



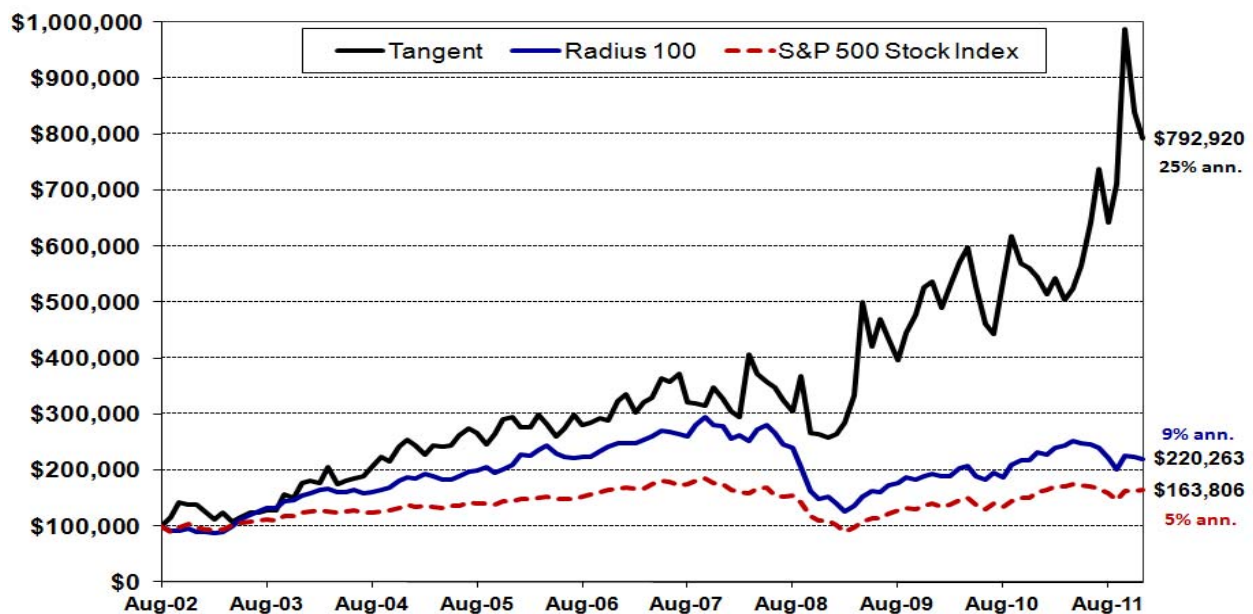
Radius Capital Management is pleased to introduce a new investment option -**The Tangent Portfolio**. Most investment experts agree that it is important to keep a portion of your investment portfolio in non-market-correlated assets. In the past, investors turned to real estate, gold, and commodities to accomplish this diversification goal. Unfortunately, as the financial crisis of 2008/2009 showed, even these “safe haven” investments are susceptible to market crashes – and are often more correlated to the stock market than proponents of these assets would have us believe.

Over the past few years I have been searching for – and evaluating – good non-market-correlated investments to offer my clients, and have found one that I feel is an excellent opportunity to further diversify your investments. Below is a description of the strategy from its developer, David Cylkowski:

The Tangent investment strategy is a complex and sophisticated trading model and methodology, which is original, proprietary and purely quantitative. It is an absolute return strategy having the potential to do well in all markets. It trades broad based domestic equity indexes, and therefore is more scalable and diversified than strategies based on sectors such as gold or real estate. The model is designed to predict the next day direction of the Nasdaq 100, the Russell 2000 and/or the S&P 500, and accordingly takes a long, short, or cash position. As there is a signal each day, there are several trades each month. Typical positions are fully invested in ProFunds Ultra funds (whose stated objective is to have twice the return of the underlying market index). Partial positions are taken only occasionally. The daily signal is based on contemporaneous objective numerical data which are generated by the markets themselves and does not rely on news or economic reports. The model is evolving continuously, adapting to changes in market dynamics as they occur.

The Tangent investment strategy has an independently verified track record going back to Aug. 31, 2002.

**Net Growth of \$100,000 from 8/31/2002 to 12/31/2011 for the S&P 500, Radius 100, and Tangent Portfolio**



\* Past performance is no guarantee of future results. Portfolio returns include dividends and capital gains and are net of all transaction costs and an annual management fee of 2.5% for the Tangent portfolio and 2.0% for the Radius 100.

