

The KLD Capital IDeXtreme Approach: A Deeper Look

The Unique Tactical Allocation Methodology Based on the Concept that “Strength is Risk”

What is the purpose of the IDeXtreme Approach?

To solve the problem faced by all U.S. stock market participants:
how to systematically address ever-changing market conditions.

PROBLEM

Different Risk Conditions = Different Actions Required

In safe driving and safe investing:
minimize losses for best results.

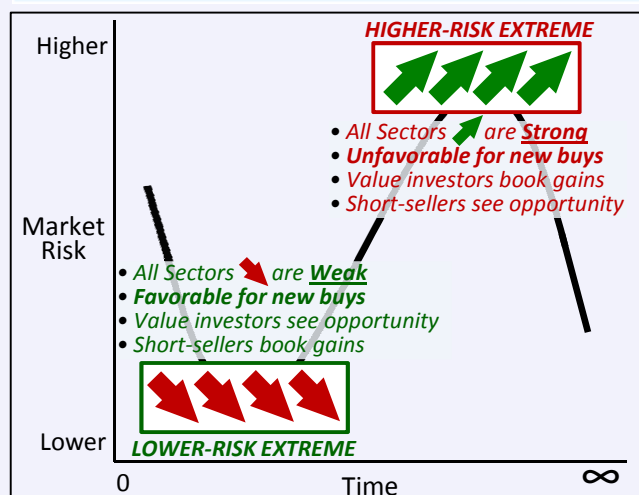
Safe driving requires accelerating and braking
at the right times.

Safe investing requires buying and selling
at the right times.

For success in both:
take the right actions at the right times.

FACT

More Strong Sectors = More Market Risk



SOLUTION

Track Stock and Sector Strength to

- 1) Identify Market Risk Extremes,
- 2) Take the Right Actions at the Right Times, and
- 3) Protect and Grow Client Capital through Full Market Decline/Rally Cycles

CONTENTS

	<u>Page</u>
<i>Prologue</i>	1
1. For Best Client Results, Utilize the FULL Information Universe <i>Because Stock, Sector, and Market Information All Provide Critical Insight</i>	2
2. For Best Client Results, FOCUS on the Right Information <i>Because All Information is <u>Not</u> Created Equal</i>	3
3. For Best Client Results, Be OBJECTIVE <i>Because it IS Possible to Buy at Lower-Risk Times and Sell at Higher-Risk Times</i>	4
The IDeXtreme Approach: Full, Focused, Objective Analysis for Best Client Results <i>Common Sense Analysis and Action to Put Stock Market Risk into Valuable Context and Generate Absolute Returns</i>	5
Epilogue: For Best Client Results, Use a Unique Analytical Engine and Database <i>Because True Market Edges come from Applying Non-Traditional Analysis to Proprietary Information</i>	6
Frequently Asked Questions	7
For More Information/To Open An Account	8

[Page intentionally left blank]

Prologue

Common to solving any problems are the following three components:

1. FULL INFORMATION: correctly identify the entire information universe containing appropriate solutions.
2. FOCUSED ANALYSIS: apply the 80/20 rule to find and evaluate the most critical 20% of the information.
3. OBJECTIVE SELECTION: un-emotionally choose the appropriate solution.

With its IDExtreme Approach, KLD Capital Management takes these steps to solve for clients the problem of achieving steady annual returns in the U.S. stock market.

There are better times to sell and better times to buy. Acting accordingly can improve returns. The least favorable times to buy are when the market is strong. At such times, most stocks and sectors are strong. Conversely, the most favorable times to buy are when the market is weak, when most underlying stocks and sectors are weak.

Logical, supportive of “buy low/sell high,” and cognizant that the only constant in the market is change? Yes.

The problem? Traditional approaches focus only on market-level information (for example, buy and hold, which also relies on the assumption that past is future) or define stocks as value vs. growth, or small vs. large capitalization. They do not explicitly address risk in terms of market, sector, and stock “strength” and “weakness.”

KLD Capital Management does. The following pages describe how.

KLD Client Benefit: the right actions at the right times through a logical process that makes sense in all market environments.

