



HEDGEYE

TACTICAL ASSET CLASS ROTATION MODEL

DARIUS DALE: MACRO TEAM

FEBRUARY 2, 2015

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INTRODUCING TACRM

1

WHAT IS TACRM?

TACRM is a quantitative model designed to **systematically measure momentum across a variety of asset classes in order to transform those signals into actionable investment themes.**

2

HOW DOES TACRM WORK?

First, **TACRM generates a normalized view of price momentum for every liquid market in the world.** That momentum score is derived from a **multi-factor, multi-duration** approach and henceforth referred to as a Volatility-Adjusted Multi-Duration Momentum Indicator, or “VAMDMI” for short. Recall that our VAMDMI metric is simply the arithmetic mean of three independent z-scores of volume-weighted average price data, in which the three sample sizes (i.e. short-term, intermediate-term and long-term) accordion inversely to the trend in global financial market volatility. **The metric is designed to standardize recorded momentum across securities and asset classes with variant betas, effectively normalizing the degree to which marginal investors might have a propensity to buy or sell a given market.**

3

WHY IS TACRM VALUABLE FOR INVESTORS?

By systematically analyzing these composite momentum scores, TACRM is able to produce actionable risk management signals. TACRM’s black-and-white quantitative signals remove the subjectivity from handicapping global macro risk(s), effectively providing investors with an unparalleled degree of market color that allows for unmatched decision-making in the tactical asset allocation process. **TACRM provides global capital allocators the kind of consistent and actionable BUY/SELL signals needed to formulate or alter any investment mosaic.**

SUMMARY INVESTMENT CONCLUSIONS

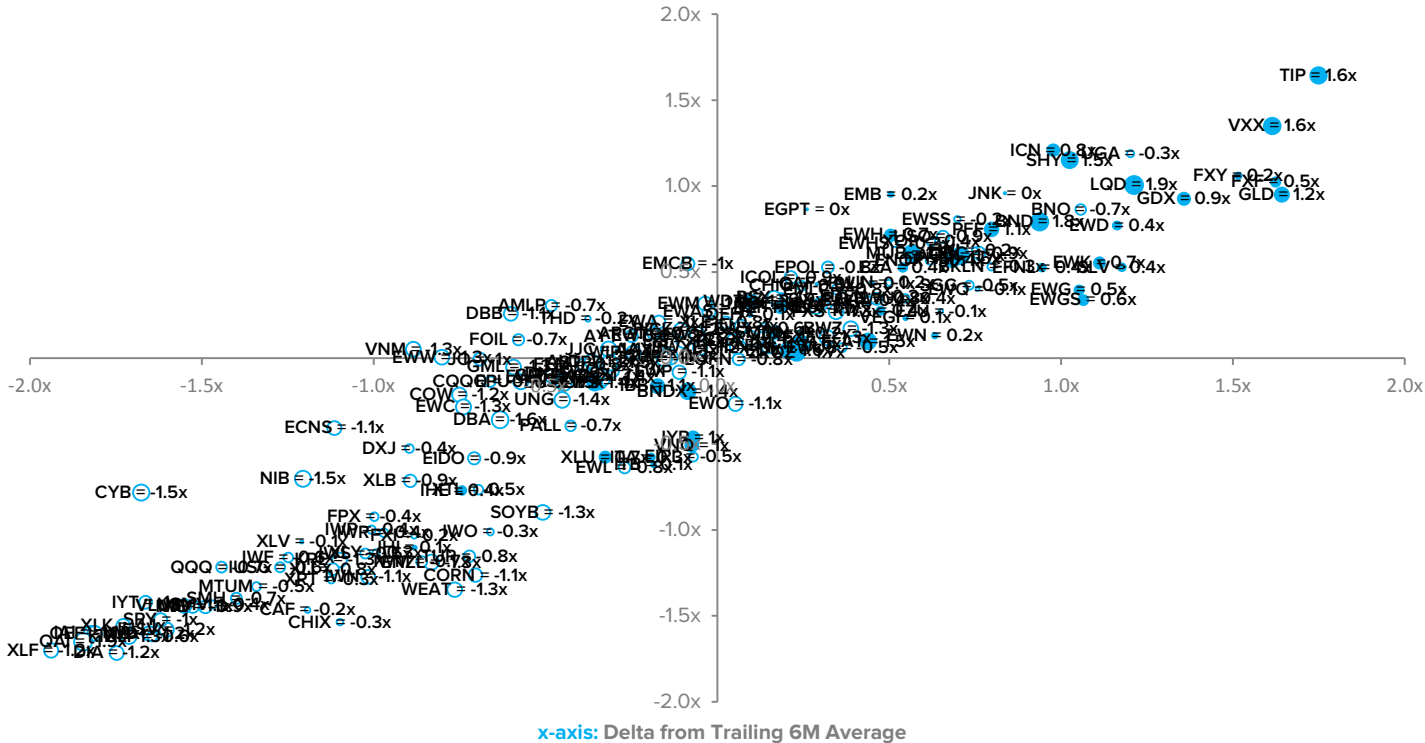
INVESTMENT CONCLUSIONS	Passive Trend Follower Asset Allocation	Investment Recommendation	Cumulative 1-Week Forward Return of "DECREASE Exposure"	Cumulative 1-Week Forward Return of "INCREASE Exposure"
Fixed Income & Yield Chasing	20%	DECREASE Exposure	5.0%	24.2%
DM Equities	22%	INCREASE Exposure	-10.5%	32.2%
EM Equities	12%	DECREASE Exposure	-18.9%	19.2%
Foreign Exchange	1%	DECREASE Exposure	-19.5%	3.5%
Commodities	8%	DECREASE Exposure	-61.6%	27.6%
Cash	36%	DECREASE Exposure	-92.6%	477.8%
ROTATION ANALYSIS	Passive Trend Follower A/A Δ from Trailing 3M Average	Passive Trend Follower A/A Δ from Trailing 12M Average	Passive Trend Follower A/A on a Percentile Basis (1Y)	Passive Trend Follower A/A on a Percentile Basis (Since SOY '08)
Fixed Income & Yield Chasing	-2%	-12%	18%	54%
DM Equities	1%	-11%	51%	58%
EM Equities	-9%	-26%	35%	22%
Foreign Exchange	-44%	-87%	0%	0%
Commodities	-8%	-38%	20%	17%
Cash	8%	158%	100%	95%

Data Source: Bloomberg. Backtests extend to the start of 2008. The following indices are backtested for the listed asset classes: JPM Global Aggregate Bond Index, MSCI World Index, MSCI Emerging Markets Index, PowerShares-DB US Dollar Index Bearish Fund (UDN), the CRB Index and the CBOE S&P 500 Volatility Index (VIX).

QUANTIFY: MOMENTUM

TACRM GLOBAL MACRO MOMENTUM MONITOR

● Current Volatility-Adjusted Multi-Duration Momentum Indicator Score



Across the spectrum of primary asset classes (i.e. fixed income, equities, currencies, commodities, cash and volatility), **TACRM systematically quantifies the momentum embedded in each of the individual exposures comprising each asset class.** Rather than rely on simple or exponential moving averages, **we employ a multi-factor, multi-duration approach to quantifying momentum** that we have found to be statistically more robust.

QUANTIFY: MOMENTUM (CONTD.)

