

From the Chief Investment Officer

I started in the investment industry in January of 1992. I was trained the same as every other investment advisor, that “Buy and Hold” or “Asset Allocation” is the only way to invest money properly. It didn't take long to realize that a market downturn could quickly steal 25% or more of a client's portfolio. It didn't feel right telling someone that they didn't need the money now and that over time they would come out just fine. That explanation never seemed to make people feel better.

Asset allocation is based on a system called “Modern Portfolio Theory.” This theory says that if gas prices go up, then so will gas stocks since the gas companies become more profitable. At the same time, transportation stocks will go down, because their largest cost (fuel) is going up. If your portfolio has both these positions, then it goes in the middle. Over time everything goes up, but your portfolio has less volatility along the way.

Modern Portfolio Theory made complete sense because it worked according to economics. What was shocking was that the large investment firms seemed to water down this model. Instead of having oil stocks and transportation stocks, they instead used growth stocks and value stocks. Unfortunately growth and value don't have the same relationship as gas and transportation. If the market goes DOWN, both growth AND value stocks go DOWN!

It was also shocking to find that the asset allocations were based off 20-year or more time frames. This means that the client needs to plan on staying in this allocation for 20 years or more in order to get the results that are expected. I haven't found ANY clients that want to stay in an investment for 20 years or more!

It was time to start exploring other ways to invest that made more sense. I found that the market tended to move in cycles or waves. For example, Presidential elections cause a four-year cycle. Tax season creates a type of annual cycle. Nature works in cycles as well. Light travels in cycles, electricity travels in cycles, even waves and the tide move in cycles. It seems that most things in nature are cyclic. It only makes sense that the market would have a cyclic movement also.

I started working with cycles and waves in 2000 and have avoided major market downturns due to this approach. Since then I have designed and implemented computer models that help me determine what cycles are dominant and where we are currently in each cycle. When it appears the market has crested the top of a cycle and is beginning the descent down the other side, we go to the safety of cash. This prevents the loss of principle in the portfolio. If we avoid the loss of principle in down markets then we reach new portfolio highs much quicker during the next up market.

Your portfolio will benefit from the varying systems to offer diversification without sacrificing return. Each system determines where we are in the cycle and then determines which investment option provides the greatest potential return with the least amount of risk.

If you're tired of the same response “You're in it for the long haul” and would like an investment approach designed to keep you out of the major market downturns without giving up the potential associated with large market upturns, then you should explore our systems further.

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Caught in the
STORM?

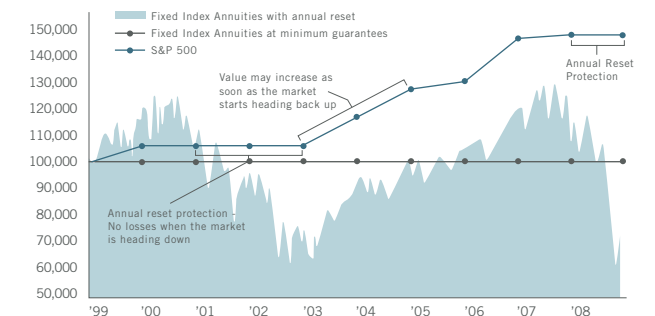


INVESTMENT SAFETY

Prepare Wisely for Retirement
 Grow in Good Markets
 Protect in Bad Markets

Results

The hull investments keep the ship afloat, returns are steady and modest, but avoid the big swings that can sink a traditional approach using index funds. The chart shows how the use of an investment tool with a market index interest adjustment and an annual reset feature protect against the downside while still capturing some upside movement.



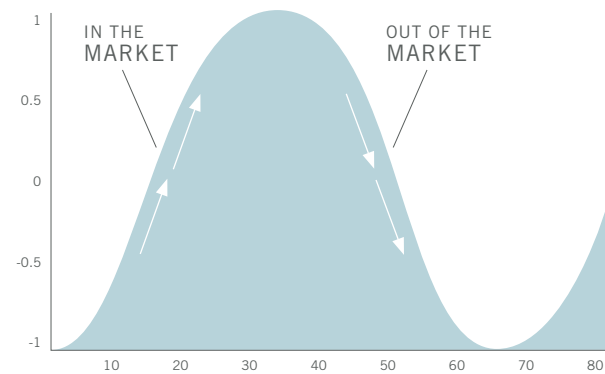
The sails attempt to capture a larger percentage of the upside moves while avoiding the downward side of the wave cycles. Combined with the steady protected portion of the asset base, the combined returns have consistently beaten the market with rates of return that have grown the asset base during very difficult times. While many investors are hoping to get back to even, investors following the SHIP approach can be making new portfolio highs.

What Makes Us Different

We take a different view of the market. Advice based on asset allocation, index funds and life cycle models have proven to be very ineffective in managing risk. Our view is that risk can be actively managed by taking advantage of the cycles within market segments.

We call our approach Save Harbor Investment Portfolio (SHIP). Your SHIP should be seaworthy, a strong stable hull with sail options to take advantage of favorable winds. Along with that you need the forecast for future conditions so that you know when to stay out of the storms.