Prologue 1. For Best Client Results, Utilize the *FULL* Information Universe

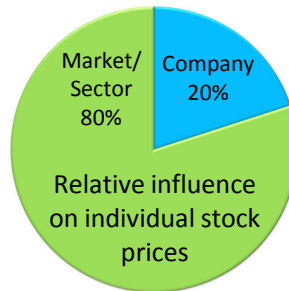
Because Stock, Sector, and Market Information All Provide Critical Insight

Weak sectors become strong one stock at a time, and weak markets become strong one sector at a time. Most stocks will do what the market does – but the market can only do what its underlying stocks do. At the sector level, strong sector stocks generally out-perform weak sector stocks, but comparative strength, and in turn sector-level risk, continually changes. For maximum understanding of overall market risk, one must evaluate risk from all possible angles. **With its Inside-Out Risk Analysis analytical engine, KLD uses top-down (market-level), bottom-up (stock-level) and inside-out (sector-level) perspectives to understand, evaluate, and act on all levels of risks facing investors.**

KLD Client Benefit: the right actions at the right times through valuable, unique risk insight from market-, sector-, and stock-level perspectives.

Academic Perspective:

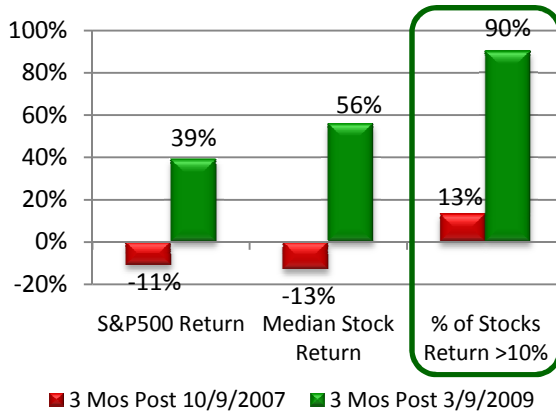
Market and sector forces influence stock prices more than company-specific factors



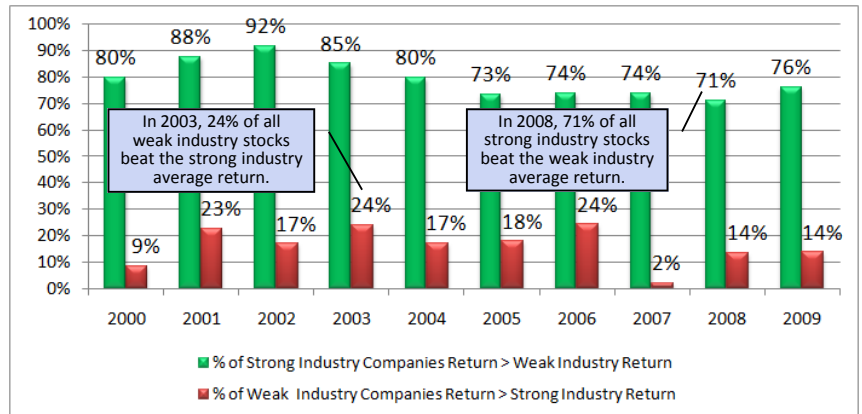
Source: Benjamin F. King, "Latent Statistical Structure of Securities Price Change," 1966.

Practical Perspective:

Market Forces Matter
Most stocks do what the market does – particularly at market risk extremes.



Sector Forces Matter
Strong sectors typically mean strong stocks.



Prologue 2. For Best Client Results, **FOCUS** on the Right Information

Because All Information is Not Created Equal

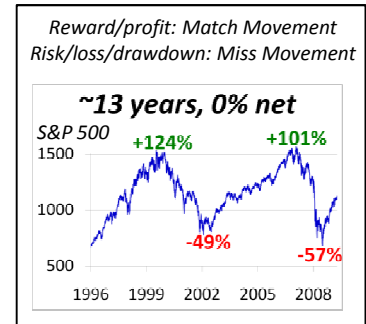
More information can mean more contradictions, less clarity, and reduced benefit from truly important information. Less is more. KLD focuses on stock, sector, and market price movement because this movement creates profit and loss.

