

Model Objective

The purpose of the iShares Tactical Rotation Model is to identify major themes in the market, have exposure to those sectors controlled by demand and eliminate exposure to those sectors controlled by supply. The Model is designed to hone in on the strongest ETFs from the inventory listed above. The Portfolio will attempt to capture the strongest trends and avoid the weakest trends. It is dispersion of returns within the model inventory that creates the opportunity for a relative strength evaluation process to identify worthwhile trends to follow, as well as those critical to avoid. The iShares Tactical Rotation inventory of funds provides a diversity of investments that is generally advantageous to trend-based tactical rotation strategies.

Relative Strength Methodology

The most adaptive tool we have found to achieve the goal of discerning the strongest trends versus the weakest is relative strength. Relative strength is longer term in nature and thus designed to avoid a large amount of potential turnover in the portfolio, while also being responsive enough so as to allow for rotation in the portfolio when market trends necessitate it. In short, relative strength aims us to keep our losses small while letting our profits run and that is the key to successful portfolio management. The systematic and rules based approach also allows us to eliminate the human or "gut feel" trades as our research has found the more we let the system do the work, the better the returns generally will be.

Systematic Portfolio Rules

- The first level of relative strength is between equities and fixed income. When fixed income is favored, a fixed income iShare will represent a 30% position in the portfolio.
- The focus on sectors is mainly the sub-sector iShares ETFs.
- Several commodity and broad based market iShares ETFs are also included in the analysis.
- In all, just under 35 iShares ETFs have the ability to move in the portfolio.
- The positions are evaluated on a relative strength basis not just to the market, but to one another. The portfolio can hold 8-9 positions.
- If the relative strength of a holding falls significantly enough to underperform the majority of the inventory, it will be removed.
- Each time a new position moves in the portfolio, it is rebalanced.

Model Inventory

Symbol	ETF Name	Symbol	ETF Name
AGG	iShares Barclays Aggregate Bond Index	DYV	iShares Dow Jones Select Dividend Fund
EFA	iShares MSCI EAFE ETF	GSG	iShares S&P GSCI Commodity-Indexed Trust
IAI	iShares US Broker-Dealers ETF	IAK	iShares US Insurance ETF
IAT	iShares US DJ Regional Banks ETF	IAU	iShares COMEX Gold Trust
IBB	iShares NASDAQ Biotechnology ETF	ICF	iShares Cohen & Seers REIT ETF
IDU	iShares US Utilities ETF	IEO	iShares US Oil & Gas Exploration & Production ETF
IEZ	iShares US DJ Oil Equipment & Service ETF	IGE	iShares North American Natural Resources ETF
IGN	iShares North American Tech-Multimedia Networking ETF	IGV	iShares North American Tech-Software ETF
IHE	iShares US Pharmaceuticals ETF	IHF	iShares US Healthcare Providers ETF
IHI	iShares DJ US Medical Devices ETF	IJH	iShares S&P MidCap 400 ETF
IJR	iShares S&P Smallcap 600 ETF	ITA	iShares US Aerospace & Defense ETF
ITB	iShares US Home Construction ETF	IVV	iShares S&P 500 Index
IYC	iShares US Consumer Services ETF	IYG	iShares US Financial Services ETF
IYJ	iShares US Industrial ETF	IYK	iShares US Financial Services ETF
IYM	iShares US Basic Materials ETF	IYT	iShares US Transportation ETF
IYZ	iShares US Telecom ETF	SLV	iShares Silver Trust
SOXX	iShares PHLX Semiconductor ETF		

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