

## **MARKET***TREND* Investing – The Trend is Your Friend

**MARKET***TREND*<sup>SM</sup>  
**ADVISORS**

### **MARKET***TREND* Investing

A unique form of long term investing consisting of following the broad market trend to profit in both rising and falling markets. Index-based equities are our investment vehicles of choice for diversification and low costs. Unlike traditional buy and hold positions, **MARKET***TREND* investing avoids - and actually benefits from - market downturns to achieve outstanding risk-adjusted returns.

## MARKETTREND Investing – An introduction

Are you disenchanted with buy and hold investing, sitting on the sidelines not daring to jump into the market, or merely tired of chasing the next best investment? MARKETTREND<sup>SM</sup> investing offers a powerful investment alternative. Our proprietary 'MARKETTREND' investment methodology profits from stock market movements both up AND down with a low risk, low cost approach to investing.

First, let's take a look at the most common investing strategies used today:

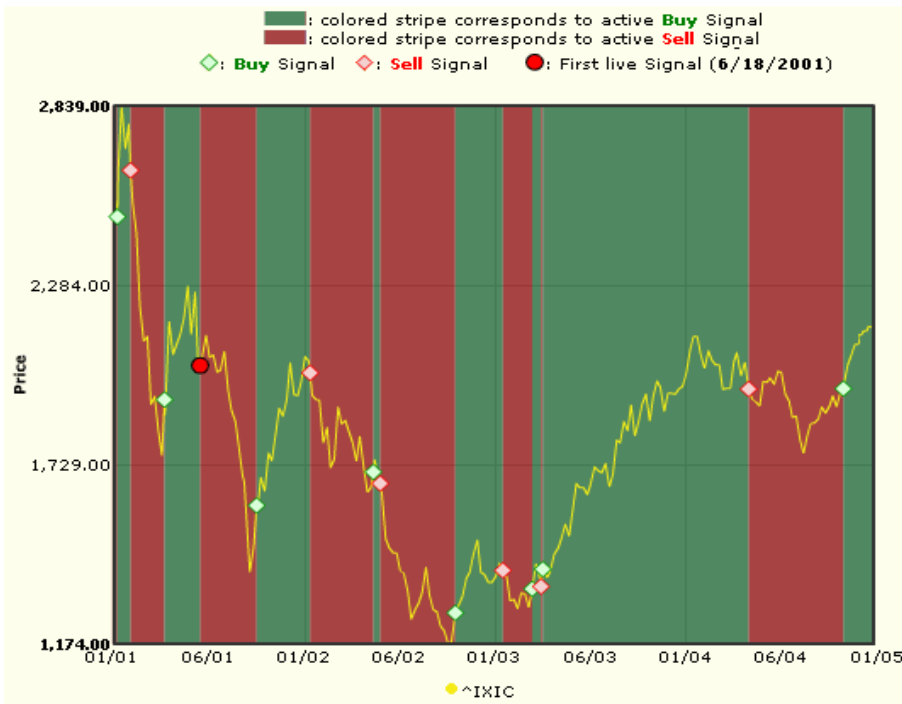
'Value investors' seek to gain from buying during unfavorable conditions when prices are low and selling when prices return to a more 'fully valued' state. To be successful in this line of attack, an investor must have the will to consistently act in opposition to the market – buying when the market is selling, and selling when the market is buying. Most individual investors respond emotionally to the market, however, making this 'contrarian' style of investing very difficult for them to succeed with on a regular basis. Secondly, in a bear market, positive returns may be hard to find with this technique.

By contrast, 'Growth investors' attempt to 'ride the wave' of the market's move higher buying stocks that are already showing strength and holding them until they choose to lock in their profits. This method requires constant monitoring of stock prices and the discipline to follow specific buy and sell rules. Few individual investors can sustain the necessary and significant amount of time and maintenance required.

