

# Risk Controlled S&P 500 Account<sup>1</sup>

## A Risk Controlled Equity (RiCE) managed account program

This strategy offers investors the opportunity to match the S&P 500's annual returns up to 30% with a targeted downside of -15%.

### Portfolio Benchmark

#### Standard and Poor's 500 Stock Index

The portfolio is set to match the S&P 500 return. Potential annual return floor/cap is -15%/+30% with a +/- 1% tracking error.

### About Brookstone

Brookstone is focused on providing its clients with investment advice that clearly defines and attempts to limit risk. The goal is to ensure that over time our clients are well compensated for risk and understand the risk and return parameters of their investments. The firm is committed to transparency in all of its investment strategies.

### Philosophy

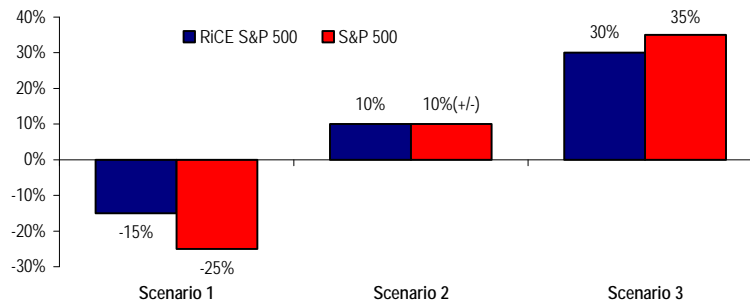
At Brookstone, we believe that markets are efficient in the long term, but from time to time undergo periods of extreme over-valuation (bubbles) and under-valuation (panics). Brookstone's goal is to design portfolios with the goal of protecting investors' capital from these periods of extreme over or under-valuation and provide a less volatile path to exceed market returns over market cycles.

We also carefully study asset correlations in up and down markets and work with clients to identify hidden risks and correlations that may provide a false sense of diversification.

### Investment Objective

The RiCE managed account program is designed to offer investors the opportunity to meet, and over time exceed, the S&P 500 return. By using fixed income securities and simple call options in a managed account for each client, we focus on limiting potential loss to 15% over a 12 month period even if the market loss is over 15%. On the other hand, if the market gains over 30% a year, the maximum gain will likely be 30%. If the market return is between -15% and +30%, we expect that the account value will closely track the index.

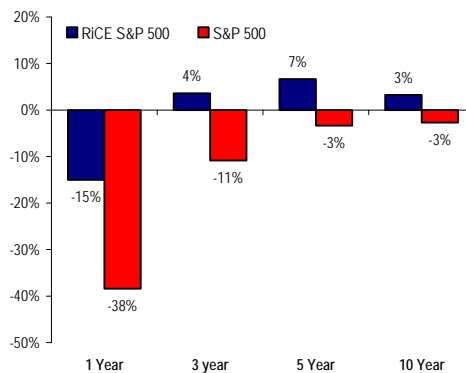
### Illustration: One Year RiCE S&P 500 and S&P 500 Index Returns



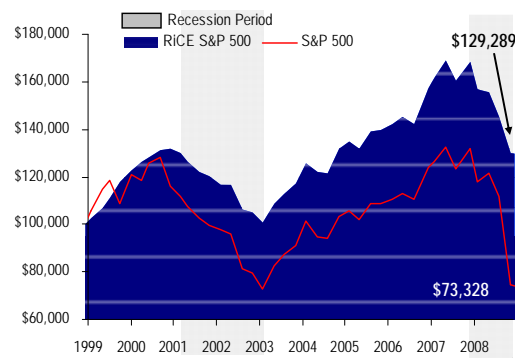
Over time, since the portfolio seeks to avoid significant losses (greater than 15%), it also is designed to measurably out-perform buying and holding the index. This out-performance can also usually be achieved with significantly lower volatility, meaning you can own the account and sleep well at night.

