1929, it took 25 years to get even. And for the buy-and-hold investor who bought in 1973, it took 7.6 years to get even. In addition, many buy-and-hold investors are over-diversified with too many holdings. Studies show that 6 to 9 uncorrelated stocks provide adequate diversification: portfolios of mutual funds need fewer than 6 to 9 funds since each fund usually holds about 100 stocks.

ICM Active Strategies vs. Passive Strategies (Cont'd)

The dynamic asset allocation table below indicates you don't have to be a perfect allocator to beat the buy-and-hold S&P500 strategy.

Returns for the S&P500

	% per year
Buy-and-Hold	9.55
Missed 10 best days	7.03
Missed 20 best days	5.18
Missed 30 best days	3.57
Missed 40 best days	2.12
Missed 10 worst days	13.44
Missed 20 worst days	15.47
Missed 30 worst days	17.18
Missed 40 worst days	18.75
Missed 10 best & worst days	10.83
Missed 20 best & worst days	10.87
Missed 30 best & worst days	10.78
Missed 40 best & worst days	10.68

(1/1/1980-12/31/02)*

*Tandem Financial Services, Inc. Study

ICM Program Descriptions

At HCM we follow a *new approach* with our own unique proprietary investment models and manage portfolios with a blend of these. No other company has our technology. These are:

- **long-term relative model** to rank funds. We combine several different HCM indicators to determine relative fund rank. We manage risk by usually selling funds low on the list and buying funds higher on the list.
- **short-term absolute model** to rank funds. We analyze fund and index data on a common basis. We manage risk by usually selling funds low on the list and buying funds higher on the list.
- **dynamic portfolio theory model** to determine optimal *dynamic frontier* portfolios of funds. We have developed a new approach to design optimal portfolios. We manage risk by usually selecting funds that are thought to belong to an optimal portfolio.
- **dynamic style theory model** to determine the **best style** (growth/value/large/small) indexes and funds. Our original research is based on data from 1928 to 2002. We manage risk by usually investing in the best investment style.
- **dynamic investment allocation model to determine buy and sell signals** for the S&P500 and NASDAQ indexes. Our original research is based on data from 1942 to 1998, and more recent data. We manage risk by usually selling funds and/or buying contrary funds during periods of perceived weak markets.

ICM Program Descriptions (Cont' d)

HCM offers several active investment programs for retirement accounts in 401(k), 403(b), and 457 government plans. These programs are based on the results of a questionnaire filled out by the plan participants. From this completed questionnaire, a suitability, risk profile, and time horizon is determined for each participant. HCM's Tactical Asset Allocation with Bonds (TAAB) retirement plan methodology (equity/bond maximum percentages) for each of nine (9) portfolios is matched with each participant's time horizon and risk profile. Each of our programs employs Asset Allocation for long equity and bonds. Occasionally, money market are used from 0 to 100% (of dollar amount) depending on market conditions. The objective of each is long-term (5+ years) capital appreciation, except if the plan participant's time horizon is less. A description of these programs is given below.

If you are a plan sponsor or vendor, and would like more information on HCM's Tactical Asset Allocation with Bonds (TAAB) 9 model portfolios to offer to your plan participants, please contact HCM today!

If you are not enrolled in one of our advisor-managed retirement plan strategies and would like to be, contact HCM today!

If you are enrolled in an HCM retirement plan strategy and you wish to change your strategy, please contact HCM today.

HCM provides investment management to individual retirement plan participants that have been established with various custodians. HCM customizes Money Management for Each Plan Participant. This is called HCM's Tactical Asset Allocation with Bonds (TAAB), illustrated below, to manage each participant's retirement plan account. HCM actively manages participant's portfolio, in various mutual funds or annuity sub-accounts available through your retirement plan's custodian. HCM will actively select funds in various asset classes, money market, and bonds.



HCM's 9 Managed Strategies to Meet Needs of Retirement Plan Participants

HCM has developed 9 distinct active portfolio management strategies to use with qualified plans, and variable annuity sub-advisor accounts, to provide personalized risk management for each plan participant. Each participant fills out an HCM risk and time horizon questionnaire. Based on participant's answers to the questionnaire, they are placed in one of nine (9) time horizon and risk categories. Each category, for this table, holds a different percentage of stocks or bonds. As participant's conditions change, participant is able to change their strategy by simply changing a strategy option form with HCM.