KLD's approach focuses on "the Critical 20%" of information that generates 80% (or more) of the results.

KLD Client Benefit: the right actions at the right times through transformation of "Information Overload" into a logical absolute return action plan.

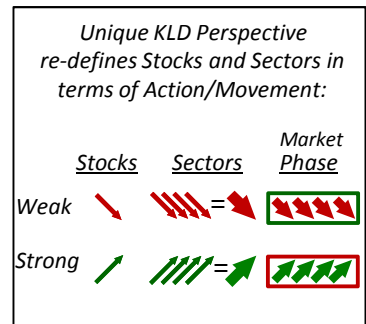
What to Analyze:

Market Movement
Creates Risk or Reward



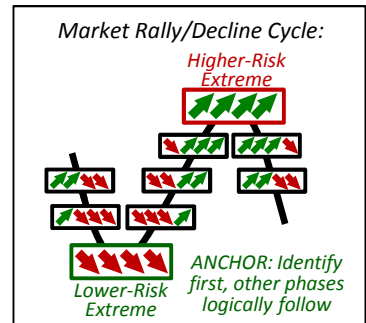
How to Analyze:

Stocks/Sectors
*Are Weak or Strong
NOT Value or Growth*



What to Look For:

Market Risk
Is Extreme or Not



What to Do:

Portfolio Actions
*Mean Revert or
Trend Follow*

Seek to Match Market Movement

*At Extremes:
Mean Revert (go against crowd)*

*Higher-Risk Extreme:
Cash or Short*

*Lower-Risk Extreme:
Cash or Long*

*Otherwise:
Trend Follow (go with crowd)
Long or Short*

Prologue 3. For Best Client Results, Be **OBJECTIVE**

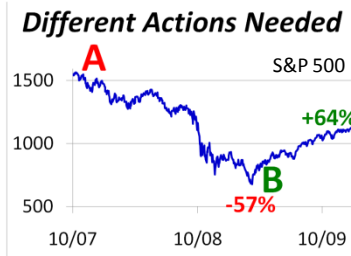
Because it IS Possible to Buy at Lower-Risk Times and Sell at Higher-Risk Times

“Don’t try to time the market. It’s not that you can’t do it, it’s that you won’t do it. The emotions will get a hold of you.”
 Burton Malkiel (Author, *A Random Walk Down Wall Street*), in the *New York Times*, 2/6/10

It is momentous when a leading Efficient Markets Hypothesis proponent states it is possible to time the market. Different conditions = different risks means one MUST adjust their actions for best portfolio results. There are times to buy and times to sell and, as suggested by Mr. Malkiel, emotions can – but do not have to – get in the way. **KLD eliminates emotions for better performance with the KLD Sector Risk Gauge (proprietary database cataloging 10+ years of stock and sector price action) to place current market and sector action into historical context.**

KLD Client Benefit: the right actions at the right times through consistent, objective measurement of higher- and lower-risk market environments.

Different Risk Conditions = Different Actions Needed



Actual Readings from the Proprietary KLD Sector Risk Gauge

**A. October 9, 2007
Higher-Risk
Time to Buy**

STRONG SECTORS					WEAK SECTORS				
Status	Primary Alert for Reversal to Weak	Reversal Potential (Higher = Greater Reversal Chance)	Reversal Reading (Max=7)	Continuation Reading (Max=6)	Status	Primary Alert for Reversal to Strong	Reversal Potential (Higher = Greater Reversal Chance)	Reversal Reading (Max=7)	Continuation Reading (Max=6)
Strong		62%	1	2					
Strong		33%	0	3					
Strong		11%	1	3					
Strong		24%	0	3					
Strong		14%	0	3					
Strong		33%	0	3					
Strong		46%	1	2					
Strong		26%	0	3					
Strong		3%	0	3					
Strong		46%	0	3					
Strong		17%	1	3					
Strong		38%	0	3					
Strong		37%	0	3					
Strong		15%	1	2					
Strong		25%	0	4					
Strong		11%	0	4					
Strong		48%	1	1					
Strong		50%	0	3					
Strong		23%	0	3					
Strong		68%	2	2					
Strong		28%	0	3					
Strong		45%	1	2					
Strong		32%	0	3					
Strong	ReuAlert	34%	1	2					
Strong		33%	1	2					
Strong		36%	0	3					
Strong		57%	1	2					
Strong		8%	0	5					
Strong		14%	0	5					
Strong		5%	0	2					
Strong		29%	0	6					
Strong		68%	2	2					
Strong		81%	3	2					
Strong		36%	0	2					
Strong		13%	0	3					
Strong		13%	1	4					
Strong		38%	0	2					
Strong		4%	1	3					

