



8053 XERXES AV S. ■ BLOOMINGTON, MN 55431 ■ 952.926-3000 ■ Toll Free: 866.926.3022 ■ www.capstratcorp.com ■ e-mail: capstrat@comcast.net

THE CAPITAL STRATEGIES MODEL PORTFOLIOS

Descriptions of the Capital Strategies model portfolios upon which we base our client's investment portfolios.

Balanced Portfolio

The Balanced Portfolio has the joint objective of principal growth and modest volatility. As such, the portfolio will combine stock and bond funds. While it will contain high quality U.S. government bonds, it will also contain higher risk, higher yielding corporate bonds, some below investment grade. On the stock side, while the emphasis will be on large company U.S. stock funds, there will also be some smaller company stock and foreign stock exposure in the portfolio.

This portfolio is appropriate for investors with a moderate tolerance for risk, as the portfolio should be expected to have a down year occasionally. It is also appropriate for those who want to participate in all the basic bond and stock classes, albeit on a more conservative basis.

Balanced-Conservative Portfolio

The primary purpose of the Balanced-Conservative Portfolio is to earn enough of a return to preserve and hopefully increase the purchasing power of the portfolio, while minimizing volatility. The portfolio's objective will be met if it safely grows principal on a tax- and inflation-adjusted basis. As such, it will own bond funds, primarily, as long as the real return on bonds is satisfactory. It will also own stock funds, but will lean towards those funds that have achieved reasonable returns with low risk.

This portfolio is appropriate for investors who have a low risk tolerance, those who have a fairly short time horizon, and/or those who want a stream of income that preserves their purchasing power without undue risk.

Balanced-Aggressive Portfolio

The Balanced-Aggressive Portfolio is designed to provide growth of principal. It seeks to achieve this by investing in those stock and bond funds, which are expected to be able to earn competitive returns. In order to achieve growth over the long term, the portfolio will favor stock funds over bond funds, and high return stock funds over low risk stock funds. That said, the portfolio will always maintain diversification by company size, geographic location, and industry, because this has been shown over time to increase risk-adjusted return.

This portfolio is appropriate for most long-term investors. Investors who seek the kind of high returns that can only be achieved by selecting certain sectors of the stock market and being right would be better off in the Balanced Aggressive Portfolio.

Aggressive All Equity Portfolio

The Aggressive Portfolio has no objective other than capital appreciation. It is almost always a stock fund only portfolio, the only exception being an extreme mispricing in the bond market. This portfolio can and often does overweight industry segments and/or geographic regions, which it believes has above average return potential. Because this portfolio excludes areas of the stock market it deems unattractive, it is not as diversified and should be understood as being high risk.

This portfolio is appropriate only for those investors who can understand and appreciate it's high degree of risk, and would not be surprised or dismayed by market downdrafts of more than 15% on occasion.

The Aggressive All Equity Portfolio is a portfolio of mutual funds designed to provide superior long-term growth. The Portfolio attempts to achieve this goal by choosing individual no-load mutual funds whose individual performance has been superior, and combining them in such a way as to provide extra exposure to the areas of the stock market expected to enjoy better than average short and intermediate term performance. CSFC will identify the areas of the stock market that are benefiting from current and projected future investment trends, and attempt to profit from them by selecting top-decile performing funds that focus on that area. The Objective of the Portfolio is Aggressive Growth. Investors should be prepared for above-average volatility.

This Portfolio expects to be fully invested in stock mutual funds at all times. The portfolio will use up to seven stock funds, chosen for manager ability as well as timeliness of the investment approach. Some diversification naturally occurs when seven funds are selected, and this should accrue to the benefit of the Portfolio. Nevertheless, diversification is not a primary objective of this Portfolio.

Over any short-term period, this portfolio contains above-average risk. In a falling stock market, there would be no defensive elements (such as cash or high quality bonds) to cushion the Portfolio. Because the Portfolio is only partially diversified, it would not likely benefit from defensive sector rotation. CSFC would respond to a down market by identifying areas of relative strength within the stock market, but it would not move to preserve principal. This Portfolio is for those who would perceive a sell-off in the stock market as a buying opportunity, not as a reason to sell.

In addition, due to the inclination of the fund to overweight more promising areas of the market, the Portfolio may lag the market if there is a sudden change in the investment climate (from growth to value, for example).

This Portfolio should respond well to strong stock markets or periods when at least part of the market performed well for a sustained period of time. This largely describes the investment environment of the past several years. Based upon our testing, the performance would have been very competitive with the major U.S. stock market averages (Standard and Poors 500, Dow Jones Industrial Average). In a down market or in a period where sector and style leadership rotates frequently, it is anticipated that performance would not be nearly as strong.

Capital Strategies Financial Corporation

**Eric C. Graber
President**

Mark A. Carlton, CFA