The first step is to establish a strong base (the hull) by devoting a portion of the assets to hedges against inflation but protecting against severe market corrections. The balance of the asset base (the sails) is in more moderate positions, but moved in and out of harm's way (safe harbor) depending on the market cycles. Success is predicated on having exceptional analytical tools to predict trends and strict rules for when to take or limit risk.

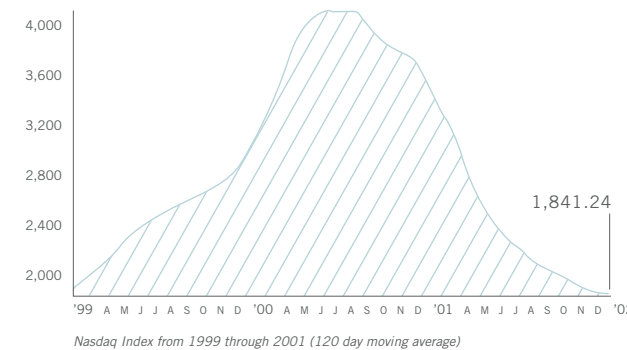


These two parts, sound and solid construction, and reliable forecasting can greatly improve results over the "buy and mold" approach.

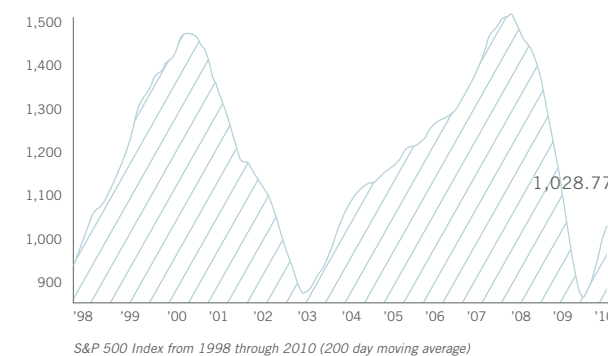
Implementation

Assets are divided into three pools. The hull pool makes the SHIP seaworthy. It protects against severe corrections and provides a solid mast on which to hoist the sails. The portion of the assets devoted to hull can be adjusted based on risk tolerance. The hull pool is always invested. The sails provide the additional speed (return) that can be gained when the conditions are right. Two different sail pools are created, with unique risk/reward targets. The sail portion is monitored constantly, making certain to be riding the right waves for the right length of time. These assets may be out of the market entirely (safe harbor) based on conditions (downward wave cycles). The system for forecasting the wave length, strength and trend and the analytical tools to identify the point of entry and exit allow this portion of the investment pool to post improved returns. By avoiding the risk in the bottom of the wave the asset base does not have to constantly rebuild.

HYPOTHETICAL WAVE (CYCLE)

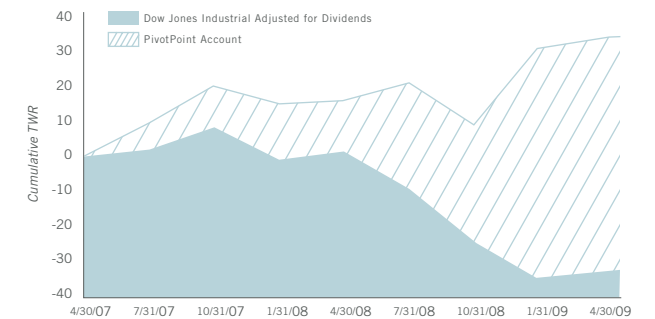


ACTUAL MARKET WAVES



THE LAST BEAR MARKET CORRECTION

	PivotPoint	Dow Jones
From 4/30/07 to 4/30/09	32.39	-33.84
Annualized	15.06	-18.66



Material presented is compiled from sources believed reliable, its accuracy is not guaranteed. Past performance is no guarantee of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment or investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions, or withdrawals may materially alter the performance and results of your portfolio. Performance results presented are net-of-fees and reflect the deduction of advisory fees, brokerage or other commissions, and other expenses. The results portrayed reflect the reinvestment of dividends and other earnings. The DJIA (Dow Jones Industrial Average) is not the only index used as a benchmark for measuring the performance of a portfolio. Depending upon the holdings in your portfolio, your investment objectives, and our risk temperament, it may be more appropriate to measure performance against a different benchmark. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

YOU WOULD BE FOOLISH TO GO SAILING WITHOUT A LOOK AT THE FORECAST.

Knowing what to expect and taking the right precautions helps avoid disaster. Why not apply the same logic and caution to your financial journey? Technical analysis tools use past market activity to predict future trends. In the investment world, technical analysis interprets how current conditions will affect different markets providing a guide to increased returns. Recognizing when to move in and out of positions to take advantage of predictable waves results in less risk and more consistent performance.

The investment approach allows for fine tuning in the asset mix based on the investment objectives, but the philosophy is consistent, ride the right waves for the right time. Knowing how to read the waves of opportunity that cycle through the markets requires attention and discipline, not something you get with the "buy and mold" approach.