

The Importance of Asset Allocation

For the managers of the AdvisorOne Amerigo Fund, it is much more important to be in the right part of the market than in the right security. Designed as a fund of funds that can be used as a core holding by advisors, the fund invests primarily in ETFs spread across multiple sectors, styles, and countries. Its risk budgeting strategy allows it to be well diversified and, at the same time, to take enough risk for bringing additional return.

Q: What are the core beliefs behind your investment philosophy?

A: Amerigo is a fund of funds that invests primarily in Exchange Traded Funds, or ETFs. It is not a stock-picking fund but an active asset allocation fund. Our company, CLS Investment Firm LLC, is a third-party investment advisor and our clients are primarily financial advisors and register representatives throughout the country. We formed Amerigo in 1997 as a traditional “fund of funds” investing in other mutual funds as an investment vehicle for those individuals that wanted to avail themselves to our investment strategy but could not meet the high minimum required for our other products.

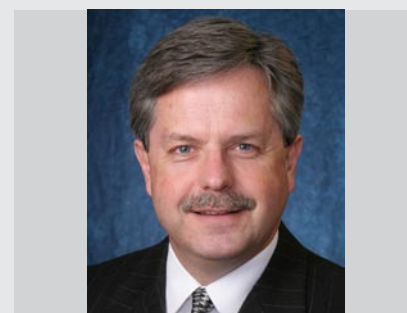
In effect, we use our mutual funds to provide broad diversification to investors and provide us with a platform of investments we can trade as market conditions change. Our mutual funds, and exchange traded funds in general, brought scalability to our business; when we invested primarily in mutual funds for our clientele, our growth potential, as a firm, was limited. The current team has managed the fund since 2002 and once we converted the portfolio to ETFs, the fund group has grown from about \$50 million to \$1 billion in assets under management.

Q: How would you describe your investment strategy and process?

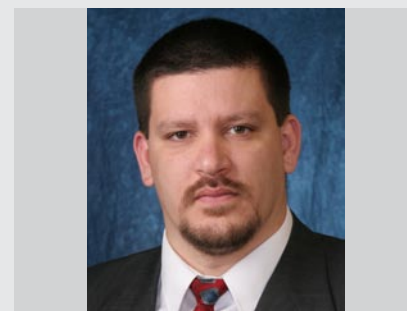
A: When we evaluate individual securities, we begin by looking at risk-adjusted relative strength over multiple periods of time.

Risk-adjusted performance is important for us because we are not merely interested in which securities are going up the fastest, we also want to determine if we are being rewarded for the amount of risk we would be taking by investing in the security. Over the last couple of years this strategy has significantly lowered our turnover. Because we didn’t see any major changes in the market on a risk adjusted basis, portfolio changes have been more modest.

We evaluate risk-adjusted relative strength over different periods of time and weight the results into a composite. We are particularly focused on how the various potential investments tend to perform around market turning points. It has been our experience that market leadership often changes around these inflection points. By evaluating risk adjusted relative strength not only on a longer-term basis but combining that with how the various asset classes and sectors are performing around market turning points,



ROBERT M. JERGOVIC, CFA, MBA, Chief Investment Officer. Mr. Jergovic received a Bachelor of Science degree in Business Administration from the University of Nebraska at Lincoln and then received a Master of Business Administration in Finance and Banking from the University of Nebraska Graduate College. In 1981, Mr. Jergovic earned the Chartered Financial Analyst Designation (“CFA”) from the Association for Investment Management and Research. Mr. Jergovic joined CLS in 2000.



DENNIS R. GUENTHER, CFA, Senior Portfolio Manager. Mr. Guenther received a Bachelor of Science degree in Finance from Wayne State College. In 2006, Mr. Guenther earned the Chartered Financial Analyst Designation (“CFA”) from the CFA Institute. Mr. Guenther joined CLS in 1997 and the money management arm since 2002.

“We are looking for the part of the market, regardless whether it is a sector, an asset class, or a country, which has been undervalued, overlooked, or depressed due to some fundamental factor.”

it often provides us with an early indication that market leadership may be changing.

