Sector Cycle Strategy
A Sector Rotation Investment Strategy
Founded in 1982, Creative Financial Designs, Inc. is an Investment Adviser Registered with the United States Securities and Exchange Commission (SEC). Headquartered in Kokomo, Indiana, the firm represents the best of “Midwest Values” putting your needs and goals front and center. We strive to provide you with services and products that serve those needs and goals. Check out our website at www.creativefinancialdesigns.com to learn more and continue reading. If at any time you have questions, your valued adviser will be there to guide you.

Building Trust One Client at a Time

Our firm understands that trust is earned and not given. That is why we strive to do what is right from day one. Our firm has been working with clients for over 30 years, building thousands of financial plans in a tax-wise manner and managing thousands of investment accounts. We believe every person should have available to them an adviser and a company that provides them financial advice and products to help them meet their specific goals.
Your adviser is here to guide you and knowing where and how to invest is dependent on your investment goals, time horizon, and personal risk tolerance. Your adviser is here to guide you in the direction you need to go. They will work with you to implement the right strategy in the right investment objective and, at your right time, to help you meet your investment objectives. Then, they help you monitor your progress along the way.

Creating Your Investment Plan

and sticking to it, can make all the difference in the world when it comes to investment success. Take the emotions out of your plan to help you achieve long-term financial success.
Does the “Next Bubble” concern you? Should it? Looking back over a relatively short number of years we have seen an energy crisis, a tech bubble, a financial crisis, and a real estate bubble to name a few. One of the ways we attempt to identify potential bubbles and opportunities is by tracking what portion of the market each sector represents and how the composition changes over time. This strategy seeks to take control of sector composition change and use it to your advantage instead of the other way around. Investing in today’s financial markets call for investing differently yet intelligently. Create a portfolio that looks to gain in good times and protect in lean times.

Sector composition of the S&P 500 by equity capitalization, 1974-2015 as of March 31, 2014

It is about investing over the entire economic cycle, not just the one you came from.
Diversification is still important no matter what investment strategy you employ. Depending on your investment objective, we believe using investments such as fixed income investments are important to reduce risk and volatility. Also important is knowing how your investments work together in any given business cycle. Shown below is the Callan Chart looking at sector equity investment returns. Avoiding the wrong investments as-well-as selecting the right mix can help reduce overall volatility in your portfolio and potentially produce better overall returns for the long-term.


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Source: Returns shown from Bloomberg.
Understanding that the business cycle generally moves through four phases may help you determine how to invest to maximize the business cycle. Sectors have unique characteristics that have caused them to perform better or worse at various phases of the business cycle. Our Sector Strategy was developed to take advantage of this.

### Business Cycle: Normal Characteristics of Each Phase

**Early Phase-**
Relatively low interest rates and low inflation, economic surprises to the upside, accelerating GDP growth, higher unemployment.

**Mid Phase-**
Normally the longest cycle as GDP growth starts to stabilize, relatively modest interest rates, unemployment decreases, moderate inflation.

**Late Phase-**
Inflationary pressures build, labor and/or commodity markets tighten, interest rates rise and credit becomes less accessible.

**Recession -**
GDP growth turns negative, inflation drops along with interest rates, wages stagnate and layoffs become more frequent.

*Disclaimer: Business cycles can have many different characteristics and sometimes do not exhibit all or any to be in their respective cycles. Each phase can vary in the length. Phase can be completely skipped in a particular business cycle. Economists don’t always agree as to when phases of the business cycle start and stop and there are often no clear start or end dates to a phase.*
Our sector rotation strategy seeks to invest intelligently in a portfolio composed of individual sectors and dependent on the current and near future business cycles. Most sectors react in a fairly predictable way during each business cycle. We examine the characteristics of each economic sector to discover what drives risk and returns. We use this methodology in addition to our proprietary relative value formulas to analyze historical returns during different times in the business cycle to try to ascertain how the future might rhyme with the past.

“History doesn’t repeat itself, but it does rhyme.”

-Mark Twain

Examining the sector characteristics and attributes help us determine when we should be investing in each sector during the determined business cycle. The chart below illustrates historically how each sector has performed in historic iterations of each cycle.