TACRM VOLATILITY-ADJUSTED MULTI-DURATION MOMENTUM INDICATOR HEAT-MAP

SECONDARY ASSET CLASS					SECONDARY ASSET CLASS					SECONDARY ASSET CLASS				
CASH					CASH					FIXED INCOME & YIELD CHASING				
VAMDMI	Δ FROM 3MMA	Δ FROM 6MMA	Δ FROM 12MMA	β	VAMDMI	Δ FROM 3MMA	Δ FROM 6MMA	Δ FROM 12MMA	β	VAMDMI	Δ FROM 3MMA	Δ FROM 6MMA	Δ FROM 12MMA	β
(UUP) PowerShares DB US Dollar Index Bullish Fund	1.4x	-0.1x	-0.4x		(IEZ) iShares U.S. Oil Equipment & Services ETF	-0.9x	-0.3x	0.1x		(AGG) iShares Core US Aggregate Bond ETF	1.7x	0.6x	0.7x	
(VXX) iPath S&P 500 VIX Short-Term Futures ETN	1.6x	1.4x	1.6x		(IHE) iShares U.S. Pharmaceuticals ETF	0.4x	-0.8x	-0.7x		(ALD) WisdomTree Asia Local Debt Fund	-1.2x	0.0x	-0.4x	
COMMODITIES					(IHI) iShares U.S. Medical Devices ETF	0.1x	-1.1x	-0.9x		(AMLP) Alarian MLP ETF	-0.7x	0.3x	-0.5x	
(BAL) iPath Dow Jones AIG Cotton Total Return Sub-Index ETN	-0.4x	0.3x	0.4x		(ITA) iShares U.S. Aerospace & Defense ETF	0.3x	-0.6x	-0.2x		(BKLN) Senior Loan Portfolio ETF	-0.3x	0.5x	0.8x	
(BNO) iShares Energy Brent Oil Fund	-0.7x	0.9x	1.1x		(ITB) iShares U.S. Home Construction ETF	0.1x	-0.6x	-0.2x		(BND) Vanguard Total US Bond Market ETF	1.8x	0.8x	0.9x	
(CORN) Teucon Corn Fund	-1.1x	-1.3x	-0.7x		(IWB) iShares Russell 1000 ETF	-1.0x	-1.4x	-1.5x		(BWV) SPDR Barclays International Long-term Treasury Bond ETF	-1.2x	0.1x	-0.1x	
(COW) iPath Dow Jones-UBS Livestock Total Return Sub-Index ETN	-1.2x	-0.2x	-0.8x		(IWO) iShares Russell 2000 Value ETF	-1.2x	-1.6x	-1.7x		(BWX) SPDR Barclays International Short-term Treasury Bond ETF	-1.3x	0.2x	0.4x	
(DBA) PowerShares DB Agriculture Fund	-1.6x	-0.4x	-0.6x		(IWF) iShares Russell 1000 Growth ETF	-0.6x	-1.2x	-1.2x		(EDV) Vanguard Extended Duration Treasury ETF	-0.6x	0.0x	0.2x	
(DBA) PowerShares DB Base Metals Fund	-1.1x	0.3x	-0.6x		(IWM) iShares Russell 2000 ETF	-0.7x	-1.2x	-0.9x		(EMB) iShares JP Morgan US Emerging Markets Bond ETF	0.2x	1.0x	0.2x	
(DBC) DB Commodity Index Tracking Fund	-0.9x	0.6x	0.8x		(IWN) iShares Russell 2000 Value ETF	-1.1x	-1.3x	-1.0x		(EMCB) iShares MSCI Emerging Markets Corporate Bond Fund	-1.0x	0.5x	-0.1x	
(FOIL) iPath Pure Beta Aluminum	-0.7x	0.1x	-0.6x		(IWO) iShares Russell 2000 Growth ETF	-0.3x	-1.0x	-0.7x		(EMLC) Market Vectors Emerging Markets Local Currency Bond ETF	-0.8x	0.4x	0.3x	
(GLD) SPDR Gold Shares	1.2x	1.0x	1.8x		(IWP) iShares Russell Mid-Cap Growth ETF	-0.4x	-1.0x	-1.0x		(EU) WisdomTree Euro Debt Fund	-1.5x	-0.1x	-0.4x	
(JJC) iPath Exchange Traded Notes on Dow Jones-UBS Nickel Total Return Sub-Index ETN Series A	-1.4x	-0.1x	-0.2x		(IWR) iShares Russell Mid-Cap ETF	-0.4x	-1.0x	-1.0x		(FLAT) iPath US Treasury Flatteners ETN	1.5x	0.1x	0.4x	
(JUN) iPath Dow Jones-UBS Nickel Total Return Sub-Index ETN	-0.2x	0.4x	0.5x		(IWS) iShares Russell Mid-Cap Value ETF	-0.5x	-1.1x	-1.0x		(IBND) SPDR Barclays International Investment Grade Bond ETF	-1.3x	0.1x	0.1x	
(JO) iPath Dow Jones-AIG Coffee Total Return Sub-Index ETN	-1.0x	0.0x	-0.7x		(IYW) iShares Russell 2000 ETF	-0.9x	-1.4x	-1.5x		(IHY) Market Vectors International High Yield Bond ETF	-0.1x	0.3x	0.3x	
(NIB) iPath Dow Jones-AIG Cocoa Total Return Sub-Index ETN	-1.5x	-0.7x	-1.2x		(IUSV) iShares Russell 3000 Value ETF	-1.2x	-1.6x	-1.6x		(IIV) iShares US Real Estate ETF	0.0x	1.0x	0.8x	
(PALL) ETFs Physical Palladium Shares	-0.7x	-0.4x	-0.4x		(IUSG) iShares Russell 3000 Growth ETF	-0.6x	-1.2x	-1.3x		(LNK) SPDR Barclays High Yield Bond ETF	-0.0x	1.0x	0.8x	
(RLV) SPDR Multi-Asset Real Return ETF	-1.0x	0.1x	0.0x		(ITY) iShares Transportation Average ETF	-1.0x	-1.4x	-1.7x		(LQD) iShares iBoxx \$ Investment Grade Corporate Bond ETF	1.9x	1.0x	1.2x	
(SGG) iPath Dow Jones AIG Sugar Total Return Sub-Index ETN	-0.5x	0.4x	0.7x		(KIE) SPDR Insurance ETF	-1.3x	-1.6x	-1.7x		(MUB) iShares National AMT-Free Muni Bond ETF	1.6x	0.6x	0.6x	
(SLV) iShares Silver Trust	0.4x	0.5x	1.2x		(KRE) SPDR S&P Regional Banking ETF	-1.3x	-1.2x	-1.1x		(QAI) IQ Hedge Multi-Strategy Tracker	-1.9x	-1.7x	-1.8x	
(SOYB) iPath Soybean Fund	-1.3x	-0.9x	-0.5x		(MTUM) iShares MSCI USA Momentum Factor ETF	-0.5x	-1.3x	-1.4x		(RWX) SPDR Dow Jones International Real Estate ETF	0.4x	0.3x	0.5x	
(UGA) United States Gasoline Fund	-0.3x	1.2x	1.2x		(OEF) iShares S&P 100 ETF	-1.3x	-1.6x	-1.8x		(SHY) iShares 1-3 Year Treasury Bond ETF	1.9x	1.2x	1.0x	
(UNG) United States Natural Gas Fund	-1.4x	-0.2x	-0.5x		(PFF) iShares US Preferred Stock ETF	1.1x	0.7x	0.8x		(STPP) iPath US Treasury Swap ETF	-1.2x	0.0x	-0.2x	
(USO) United States Oil Fund LP	-0.9x	0.7x	0.7x		(PAGL) Global X FTSE Portugal 20 ETF	-0.8x	0.3x	0.5x		(TIP) iShares TIPS Bond ETF	1.6x	1.6x	1.7x	
(WDTI) WisdomTree Managed Futures Strategy Fund	1.3x	0.3x	0.1x		(PICK) iShares MSCI Global Metals & Mining Producers ETF	-1.2x	0.2x	-0.1x		(TLT) iShares 20+ Year Treasury Bond ETF	1.6x	0.1x	0.2x	
(WEAT) Teucon Wheat Fund	-1.3x	-1.3x	-0.8x		(QEH) AdvisorShares QAM Equity Hedged ETF	0.1x	0.3x	0.1x		(VNQ) Vanguard REIT ETF	1.0x	-0.5x	-0.1x	
DM EQUITIES					(QMN) IQ Hedge Macro Neutral Tracker ETF	-0.2x	0.1x	0.2x		(WIP) SPDR DB International Government Inflation-Protected Bond ETF	-1.2x	0.0x	-0.2x	
