

# Navellier Defensive Alpha Portfolio

For the quarter ending March 31, 2014

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Please see important disclosures at end of presentation.



# Our Goal

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*The Defensive Alpha Portfolio's investment objective is to protect client assets in downturns, thus avoid long-term impairments, and take advantage of market up-trends.*

**“A good portfolio is more than a long list of good stocks derived from an individual security selection algorithm. Portfolios are a balanced whole greater than the mere sum of its parts when the parts are integrated to fit a set of goals and constraints.”**

*Harry M. Markowitz  
“Portfolio Selection,” 1959*

# The Defensive Alpha Difference

- Unlike other “equity only” portfolios, the Defensive Alpha Portfolio uses CASH as a defensive hedge. During market volatility, portfolio is designed to methodically rotate from 100% equity to as much as 100% cash without using derivatives.
- The portfolio uses no leverage, shorting, inverses, or any other derivative investment securities.
- Dynamic Asset Allocation model allows the portfolio to respond quickly to changing market conditions. There is no forecasting or guessing future market conditions.
- Seeks to deliver excess returns in up-trending markets by seeking high alpha equities, while controlling downside risk in down-trending markets by taking a defensive stance, reducing equity exposure.
- Security universe includes stocks with expected rates of return that our research shows are largely independent of the rate of return of the S&P 500. The portfolio is concentrated with a maximum number of 20 securities used at any one time.
- Adds value to multi-manager portfolios; low correlation to other managers.

# The Management Team

- **Larry Langsen, Portfolio Manager**, has 40 years of experience in the investment industry including 19 years as a fixed income trader and manager between 1972 and 1991. In 1991 he became affiliated with The Langsen Group LLC. Larry has over 21 years of working with dynamic asset allocation models.
- **Phillip Mitteldorf, Portfolio Manager**, M.B.A. Graduated from University of California with a degree in Physiological Psychology in 1985. His M.B.A. was completed in 1995 at the University of Nevada. He has been associated with Navellier & Associates since 1995 and has seven years of portfolio management experience.
- **Louis Navellier, CEO/CIO**, is Chairman of the Board, Chief Executive Officer, and Chief Investment Officer of Navellier & Associates, Inc., located in Reno, Nevada. Since 1987, he has been active in the management of individual portfolios, mutual funds, and institutional portfolios. He has been covered by a wide range of international media.  
  
Mr. Navellier received a B.S. in business administration in 1978 and an M.B.A. in finance in 1979 from California State University - Hayward.
- The chief strategist for the Defensive Alpha Portfolio is **Arnold L. Langsen, Ph.D., Professor Emeritus in Financial Economics**. The proprietary algorithms are based primarily on the works of Sharpe, Markowitz, and Fischer Black. Dr. Langsen continues to consult with Navellier & Associates on portfolio design and dynamic asset allocation models.

# Three Step Process

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## Portfolio Construction Process

- 1. Dynamic Asset Allocation**
  - Determine portfolio's equity exposure
- 2. Stock Selection Process**
  - Create candidate list of growth stocks to be included in the portfolio
- 3. Portfolio Construction**
  - The Goal: Maximize Alpha while controlling for risk

# Step 1 – Dynamic Asset Allocation

- Dynamic Asset Allocation keeps the portfolio aligned with the **goal of capital preservation and upside capture**.
  - *Based on the algorithm “Simplifying Portfolio Insurance” by Fisher Black and Robert Jones, The Journal of Portfolio Management, Fall 1987.*
  - *Professor Arnold Langsen, Ph.D. modified the process and has used it for over 20 years.*
- The Dynamic Asset Allocation model determines equity and cash positions **based on current market conditions**.
- The equity position may vary between 0% and 100% depending on changes in the value of the **S&P 500**.
  - Based on the *current* level of the S&P 500, the Dynamic Asset Allocation model is calculated **daily** to determine the equity allocation of the portfolio and the number of stocks (up to 20) that should be included.
  - Given the previous allocation of stocks, the *action* dictates the buy, sell, or hold decisions.

