

Invest wisely. Rest easy.

Our Truly Tactical Rules-Based Disciplines

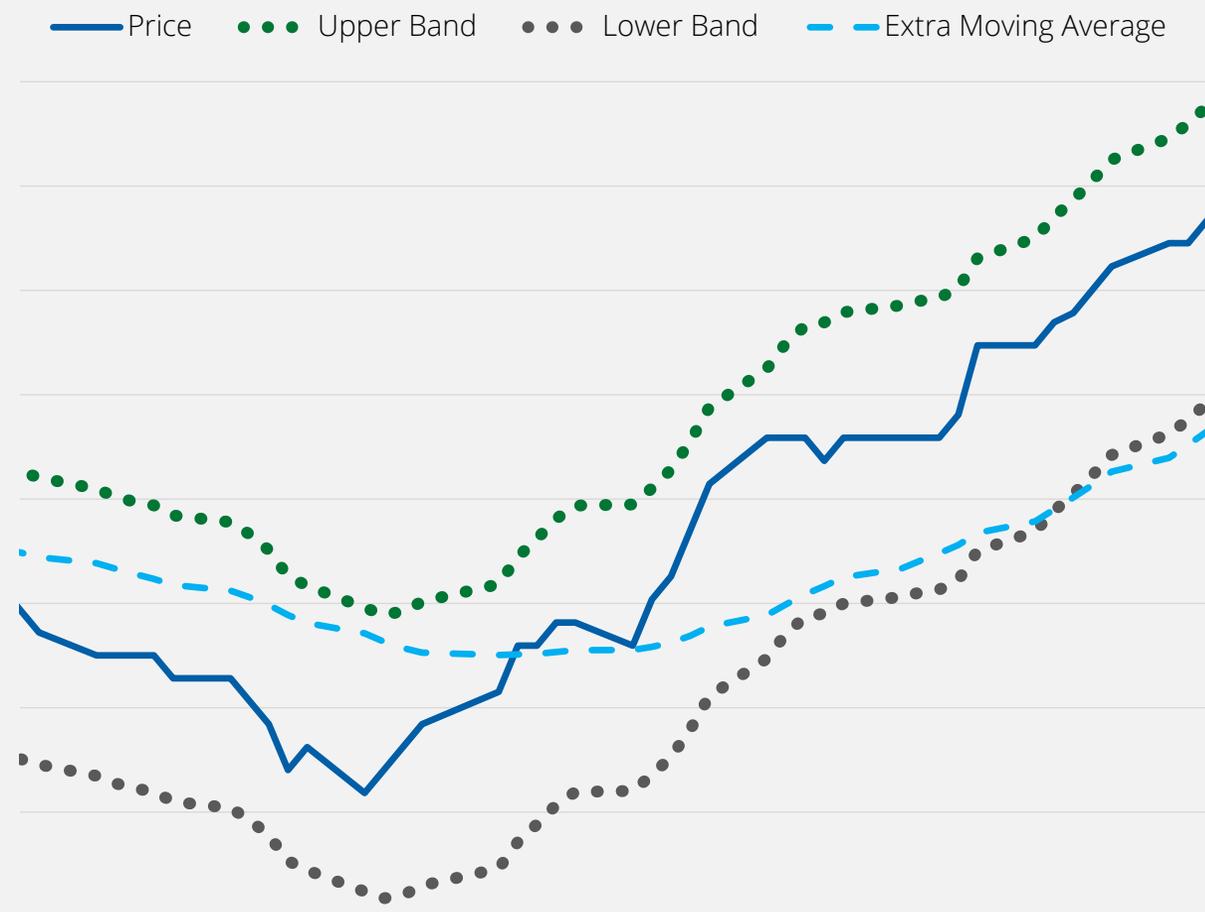
Engineered to keep your clients
comfortably invested.

When to Buy or Sell?

Our truly tactical rules-based investment disciplines only buy when our decision rules show an uptrend has begun or is in progress. We don't just look at share prices, but use exponential moving averages to help drive our decisions.