As a result of the difficulties inherent in Value and Growth investing, many investors have opted to move toward 'Index investing'. This tactic simply parks money in index-based investment vehicles hoping that the historic 10-12% return of the stock market will continue. These funds merely follow the market, profiting in periods of rising stock prices and losing money in periods of falling prices. This is a very simple, low maintenance approach. To profit, the market simply needs to go up! In a period of falling prices such as the years 2000-2002, index investors watched as their portfolio balances steadily declined.

Our MARKETTREND investing system offers a very profitable and low risk alternative. We simply invest to follow and profit from the market's broad trend – both up AND down.

**Figure 1: Nasdaq Composite Index Trends, 2001-2004**



**Figure 1** plots our market model's buy and sell signals against the Nasdaq Composite Index. The red bands indicate periods when MARKET TREND investing was 'selling' the market, or profiting from declines in market value. The green bands indicate our 'buying' the market and profiting from increases in the Nasdaq index. You can see the benefits of exploiting the market's gyrations instead of just holding on and suffering through the wild ride. By following the trend of the market we are able to secure profits in any market environment with less risk.

As can be seen in the timing of the buy and sell signals, we want to participate in all meaningful market moves in either direction. Our proprietary model does not seek to find the absolute tops or bottoms – no one can reliably and consistently do so, but has an uncanny ability to identify changes in the predominant market trend. Backtested to the beginning of 1989 – a 16-year period – the model delivers a record of outstanding performance, correctly identifying the underlying trend of the market a phenomenal 86% of the time. The 14% of the time our model has been wrong (6 times out of 42 trades over a 16-year period), the loss has been held to 2-3% as the model quickly reversed course to follow the market. The result has been enormous compounded returns with low risk and few trades. We believe there is no other mode of investment that combines high returns, low risk, few trades, and the ability to profit in both positive and negative markets.

In **Figure 2** you can see graphically the return in each of the 16 years we backtested the model. This rendition let's you visualize what path the gains took on the way to each year's final result. So far, no single calendar year has ended with a loss and altogether the time spent in negative territory is very rare and shallow.

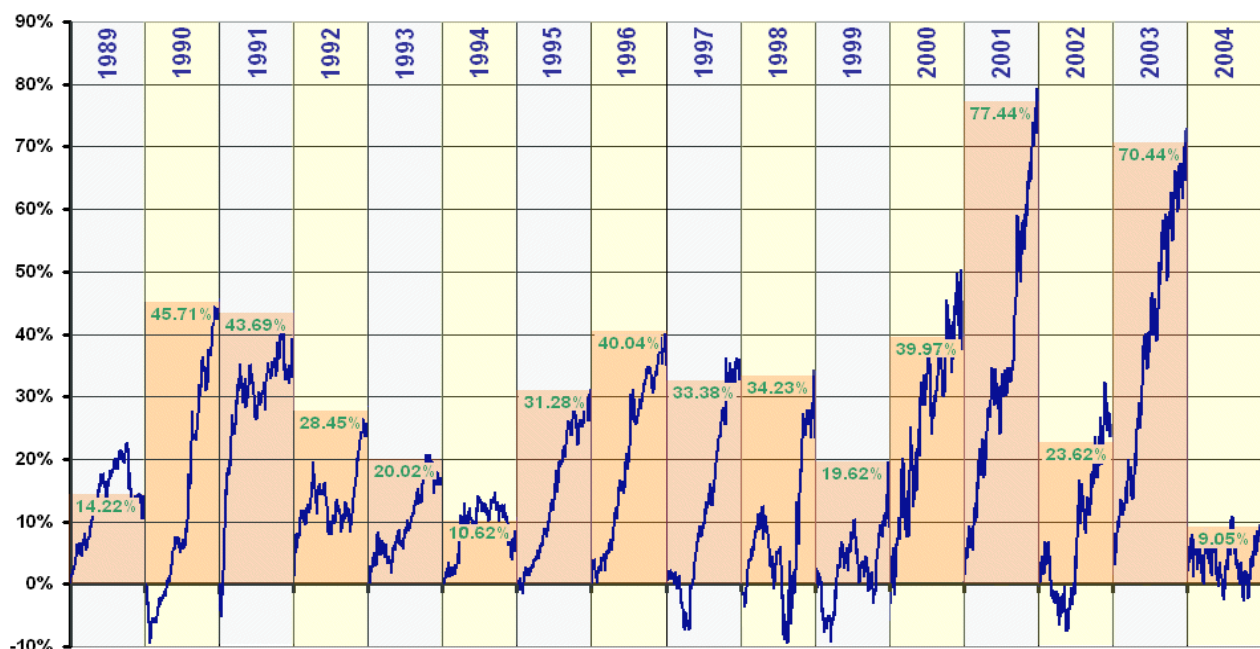
## Our investment philosophy? Invest for the long-term