• All Sectors are **Strong**
 • Unfavorable for new buys
 • Value investors book gains
 • Short-sellers see opportunity

Subsequent 3 Month Market Performance:
 S&P 500 -11%
 Median Stock -13%
 ~1 in 10 stocks returned > 10%

**B. March 9, 2009
Lower-Risk
Time to Buy**

STRONG SECTORS					WEAK SECTORS				
Status	Primary Alert for Reversal to Weak	Reversal Potential (Higher = Greater Reversal Chance)	Reversal Reading (Max=7)	Continuation Reading (Max=6)	Status	Primary Alert for Reversal to Strong	Reversal Potential (Higher = Greater Reversal Chance)	Reversal Reading (Max=7)	Continuation Reading (Max=6)
					Weak		97%	4	2
					Weak		89%	3	2
					Weak		98%	3	3
					Weak		69%	2	2
					Weak		94%	3	1
					Weak		82%	3	2
					Weak		97%	4	2
					Weak		88%	3	2
					Weak		92%	3	2
					Weak		91%	5	1
					Weak		90%	3	2
					Weak		98%	4	2
					Weak		80%	4	2
					Weak		94%	5	1
					Weak		86%	3	2
					Weak		95%	4	2
					Weak		91%	2	2
					Weak		62%	0	2
					Weak		97%	4	2
					Weak		100%	5	2
					Weak		95%	3	2
					Weak		82%	3	2
					Weak		93%	3	1
					Weak		85%	4	1
					Weak		44%	0	3
					Weak		84%	2	2
					Weak		68%	4	2
					Weak		71%	1	3
					Weak		93%	2	2
					Weak		74%	3	2
					Weak		64%	1	3
					Weak		68%	2	1
					Weak		96%	3	1
					Weak		77%	3	2
					Weak		100%	4	2
					Weak		94%	4	2
					Weak		91%	3	2
					Weak		95%	3	2

• All Sectors are **Weak**
 • Favorable for new buys
 • Value investors see opportunity
 • Short-sellers book gains

Subsequent 3 Month Market Performance:
 S&P 500 +39%
 Median Stock +56%
 9 in 10 stocks returned > 10%

The IDExtreme Approach: Full, Focused, Objective Analysis for Best Client Results

Common Sense Analysis and Action to Put Stock Market Risk into Valuable **Context** and Generate Absolute Returns

Concept: Protect and Grow Client Capital through Full Up/Down Market Cycles by Using an Objective, Logical Process that Makes Sense in All Market Environments.

FOCUS on The Critical 20% of Information that Generates 80% or more of the Results.

Keep Looking Deeper to Make the Complex Simple: All Information is NOT Created Equal

The Critical 20%	Possibilities Spectrum	
Market Movement	Risk	Reward
Stocks/Sectors	Weak	Strong
Market Risk	Extreme	Not
Portfolio Actions	Mean Revert	Trend Follow

One focus to benefit all U.S. stock market investors: long/short equity strategies that systematically seek to maximize reward by minimizing risk.

- 1) **Anchor:** identify lower-risk market extreme conditions for **CONTEXT**
- 2) **Define:** logical market condition "phases" based on the Anchor
- 3) **Measure:** risk and ideal exposure associated with each phase
- 4) **Adjust:** portfolio exposure based on the current phase.

ANALYZE The Critical 20% to Determine the Right Actions at the Right Times.