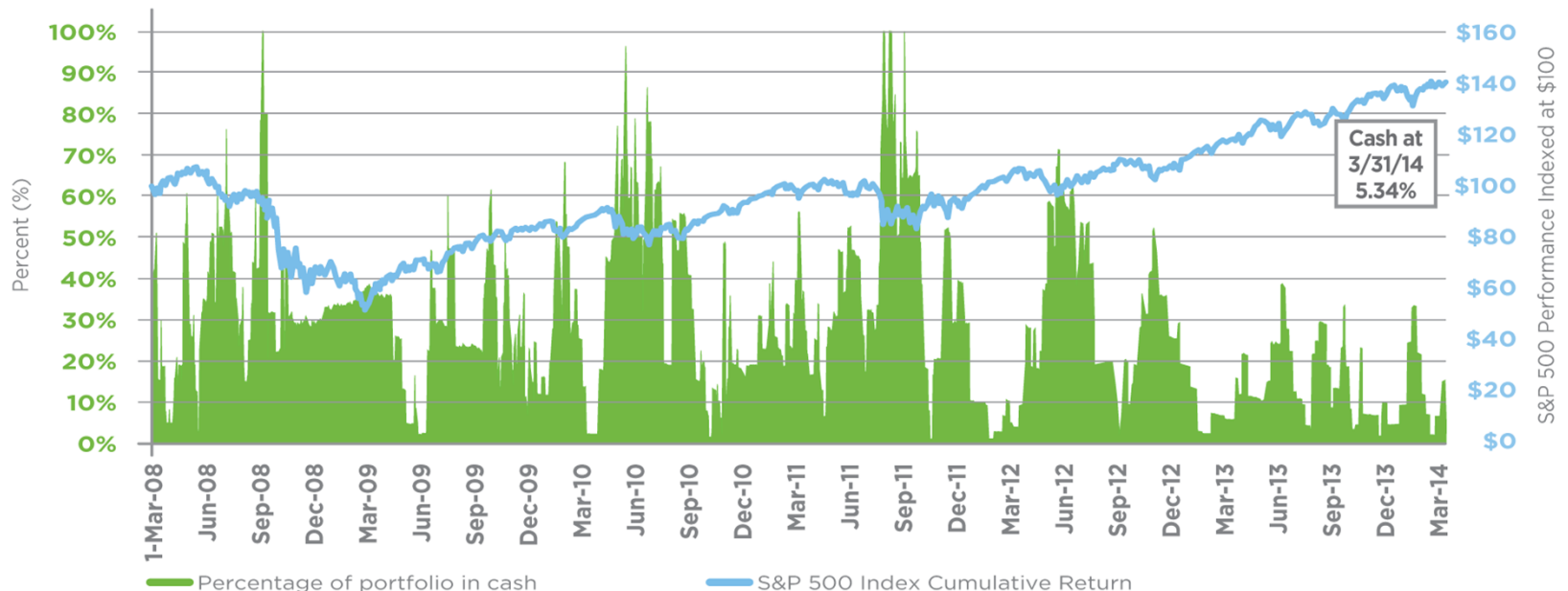
# When the Portfolio was in Cash

Supplemental Information

Our primary objective is to maximize alpha, while controlling downside risk. The portfolio's defensive strategy responds to changing market conditions. There are times and conditions where the portfolio increases the cash position to dampen volatility.

## Historic Cash Allocation

March 1, 2008 through March 31, 2014



Source: Navellier & Associates, FactSet. Data for the percentage of the Defensive Alpha Portfolio in cash and the S&P 500 Cumulative Return is based on daily computation.

Source: Navellier & Associates. Performance results presented herein do not necessarily indicate future performance. Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Graphs are for illustrative and discussion purposes only. Results presented include reinvestment of all dividends and other earnings. Please read important disclosures at the end of this presentation.