Know Where You Should Invest and When

<table>
<thead>
<tr>
<th>Sector</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Recession</th>
<th>Brief Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>+</td>
<td></td>
<td></td>
<td>-</td>
<td>Companies engaged in banking, finance, insurance, brokerage, or real estate.</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>+ +</td>
<td></td>
<td></td>
<td>- -</td>
<td>Companies that provide “want” type of services and goods.</td>
</tr>
<tr>
<td>Technology</td>
<td>+</td>
<td>+</td>
<td></td>
<td>- -</td>
<td>Companies that comprise of technology products and services.</td>
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<tr>
<td>Industrials</td>
<td>+ +</td>
<td>+</td>
<td></td>
<td>- -</td>
<td>Companies that manufacture &amp; distribute large equipment, construction, etc.</td>
</tr>
<tr>
<td>Materials</td>
<td>-</td>
<td>-</td>
<td>+ +</td>
<td>-</td>
<td>Companies that engage in the manufacturing/processing of chemicals/plastics, etc.</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>-</td>
<td></td>
<td>+</td>
<td>+ +</td>
<td>Companies that provide daily needed goods and products.</td>
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<tr>
<td>Health Care</td>
<td>-</td>
<td></td>
<td>+ +</td>
<td>+ +</td>
<td>Companies engaged in the production and delivery of medicine &amp; health care.</td>
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<tr>
<td>Energy</td>
<td>-</td>
<td></td>
<td>+ +</td>
<td></td>
<td>Companies engaged in the exploration, production of energy resources.</td>
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<tr>
<td>Telecom</td>
<td>-</td>
<td></td>
<td>+ +</td>
<td></td>
<td>Companies engaged in the exploration, production of energy resources.</td>
</tr>
<tr>
<td>Utilities</td>
<td>-</td>
<td>-</td>
<td></td>
<td>+ +</td>
<td>Companies engaged in creation &amp; storage of digital information.</td>
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</table>

* See Back Page for Disclosures relating to this chart.

Unshaded portions above suggest no clear pattern of over- or under-performance vs. broader market. Double +/- signs indicate that the sector is showing a consistent signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. A single +/- indicates a mixed or less consistent signal. Source: Fidelity Investments (AART). The cycle hit rate refers to the percentage of the time that a sector has historically out-performed the index during a particular phase of the business cycle.
Designed for the investor seeking to better protect their investments and to earn above inflationary returns.

Designed for the investor that is still concerned about potential substantial losses, but willing to take a larger equity investment to earn better than inflationary returns.

Designed for the investor that is willing to take a larger equity position versus fixed income to increase their chances for solid long-term returns while still possibly minimizing the risk of significant losses.

Designed for the investor that is willing to accept the larger equity position versus a relatively small fixed income to increase their chances for larger returns and accept the potential for losses.

Designed for investors that are willing to invest for the long-term, riding out losses in an effort to achieve higher returns over an entire business cycle.
Beta is a commonly used risk measurement tool that combines elements of volatility and correlation. The below beta measurements are estimates of the level of market risk our target portfolios attempt to take in each stage of the business cycle. A beta of 1 indicates that the portfolio takes approximately the same amount of market risk as the S&P 500. A beta higher than 1 indicates more market risk than the S&P 500 and a beta of lower than 1 indicates less market risk than the S&P 500.

Source: Numbers listed above are in Morningstar 3-Year Beta. There is no guarantee that these targets will be achieved.

<table>
<thead>
<tr>
<th>Business Cycle Targets</th>
<th>Conservative</th>
<th>Moderately Conservative</th>
<th>Moderate</th>
<th>Moderately Aggressive</th>
<th>Aggressive</th>
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<td><strong>Beta</strong></td>
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<td>Late</td>
<td>0.37</td>
<td>0.5</td>
<td>0.63</td>
<td>0.79</td>
<td>0.88</td>
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<td>Recession</td>
<td>0.24</td>
<td>0.33</td>
<td>0.44</td>
<td>0.58</td>
<td>0.67</td>
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Disclaimer: Numbers listed above are in Morningstar 3-Year Beta. There is no guarantee that these targets will be achieved.
Our investment management team uses multiple independent research tools to help with the determination of not only the business cycle conditions, but also to determine the optimal structure of the fixed income holdings. Our team focuses on the items below to help meet the investment strategies and goals for each model.

Investment holdings are determined by the investment management team keeping in mind which custodian is selected by the investor. To reduce internal investment expenses, the sector investments used are Exchange Traded Funds (ETF’s). The fixed income investments may have ETF(s) or mutual funds.

The asset mix between sector equities and fixed income can be changed periodically depending on the current and forecasted conditions. The investment management team may make relatively minor changes to the asset mix based on the risk and potential return of each model keeping in consideration the definition of each model and overall goals.

1. Track economic indicators
2. Chart the course of the business cycle
3. Adjust target portfolio using proprietary relative value formula to determine the sector mix within each model.
4. Use sector correlations to optimize portfolio diversification
5. Execute investment changes and rebalance where necessary
Staying invested can help make all the difference to your investment success. In fact, according to the popular independent DALBAR investment research, the average equity mutual fund investor returned 5.19% over the 20 years from January 1st, 1995 to December 31st, 2014 while the S&P 500 returned 9.85%. Investors need to stay invested using a sound investment strategy for financial success. Creative Financial Designs can bring you the Advisory investment platform, strategy, and portfolio to help make this happen.

Your Adviser is here to guide your way through the investment maze. Rely on them to not only help you start your financial independence path, but to also monitor your current situation and success. Your adviser is your personal coach to financial freedom.
Disclosures for Creative Financial Designs, Inc.

Investment Risk

All investments entail risk, and these risks could result in the loss of principal in your investment. There is no guarantee of returns. If there are historic or hypothetical returns identified in this piece, these are provided as informational only, and should not be read as an indication about the returns that you should expect to receive as a result of this investment. Past performance is not an indication of future results.