### Total Return<sup>A</sup>

#### RiCE S&P 500 Return as of 12/31/08



### Market Value of \$100,000 investment<sup>A</sup> Period 1/1/1999 to 12/31/2008



Note: (A) Returns based on back-tested model data

As of:	Annual Return (%) Comparison							
	One Year		Three Year		Five Year		10 Year	
	S&P 500	RiCE	S&P 500	RiCE	S&P 500	RiCE	S&P 500	RiCE
12/31/2008	-38.4%	-15.0%	-10.9%	3.6%	-3.3%	6.6%	-2.7%	3.3%
12/31/2007	0.1%	0.7%	6.0%	10.6%	8.8%	11.4%	4.3%	5.4%
12/31/2006	9.7%	10.0%	8.6%	7.6%	3.9%	8.5%	6.6%	7.4%
12/31/2005	8.4%	8.7%	11.2%	12.3%	-1.1%	3.0%	7.3%	10.9%

 RiCE Out-performed S&P 500 Index

Note: Returns are based on holding options and bonds to maturity

<sup>1</sup> All BPAM investment programs are implemented through a managed account program tailored to each client's needs. All securities are held by Fidelity Investments.

Best and Worst Returns (%) Since 12/31/1950					
		3 Month Total	1 Year Total	3 Year Annual	5 Year Annual
		Return	Return	Return	Return
RICE S&P 500	Best Return	7.5%	30.0%	25.8%	23.2%
		(8/97-11/97)	(10/58-9/59)	(4/95-3/98)	(4/95-3/00)
S&P 500 Index	Best Return	37.1%	57.7%	30.5%	26.3%
		(8/82-11/82)	(7/82-6/83)	(8/96-7/99)	(9/82-8/87)
RICE S&P 500	Worst Return	-5.1%	-15.0%	-9.9%	-1.1%
		(9/08-12/08)	(2/74-1/75)	(7/00-6/03)	(7/00-6/05)
S&P 500 Index	Worst Return	-38.1%	-44.5%	-17.3%	-7.7%
		(8/08-11/08)	(12/07-11/08)	(4/00-3/03)	(10/69-9/74)

Note: Best and worst returns are based on holding options and bonds to maturity

### Portfolio Construction

#### To Limit Downside

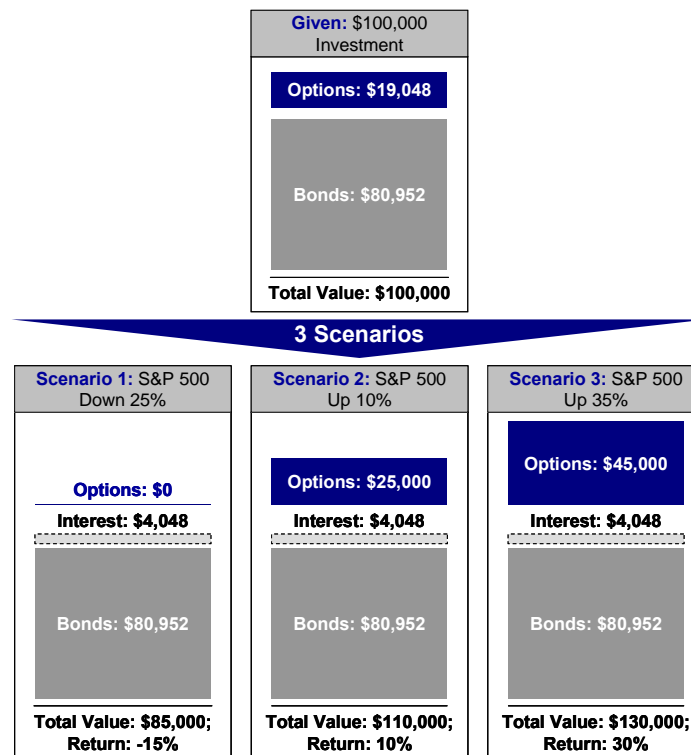
We invest a portion of the funds in a portfolio of relatively short term, investment grade bonds, rated "A-" or above, that upon maturity, are designed to return 85% of the investor's original capital.

#### To Match S&P 500 Return

The remaining funds are used to buy call options on the S&P 500. We also sell call options about 30% above the current market value. By selling those options, we reduce the portfolio's upside, but employ those proceeds to purchase additional call options, allowing us to better attempt to track to the index.