# Step 2 – Stock Selection Process

- Database screens out companies that do not report quarterly earnings, preferred equities, ETFs, and derivatives.
- Market Capitalization of equities greater than \$3 billion.
- Beta of stocks is less than 1.8.
  - Beta measures the sensitivity of the stock's rate of return to the market rate of return. Beta of 1 implies that same sensitivity.
- Stock Price greater than \$10
- Positive 3-month momentum. Must show a positive 3-month price return based on end of week returns.
- Positive Reward/Risk ratio – Individual stock's Alpha divided by stock's Standard Deviation
  - Alpha – The stock's rate of return that is not related to market moves.
  - Standard Deviation – A measure of the stock's volatility
- Growth Opportunity Ratio "GO Ratio." Seeks securities whose prices do not fully reflect the companies' growth opportunities.
- Stocks with positive trailing earnings
- The number of stocks in the initial universe varies depending on market conditions. (approximately 30-140 securities)

# Growth Opportunity “Go Ratio” Definition

- The *GO Ratio* shows what part of the current stock price is due to the belief of that firm’s future growth opportunity value.
- Many market analysts agree there are at least two components that make up the price of a security:
  - Current known annualized earnings per share. This can be capitalized as a perpetuity by a long-term riskless rate of return (such as the 30-year U. S. Treasury bond).
  - Present Value of the firm’s growth opportunities (PVGO).
- In broad terms, the *GO Ratio* is PVGO divided by current price.
- For example: Suppose a firm has current annual earnings per share of \$2.00 and a stock price of \$60. The 30-year U.S. bond return is 5%.
  - The capitalized value of the stock’s earnings is \$40 (\$2 divided by .05).
  - The PVGO is \$20 (\$60 - \$40 = \$20).
  - The *GO Ratio* is 33% ( $\$20 / \$60 = 0.33$  or 33%) .

In this example, the *GO (Growth Opportunity) Ratio* suggests that 33% of the current stock price is a bet on the firm’s future growth opportunities.

# “Go Ratio” Definition cont.

- A stock with a *GO Ratio* between 0 and 0.6 fits the initial constraint for inclusion in the portfolio.
- If a stock has a negative *GO Ratio*, it implies one of two things:
  - The stock is undervalued, or
  - The stock has negative growth opportunities.
- If a stock has a positive *GO Ratio* greater than 0.6, it implies:
  - The stock is overvalued, or
  - The stock has great positive growth opportunities.
- The Defensive Alpha Portfolio does **not guess** which is correct. If a stock is outside the parameters of the constraint, it will not be selected.
  - The only exception is if a stock is currently in the portfolio and subsequently exceeds the *GO Ratio* constraints but meets all other constraints.

# Step 3 – Portfolio Formation

- Dynamic Asset Allocation model determines the equity allocation of the portfolio.
- 100% equity exposure implies 20 stocks. 50% equity exposure implies 10 stocks and 50% allocated to cash.
- 52-week return, 13-week return, standard deviation, beta, alpha, covariance, and momentum are calculated for each security passing the database screen.
- The goal of the portfolio formation is to maximize the portfolio's alpha while the weighted beta is constrained to as close to 1.
- At purchase, initial equity positions are typically 5%.
- Rebalancing the portfolio can occur once a quarter or whenever large changes take place in the market.

# Risk Management

## The Defensive Alpha Portfolio takes several steps to lower the risk of the portfolios

- The Defensive Alpha Portfolio monitors the Dynamic Asset Allocation model daily to control downside risk in volatile markets by decreasing or increasing the equity position as needed.
- The Defensive Alpha Portfolio keeps the weighted Beta of the equity portion as close to 1 as possible.
- If a stock has a negative momentum it is typically removed, unless needed for the beta constraint in the short run. When a better candidate can be found, it will be exchanged.
- Stocks with a negative GO Ratio are removed unless needed for the beta constraint in the short run. When a better candidate can be found, it will be exchanged.
- Stocks that reach extreme excess momentum are trimmed in rebalancing or being sold when a better candidate is found.