On top of the quantitative input, there is a fundamental overlay. The second component, after risk adjusted trend analysis, is valuation. We check if the securities that we’re looking at are reasonably valued relative to their universe. The third important question is leadership potential. Does a particular asset class, sector or country have the potential to assume a market leadership role because it may be undervalued, overlooked or depressed due to some fundamental factor? Those tend to be the trades that benefit not only from risk adjusted performance, but from the underlying lift that improvement in fundamentals and investor re-rating of the security can provide.

For example, recently we became interested in the housing-related ETFs, which have imploded because of concerns about the trends in residential housing. Because of its weakness, the sector showed up on our radar screen. If the market stabilizes in residential housing, the sector may outperform on a risk-adjusted basis.

Q: How do you approach the portfolio construction process?

A: In essence, we focus on generating portfolio returns and the value added through changes in asset allocation rather than through a market timing

call. Our methodology is based on a concept called risk budgeting.

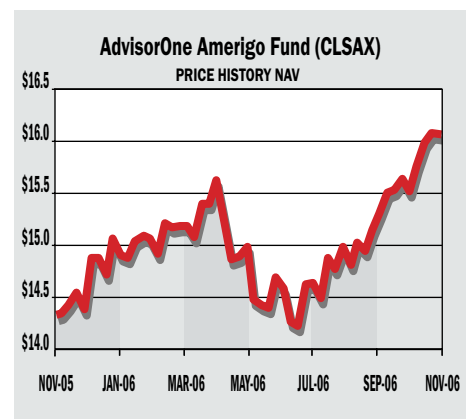
Our baseline risk level for the portfolio begins with a tolerance range above and below the standard deviation of the S&P 500. We estimate the risk level of each of the potential securities we may invest in based on their standard deviation and then make adjustments based on valuation and other factors. The process also attempts to capture trend reversal potential. The longer an asset class has outperformed relative to other potential investments, the more “risky” that particular asset becomes under our analysis. Conversely, those investments which have underperformed for extended periods of time become less risky than other potential investments. For example, high yield bonds and real estate investment trusts have performed well the last several years. Our work would indicate those asset classes are more “risky” today than they were three to five years ago. It does not mean we cannot own them, but we use up more risk points in our allocation if we do. Conversely, large cap growth, according to our research, is much less risky today than it has been in the past three to five years. At the present time, large cap growth and large cap value are “similar” in risk. That is something we have not seen in quite some time.

The key question for the portfolio manager becomes: “How do I take best advantage of a stated amount of risk and allocate it effectively in a portfolio?” That’s where the human part of the portfolio management comes in. Quantitative inputs, qualitative output.

Portfolio risk must be kept in a tolerance range at all times. For example, if we are moving the portfolio more into technology, which is a more volatile asset class than consumer staples, we are in effect increasing the risk

of the portfolio and we have to offset that risk to keep the portfolio within its risk budget. That means that we may keep some cash or move to bonds or a lower risk asset class to keep the risk of the portfolio in check while investing more dollars into the investment trend or theme we wish to overweight. Having a risk budget for the portfolio forces the portfolio manager to focus on the allocation of the portfolio and its risk level rather than trying to make a “beta bet” or market timing call. We are an active asset allocation firm and not a market timing firm. We want to make sure that is consistently reflected in the portfolio decision we make. We focus on achieving an appropriate balance between risk and return rather than focusing on return alone.

Macro themes also affect the allocation of the portfolio. For example, five years ago we had virtually no international exposure. The asset class had underperformed and we viewed it as “less risky” than in the past. In 2003 we started building positions in emerging markets, which reached 20% of the portfolio in the second half of 2005. Right now our exposure is only 5% as valuations increased. We’ve been able to extract a lot of return over that period as risk adjusted relative strength began to improve, the asset class was undervalued and it had potential to assume a market leadership position going forward. We benefited not only from



an improvement in risk adjusted relative strength, but also from a re-rating on the part of investors and valuation of the asset class increased.

Q: What's the current allocation of the fund?