### Illustration of RiCE Account Allocation

\$100,000 Investment in RiCE S&P 500 Account Assuming 5% Fixed Income Yield



Brookstone Partners Asset Management provides investment advisory services through Partnervest Advisory Services LLC, an investment advisor registered with the Securities and Exchange Commission. The RiCE S&P 500 account performance is based on back-tested model data and does not represent actual results realized by any individual investor. There may exist better benchmark comparisons when evaluating the RiCE S&P 500 account's model performance. Modeled returns for the RiCE S&P 500 product are shown gross of fees. Fees associated with the RiCE S&P 500 accounts will vary by investor based on each investor's assets with Brookstone Partners Asset Management and in the product account. Material

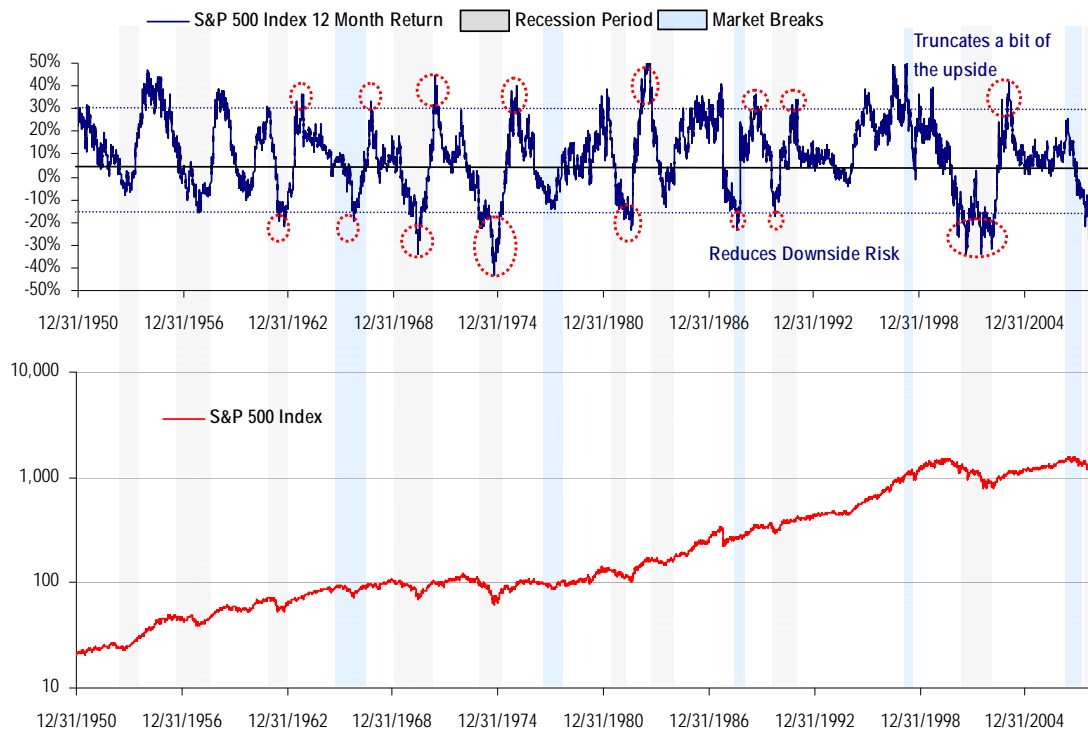
economic events or conditions will have positive or negative impacts on the performance of the RiCE S&P 500 account and while the account seeks to limit losses to less than 15% when components are held to maturity, the market value of the RiCE S&P 500 account can from time to time have a mark to market loss in excess of 15%. The RiCE S&P 500 model performance shown includes the re-investment of interest and dividends from prior periods. Consider the investment objectives, risks, and charges and expenses of the Brookstone Partners Asset Management investment programs carefully before investing. For this and other information about Brookstone Partners Asset Management investment programs, please contact Brookstone Partners Asset Management at (212) 302-7667; on the internet at [www.BrookstonePAM.com](http://www.BrookstonePAM.com) or by mail, Brookstone Partners Asset Management, 317 Madison Avenue, Suite 405, New York, NY 10017. Investment Advisory Services provided through Partnervest Advisory Services LLC, 510 Castillo Street Santa Barbara, CA 93101, (805) 966-1266. Past and model performance is not indicative of future returns.

## Frequently Asked Questions

1. How often has the S&P 500 Index return over 30% or lose more than 15%?

The best way to look at returns is to ignore the calendar and examine the returns an investor would experience for any given 12 month period. Below is a graph of rolling 12 month returns for the S&P 500 since 1950. As an example, on December 31<sup>st</sup>, 2004, if an investor had owned a security which tracks the S&P 500 for 12 months prior, the return would have been 9.0%.

