

ISHRSECT

Model Start Date: 9/2/2002

Model Objective

The purpose of the iShares Sector 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. The iShares Sector 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 that of 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 this application relative strength is applied by comparing the inventory components to one another by means of point & figure relative strength analysis. The relative strength analysis is then aggregated using a relative strength “matrix” ranking process. The systematic and rules based approach allows us to eliminate the human or “gut feel” trades. Our research has found that the more we let the system do the work, the better the returns will be.

Systematic Portfolio Rules

- The portfolio remains 100% invested at all times.
- Select iShares sector ETFs are compared to the iShares Dow Jones Total Market Index (IYY) and those whose relative strength charts are in X's go into the portfolio.
- The portfolio is equal weighted amongst those iShares whose relative strength charts are in X's.
- Positions are only sold from the portfolio when the relative strength chart reverses to O's.
- Positions are only added to the portfolio when the relative strength charts reverses to X's.
- When an addition or deletion is made, the portfolio is rebalanced so each position is equally weighted.

Model Inventory

Symbol	ETF Name	Symbol	ETF Name
IBB	iShares NASDAQ Biotechnology ETF	ICF	iShares Cohen & Steers REIT ETF
IDU	iShares US Utilities ETF	IGE	iShares North American Natural Resources ETF
IGM	iShares S&P GSTI Technology ETF	IGN	iShares North American Tech-Multimedia Networking ETF
IGV	iShares North American Tech-Software ETF	IYC	iShares US Consumer Services ETF
IYE	iShares US Energy ETF	IYF	iShares US Financial ETF
IYG	iShares US Financial Services ETF	IYH	iShares US Healthcare ETF
IYJ	iShares US Industrials ETF	IYK	iShares US Consumer Goods ETF
IYM	iShares US Basic Materials ETF	IYR	iShares US Real Estate ETF
IYT	iShares US Transportation ETF	IYW	iShares US Technology ETF
IYZ	iShares US Telecom ETF	SOXX	iShares PHLX Semiconductor ETF

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The relative strength strategy is NOT a guarantee. There may be times where all investments and strategies are unfavorable and depreciate in value. Relative Strength is a measure of price momentum based on historical price activity. Relative Strength is not predictive and there is no assurance that forecasts based on relative strength can be relied upon. The relative strength strategy is NOT a guarantee. There may be times where all investments and strategies are unfavorable and depreciate in value. Relative Strength is a measure of price momentum based on historical price activity. Relative Strength is not predictive and there is no assurance that forecasts based on relative strength can be relied upon.