(DIA) SPDR Dow Jones Industrial Average ETF Trust	-1.2x	-1.7x	-1.7x		(QQQ) PowerShares NASDAQ Trust ETF	-0.7x	-1.2x	-1.4x		(XLU) Utilities Select Sector SPDR Fund	-0.7x	-0.6x	-0.3x	
(DXJ) WisdomTree Japan Hedged Equity Fund	-0.4x	-0.5x	-0.9x		(QQQ) PowerShares NASDAQ Trust ETF	-0.7x	-1.2x	-1.4x		(ZROZ) PIMCO 25+ Year Coupon US Treasury Bond ETF	1.7x	0.0x	0.2x	
(DXJS) WisdomTree Japan Hedged Small-Cap Equity Fund	0.0x	-0.1x	-0.4x		(SPY) SPDR S&P 500 ETF Trust	-1.0x	-1.5x	-1.6x		FOREIGN EXCHANGE				
(EDEN) iShares MSCI Denmark Capped ETF	-0.2x	0.4x	0.5x		(SMMV) iShares MSCI USA Minimum Volatility ETF	-0.4x	-1.4x	-1.5x		(AYT) Path Gems Asia 8 ETN	-0.9x	0.1x	-0.2x	
(ENFL) iShares MSCI Finland Capped ETF	-0.4x	0.5x	0.9x		(VEGI) iShares MSCI Global Agriculture Producers ETF	0.1x	0.2x	0.5x		(BZP) WisdomTree Brazilian Real Fund	-0.6x	0.3x	0.2x	
(ERIL) iShares MSCI Ireland Capped ETF	-0.5x	-0.6x	-0.1x		(VLU) iShares MSCI USA Value Factor ETF	-1.1x	-1.4x	-1.6x		(WISD) WisdomTree Commodity Currency Fund	-1.4x	0.1x	0.1x	
(EBS) iShares MSCI Israel Capped ETF	-0.3x	-0.1x	0.2x		(XLB) Materials Select Sector SPDR Fund	-0.9x	-0.7x	-0.9x		(CEW) WisdomTree Emerging Currency Fund	-1.3x	0.1x	-0.1x	
(ENOR) iShares MSCI Norway Capped ETF	-0.4x	0.6x	0.6x		(XLE) Energy Select Sector SPDR Fund	-0.8x	-0.2x	-0.3x		(CIB) WisdomTree Chinese Yuan Strategy Fund	-1.5x	-0.8x	-1.7x	
(ENZL) iShares MSCI New Zealand Capped ETF	-1.3x	-1.2x	-0.8x		(XLF) Financial Select Sector SPDR Fund	-1.2x	-0.7x	-1.3x		(FXA) CurrencyShares Australian Dollar Trust	-1.4x	0.0x	-0.2x	
(EUPN) iShares MSCI Europe Financials ETF	-0.8x	0.0x	0.1x		(XLK) Industrial Select Sector SPDR Fund	-0.8x	-1.2x	-1.1x		(FXB) CurrencyShares British Pound Sterling Trust	-1.1x	0.3x	0.3x	
(EWA) iShares MSCI Australia ETF	-1.0x	0.2x	-0.2x		(XLN) Technology Select Sector SPDR Fund	-1.1x	-1.6x	-1.7x		(FXC) CurrencyShares Canadian Dollar Trust	-1.7x	-0.1x	-0.4x	
(EWAS) iShares MSCI Australia Small-Cap ETF	-1.0x	0.3x	0.0x		(XLP) Consumer Staples Select Sector SPDR Fund	-0.6x	-1.6x	-1.6x		(FXE) CurrencyShares Euro Trust	-1.3x	0.1x	0.3x	
(EWJC) iShares MSCI Canada ETF	-1.3x	-0.1x	-0.7x		(XLV) Health Care Select Sector SPDR Fund	-0.1x	-1.1x	-1.2x		(FPX) CurrencyShares Swiss Franc Trust	0.5x	1.0x	1.6x	
(EWCS) iShares MSCI Canada Small-Cap ETF	-1.3x	-0.1x	-0.3x		(XLY) Consumer Discretionary Select Sector SPDR Fund	-0.3x	-1.1x	-1.1x		(FYS) CurrencyShares Swedish Krona Trust	-0.3x	0.3x	0.3x	
(EWD) iShares MSCI Sweden ETF	0.4x	0.8x	1.2x		(XOP) SPDR S&P Oil & Gas Exploration & Production ETF	-0.3x	-0.7x	0.6x		(FXU) CurrencyShares Japanese Yen Trust	-1.2x	1.1x	1.5x	
(EWG) iShares MSCI Germany ETF	0.5x	0.4x	1.1x		(XRT) SPDR Retail ETF	-0.3x	-0.3x	-1.1x		(ICN) WisdomTree Indian Rupee Strategy Fund	0.8x	1.2x	1.0x	
(EWGS) iShares MSCI Germany Small-Cap ETF	0.6x	0.3x	1.1x		(XTL) SPDR S&P Telecom ETF	-0.5x	-0.8x	-0.7x		(UDN) PowerShares DB US Dollar Index Bearish Fund	-1.3x	0.2x	0.4x	
(EWI) iShares MSCI Italy Capped ETF	-0.2x	0.6x	0.7x		EM EQUITIES									
(EWJ) iShares MSCI Japan ETF	0.1x	0.4x	0.4x		(AAXJ) iShares MSCI All Country Asia ex Japan ETF	-0.1x	0.1x	-0.1x						
(EWJS) iShares MSCI Belgium Capped ETF	0.7x	0.6x	1.1x		(ARGT) Global X FTSE Argentina 20 ETF	-0.8x	0.1x	-0.2x						
(EWL) iShares MSCI Switzerland Capped ETF	-0.8x	-0.6x	0.4x		(CAF) Mornet Stanley China A Share Fund Inc.	-0.2x	-1.5x	-1.2x						
(EWN) iShares MSCI Netherlands ETF	0.2x	0.1x	0.6x		(CH2X) Global X China Consumer ETF	-0.5x	-0.4x	-0.4x						
(EWO) iShares MSCI Austria Capped ETF	-1.1x	-0.3x	0.1x		(CHIX) Global X China Financials ETF	-0.3x	-1.5x	-1.2x						
(EWP) iShares MSCI Spain Capped ETF	-1.1x	-0.1x	-0.1x		(CQQQ) Guggenheim China Technology ETF	-0.7x	-0.1x	-0.7x						
(EWQ) iShares MSCI France ETF	-0.1x	0.4x	0.8x		(ECH) iShares MSCI Chile Capped ETF	-1.1x	0.1x	0.1x						
(EWS) iShares MSCI Singapore ETF	-1.0x	-0.1x	-0.3x		(ECNS) iShares MSCI China Small-Cap ETF	-1.1x	-0.4x	-1.1x						
(EWSI) iShares MSCI Singapore Small-Cap ETF	-0.2x	0.8x	0.7x		(EEM) iShares MSCI Emerging Markets ETF	-0.8x	0.0x	-0.4x						
(EWUK) iShares MSCI United Kingdom ETF	-0.4x	0.3x	0.5x		(EGPT) Market Vectors Egypt Index ETF	0.0x	0.9x	0.3x						
(EWUS) iShares MSCI United Kingdom Small-Cap ETF	-0.5x	0.1x	0.4x		(EIDO) iShares MSCI Indonesia ETF	0.9x	-0.6x	-0.7x						
(EZU) iShares MSCI EMU ETF	-0.1x	0.3x	0.7x		(EPHE) iShares MSCI Philippines ETF	1.5x	0.6x	0.7x						
(FIL) iShares MSCI Global Energy Producers ETF	-1.0x	0.2x	0.1x		(EPI) India Earnings Fund	0.7x	0.3x	0.2x						
(FPX) First Trust U.S. IPO Index Fund	-0.4x	-0.9x	-1.0x		(EPOL) iShares MSCI Poland Capped ETF	-0.8x	0.5x	0.3x						
(GDX) Market Vectors Gold Miners ETF	0.9x	0.9x	1.4x		(EUS) iShares MSCI All Peru Capped ETF	-1.3x	-0.1x	-0.6x						
(HAI) iShares U.S. Broker-Dealer ETF	-1.1x	-1.6x	-1.8x		(EWH) iShares MSCI Hong Kong ETF	0.7x	0.7x	0.5x						
(IBB) iShares Nasdaq Biotechnology ETF	1.1x	-0.2x	-0.2x		(EWSH) iShares MSCI Hong Kong Small-Cap ETF	-1.1x	0.7x	0.5x						
					(EWM) iShares MSCI Malaysia ETF	-1.3x	0.3x	0.0x						