In short, the Tangent strategy's aim is to predict the direction that the major indices will take on the following trading day. If the predicted direction is:

- **Up**, the strategy invests in "Long" index mutual funds (that go up when the market goes up),
- **Down**, the strategy invests in "Short" index mutual funds (that go up when the market goes *down*)
- **Unclear** (in the case of contradictory signals), the strategy invests in a stable-value money market fund.

Because there is the option of taking short positions, the strategy has the potential to make money in any market environment. Please note, however, that investment return and principal value will fluctuate, and it is possible to lose money.

What is striking about the Tangent portfolio is that in addition to posting some amazing total return numbers, it has done so without excessive risk. The table below shows some standard measures of risk as well as the *worst* 3-month, 1-year, 3-year, and 5-year rolling cumulative returns for the Tangent portfolio vs. the S&P 500 index.

	Risk Measures			Worst Rolling Cumulative Returns for the Period 8/31/2002 to 12/31/2011			
	Beta	Standard Deviation	Maximum Drawdown	3-month	1-year	3-year	5-year
<b>Tangent Portfolio</b>	.68	39%	-39%	-33%	-28%	-20%	Gain +34%
<b>S&amp;P 500 Index</b>	1.00	16%	-55%	-41%	-47%	-44%	-35%

Here are some short definitions for the items in the table.

- The **Beta ( $\beta$ )** of a stock or portfolio is a number describing the relation of its returns with those of the financial market as a whole (e.g., S&P 500). By definition, the market itself has a beta of 1.0. A beta of less than 1 implies that the security will be less volatile than the market, and a beta of greater than 1 indicates that the security will likely be more volatile than the market. For example, if a portfolio's beta is 1.2, it is theoretically 20% more volatile than the market.
- **Standard Deviation** is a widely used measure of variability used in statistics. It shows how much variation or "dispersion" exists from the average. In finance, standard deviation is applied to the monthly rate of return of an investment to measure the investment's volatility. For example, a volatile portfolio will have a high standard deviation while the standard deviation of a more stable portfolio will be lower.
- **Drawdown** measures the peak-to-trough decline in the value of a portfolio and is usually quoted as percentage decline. It answers the question: "How much would I have lost if I had invested at the peak, rode the portfolio down, and pulled my money out at the worst possible time?"
- **Cumulative Returns** over a given period of time measure the total return of the portfolio from the start of that time period to its finish. For a given length of measurement (e.g. 3 mos., 1 year, etc.) there are many options for when to start the measurement. For example, there have been over 3,300 rolling 3-month periods from Aug. 31, 2002 to Dec. 31, 2011. This table shows the absolute worst return of the 3,300+, even if that number is not truly representative of the overall strength of the portfolio. It is, however, useful for evaluating the portfolio's level of risk; the less negative the minimum cumulative return, the less poorly the portfolio has tended to perform in bad market environments.

In late December 2011, Radius Capital Management entered into an agreement with Mr. Cylkowski to make his investment strategy available to Radius clients. All client accounts remain under the Radius Capital Management umbrella, and all trades are executed by investment advisor representatives of Radius. Radius Capital Management will pay Mr. Cylkowski a percentage of the annual management fee (a flat 2.5% across all accounts) to receive his daily market signals.

A PowerPoint presentation with additional information on the Tangent portfolio (and Radius Capital Management in general) is available at <http://www.radius-capital.com/docs/RadiusPresentation.pdf>. If you would like to learn more about investing in the Tangent portfolio, please do not hesitate to contact me, Kimball Halsey, at (617) 661-4200 or [khalsey@radius-capital.com](mailto:khalsey@radius-capital.com).

## December 2011 update for Radius Capital Management

### MARKET PERFORMANCE

December was a strange month and 2011 was a strange year for U.S. and international stock markets. The anticipated December “Santa Claus rally” did materialize, but instead of benefiting growth stocks as it usually does, almost all the buying was in value stocks – particularly large caps. Investors actually sold growth stocks in order to buy value. Given its concentration in mid-cap growth mutual funds, the stock portion of the Radius portfolios (as measured by the flagship Radius 100) declined **-1.7%** in December vs. a gain of **+1.0%** for the S&P 500. The bond portion of the Radius portfolios gained **+1.2%** last month, slightly ahead of the **+1.1%** gain for the benchmark Vanguard Total Bond Index fund (VBMFX).