An **exponential moving average** is a type of moving average that places a greater weight and significance on the most recent data points and reacts more significantly to recent price changes than a simple moving average, which applies an equal weight to all observations in the period.

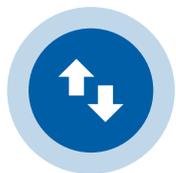
We create custom **upper and lower bands** to help us identify when to buy or sell a fund. The widths of the bands within which we tolerate price fluctuations are proportionate to the historic volatility of each asset class. Our design parameter was to set the width of the bands such that we would average no more than two round trips per year (two Sell signals alternated with two Buys signals). And we apply this rules-based discipline separately to each fund, rather than having a generic Sell signal for all muni bond funds or all high yield corporate bond funds, for example.



Source: YCharts, Ocean Park Asset Management

This example illustrates a hypothetical holding of a portfolio and does not represent any current or future holding. Portfolio holdings are subject to change and should not be considered investment advice.

“Buy” Signal Example



The upper and lower bands shown are offset above and below a short-term exponential moving average (not shown).



A “Buy” signal occurs when the price rises above both:

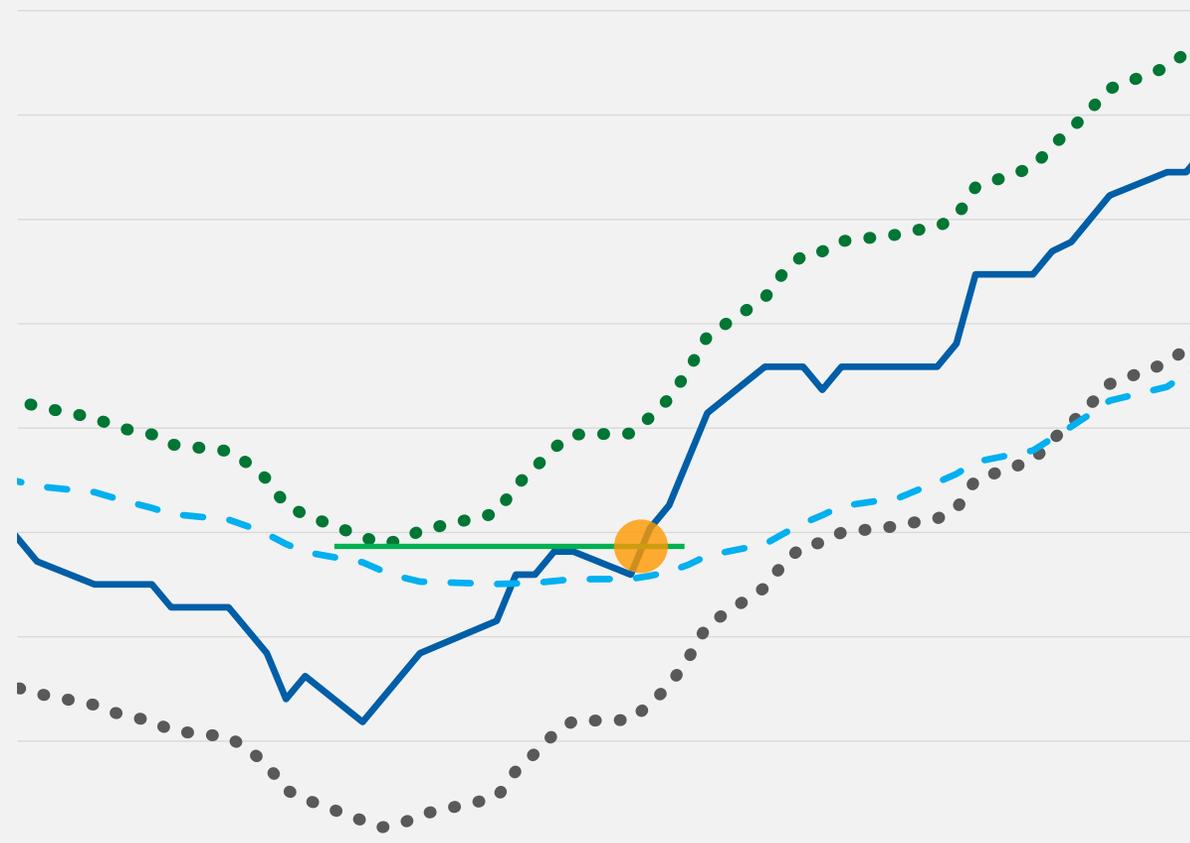
1. The recent low of the upper band
2. And an extra (intermediate) moving average



Whereas we treat a Sell signal as a mandate (we sell to prevent any possibility of further damage to the account), a Buy signal is not a mandate, since typically several candidates will give (or approach) Buy signals at the same time.