Source: Bloomberg; Hedgeye calculations

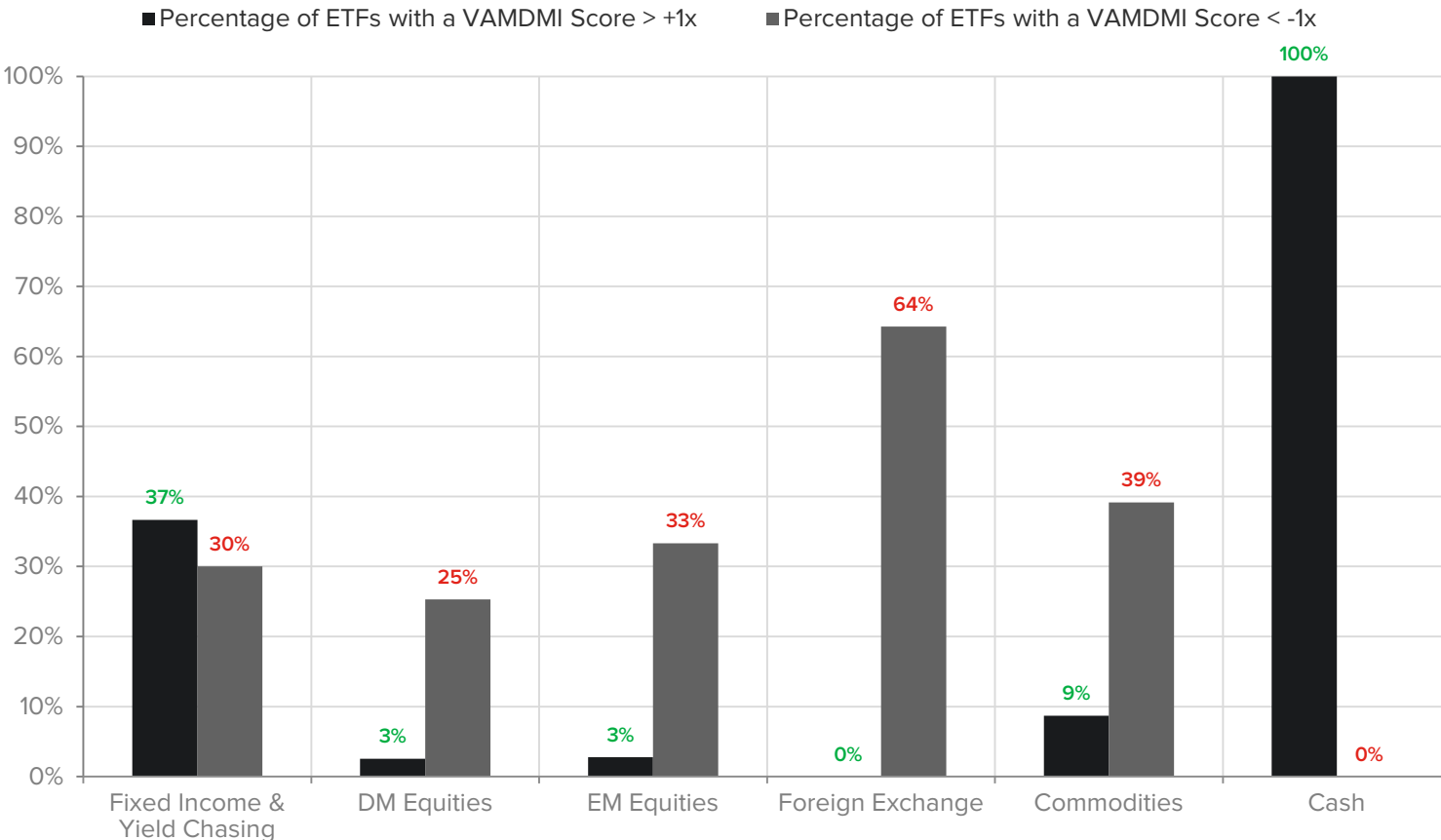
QUANTIFY: EXTREME MOMENTUM

■ Extreme Momentum Monitor (Top-20 and Bottom-20 VAMDMI Readings)



Quantifying extremes in momentum at the secondary asset class level can help investors **front-run major rotations in flows at the primary asset class level**. Akin to a sand pyramid, it is impossible to know on a prospective basis which incremental grain of sand will be responsible for collapsing the pyramid, but **we as investors have a duty to consistently identify and take advantage of the stresses in the chaotic system** that is the global financial marketplace.