# Sell Discipline

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- Sell stocks to meet the Dynamic Asset Allocation equity allocation.
- Sell if a stock exceeds the boundaries of the portfolio constraints.
- Sell if a stock shows negative momentum.
- Sell if better stocks meet the portfolio's criteria and constraints.

# Risk/Reward Metrics

Supplemental Information

March 1, 2008 – March 31, 2014

## Portfolio vs. Benchmark Return through 3/31/14

	1 <sup>st</sup> Quarter	2013 Total Return	1 Year	3 Years	5 Years	Since Inception (3/1/2008)
<b>Defensive Alpha Portfolio (Pure Gross)</b>	-1.98%	26.41%	10.47%	8.82%	15.85%	9.73%
<b>Defensive Alpha Portfolio (Net)</b>	-2.59%	23.33%	7.75%	6.14%	13.02%	7.04%
<b>S&amp;P 500</b>	1.81%	32.39%	21.86%	14.66%	21.16%	8.14%

All returns over one year are annualized. Source: Navellier & Associates.

## Portfolio vs. Benchmark Return through 3/31/14

	Return	Cumulative Return	Standard Deviation	Sharpe Ratio	Maximum Drawdown	Pain Ratio	Sortino Ratio (MAR = 0.00%)	Excess Return vs. Market	Tracking Error vs. Market	Information Ratio vs. Market	Alpha vs. Market	Bets vs. Market
<b>Defensive Alpha Portfolio (Pure Gross)</b>	9.73%	75.91%	12.58%	0.75%	-26.84%	1.83%	1.34%	1.59%	13.88%	0.11	6.07%	0.44
<b>Defensive Alpha Portfolio (Net)</b>	7.04%	51.26%	12.58%	0.54%	-28.10%	1.10%	0.92%	-1.10%	13.88%	-0.08	3.47%	0.44
<b>S&amp;P 500</b>	8.14%	60.93%	17.63%	0.44%	-46.41%	0.75%	0.65%	0.00%	0.00%	0.00	0.00%	1.00

All returns over one year are annualized. Source: Navellier & Associates.

Source: Navellier, Zephyr StyleADVISOR. Please read important disclosures at the end of the presentation. Graphs are for discussion purposes only. Performance results presented herein do not necessarily indicate future performance. Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Results presented include reinvestment of all dividends and other earnings.

# Portfolio Calendar Year Returns

Supplemental Information



## Calendar Year Return

	2013	2012	2011	2010	2009	2008 (10 months)
<b>Defensive Alpha Portfolio (Pure Gross)</b>	26.41%	14.51%	-3.69%	17.92%	18.52%	-7.90
<b>Defensive Alpha Portfolio (Net)</b>	23.33%	11.70%	-6.08%	15.07%	15.63%	-9.80
<b>S&amp;P 500</b>	32.39%	16.00%	2.11%	15.06%	26.46%	-30.73

Source: Navellier & Associates.

Source: Navellier, Zephyr StyleADVISOR. Please read important disclosures at the end of the presentation. Graphs are for discussion purposes only. Performance results presented herein do not necessarily indicate future performance. Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Results presented include reinvestment of all dividends and other earnings.