We use an extra moving average for a Buy, because we want more evidence that a new uptrend may have started for us to put money into risk, than to take money out of risk (Sell signal).

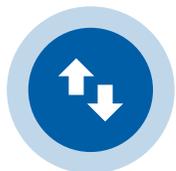
— Price ••• Upper Band ••• Lower Band - - - Extra Moving Average



Source: YCharts, Ocean Park Asset Management

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“Sell” Signal Example

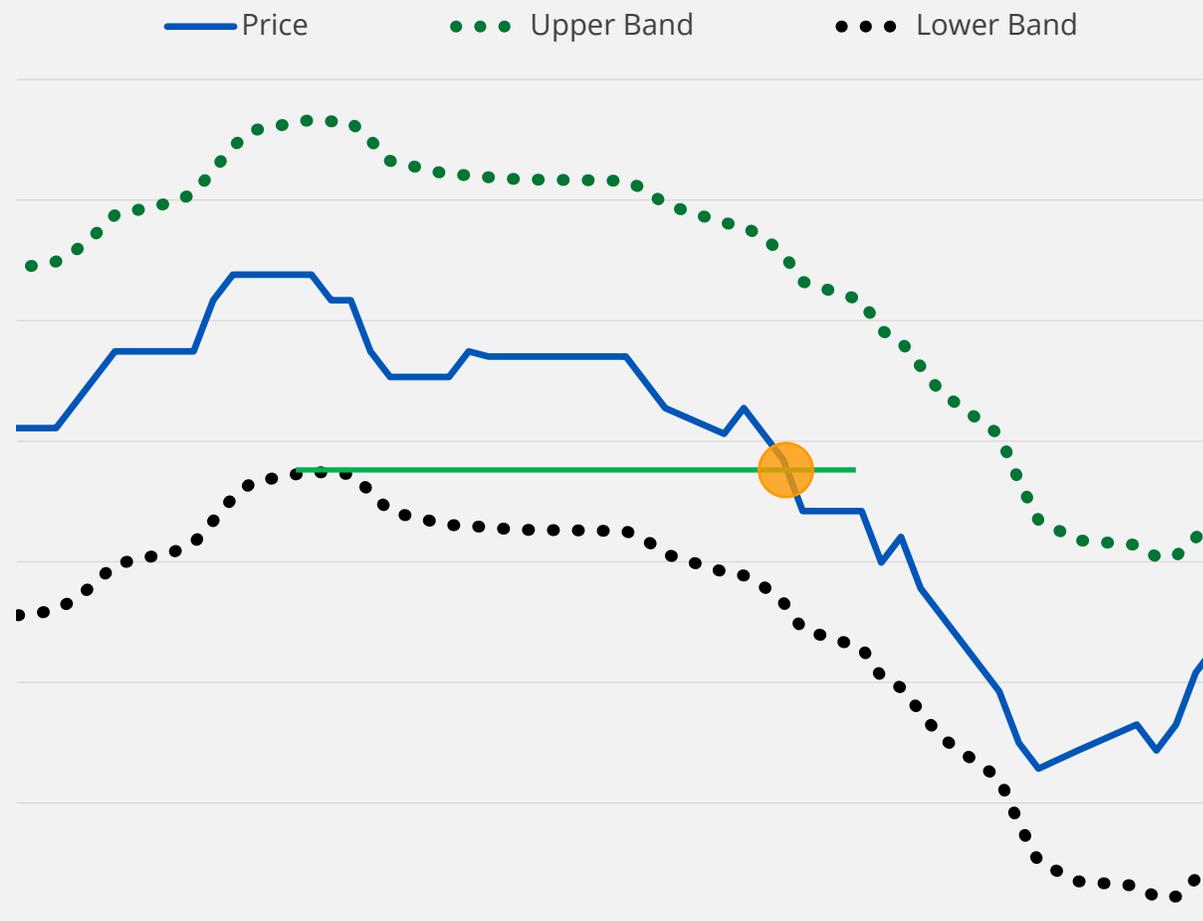


The upper and lower bands shown are offset above and below an exponential moving average.