- We believe successful investing requires a focus on the long-term to maximize the most powerful force in finance: the power of compounding
- We seek to preserve capital and minimize risk in all strategies
- We believe in keeping costs low to maximize your profits and wealth

To achieve those objectives, we emphasize the following strategies and disciplines:

- We believe money can and should be made in both up AND down markets.
- We believe the market's direction cannot be predicted consistently and accurately.
- However, by FOLLOWING the trend of the market, we believe risk is reduced and positive returns are generated consistently and in any market environment.

**Figure 2: Hypothetical Backtested Yearly Results**  
(Using the Russell 2000 Index. Each year starts at 0%)



## Are all our investment strategies focused on the market trend?

While we predominantly focus on following the market's long-term trend in our strategies, we also recognize the importance of diversification to further minimize risk and maximize returns. We build portfolios suited to all investment strategies, risk tolerances, and financial objectives. We utilize industry-leading mutual funds, income-generating investments, individual stocks, bonds, and options where and when necessary to meet our clients' financial needs and investment objectives

## Performance speaks

The performance figures discussed in this document are hypothetical returns computed

from backtesting our market model. Be sure to read the performance related notes at the end of this document. **Figure 3** presents the entire trading detail for the most recent 4-year period. Every trade is listed, from most recent to oldest, with dates and the trade's return in the third column '**% Return (No Margin)**'. The next set of columns under the '**Cumulative % Returns**' heading, are compounded returns since January 2001. The columns represent the four MARKETTREND strategies compared with the old Wall Street favorite '**Buy & Hold**' in the last column.

Our mainstream '**Long & Short**' strategy returned a hefty 415% in four years. A \$100,000 dollar investment on 1/2/2001 would have been valued at over \$515,000 at the end of 2004. Over the same time period, simply buying and holding the Nasdaq Composite Index, without management, resulted in an 11.70% net loss.

**Figure 3: Returns since 2001 as of 12/31/2004. Nasdaq Composite Index (^IXIC)**

Signal	Trade Date	% Return (No Margin)	Cumulative % Returns				Buy & Hold
			Long only	Long only with Margin	Long & Short	Long & Short with Margin	
Buy	10/28/2004	11.28	136.59	380.90	415.19	1889.99	-11.70
Sell	4/30/2004	-0.04	112.61	292.38	362.97	1523.69	-20.65
Buy	4/3/2003	39.68	112.61	292.38	363.18	1525.13	-20.68
Sell	3/31/2003	-3.95	52.21	118.77	231.60	806.07	-43.21
Buy	3/14/2003	0.55	52.21	118.77	245.23	883.78	-45.37
Sell	1/17/2003	4.08	51.38	116.40	243.36	873.14	-45.67
Buy	10/18/2002	10.33	51.38	116.40	229.91	799.80	-43.36
Sell	5/28/2002	23.96	37.20	79.34	199.01	645.70	-48.66
Buy	5/15/2002	-2.06	37.20	79.34	141.22	404.12	-32.49
Sell	1/14/2002	15.26	40.09	87.04	146.29	425.76	-31.07
Buy	10/4/2001	25.58	40.09	87.04	113.68	302.81	-18.66
Sell	6/18/2001	21.26	11.55	23.73	70.15	166.47	-35.23
Buy	4/11/2001	5.46	11.55	23.73	40.32	86.97	-17.74
Sell	2/5/2001	26.89	5.77	11.55	33.05	68.56	-22.00
Buy	1/11/2001	5.77	5.77	11.55	4.86	9.61	6.69
Sell	1/2/2001	-0.87	0.00	0.00	-0.87	-1.73	0.87

## What is a trend?

In our way of thinking, a market trend is a strong, sustainable market move which on average lasts 80 to 120 days.