Although the S&P 500 managed to eke out a gain for the year, it was one of the very few market indices to do so. Indeed, it was a difficult year for any manager to beat the S&P 500, and almost 90% of all stock mutual funds underperformed the index in 2011. The Radius 100 portfolio declined **-4.6%** in 2011, better than the **-6.0%** return of the average stock mutual fund, but unfortunately behind the **+2.0%** gain of the S&P 500. So far in 2012 (through 1/12), the Radius 100 is up +3.1%. Despite predictions of a flat or declining bond market in 2011, all major bond indices rose, with the benchmark Vanguard Total Bond Index fund (VBMFX) posting a yearly gain of **+7.6%**. The bond portion of the Radius portfolios gained **+5.8%** in 2011. Stock market volatility<sup>1</sup> (as measured by the CBOE Volatility Index or VIX) spent the first half of December above 25, stayed below 25 after December 16, and ended the month at 23 (the long-term average is 20). I am encouraged by this drop in volatility and hope this indicates that the current market is being driven by economic fundamentals as opposed to (often irrational) emotions.

### CURRENT RISK-ADJUSTED RETURN (RAR) RANKINGS OF MARKET SEGMENTS<sup>2</sup>

RAR Rank	Stock Market Segments	1-Mo. Return	12/31/11 RAR	Bond Market Segments	1-Mo. Return	12/31/11 RAR
1	<b>S&amp;P 500</b>	<b>+1.0%</b>	<b>+5%</b>	Long Corporate	+3.7%	+7%
2	Large Growth	<b>-0.6%</b>	+4%	<b>Total Bond Index</b>	<b>+1.1%</b>	<b>+6%</b>
3	Large Value	+2.4%	+3%	Long Government	+3.1%	+6%
4	Small Growth	<b>-0.5%</b>	+1%	Intermediate Corporate	+2.0%	+4%
5	Mid-Cap Value	+1.3%	+0%	Intermediate Government	+1.0%	+2%
6	Small Value	+0.9%	<b>-2%</b>	Short-Term Corporate	+0.4%	+1%
7	Mid-Cap Growth	<b>-1.9%</b>	<b>-4%</b>	Short Government	+0.2%	+1%
8	Foreign Growth	<b>-2.9%</b>	<b>-18%</b>	High Yield	+2.8%	0%
9	Foreign Value	<b>-2.8%</b>	<b>-20%</b>	Worldwide Bond	<b>-2.5%</b>	0%

### LONG-TERM PERFORMANCE THROUGH 12/31/2011

The longer-term performance of the Radius portfolios continues to be strong. Since inception (1/1/2001), the Radius 100 portfolio has generated a net cumulative return of **+100%** (6.5% annualized) vs. a cumulative return of just **+16%** (1.4% annualized) for the benchmark S&P 500 – with a comparable level of risk (i.e., standard deviation of monthly returns, maximum drawdown, and beta). Over the same time period, the more conservative Radius 60 (60% stock mutual fund, 40% bond mutual fund) portfolio grew **+107%** (6.9% annualized) vs. a **+49%** return (3.7% annualized) for its benchmark<sup>3</sup> – again with a comparable level of risk.

<sup>1</sup> In general, the higher the market volatility, the more the market is driven by investor emotions (greed and fear). Lower market volatility indicates a market environment based on fundamentals (economic growth, corporate earnings, etc.). The long-term average for the VIX is 20, 30 is considered high, 40 very high, and 50+ extreme.

<sup>2</sup> The performance numbers are for the corresponding Vanguard stock and bond index funds and the Templeton Global Bond Fund (TPINX) for the Worldwide Bond segment

<sup>3</sup> Radius 60 benchmark = 60% S&P 500 Stock Index and 40% Total Bond Index