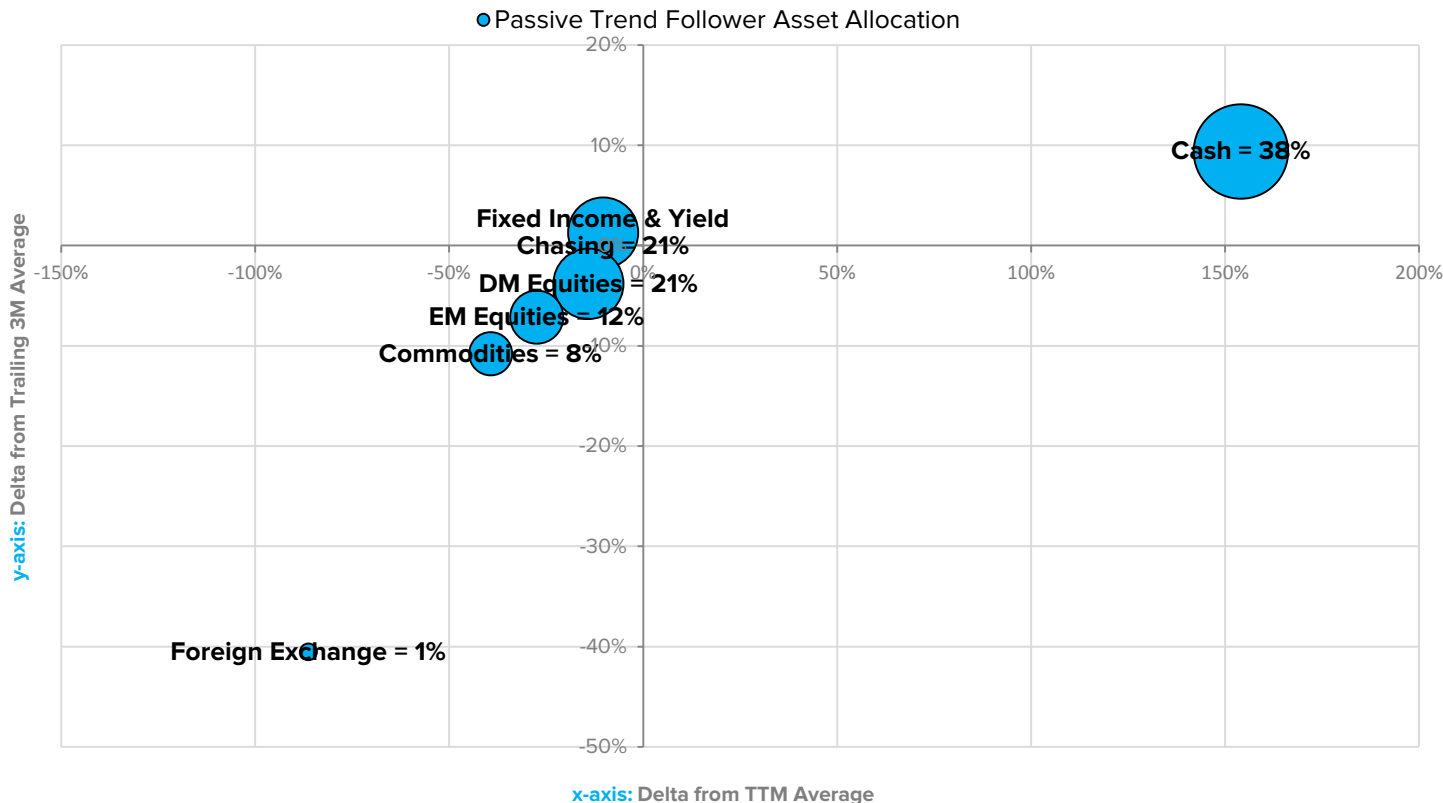
QUANTIFY: ASSET CLASS BREADTH



This chart shows the relative strength or weakness at both the primary and secondary asset class levels based on the breadth of momentum across the constituent markets that comprise each primary asset class. **This snapshot of momentum is an effective way for investors to quickly determine which asset classes offer the best opportunities for relative value trades.** Trends in this indicator of asset class breadth formulate the basis upon which **TACRM** generates its asset class rotation signals as detailed on the next two slides.

QUANTIFY: ASSET CLASS ROTATIONS

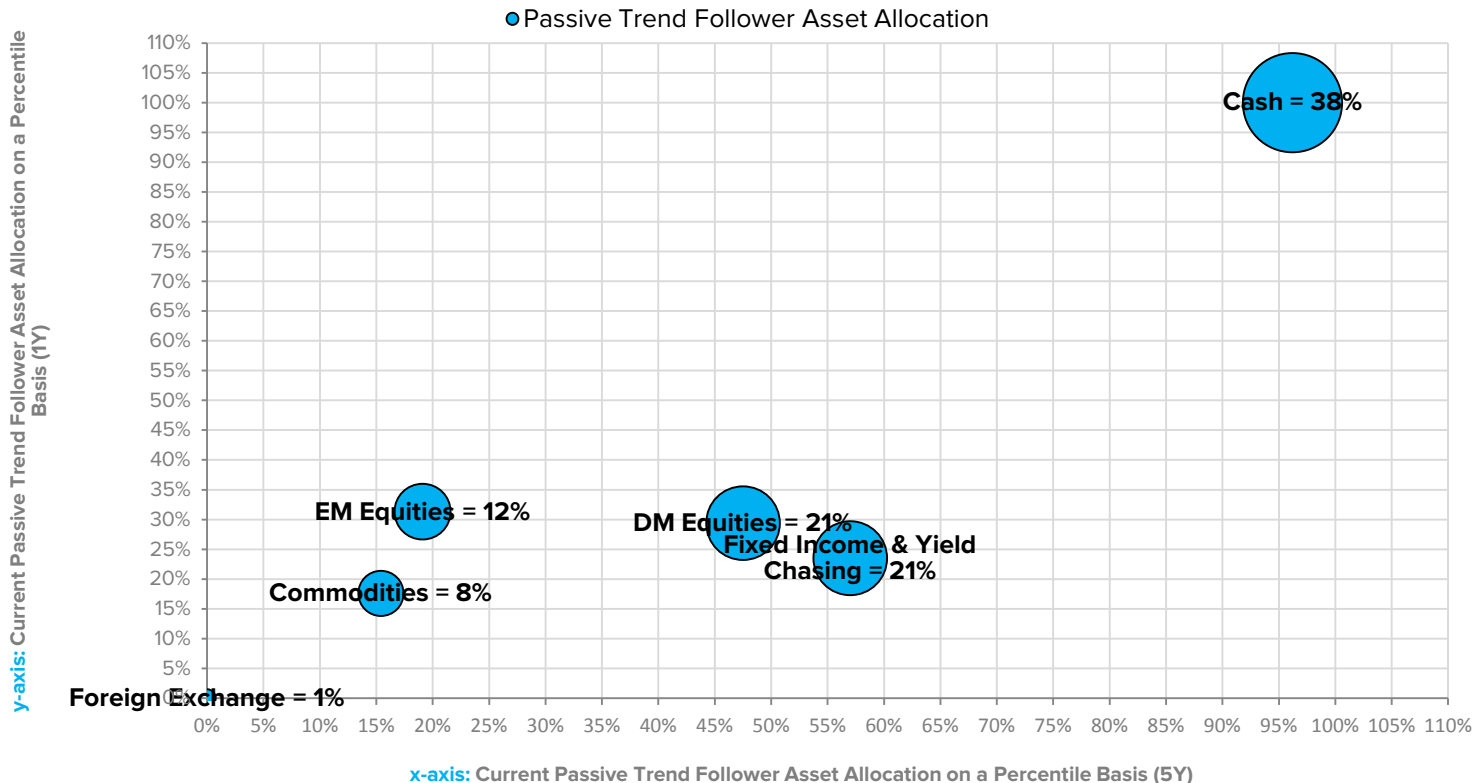
TACRM ASSET CLASS ROTATION MONITOR



By calculating the spread between individual VAMDMI readings greater than +1x and readings less than -1x within each of the primary asset classes and subsequently normalizing these spreads to a 100pt. scale, **TACRM** can then **dynamically generate estimates for how much passive investors are over/under exposed to a particular primary asset class** according to the relative levels of momentum embedded within each asset class. **Any deviation from trend in these weightings can be said to represent the presence of rotation-based capital flows.**