Apply non-traditional analysis to proprietary information to create a unique market edge

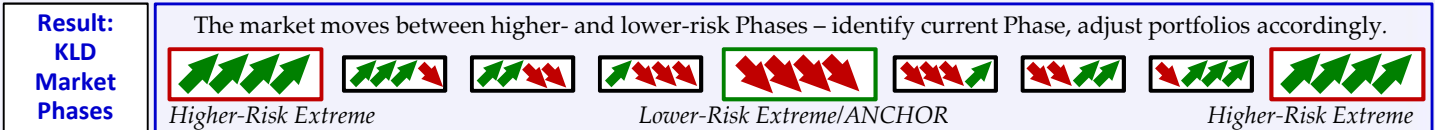
Inside-Out Risk Analysis
Analytical Engine
Identify Market Extremes

KLD Sector Risk Gauge
Proprietary Database
Quantify Risk

Common sense analysis for uncommon insights: using stock-, sector-, and market-level views to define higher- and lower-risk market conditions

Uncommon database for uncommon analysis: tracking 10+ years (and counting) of historical daily price **action** for thousands of individual stocks

KLD Capital Management is creator and sole user of Inside-Out Risk Analysis and the KLD Sector Risk Gauge, unique tools that are the foundation for long/short U.S. equity strategies to complement existing strategies and create true strategy diversification.



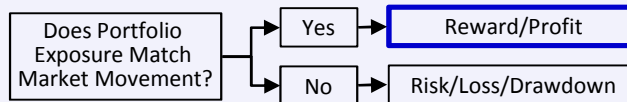
EXECUTE objectively and consistently with a logical, common sense-based process.

Go against the crowd at risk extremes and follow it otherwise to match market movement and generate absolute returns

1. Seek to Match Market Movement

Get the big decisions right and the little decisions won't matter

Greater matching = greater reward



+ market can only do what underlying stocks/sectors do
= track underlying stocks/sectors to Match Market Movement

2. Re-define Stocks and Sectors by Action to Identify Risk Extremes

Understand underlying movement to match market movement

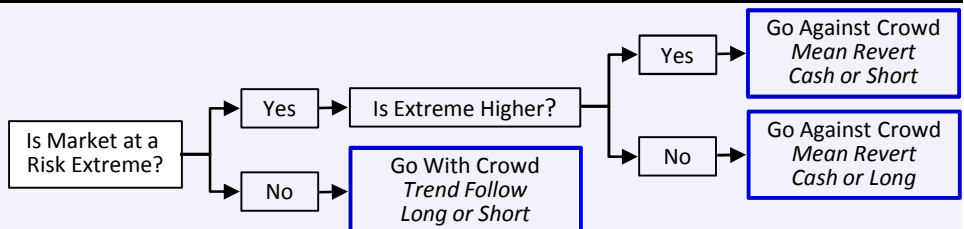
At risk extremes, it does not matter if stocks are value or growth

1. Stocks are weak or strong , not value vs. growth; in turn,
2. Sectors range from weak = to strong = , and
3. Market risk extremes are identifiable as higher (all sectors strong) and lower (all sectors weak)

3. Mean Revert or Trend Follow

Different conditions have different risk and require different actions

There are times to be contrarian and times to follow the crowd



Epilogue: For Best Client Results, Use a Unique Analytical Engine and Database
Because True Market Edges come from Applying Non-Traditional Analysis to Proprietary Information

KLD has created and is the sole user of two unique tools that define its market edge: Inside-Out Risk Analysis (analytical engine based on a three-level market perspective that begins with classifying stocks as strong or weak) and the proprietary KLD Sector Risk Gauge (database cataloging 10+ years, and counting, of stock price action).