Model Portfolios

Portfolios are allocated pursuant to models determined by Creative Financial Designs, Inc. (Designs) which is solely responsible for the content of each model, and the selection of specific investments within the confines of each asset class and model. Designs has discretion to change the model at any time, and will make changes to the model based on current or anticipated market conditions, as deemed appropriate. Any references to percentages of assets in a model portfolio are subject to the discretion of the management team, and are subject to change at any time, without notice.

Variance Among Accounts

Each Designs Investment model is merely a guideline, and there may be variance between investment holdings, and therefore returns, in any particular account versus the model allocation. In some instances, these differences may be material. Additionally, there may be some differing holdings among customers investing in the same investment model portfolio. Some of these differing holdings are the result of limited investment options, such as would be the case in self-directed retirement accounts, and/or managed variable annuity accounts. Additional variances could arise due to such things as, without limitation:

- programmed reallocations by an issuer, pursuant to particular product terms and conditions
- special reallocation requests by the client
- timing issues, e.g., investors purchase a fund that subsequently is no longer available for new purchasers, so later investors invest in a comparable (though not identical) investment
- size of an investment account
- additional strategic options selected by a client, e.g., a client uses the invest over time option or an alternative investment rider option
- additional contributions to an account, or one-time or systematic withdrawals from an account
- the fact that transactional charges may make a reallocation disadvantageous to a particular client, or due to the investment strategy which the client has selected
- tax implications applicable to an individual investment or account
- opening of new investments
- closing of investments to new investors
- minimum investment amounts applicable to investments

Client Choices Influencing Returns in the Account

Please note that your choices as a client may influence the returns in your account, and may not mirror returns of holdings of other investors in the same model portfolio. Some of your choices that may affect the account include:

- Making additional contributions to your account
- Making withdrawals from your account
- Putting special restrictions on your account, either to hold a particular security, to avoid a particular security, to hold additional cash, etc.
- Selecting an add-on strategy such as the Invest Over Time option or selecting an Alternative Investment Rider

General Information about Portfolio Returns

The portfolio returns identified herein demonstrate a limited track record of investing according to this model, and is subject to the particular market conditions at the time of that investing. Past performance is not indicative of future results.

Chart Titled “Business Cycle: Normal Characteristics of Each Phase”

This information is provided for general informational purposes only. Business cycles can have many different characteristics and not all of them are reflected in this piece. Not all characteristics identified are exhibited in all business cycles and phases reflected, and sometimes certain phases do not exhibit all or any to be in their characteristics in any given business cycle. Each phase can vary in length. Phases can be completely skipped in a particular business cycle. Economists don’t always agree as to when phases of the business cycle start and stop and there are often no clear start or end dates to a particular phase of a business cycle.

Chart Titled “Know Where You Should Invest and When”

This information is provided for general informational purposes only. Green Shading suggests that there has been an historic pattern of under-performance of the given sector versus the broader market. - indicates that the sector is showing a consistent positive signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. + indicates a mixed or less consistent signal, though still generally positive. Red Shading suggest that there has been an historic pattern of under-performance of the given sector versus the broader market. -- indicates that the sector is showing a consistent negative signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. - indicates a mixed or less consistent signal, though still generally negative. Unshaded portions of the chart suggest that there is no clear pattern of over or under performances versus the broader market. There is no guarantee that any given market cycle or any given phase of a market cycle will follow the historic patterns identified in this chart.

Dalbar Quantitative Analysis of Investor Behavior

The reference to the Dalbar Quantitative Analysis of Investor Behavior Study, conducted annually by Dalbar, derives the average equity fund investor return using a proprietary model that measures actual historical fund returns and average shareholder holding periods. This identifies the average equity mutual fund investor return over the identified timeframe. Past Performance is no guarantee of future results. This figure is compared to the S&P 500 index during the same period. The S&P 500 is a market-value-weighted index of 500 stocks that is generally considered representative of the U.S. large-cap equity market. The Index is unmanaged and not available for direct investment. For more information about the S&P 500, see the disclosure titled “The S&P 500 Index” on this page. The purpose of the study is to identify how individual investor behavior affects average returns, and the study suggests the potential value in staying invested in the market. This information is only offered to make this point. This information is not a comparison between the average equity mutual fund investor return and any portfolio managed by Creative Financial Designs, Inc.

The S&P 500 Index is an unmanaged market-value-weighted index of 500 stocks that measures the performance of large-capitalization US stocks. The S&P 500 Index is not available for direct investment and as shown does not include any expenses or fees that would be associated in investing in a like portfolio. The S&P 500 Index does not take into account any fees or expenses that may apply to comparable investments.

Affiliation with CFD Investments

Designs is owned and controlled by several persons who also have financial interests in cfd Investments, Inc. (CFD), a registered broker/dealer, member FINRA and SIPC. Designs is also co-located with CFD, and several persons associated with CFD are also associated with Designs. When appropriate, assets of clients managed by Designs will be maintained in accounts established at CFD.

Toll Free: 800.745.7776 • www.creativefinancialdesigns.com
Advisory Services are Provided through Creative Financial Designs, Inc., a Registered Investment Adviser.
2704 South Goyer, Kokomo, IN 46902 765.453.9600