QUANTIFY: ASSET CLASS ROTATIONS

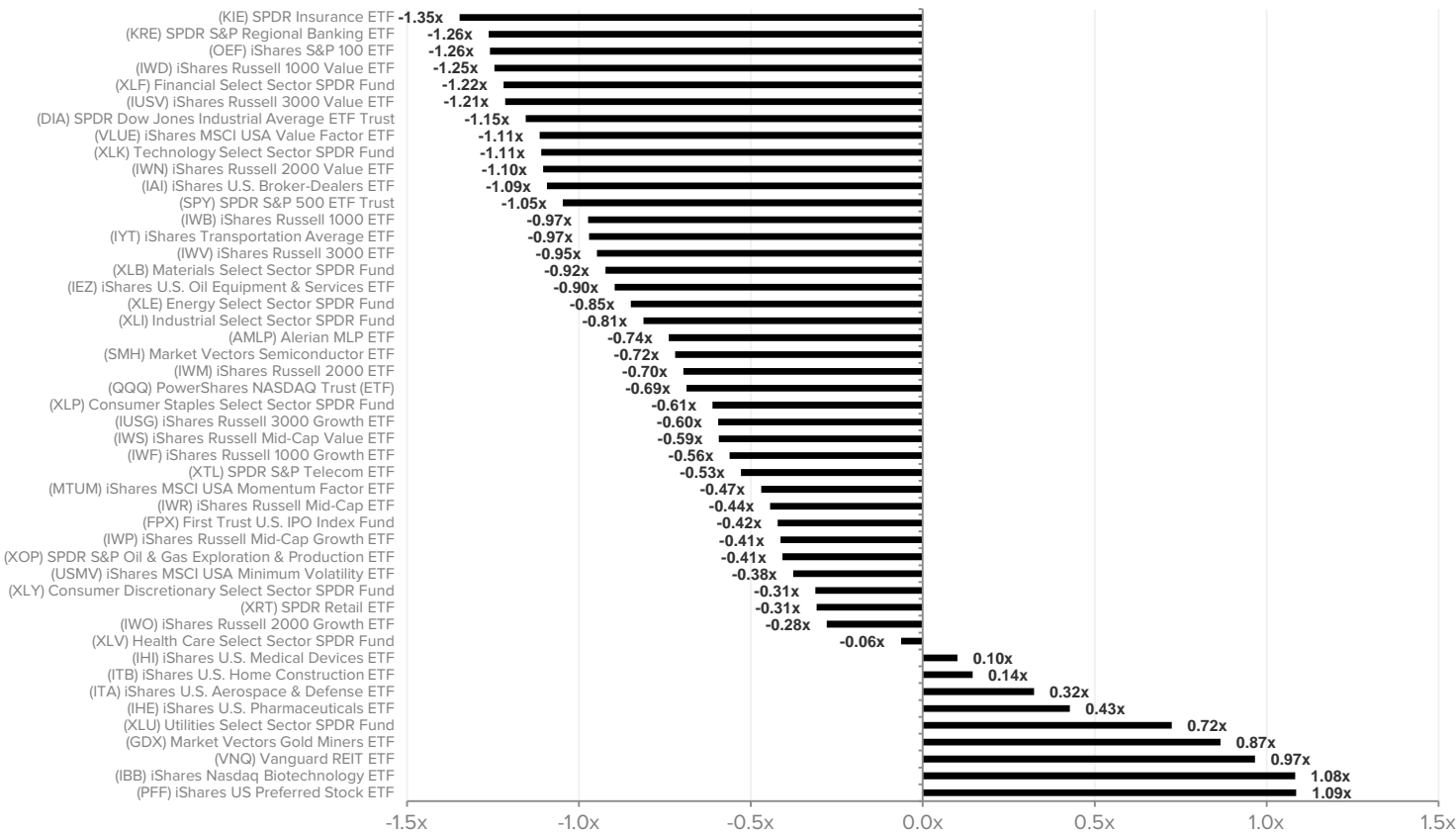
TACRM ASSET CLASS ROTATION MONITOR



By calculating the spread between individual VAMDMI readings greater than +1x and readings less than -1x within each of the primary asset classes and subsequently normalizing these spreads to a 100pt. scale, **TACRM** can then **dynamically generate estimates** for how much **passive investors are over/under exposed to a particular primary asset class** according to the relative levels of momentum embedded within each asset class. **Any deviation from trend in these weightings can be said to represent the presence of rotation-based capital flows.**

QUANTIFY: STYLE FACTOR MOMENTUM

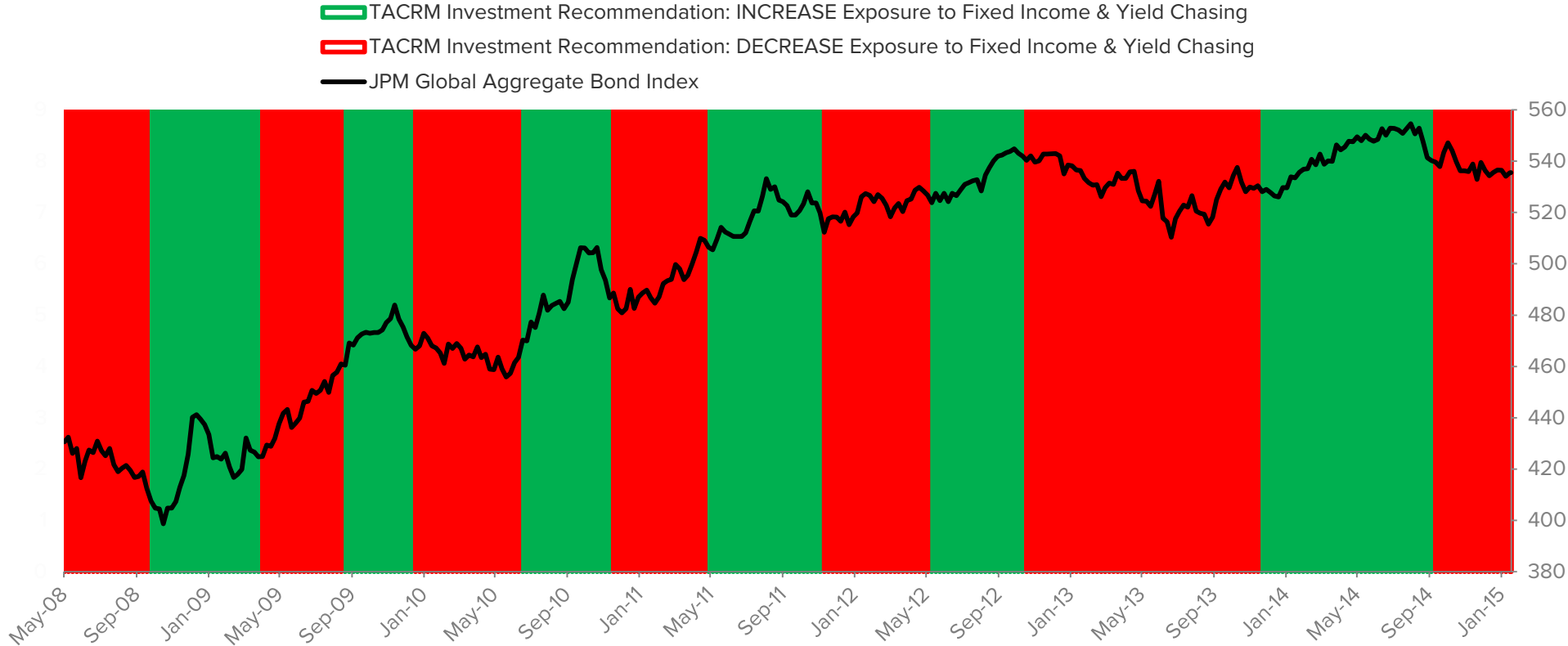
■ U.S. Equity Style Factor VAMDMI Ranker



Observing trends in momentum within the U.S. equity market can help investors **front-run major shifts in performance at the sector and style factor levels**. Knowing which sectors and style factors to over/under-weight is yet another way TACRM helps investors beat index beta.