**S&P 500 Rolling 12 Month Returns and Historical S&P 500 Index**  
1/1/1950 – 12/31/2008



An interesting pattern begins to emerge. Periods where returns exceed 30% usually follow time periods where the market has experienced a severe downturn. Since an investor in the Risk Controlled Equity product should avoid most of the severity of the downturn, giving up some of the return above 30% is in most cases a small tradeoff and one that historically has usually paid off with higher risk adjusted returns over time.

2. Since a significant portion of the downside protection is achieved by investing in bonds, how are they selected?

Brookstone Partners Asset Management (BPAM) manages a separate fixed income program and employs the same disciplined approach to selecting the bond portion of the RiCE program.

The most significant factors employed include credit rating, our own fundamental analysis and the information embedded on each issuer in the market price of its credit default swaps. Relatively short term maturities are selected for the RiCE program.

We will select securities in the upper end of the investment grade spectrum. Based on our empirical research as well as that of other fixed income specialists, lower rated investment grade and longer term bonds, even though they are investment grade, begin to take on equity like risk/return characteristics and are inappropriate fixed income choices to serve as the low risk, short-term, portfolio anchors for the RiCE program.



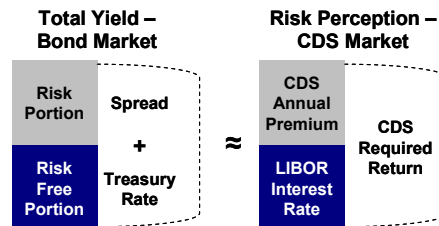
### Overview of Bond Ratings

S&P Ratings	Moody's Ratings	
AAA+	Aaa1	Upper End Investment Grade
AAA	Aaa2	
AAA-	Aaa3	
AA+	Aa1	Investment Grade
AA	Aa2	
AA-	Aa3	
A+	A1	Lower End Investment Grade
A	A2	
A-	A3	
BBB+	Baa1	Speculative
BBB	Baa2	
BBB-	Baa3	
BB+	Ba1	
BB	Ba2	
BB-	Ba3	
B+	B1	
B	B2	
B-	B3	
CCG+	Caa1	
CCC	Caa2	
CCC-	Caa3	
CC+	Ca1	
CC	Ca2	
CC-	Ca3	
C+	C1	
C	C2	
C-	C3	

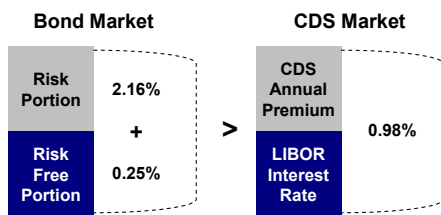
In addition to our own fundamental research on each credit, we seek to exploit all of the information embedded in the credit default swap (CDS) market. The CDS market is hypersensitive to perceived changes in credit quality where investors can purchase credit insurance on an issuer. The buyer of the insurance usually pays an annual insurance premium to the writer of the policy for the agreed upon term, usually five years. The event that triggers a claim on the issuer is defined contractually, but is most often that the underlying bond is in default. In that case there are several mechanisms that can be employed to settle the insurance claim, but all will serve to return the face value of the insured bond to the insured buyer.

We compare the credit spread for a particular bond (the extra yield an investor receives above the risk free rate to assume the issuer's default risk) to the cost of insuring default. Theoretically, they should be equal<sup>2</sup>. Basically we are using the credit insurance market to help us identify especially credit-worthy issuers.

### Decomposing the Bond Return

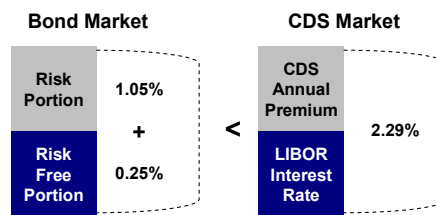


#### Example 1: Wal-Mart



**Attractive Risk Perception**

#### Example 2: Alcan



**Unattractive Risk Perception**

*A more detailed explanation of the selection process is available in the material addressing our fixed income accounts.*

