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RYDEX SECTORS MANAGED ACCOUNT PROGRAM

Rydex, a mutual fund family that caters to active investors and traders, began offering sector funds in April 1998. Currently there are 16 of them. There is also a gold-oriented fund, and it may be owned in accounts that are managed more aggressively. While Rydex has fewer than half of the sector funds in the Fidelity Selects group, they have the advantage of having no trading restrictions or short-term charges such as the 0.75% charge for selling a Select fund within 30 days of purchase. The lack of such a charge means that we have been able to develop trading methods well adapted to today's market conditions with typical holding periods of about one week.

Two trading approaches are discussed and illustrated below. One is fairly conservative in that it emphasizes risk reduction over potential investment returns while the other is more aggressive and focuses on the potential for exceptional profits.

The more conservative method is called STAR (Sector Trading Adverse to Risk), and it has been used for some client accounts beginning in the second half of 2003. The techniques used are quite "fussy" about when they will buy a sector fund. As a rule, the fund must have fallen by a sufficient amount and then started to move back up. The trades are generally short, a week or so is typical. In a strong rising market, these methods will not keep up with the broad market, but in falling and sideways markets, they should do much better and not suffer painful drawdowns.

The table on the next page shows the returns for the last 13 quarters, which is the longest history of a client's account using the current STAR techniques, adjusted for the maximum 2% management fee. These are actual returns from a typical client account, and all client accounts using the STAR method are managed the same. The only differences, which are minor, result from the treatment of money market/cash investments at Fidelity as compared to Rydex. The results shown are from an account at Fidelity.

These accounts hold up to three Rydex sector funds at a time, and the average level of exposure over time is about 50%. There are times when the accounts are totally in a money market fund.

Quarter	Return	Year	Return
2003-Q4	9.32%		
2004-Q1	1.79%		
2004-Q2	-0.57%		
2004-Q3	-0.02%		
2004-Q4	5.63%	2004	6.89%
2005-Q1	-3.57%		
2005-Q2	-0.31%		
2005-Q3	5.59%		
2005-Q4	1.88%	2005	3.41%
2006-Q1	3.39%		
2006-Q2	-0.81%		
2006-Q3	1.69%		
2006-Q4	2.14%	2006	6.52%
		Total	28.72%
		Annualized	8.08%

MDP Associates is constantly researching alternative trading methods, and some of them Dr. Pankin tries in a personal account to get a feel for how they will execute in practice and see if they may be suitable for client accounts. He began using a more aggressive method called ART (Aggressive Rydex Trading) in some client accounts in December 2004. The basic method owns just one Rydex sector fund at a time and is fully invested. The fund is the weakest over a recent period using a standard technical analysis measure. The idea is to catch either a reversal or a “dead cat bounce.” The typical holding period is about a week. ART may also own Rydex Precious Metals fund for longer periods instead of or in addition to a sector fund. During periods of falling markets, sector funds that have been falling may continue to drop, quite possibly faster than the broad market. When we judge that market conditions are poor and the risks are too great relative to the potential profits, ART accounts will be out of the market in cash. The table below shows the actual returns from a typical client account including management fees. As is true for STAR, ART accounts are managed the same for all clients. The table illustrates both the risks and potential for outstanding profits.

Quarter	Return	Year	Return
2005-Q1	-9.93%		
2005-Q2	8.82%		
2005-Q3	14.57%		
2005-Q4	9.96%	2005	23.48%
2006-Q1	6.77%		
2006-Q2	-6.20%		
2006-Q3	-3.37%		
2006-Q4	4.99%	2006	1.60%
		Total	25.46%
		Annualized	12.01%

Please keep in mind that the usual disclaimers apply to all of the information presented here. In particular, past performance does not necessarily tell you what the future will bring. Also, you should not assume that any returns presented here will be achieved in the future. There can be no assurance that managed accounts will be profitable in the future, and all investments in equities and related instruments such as mutual funds entail risks that you should evaluate.

Minimum account size: \$50,000

Maximum annual MDP Associates management fee: 2% (lower above \$250,000)