# Periodic Returns

Supplemental Information

Returns through March 31, 2014

Periodic Returns through 3/31/14																		
		Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4	Year
<b>Defensive Alpha Portfolio (Pure Gross)</b>	<b>2014</b>	-0.10	2.36	-4.14	-1.98	-	-	-	-	-	-	-	-	-	-	-	-	-1.98
	<b>2013</b>	4.94	0.11	6.77	12.17	-0.47	3.46	-2.02	0.89	5.18	-0.96	3.28	7.60	0.33	1.79	1.65	3.81	26.41
	<b>2012</b>	5.74	7.38	5.96	20.31	2.39	-2.09	-0.54	-0.29	-3.98	0.60	-0.09	-3.49	-1.92	0.04	0.80	-1.10	14.51
	<b>2011</b>	0.22	4.02	1.73	6.05	0.56	-0.52	0.55	0.59	-0.04	-5.11	-2.17	-7.21	3.85	-4.56	-1.84	-2.71	-3.69
	<b>2010</b>	-4.01	2.17	5.53	3.49	1.58	-5.35	-2.97	-6.71	0.13	-0.02	7.08	7.19	6.38	3.01	3.99	13.95	17.92
	<b>2009</b>	-4.96	-7.33	3.91	-8.48	2.63	8.58	1.38	12.97	3.00	1.13	3.70	8.01	-3.00	3.19	6.03	6.13	18.52
	<b>2008</b>	-	-	2.02	-	0.36	7.69	0.57	8.69	-4.64	-4.38	-4.26	-12.70	0.76	-1.72	-3.91	-4.85	-7.90*
<b>Defensive Alpha Portfolio (Net)</b>	<b>2014</b>	-0.31	2.15	-4.35	-2.59	-	-	-	-	-	-	-	-	-	-	-	-	-2.59
	<b>2013</b>	4.73	-0.10	6.56	11.49	-0.68	3.25	-2.23	0.27	4.97	-1.17	-3.07	6.93	0.12	1.58	1.44	3.17	23.33
	<b>2012</b>	5.53	7.17	5.75	19.61	2.18	-2.30	-0.75	-0.91	-4.19	0.39	-0.30	-4.10	-2.13	-0.17	0.59	-1.71	11.70
	<b>2011</b>	0.01	3.81	1.52	5.40	0.35	-0.73	0.34	-0.04	-0.25	-5.32	-2.38	-7.80	3.64	-4.77	-2.05	-3.32	-6.08
	<b>2010</b>	-4.22	1.96	5.32	2.86	1.37	-5.56	-3.18	-7.31	-0.08	-0.23	6.87	6.54	6.17	2.80	3.78	13.27	15.07
	<b>2009</b>	-5.17	-7.54	3.70	-9.07	2.42	8.37	1.17	12.30	2.79	0.92	3.49	7.36	-3.21	2.98	5.82	5.48	15.63
	<b>2008</b>	-	-	1.81	-	0.15	7.48	0.36	8.03	-4.85	-4.59	-4.47	-13.27	0.55	-1.93	-4.12	-5.45	-9.80
<b>S&amp;P 500</b>	<b>2014</b>	-3.46	4.57	0.84	1.81	-	-	-	-	-	-	-	-	-	-	-	-	1.81
	<b>2013</b>	5.18	1.36	3.75	10.61	1.93	2.34	-1.34	2.91	5.09	-2.90	3.14	5.24	4.60	3.05	2.53	10.51	32.39
	<b>2012</b>	4.48	4.32	3.29	12.59	-0.63	-6.01	4.12	-2.75	1.39	2.25	2.58	6.35	-1.85	0.58	0.91	-0.38	16.00
	<b>2011</b>	2.37	3.43	0.04	5.92	2.96	-1.13	-1.67	0.10	-2.03	-5.43	-7.03	-13.87	10.93	-0.22	1.02	11.82	2.11
	<b>2010</b>	-3.60	3.10	6.03	5.39	1.58	-7.99	-5.23	-11.43	7.01	-4.51	8.92	11.29	3.80	0.01	6.68	10.76	15.06
	<b>2009</b>	-8.43	-10.65	8.76	-11.01	9.57	5.59	0.20	15.93	7.56	3.61	3.73	15.61	-1.86	6.00	1.93	6.04	26.46
	<b>2008</b>	-	-	-0.43	-	4.87	1.30	-8.43	-2.73	-0.84	1.45	-8.91	-8.37	-16.79	-7.18	1.06	-21.94	-30.73*

Source: Navellier & Associates. \*Performance calculations for the period ended December 31, 2008 include 10 months of history.