KLD Client Benefit: the right actions at the right times through deploying exclusive KLD tools that create a true, sustainable market edge

ANALYTICAL ENGINE

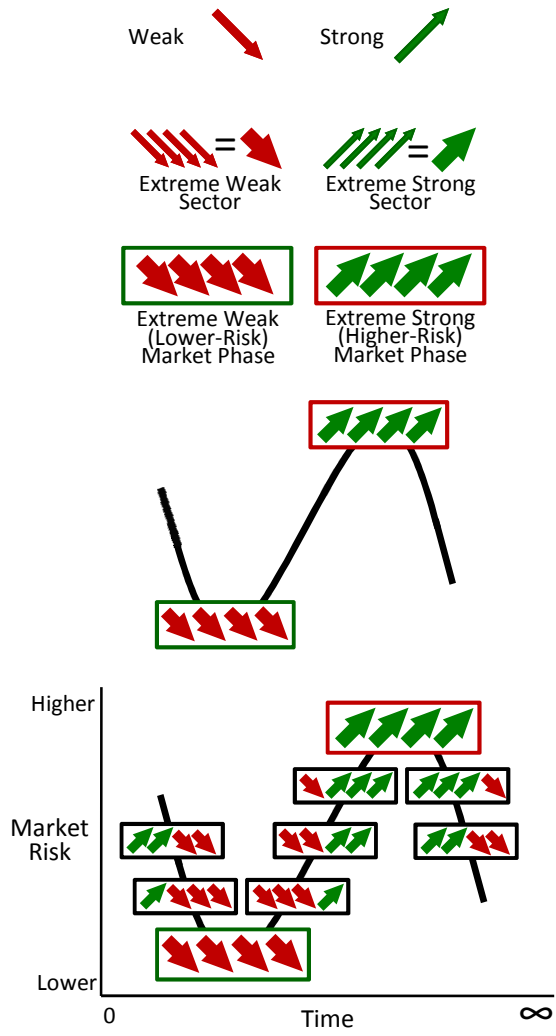
INSIDE-OUT RISK ANALYSIS

Use to Identify Market Risk Extremes

3-Level Market Perspective

1. Use stock price action to model strong and weak sectors
2. Use strong and weak sectors to model market phases
3. Use market phases to identify lower- and higher-market risk conditions

1. Deploy a different stock view
2. Define sectors as strong or weak
3. Define market risk extremes – all sectors are weak or strong
4. Identify market risk extremes on market rally/decline cycle
5. Define Phases based on extremes: use KLD Sector Risk Gauge to quantify risk and ideal portfolio exposure for each Phase



PROPRIETARY DATABASE

KLD Sector Risk Gauge

Use to Quantify Risk

Cataloging 10+ Years of Price Action for Thousands of Stocks

Increasing Strength = Increasing Risk



Frequently Asked Questions

Who is KLD?

- Registered Investment Advisor (fee only, fiduciary duty)
- Money manager with proprietary methodologies
- Regular and retirement accounts in U.S. stock market

What does KLD do?

Keep Looking Deeper to Make the Complex Simple: mean revert at market risk extremes, trend follow otherwise to match market movement and generate absolute returns regardless of market trends or economic environment.

What does that mean?

Gyrating markets can greatly damage unprotected “buy and hold” and long-only accounts and unprepared investor psyches. Using its unique analytical process and proprietary database, KLD objectively determines what to do and when for clients to help shield them from these impacts, focusing first on minimizing loss and then on maximizing reward.

What is KLD's goal?

Steady low/mid-teens absolute annual returns net of fees with maximum drawdown less than 50% of the major U.S. indexes. Baseball analogy: steady singles and doubles hitter, not feast-or-famine home run hitter with many strikeouts. Please note: due to hedging, KLD will underperform in a strongly rising market, offset by downside protection in a declining market.

Exactly what is KLD's Market Edge?

Systematically knowing what to focus on, how to analyze this information, and what to do about it.

1. Common sense, logic-based system (IDExtreme Approach), created ground-up by the founder, that objectively measures risk, places current market action into historical context, and guides portfolio adjustments.
2. Inside-Out Risk Analysis, 3-level (market, sector, stock) analysis that identifies market risk extremes.
3. KLD Sector Risk Gauge, a proprietary 10+ year database cataloging price action for thousands of individual stocks.

How does KLD translate this into action?

Through its Multi-Index Strategy, an absolute return-seeking quantitative stock strategy that adjusts portfolio exposure up to daily based on KLD's analysis of price action for thousands of stocks, using ProFunds mutual funds replicating up to 2x long and short exposure to five major market indexes.

What is the underlying thesis?