A: Our primary benchmark is the S&P 500 index and right now we are sector neutral to the index. There are small overweights and underweights, but the returns of the fund are not currently being driven by a particular sector bias. However, the overall market cap of the portfolio is less than that of the S&P 500 index and we are also overweight international securities. Those are the two major themes in the portfolio right now. So we don't entirely look like the benchmark, but we use the benchmark to determine the risk level of the portfolio.

The average market cap of the portfolio is about \$22 billion, or about 40% of the average market cap of the S&P 500 index. We also have about 22% international exposure. Sector overweight are modest with a modest overweight in technology and a more significant underweight in energy.

In terms of the individual countries, the breakdown is 76% in North America, 8% in developed Europe, which includes countries like Netherlands, Spain, and Germany, 5% in Asia, and 3% in the United Kingdom. Japan makes up about 4%; Africa has a minor position of 1%; and Latin America accounts for 1% of the portfolio. And we still have 2% in cash, under 3% we view the fund as being fully invested.

Q: What's the basis for the country-specific fund selection?

A: If we find international countries more attractive than domestic, we'll start by bringing in an international index such as the iShares MSCI EAFE Index. Then we'll add individual country exposure to "tilt" that index in the direction that

we believe can add return beyond that index. Since we're not buying individual securities, we look at the overall benchmark first and then make small changes to add value and bring additional return around that benchmark.

Q: How many ETFs do you usually hold?

A: The number would vary in the range between 15 and 30. We would get to the high end of that range when we're buying smaller ETFs with lower liquidity. For example, in country-specific allocations, we usually have a core holding and use the countries to tilt the portfolio in the desired direction.

Unlike other active funds, for us it is the degree of the overweight or the underweight that makes the difference, not market timing. Our approach to risk management is more of a dimmer switch rather than a light switch.

Q: What's your view on risk control?

A: We start by looking at the volatility of the overall benchmark. We have a tolerance level for the volatility of the entire portfolio, but we also look at the risk at the individual security level to compare it to the historical levels for that individual class or sector. For example, real estate to us is more risky now than it was five years ago. As the individual risk valuations increase, that is balanced in the overall equation with adjustments that we make to the portfolio.

The primary idea is that we use the long-term standard deviation of the asset class and we add our macro view on top. When we are negative, we add volatility expecting more return to justify that position in the portfolio. Another component is a reversal indicator, which means that the greater the spread between the current rate of return of a security and its historical run, the greater the risk is. **T**

AdvisorOne Amerigo Fund

FUND FACTS	
Symbol	CLSAX
Website	www.advisoronefunds.com
Address	AdvisorOne Funds 4020 S. 147th Street Omaha, NE 68137
Tel. No.	866-811-0225
Inception	7/14/1997

PORTFOLIO	
Total Net Assets *	\$ 573.4
Avg Mkt Cap (\$ Weighted) *	\$ 4,600
Average Price/Earnings Ratio	N/A
Average Price/Book Ratio	N/A
Turnover Ratio	57 %

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$ 2,500
Min Subsequent Investment	\$ 250
Min Initial IRA Investment	\$ 2,000

RISK (AGAINST S&P 500 - SINCE INCEPTION)	
Alpha	- 0.08
Beta	1.15
R-Squared	0.85
Ann Std Deviation	8.97
Sharpe Ratio	1.04

RETURNS VS. S&P 500 INDEX		
	CLSAX	Index
1 Year (Cum.)	13.94 %	14.23 %
3 Year (Ann.)	12.59 %	11.82 %
5 Year (Ann.)	8.07 %	6.08 %

RETURNS VS. RUSSELL 3000 TR IX		
	CLSAX	Index
1 Year (Cum.)	13.94 %	14.44 %
3 Year (Ann.)	12.59 %	12.41 %
5 Year (Ann.)	8.07 %	7.21 %

FEES AND EXPENSES	
Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	1.00 %
Max Redemption Fee	0.00 %
Total Expense Ratio	1.15 %

PORTFOLIO MANAGER	
Team Managed	
* millions	
Data through: 11/30/06	
Source: Company Documents; Lipper	

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