Source: Navellier, Zephyr StyleADVISOR. Please read important disclosures at the end of the presentation. Graphs are for discussion purposes only. Performance results presented herein do not necessarily indicate future performance. Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Results presented include reinvestment of all dividends and other earnings.

# When The Defensive Alpha Portfolio Might Underperform

- The portfolio will lag when markets move from a sideways market or down-trending market to an up-trending market and the portfolio has low equity exposure.
  - The allocation model reacts to market changes but there is a time delay for increasing equity exposure.
- Sideways markets cause severe volatility in the Dynamic Asset Allocation model.
- Illiquid market environments.
  - High Alpha growth stocks can be subject to sudden volatility in illiquid market environments.
- Significant shifts in the market between growth and value.
  - Current High Alpha stocks fall out of favor during these rotations until new leaders emerge.

# Summary of the Navellier Defensive Alpha Portfolio

- The Navellier Defensive Alpha Portfolio is managed with clearly defined goals and objectives and held together by clearly defined constraints.
- The Navellier Defensive Alpha Portfolio uses an asset allocation algorithm that reacts to changes in the S&P 500 Index that brings about changes in the percentage of equity held in the portfolio at a given time. The portfolio uses proprietary algorithms to select the set of stocks that work together to form the portfolio.
- The Navellier Defensive Alpha Portfolio seeks to achieve its goals using a set of proprietary algorithms to develop two components that add to the portfolio results:
  - Systematic returns – The portfolio’s portion of return related to the market moves of the S&P 500 Index.
  - Unique or unsystematic returns (Alpha) – The portfolio’s portion of return not related to the moves of the S&P 500.

# Disclosures

Although information in this presentation has been obtained from and is based upon sources that Navellier believes to be reliable, Navellier does not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute Navellier's judgment as of the date the presentation was created and are subject to change without notice. This presentation is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. This presentation does not constitute an offer of securities. Any decision to purchase securities mentioned in this research must take into account existing public information on such security or any registered prospectus.

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## NAVELLIER DEFENSIVE ALPHA COMPOSITE

Reporting Currency U.S. Dollar

Year	Firm Assets (\$M)	Composite Assets (\$M)	Percentage of Firm Assets	Number of Accounts	% of Composite Non-fee Paying	% of Composite Bundled Fee Accounts	Composite Pure Gross Return (%)	Composite Net Return (%) <sup>1</sup>	S&P 500 Index Return (%)	Composite Dispersion (%)	Composite 3-Yr Std Dev (%)	S&P 500 index 3-Yr Std Dev (%)
2013	2,322	42	2%	173	3	99	26.41	23.33	32.39	0.28	10.66	11.94
2012	3,412	9	<1%	50	13	93	14.51	11.70	16.00	0.93	11.95	15.09
2011	2,728	0.8	<1%	2	100	0	-3.69	-6.08	2.11	N/A	13.21	18.71
2010	2,365	0.7	<1%	2	100	0	17.92	15.07	15.06	N/A		
2009	2,668	0.3	<1%	1	100	0	18.52	15.63	26.46	N/A		
2008 <sup>2</sup>	2,678	0.2	<1%	1	100	0	-7.90	-9.80	-30.73	N/A <sup>3</sup>		

<sup>1</sup>To calculate the net-of-fee return, the highest annual bundled advisory fee, 2.50%, we believe a client would incur was applied to the composite's before-fees returns on a monthly basis.

<sup>2</sup>Performance calculations for the period ended December 31, 2008 includes 10 months of history.