It is based purely on common sense, fitting KLD's philosophy to “make the complex simple.” Regardless of underlying economic environment (inflation, interest rates, GDP growth), during extreme lower-risk market environments all sectors and most stocks are weak. Here, value investors see long-term opportunity while short-sellers harvest hard-won gains. During extreme higher-risk market environments, the opposite occurs – value investors harvest hard-won gains, short-sellers see opportunity, and selling begets more selling. Therefore mean-revert at extremes, otherwise trend follow long and short.

Does KLD use price charts or make predictions? Why?

No. KLD believes in objectivity to eliminate impact of emotions. Price chart analysis and predictions, regardless of the analyst's experience and qualifications, are subjective.

What are key components of the KLD Philosophy?

- Priority: preserve capital.
- Focus on “The Critical 20%” of information responsible for 80% or more of returns.
- Price is not value, but price is opportunity and its action holds all information necessary to profit in the market.
- “Is” matters, “why” does not; risk matters, predictions do not.
- Eliminate emotion.
- Attractive long-term returns do not necessarily mean long-term holds – take care of the many on-going short terms to automatically take care of the long term.
- Stocks are strong or weak – at market risk extremes, it does not matter if stocks are value or growth.
- Weak sectors become strong one stock at a time, weak markets become strong one sector at a time.
- Different risk conditions require different actions.
- True diversification comes from diverse assets and actions.

Why does KLD use index mutual funds?

- Market index “prices” are indirectly calculated based on underlying stock prices, which is different than stocks, bonds, commodities, and currencies, whose prices are determined directly via buyer and seller interplay. By tracking underlying stock price action, KLD obtains beneficial insight available only through using vehicles representing the market indexes.
- Back test validity: in back testing money management systems, KLD uses the actual index data. Since the index mutual funds track their indexes well, KLD is comfortable that the results with the index mutual funds will be similar to those using the actual index information. (Note: past is not future so back testing results will not be achieved but are important to evaluate viability of concepts and provide context for system review and improvement.)

How Do I Benefit from KLD's Work?

- True portfolio-level diversification by strategy and action, enhancing both capital preservation and capital growth through all market environments.
- Stand-alone strategy with strong potential for attractive growth with lower drawdowns than long-only index investing.
- Future diversifying strategies potentially using market ETFs, sector ETFs/mutual funds, and individual stocks.

What happens when I open an account?

Clients open accounts at ProFunds (for the KLD Long/Short Multi-Index Strategy) and/or Scottrade (for individual stock and ETF strategies) as follows:

- You send funds directly to ProFunds or Scottrade, without going through KLD. KLD never directly handles your funds.
- You provide KLD with “limited trading authority” (meaning KLD can access your account to execute trades but cannot withdraw funds except for management fees as previously agreed-to by you). KLD will change your fund allocations or holdings based on its analysis.
- You have 24/7 password-protected access to your accounts, where you can see holdings/balances at your convenience.

How do I Find Out More?

Brian Degracia, 310-633-1986 or bdegracia@kldcapital.com; www.kldcapital.com, and www.strengththisrisk.com

For More Information/To Open An Account

KLD Capital Management, LLC

1112 Montana Avenue #440
Santa Monica, California 90403
310-633-1986

Brian Degracia
bdegracia@kldcapital.com
www.kldcapital.com
www.strengthisrisk.com

DISCLAIMER

This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. Past performance is not necessarily indicative of future results and there is always the risk of loss. No representation is made that any account will or is likely to achieve performance similar to that shown and, in fact, there are frequently significant differences between hypothetical performance results and the actual results subsequently achieved by any particular money management system. Current performance may be higher or lower than the performance presented. Thus, potential clients should be cautious of placing any reliance on performance information shown. Data is obtained from what is believed to be reliable sources but cannot be guaranteed. Information is subject to change at any time without notice. The S&P 500 Index is the Standard & Poor's 500 Composite Index of 500 stocks, an unmanaged index of common stock prices. The Index is unmanaged and the figures for the Index do not include any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index. THIS MATERIAL DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION WHERE OR TO ANY PERSON TO WHOM IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO. Copyright © 2010 KLD Capital Management, LLC. All Rights Reserved.