Having a long-term inclination helps us make the most of any major market move by not being 'faked out' by small consolidations and corrections. This also helps us minimize costs and, occasionally, achieve long-term capital gains to further reduce your cost (in the form of taxes) and increase your profit.

When a market transitions from one long-term cycle to another, either bullish to bearish or vice versa, you may see more volatility and shorter trends.

## How do we know the trend?

- What sets MARKETTREND Advisors apart is our proprietary market model.
- This market model differs from most in that it looks at the market from a long-term trend perspective. This long-term perspective generates outstanding returns with lower risk and fewer transactions (read: lower costs.)
- Our proprietary market model is 100% unemotional and mechanical, and feeds on widely available data such as price and volume on major indices. No opinions, no wild guesses.

## How do we follow the trend?

The knowledge of the general market direction can be exploited through 4 simple strategies.

**Strategy 1 - Long Only**, is the most conservative strategy we follow. It keeps you invested only when our model tells us that the predominant market trend is up, and lets you step aside during downtrends.

**Strategy 2 - Long Only with Margin**, is a more aggressive version of Strategy 1, where you are willing to invest on full margin, therefore

doubling your potential gains and losses. It keeps you invested only when our model tells us that the predominant market trend is up, and lets you step aside during downtrends.

**Strategy 3 - Long and Short**, is our mainstream strategy and is designed to make you profit whether the market is going up or down. We believe this strategy offers the best risk/reward ratio for most investors. It keeps you invested whether our model tells us that the predominant market trend is up or down.

**Strategy 4 - Long and Short with Margin**, is the most aggressive strategy we follow and the one with the best track record, by far. It requires investing on full margin and/or other investment vehicles such as options, therefore doubling your potential gains and losses. This strategy is designed to make you profit whether the market is going up or down. It keeps you invested whether our model tells us that the predominant market trend is up or down.

## How does it all work and what do we invest in?

MARKETTREND Advisors specializes in bringing the power of MARKETTREND investing to both individual and institutional investors. For diversification and liquidity we select our investments from index-based vehicles such as Exchange Traded Funds (ETFs) or mutual funds, in combination with our proprietary market model to allow investors to profit in both positive and negative market environments.

When we are 'buying' the market, we purchase index ETFs like the QQQQ and IWM as well as dynamic index funds from Rydex and ProFunds. When we are 'selling' the market, we short the ETFs and purchase inverse funds from Rydex and ProFunds. For select accounts, we may also purchase and/or write options to improve returns. The good news is that we do all the heavy lifting for you. Once we have agreed on a personalized portfolio investment plan you can switch on the auto-pilot because we take care of all the monitoring, trading and other details.

## **An introduction to MARKETTREND Advisors**

At MARKETTREND Advisors we provide full-service portfolio management that we believe goes beyond what is offered by other firms. Our proprietary MARKETTREND investing system delivers consistently outstanding performance while reducing risk below that of the overall market.

MARKETTREND investing is simply long and short index investing using primarily

ETFs but also Rydex and ProFunds index and enhanced funds. We use a proprietary market model to drive our primary 'call' on the market, long or short. Our research has found that this type of investing creates a risk-adjusted return opportunity that is outstanding and performs well beyond most traditional investment benchmarks.

We believe you owe it to your portfolio to allocate some funds to MARKETTREND investing and see what a difference it can make in building your wealth.

**Don't find yourself on the wrong side of the market –  
Get with the MARKETTREND!**

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