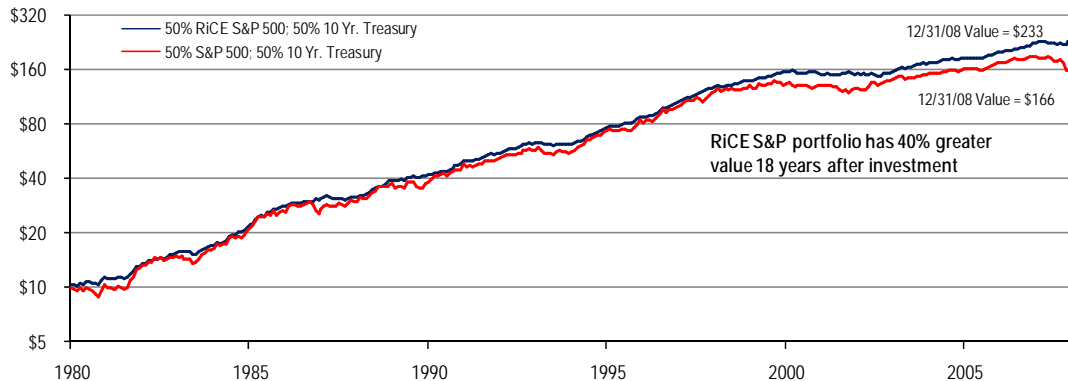
Notes: (2) In reality they are not, and this helps us select especially credit-worthy issuers.

**3. What role can the RiCE S&P 500 product play in my asset allocation program?**

The RiCE S&P 500 product should be considered as equity exposure in your asset allocation program. When matched with BPAM's Cornerstone fixed income program, the RiCE S&P 500 product is designed to provide investors with a high returning, "sleep at night" portfolio. (Please see our literature on [Asset Allocation](#))

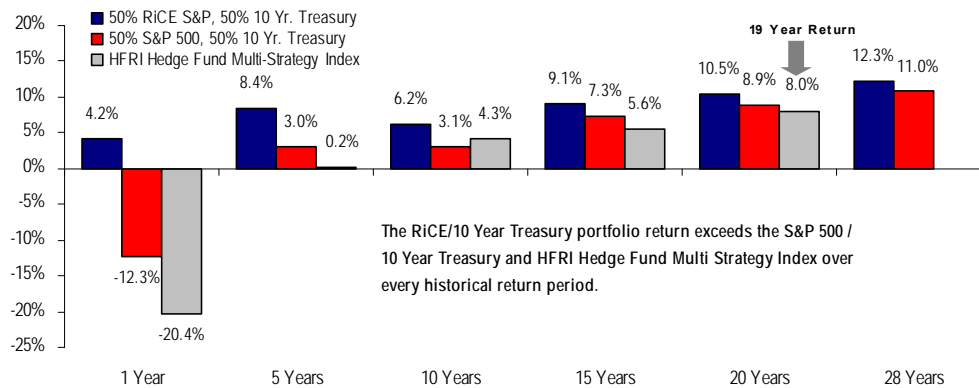
For illustration purposes, if 50% of a portfolio were invested in the BPAM Cornerstone Fixed Income program and 50% were invested in the RiCE S&P 500 product, the following returns could be achieved:

**Comparison of Value of \$10 Investment from 1980 through 2008<sup>A</sup>**



Note: Due to the custom nature of the Cornerstone Fixed Income product, the 10 year treasury was used as a proxy

**50% RiCE S&P 500, 50% 10 Year Treasury Return Comparison (As of 12/31/08)<sup>A</sup>**



Note: Due to the custom nature of the Cornerstone Fixed Income Product, the 10 year treasury was used as a proxy

As demonstrated above, the BPAM Cornerstone Fixed Income and RiCE programs can serve as integral components of any asset allocation strategy and outperform the passive indexes as well as the Hedge Fund Index.

**Notes: (A) Back-tested model returns - performance data represents the portfolio strategy's returns, had they been implemented since 1980 and does not predict future performance.**

**4. How would an investment in the RiCE S&P 500 compare to an investment in mutual funds?**

When compared to the complete universe of over 9,000 diversified mutual funds and ETFs, the program is one of only two investments in the top 20 for nearly every time period.