ICM Program Descriptions (Cont' d)

The equity percentage increases as the participant's time horizon increases and when the participant's risk tolerance is more aggressive.

For example, suppose a plan participant has a moderate risk tolerance, and has a Time Horizon of 7 years to retire. The maximum portfolio equity and bond percentages would be 60% and 40% respectively and your tactical asset allocation model would be "Intermediate-term Moderate". HCM's active portfolio strategy would invest the equity part in equities and the bond portion in bonds, and either or both parts could be invested or in money market depending on market conditions.

Table R-1. HCM's Tactical Asset Allocation with Bonds (TAAB) Retirement Plan Methodology (Equity/Bond maximum percentages) for each plan participant is listed below.

Time horizon, years	Conservative Risk % equity/bonds	Moderate Risk % equity/bonds	Aggressive Risk % equity/bonds
1-5 years	20/80 short term conservative	40/60 short term Moderate	60/40 short term Aggressive
6-10 years	40/60 Intermediate-term Conservative	60/40 Intermediate-term Moderate	80/20 Intermediate-term Aggressive
10 + years	60/40 Long-term Conservative	80/20 Long-term Moderate	100/0 Long-term Aggressive

Asset groups employed for equities include: Foreign Stock, World Stock, Europe, Japan, Large Growth, Large Value, Mid-Cap Growth, Mid-Cap Value, Small Growth, Small Value, sector (Healthcare, Financial, Technology, Consumer, Energy, Transportation, Electronics, Biotech, and others) and money market. Asset groups for bonds include: Short-term Gov't, Intermediate-term Gov't, Long-term bond, High yield, International bond, Intermediate Corporate, and money market. This list is subject to change without notice.

A description of the nine (9) plan participant categories follows.

1) Conservative Risk, Short-term: 20/80 Asset Allocation: Suitable for the client with 1-5 years to retire who understands and accepts risk inherent in up to 20% exposure to either U.S. or international stocks, and up to 80% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

2) Conservative Risk, Intermediate-term: 40/60 Asset Allocation: Suitable for the client with 6-10 years to retire who understands and accepts risk inherent in up to 40% exposure to either U.S. or international stocks, and up to 60% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

3) Conservative Risk, long-term: 60/40 Asset Allocation: Suitable for the client with 10+ years to retire who understands

ICM Program Descriptions (Cont' d)

and accepts risk inherent in up to 60% exposure to either U.S. or international stocks, and up to 40% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

4) Moderate Risk, short-term: 40/60 Asset Allocation: Suitable for the client with 1-5 years to retire who understands and accepts risk inherent in up to 40% exposure to either U.S. or international stocks, and up to 60% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

5) Moderate Risk, Intermediate-term: 60/40 Asset Allocation: Suitable for the client with 6-10 years to retire who understands and accepts risk inherent in up to 60% exposure to either U.S. or international stocks, and up to 40% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

6) Moderate Risk, Long-term: 80/20 Asset Allocation: Suitable for the client with 10+ years to retire who understands and accepts risk inherent in up to 80% exposure to either U.S. or international stocks, and up to 20% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

7) Aggressive Risk, short-term: 60/40 Asset Allocation: Suitable for the client with 1-5 years to retire who understands and accepts risk inherent in up to 60% exposure to either U.S. or international stocks, and up to 40% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

8) Aggressive Risk, intermediate-term: 80/20 Asset Allocation: Suitable for the client with 6-10 years to retire who understands and accepts risk inherent in up to 80% exposure to either U.S. or international stocks, and up to 20% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

9) Aggressive Risk, long-term: 100/00 Asset Allocation: Suitable for the client with 10+ years to retire who understands and accepts risk inherent in up to 100% exposure to either U.S. or international stocks, and up to 0% bonds. Portfolios usually consist of 2 to 6 positions. Invests in funds offered by participant's retirement plan.

Past returns do not insure future results. Inherent in any investment is the potential for profit and loss.



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