FORECAST MARKET BETA

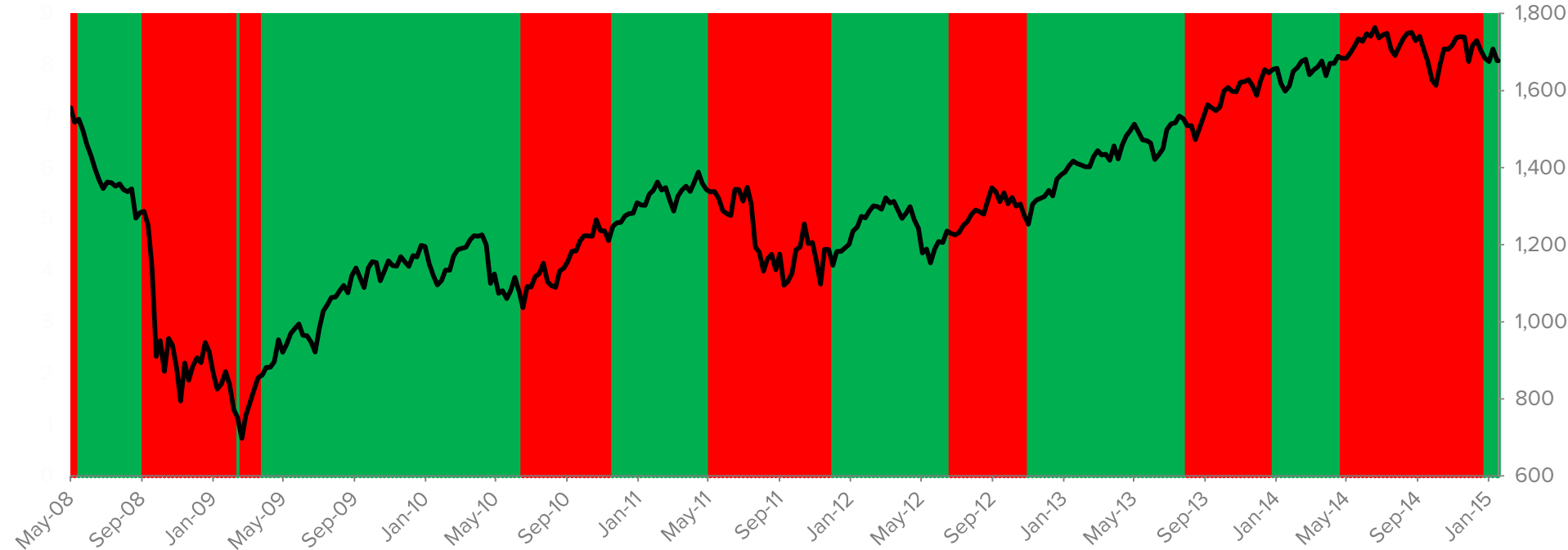
IN FIXED INCOME & YIELD CHASING INSTRUMENTS?: CHECK



FORECAST MARKET BETA

IN DEVELOPED MARKET EQUITIES?: CHECK

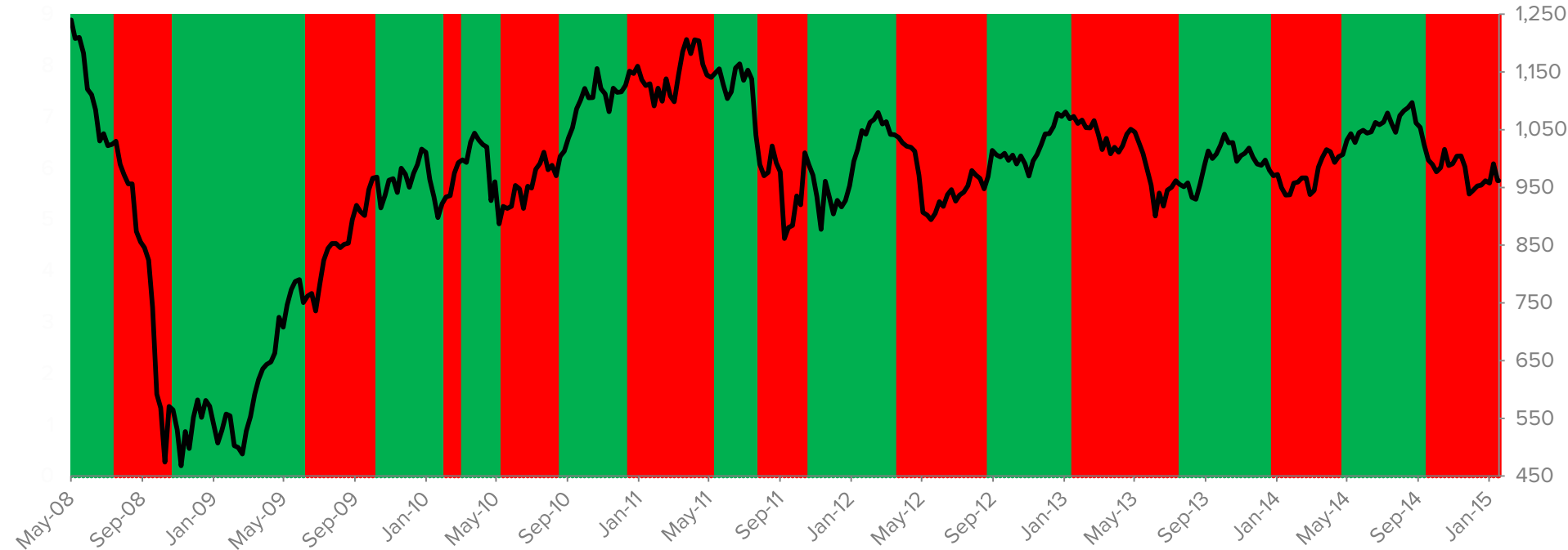
- TACRM Investment Recommendation: INCREASE Exposure to DM Equities
- TACRM Investment Recommendation: DECREASE Exposure to DM Equities
- MSCI World Index (rhs)



FORECAST MARKET BETA

IN EMERGING MARKET EQUITIES?: CHECK

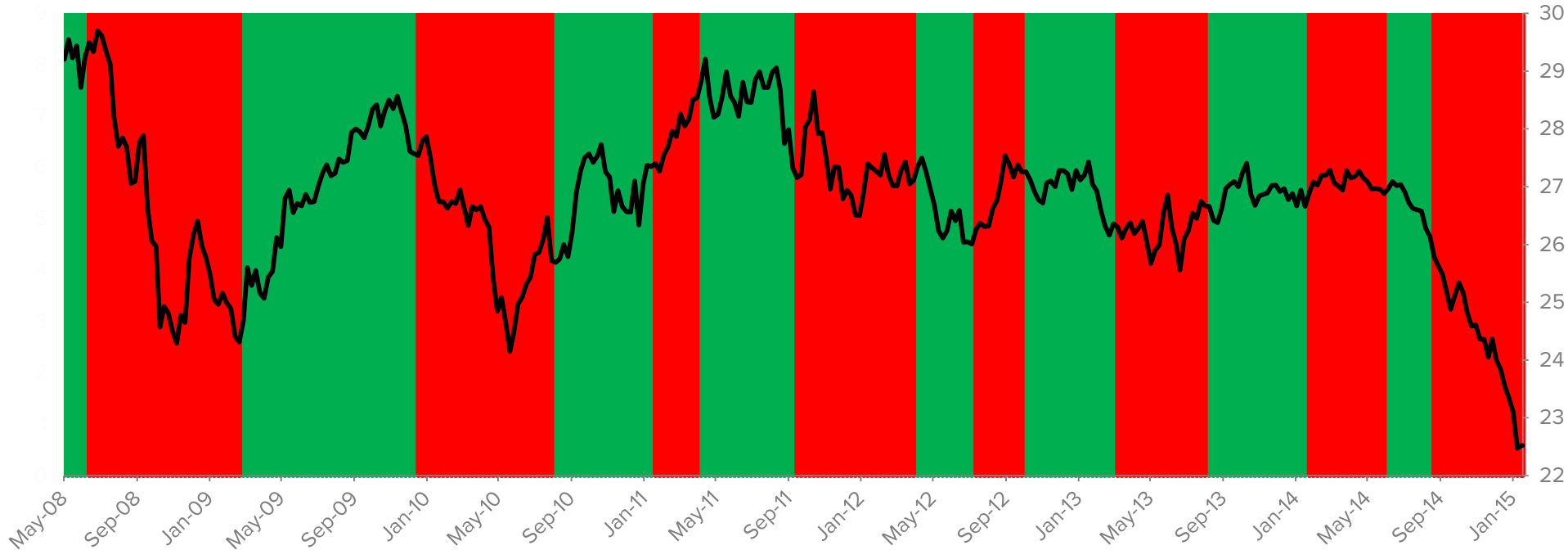
- TACRM Investment Recommendation: INCREASE Exposure to EM Equities
- TACRM Investment Recommendation: DECREASE Exposure to EM Equities
- MSCI Emerging Markets Index (rhs)



