WELCOME TO BLUE LINE INVESTING

WHAT IS BLUE LINE INVESTING (BLI)?

BLUE LINE INVESTING® is a disciplined, rules-based investment process that attempts to identify the primary trend of the financial markets using technical analysis, trend-following, and historical pattern recognition. It is an alternative to a passive "buy and hold" investment strategy, in that it attempts to protect investors from the negative side of passive investing. Like a passive strategy, BLUE LINE INVESTING® seeks to remain invested when long-term trends are rising but reduce risk through the sale and hedging of investments when the long-term trend is declining. This process defines the primary trend as either *positive*, *neutral*, or *negative*, and once defined, all investment decisions are aligned with that trend. The BLUE LINE is one of the critical components used in the process.

WHAT IS THE BLUE LINE?

The Blue Line is a reference point that helps us identify the primary trend. It is a moving average of past prices and is unique to each publicly-traded investment. Most publicly-traded investments have their own Blue Line, and what matters most with this process is whether price is trending above, at, or below the BLUE LINE over time.

HOW DOES THE BLI PROCESS WORK?

We prefer to purchase and own financial investments in the BLUE LINE INVESTING® strategies whose prices are trending above their Blue Line (a *Positive* primary trend); closely monitor those investments already owned whose prices are trending through their Blue Line (a *Neutral* primary trend); and sell or avoid most investments whose prices are trending below their Blue Line (a *Negative* primary trend). Over a full market cycle, which we typically define as ten years, we expect most of our investment strategies to experience a natural progression of change. Initially, they may be fully invested in stock investments when the primary trend is positive. As the process suggests a changing trend from *positive* to *neutral*, we may begin to add protective hedges to our strategies to attempt to limit downside financial loss. Should the process thereafter identify the primary trend as *negative*, we expect our strategies to become fully invested in cash equivalents. In special circumstances, some strategies may purchase inverse Exchange-Traded Funds (ETFs) to attempt to profit from what could become a significant stock market decline. As the decline nears a possible end, the process uses technical analysis and pattern recognition to once again become fully invested in stock investments. The process repeats thereafter.

We have been able to document seven instances using StockCharts.com when the U.S. stock market, as measured by the S&P 500 Index, has exhibited a very specific *pattern* that has resulted in price declines exceeding 45% on average from beginning to end. In all seven instances these losses occurred within one to three years. These seven instances ignore other events throughout history that also resulted in significant price corrections and financial loss. But regardless of the pattern of the decline, all share one thing in common – before significant financial loss occurred **price had to first decline *below* the BLUE LINE.**

WHAT MAKES THE BLI PROCESS DIFFERENT?

We attempt to "buy low and sell high" which we believe differs from a more traditional, passive "buy and hold" strategy. We attempt to accomplish this with the use of a 3-Phase sell process that was developed after observing what appears to be a recurring pattern within the financial markets. As the primary trend transitions from positive to neutral, and then from neutral to negative, we use this 3-Phase sell process to reduce, hedge, or sell risky investments, in favor of cash-equivalent investments. We believe this proactive action can help protect our clients' money against significant financial loss. The foundation of the BLI strategy is based on Warren Buffett's two rules: *"Rule No. 1 – Don't lose money,"* and *"Rule No. 2 – Never forget Rule No. 1."*

When successfully implemented, a sell process may help an investor reduce financial risk in the early stages of what could become a stock market downturn to attempt to save money.

If an investor is successful in limiting their financial loss under such circumstances, they may be afforded the opportunity to look for indications when prices may be bottoming to reinvest their money at lower prices in the future. When compared to a "buy and hold" strategy this may help save lost time as well. Instead of having to wait for their money to recover to previous highs, which could take years, they may be able to achieve new highs relatively quickly.