<sup>3</sup>N/A information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

**1. Compliance Statement** – Navellier & Associates, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with GIPS standards. Navellier & Associates, Inc. has been independently verified for the periods January 1, 1995 through September 30, 2013 by Ashland Partners & Company LLP. A copy of the verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

**2. Definition of Firm** – Navellier & Associates, Inc. is a registered investment adviser established in 1987. Navellier & Associates, Inc. manages a variety of equity assets for primarily U.S. and Canadian institutional and retail clients. The firm's list of composite descriptions as well as information regarding the firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

**3. Composite Description** – The Navellier Defensive Alpha Composite includes all discretionary Defensive Alpha equity accounts managed with similar objectives for a full month, including those accounts no longer with the firm. The composite includes both accounts that do and do not charge a wrap fee. The strategy is designed for aggressive investors seeking capital appreciation controlling downside risk. The portfolio invests in a select group of companies across a broad capitalization range. Typically, the portfolio holds up to 20 stocks and can build a defensive cash position of up to 100%. The portfolio has demonstrated a high level of historical turnover; therefore, it should not be considered tax-efficient. It is also unlikely to generate any long-term capital gains. The portfolio typically trades more frequently than other Navellier offerings. At any given time, the strategy may hold American Depositary Receipts (ADRs) in percentages according to its model. For 2008 and 2009, there is one non-management-non-fee paying account included in the composite. For 2010 and 2011, there are two non-management-non-fee paying accounts included in the composite. From 2012 to present, there are three non-management-non-fee paying accounts included in the composite. Performance is calculated on a "time-weighted" and "asset-weighted" basis. Performance figures that are net of fees are calculated using a 2.50% annualized advisory fee, which is the highest bundled advisory fee we believe a client would incur with a brokerage firm or other financial intermediary. The advisory fee, which is applied monthly, includes a management fee and custodian/brokerage fees accounting for transaction/brokerage costs. Beginning August 1, 2012 "pure" gross-of-fees returns do not reflect the deduction of any trading costs, fees, or expenses, and are presented only as supplemental information. Prior to August 1, 2012, gross-of-fees returns reflect the deduction of transaction costs/commissions, but do not reflect the deduction of any investment management fees. Performance results are total returns and include the reinvestment of all income, including dividends. The composite was created September 30, 2012. Valuations and returns are computed and stated in U.S. Dollars.

**4. Management Fees** – The management fee schedule for accounts is generally 45 to 90 basis points; however, some incentive fee, fixed fee, and fulcrum fee accounts may be included. Fees are negotiable, and not all accounts included in the composite are charged the same rate. See the above table for the portion of the composite comprised of bundled fee accounts. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Wrap fees generally range from 100 to 200 basis points and include custody, trading expenses, and other expenses associated with the management of the account. The client is referred to the firm's Form ADV Part 2A for a full disclosure of the fee schedule.

**5. Composite Dispersion** – If applicable, the dispersion of annual returns is measured by the standard deviation across asset-weighted portfolio returns represented within the composite for the full year.

**6. Benchmark** - The primary benchmark for the composite is the S&P 500 Index. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value. The reported returns reflect a total return for each quarter inclusive of dividends. The asset mix of the composite may not be precisely comparable to the presented indices. Presentation of index data does not reflect a belief by the Firm that the S&P 500 Index, or any other index, constitutes an investment alternative to any investment strategy presented in these materials or is necessarily comparable to such strategies.

**7. General Disclosure** – The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Actual results may differ from composite results depending upon the size of the account, custodian related costs, the inception date of the account and other factors. **Performance results presented herein do not necessarily indicate future performance. Investment in equity strategies involves substantial risk and has the potential for partial or complete loss of funds invested. Results presented include reinvestment of all dividends and other earnings.** The securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. It should not be assumed that any securities recommendations made by Navellier & Associates, Inc. in the future will be profitable or equal the performance of securities made in this report. A list of recommendations made by Navellier & Associates, Inc. for the preceding twelve months is available upon request.