FORECAST MARKET BETA

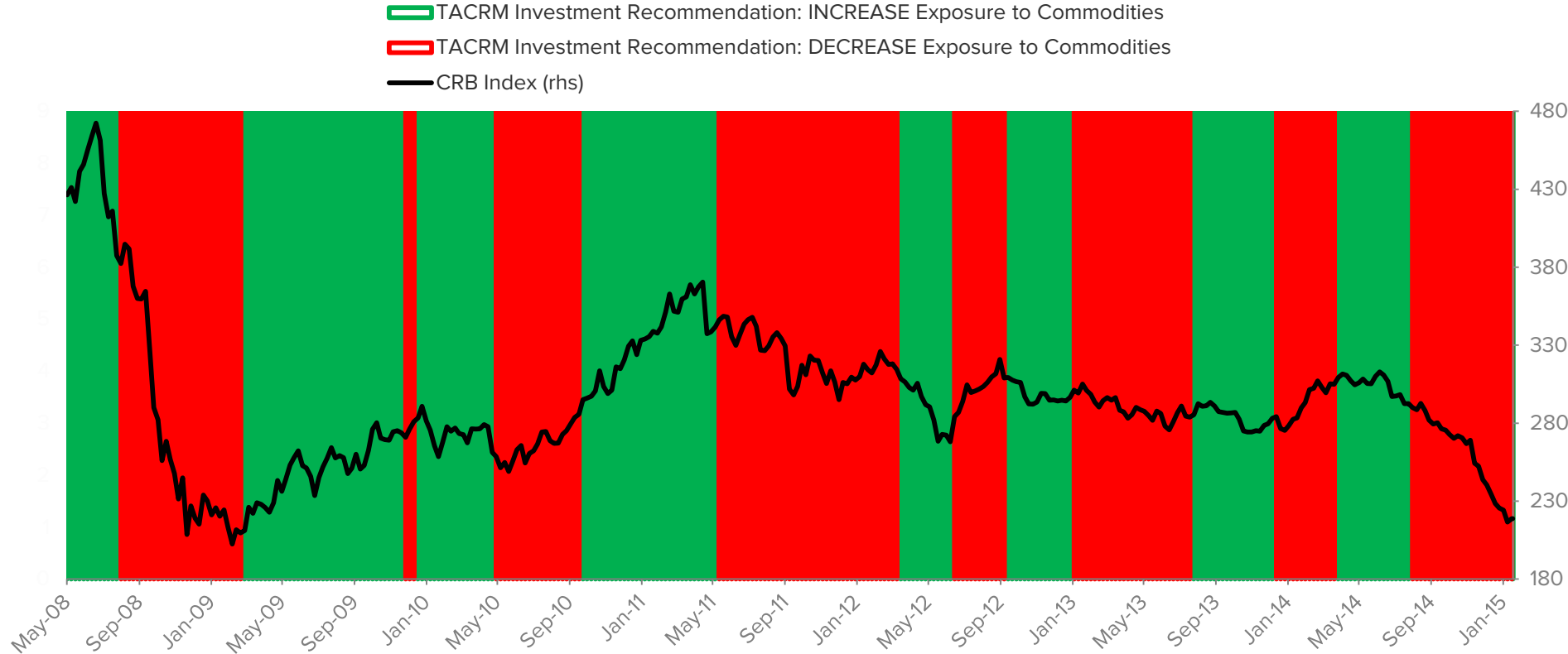
IN FOREIGN EXCHANGE?: CHECK

- █ TACRM Investment Recommendation: INCREASE Exposure to Foreign Exchange
- █ TACRM Investment Recommendation: DECREASE Exposure to Foreign Exchange
- PowerShares-DB US Dollar Index Bearish Fund (rhs)



FORECAST MARKET BETA

IN COMMODITIES?: CHECK

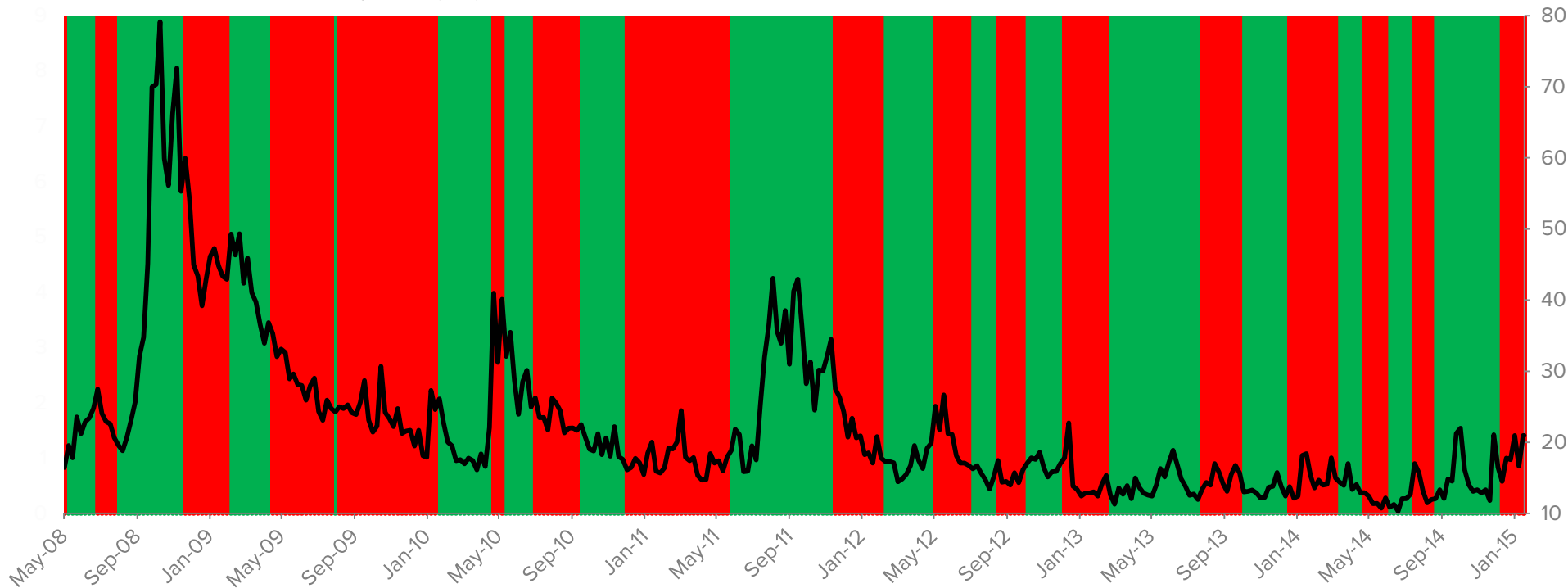


FORECAST MARKET BETA

IN CASH?: CHECK

■ TACRM Investment Recommendation: INCREASE Exposure to Cash ■ TACRM Investment Recommendation: DECREASE Exposure to Cash

— CBOE S&P 500 Volatility Index (VIX)



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