Top Mutual Funds Last 1 Yr		Top Mutual Funds Last 3 Yrs		Top Mutual Funds Last 5 Yrs	
Top Performing Mutual Funds As of 12/31/08		Top Performing Mutual Funds As of 12/31/08		Top Performing Mutual Funds As of 12/31/08	
Fund Name	Annual Return	Fund Name	Annual Return	Fund Name	Annual Return
300 North Capital Sm Cp Gr I	15.0%	Intrepid Small Cap	5.5%	Robeco Boston Partners Lg Cp V	14.8%
Robeco Boston Partners Lg Cp V	4.2%	Gabelli ABC	5.3%	CGM Focus	8.6%
Calvert Large Cap Value Y	0.6%	Pinnacle Value	2.8%	Eaton Vance Dividend Builder A	8.2%
Forester Value	0.4%	CGM Focus	2.3%	Amana Trust Income	7.5%
Embarcadero Alternative Strate	-1.9%	<b>RiCE S&amp;P 500</b>	<b>2.1%</b>	Pinnacle Value	7.1%
Gabelli ABC	-2.6%	Amana Trust Income	1.9%	Amana Trust Growth	6.1%
ING Index Plus LargeCap Equity	-4.1%	ING Index Plus LargeCap Equity	1.8%	Dreman Contrarian Small Cap Va	6.1%
Reynolds Blue Chip Growth	-5.1%	Shepherd	1.7%	CGM Mutual	5.9%
PMFM Managed Portfolio A	-5.8%	CGM Mutual	1.6%	Fairholme	5.5%
Intrepid Small Cap	-7.1%	Lord Abbett Value Opportunitie	1.5%	Paradigm Value	5.5%
Apex Mid Cap Growth	-9.0%	Reynolds Blue Chip Growth	1.4%	Lord Abbett Small-Cap Value I	5.2%
Direxion HCM Freedom Svc	-10.3%	Lord Abbett Value Opportunitie	1.1%	JPMorgan Small Cap Equity Sel	5.2%
Intrepid Income	-12.6%	ING Index Plus LargeCap Equity	1.1%	Allianz NFJ Small Cap Value In	5.1%
Symons Alpha Value Institution	-13.2%	Lord Abbett Value Opportunitie	1.0%	<b>RiCE S&amp;P 500</b>	<b>5.0%</b>
<b>RiCE S&amp;P 500</b>	<b>-15.0%</b>	JHancock Large Cap Equity I	1.0%	BlackRock U.S. Opportunities I	4.9%
Copley	-15.6%	Neiman Large Cap Value	0.5%	Royce Premier Instl	4.9%
Shepherd	-16.1%	JHancock Large Cap Equity A	0.5%	Lord Abbett Small-Cap Value A	4.9%
Pinnacle Value	-16.9%	Lord Abbett Value Opportunitie	0.5%	Lord Abbett Small-Cap Value A	4.9%
Heartland Value Plus	-17.9%	Parnassus Equity Income - Inv	0.3%	Allianz NFJ Small Cap Value Ad	4.8%
Direxion Evolution Alternative	-18.0%	BB&T Equity Income Instl	-0.1%	Royce Premier Invnt	4.8%

Note: Includes all US diversified mutual funds and ETFs in the Morningstar database, excluding narrowly focused sector funds and ETFs.

**5. Where is my money held?**

All funds are custodied at Fidelity Investment Services. They provide custody, accounting and administrative services. They hold all customer assets but each investor's assets are invested at our direction.

Investors will have a separate managed account that is invested in accordance with parameters we agree upon. It is highly customized and you are not forced into a specific type of "model" portfolio.

A managed account offers specific benefits which include:

- I. **Safety** – You own all of the securities in your account. With one call to Fidelity you can remove us from having discretion on the account and do with the assets as you wish.
- II. **Transparency** – You see all of the securities you own and are able to understand exactly how returns are generated.
- III. **Liquidity** – All of the assets in the program are exchange traded and valued by Fidelity every day. These assets have historically been easily marketable in normally operating markets.

**6. Shouldn't I have international diversification?**

Many of the companies in the S&P 500 have significant international exposure. However to complete an asset allocation with more specific international allocation which may be right for you depending upon your circumstances, we offer a RiCE portfolio which includes the MSCI Europe, Far East and Asia (EFEA), MSCI Japan (EWJ), MSCI Emerging Markets (EEM) and FXI China index related investments. (Please see our [Asset Allocation Publication](#) and literature on each asset subclass)

Brookstone Partners Asset Management provides investment advisory services through Partnervest Advisory Services, LLC, an investment advisor registered with the Securities and Exchange Commission. Results relating to the RiCE S&P 500 account performance are based on back-tested model data and do not represent actual results realized by any individual investor. There may exist better benchmark comparisons than those offered herein for modeled performance data. Modeled returns are shown gross of fees. Fees associated with the RiCE and Cornerstone products will vary by investor based on each investor's assets with Brookstone Partners Asset Management and each within each respective product account.

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