## Net Performance to 12/31/2011 for S&P 500, Bond Index Tangent Portfolio, and All Radius Portfolios

	S&P 500	Bond Index	Tan- gent	Radius 100	Radius 80	Radius 60	Radius 40	Radius 20	Radius Bond
Inception Date			Aug. 2002	Jan. 2001	Oct. 2003	Jan. 2001	Oct. 2003	Nov. 2003	-
% in Stock Funds	100	-	200	100	80	60	40	20	-
% in Bond Funds	-	100	-	-	20	40	60	80	100
<b>Net Cumulative Returns</b>									
2011 YTD	2%	8%	45%	-5%	-2%	0%	1%	4%	6%
1-Year	2%	8%	45%	-5%	-2%	0%	1%	4%	6%
3-Year	48%	30%	206%	44%	39%	35%	30%	23%	22%
5-Year	-2%	36%	145%	-11%	-2%	8%	17%	21%	36%
10-year	32%	71%	n/a	98%	104%	107%	102%	91%	93%
Since 8/31/2002	64%	51%	693%	120%	119%	115%	104%	88%	85%
Since 1/1/2001	16%	85%	n/a	100%	106%	107%	105%	97%	100%
<b>Net Annualized Returns</b>									
3-Year	14%	9%	45%	13%	12%	11%	9%	7%	7%
5-Year	0%	6%	20%	-2%	0%	2%	3%	4%	6%
10-year	3%	5%	n/a	7%	7%	8%	7%	7%	7%
Since 1/1/2001	5%	5%	25%	9%	9%	9%	8%	7%	7%
Since 1/1/2001	1%	6%	n/a	7%	7%	7%	7%	6%	7%
<b>Risk Measures</b>									
Beta	1.00	-0.02	0.68	1.02	0.83	0.64	0.43	0.22	0.03
Max Drawdown	-55%	-5%	-39%	-61%	-52%	-41%	-29%	-15%	-6%
Std. Deviation	16%	4%	39%	19%	16%	12%	8%	5%	4%
Correlation	1.00	-0.10	0.27	0.87	0.87	0.85	0.82	0.66	0.08

**Benchmarks:** S&P 500 Stock Index = Vanguard S&P 500 Stock Index Fund (VFINX)  
Bond Index = Vanguard Total Bond Index Fund (VBMFX)

### Other Notes:

- Investment returns since the portfolio inception date reflect the (unaudited) performance of actual investment portfolios. Past performance is no guarantee of future results.
- On the days when the Tangent portfolio is invested (either long or short), it does so with the ProFunds Ultra funds (whose stated objective is to have twice the return of the underlying market index). However, this added risk is mitigated by the fact that the Tangent portfolio has historically been in cash roughly 40% of the time.
- For periods prior to the inception dates, the returns for the Radius 80, 40, and 20 are calculated using the actual returns from the Radius 100 and 60.
- Performance numbers for the Radius Bond portfolio reflect the actual returns of the bond allocation of the Radius 20, 40, 60, and 80 portfolios.
- All performance numbers include dividends and capital gains and are net of all transaction costs and management fees, but do not reflect the impact of taxes.
- Data Sources: Account statements, Vanguard.com, Theta Investment Research

## COMPANY OVERVIEW

Radius Capital Management is a registered investment advisory company specializing in diversified mutual fund portfolios. Radius currently manages over \$21 million in assets for individuals, retirement and profit sharing plans, and trusts.

### Key Investment Methodologies

- **Portfolio Diversification:** The Radius portfolios invest solely in broad-based no-load mutual funds and Exchange Traded Funds (ETFs) – no individual stocks or sector-focused funds.
- **Focus on Managing Risk:** The Radius investment strategy constructs and updates portfolios that have the highest projected returns *after adjusting for risk*. Radius' proprietary investment management tools are based on the Modern Portfolio Theory work of 1990 Nobel Prize winning economists William Sharpe and Harry Markowitz.
- **Dynamic Portfolio Allocation:** The Radius investment strategy seeks to identify – and concentrate portfolio holdings in – the fund categories with the highest projected risk-adjusted returns. As market conditions change, investment portfolios are updated to take full advantage of these changes – both in terms of reducing risk and maximizing returns.

### ADDITIONAL INFORMATION

If you have any questions about the investment approach or would like to learn more about Radius Capital Management, please visit [www.radius-capital.com](http://www.radius-capital.com) or send an e-mail to [info@radius-capital.com](mailto:info@radius-capital.com). You can also find an overview of the Radius Risk Adjusted Return Strategy on the website at [www.radius-capital.com/docs/RadiusOverview.pdf](http://www.radius-capital.com/docs/RadiusOverview.pdf).

>> Note: This newsletter is also available online at <http://www.radius-capital.com/docs/Newsletter.pdf>. <<

Regards,

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