A “Sell” signal occurs when price falls below the recent high of the lower band.

The height of the bands is proportionate to the historic volatility of each asset class.



Source: YCharts, Ocean Park Asset Management

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More About Buy & Sell Signals



Dr. Kenneth Sleeper and David Wright developed our rules-based, totally quantitative, “formulas” for Buy and Sell signals in the mid-1980s, using the prior 20 years of daily data for several asset classes.



The last 33 years of “out of sample” performance have shown that the band width we use for High Yield Corporate Bond funds has been very robust – no need to change the bands. We will test our bands for other asset classes in the coming months.



Our design parameter was to limit “round trips” to no more than two per year, on average. And over the past 33 years, our signals have proven to do that in each asset class or fund category.

The bands applicable to each asset class are proportionate to the historic volatility of that asset class.

For example, the bands for an S&P 500 stock fund are about five times as tall as for a muni bond fund or a HYCB fund.

More About Buy & Sell Signals (Cont.)



We do not use generic Buy and Sell signals for all funds within an asset class:

We apply the bands separately to each such fund. So when the underlying market reverses soon after a Sell signal, we may not be whipsawed in all holdings within that asset class.



About one-third of our Sell signals prove to be “false alarms” – the underlying market soon turns back up and we might buy back in at higher prices than we sold.



But every Sell signal fulfills its primary purpose:

To eliminate any possibility that a further decline in that holding will impact the portfolio.

How Do We Select Which Funds to Buy?

Single Asset-Class Strategies



When the High Yield Corporate Bond market, for example, turns up after a sustained decline, because mutual funds in that space are managed in different styles and have somewhat different volatilities, they typically begin to give Buy signals on different days.



In the interest of diversification among management styles, we limit the allocation size as to each fund we purchase, and sometimes hold space for the funds that will likely provide diversification when they join the pack.

How Do We Select Which Funds to Buy?

Diversified Strategies (continued)

For each candidate (asset class | fund category), we look at:

- 1 Annualized strength of the new uptrend.
- 2 Historic volatility (how wide will our bands have to be).
- 3
 - Correlation with the S&P 500 and the Treasury market.
 - Recent correlation with what we already own in the portfolio.
- 4 A broad range of of additional metrics that we update daily.

When we have cash in a portfolio, we analyze the whole target set applicable to that strategy, and we review a broad range of quantitative metrics as to the recent trends in the relevant asset classes and fund categories, then once our asset class target allocations have been confirmed or updated, we review a similar range of metrics as to the funds available in that asset class or category.

After the first few Buy signals, we also look at the individual mutual funds that are beginning to lead in each category. Where available, we want to access Alpha.

As uptrends continue, how are their risk-adjusted returns developing in the current episode? Are there lower-volatility items in attractive uptrends, such that the risk-reward balance favors them, given that our wider bands for more volatile holdings means that we will give back more when the trend turns down again? (We hate to take “round trips”.)



As noted previously, our Buy and Sell signals are 100% rules-based.

We do not care about anyone's views about the markets, the economy, the Fed, or how we "feel" about the markets or the funds we hold. We simply look at the price trend of each holding every day, and if a holding hits its stop, we sell (or in rare cases, we hedge).

Indeed, we could take the names and symbols off each holding, and our daily review of their price trends would result in the same decisions.

Definitions & Disclosures

The S&P 500 Index, or the Standard & Poor's 500 Index, is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading.

Alpha: risk-adjusted excess return relative to a target index or market.

Past performance does not guarantee future results and there is no guarantee that any investment strategy will achieve its objectives, generate profits, or avoid losses.

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