ALTERNATIVE ASSET ALLOCATION – RISK & REWARD

You may think that lowering risk in your portfolio means compromising returns. Not necessarily. The table below shows how adding varying allocations of alternative assets to a portfolio of traditional assets (stocks and bonds) can impact risk and returns.

Average Annual Returns
December 31, 1995 – December 31, 2012

Alternative Portfolios

6.5%
35.3%
-38.2%
7.8%
20.0%
-18.3%
7.6%
21.3%
-20.4%
7.3%
22.7%
-22.5%
7.0%
20.8%
-20.4%
6.8%
22.1%
-22.6%

Average Annual Return   Largest Gain   Largest Loss

Portfolio	Average Return	Largest Gain	Largest Loss	Standard Deviation[1]	Percentage Positive Years	Percentage Negative Years	Return Per Unit of Risk[2]
100% Stocks	6.5%	35.3%	-38.2%	16.3	71%	29%	0.2
30% Stocks 40% Alternatives 30% Bonds	7.8%	20.0%	-18.3%	7.6	88%	12%	0.6
40% Stocks 30% Alternatives 30% Bonds	7.6%	21.3%	-20.4%	8.5	82%	18%	0.5
50% Stocks 20% Alternatives 30% Bonds	7.3%	22.7%	-22.5%	9.4	82%	18%	0.5
50% Stocks 10% Alternatives 40% Bonds	7.0%	20.8%	-20.4%	8.8	82%	18%	0.5
60% Stocks 40% Bonds	6.8%	22.1%	-22.6%	9.8	76%	24%	0.4
S&P 500®	7.0%	33.4%	-36.9%	16.0	76%	24%	0.3
Barclays Aggregate Bond Index	6.0%	11.6%	-0.8%	3.5	94%	6%	0.9
Alternatives Portfolio	9.3%	23.0%	-18.5%	7.5	82%	18%	0.8

Portfolio from 12/31/95–12/31/12, calculated using Lipper and rebalanced monthly. This table is for illustrative purposes only and is not indicative of any investment. **No assumptions should be made that similar asset allocations will be profitable, suitable or perform as indicated above. Past performance is no guarantee of future results.** Diversification does not assure a profit or guarantee against loss. Indices are unmanaged and are not available for direct investment. Indices do not reflect fees and expenses associated with the active management of a portfolio. The indices used to determine return and risk figures for the portfolios shown are explained on the back of this document.

[1] Standard deviation is known as "historical volatility" and is used to gauge the amount of expected volatility or risk. So, the lower the standard deviation percentage, the lower the expected risk.

[2] Sharpe Ratio – A risk-adjusted measure developed by William F. Sharpe calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe ratio, the better the fund's historical risk-adjusted performance.

NORTHLAND SECURITIES

(Continued on the reverse)

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The indices used to determine return and risk figures for the portfolios shown on the front of this document are as follows: Stocks=50%/32.5%/17.5% mix of S&P 500 Index, MSCI EAFE Index, and Russell 2000 Index; Bonds=Barclays Aggregate Bond Index; and Alternatives=equal mix of Dow Jones Credit Suisse Global Mac Hedge Fund Index, Dow Jones Credit Suisse Long/Short Equity Hedge Fund Index, Dow Jones Credit Suisse Multi Strategy Hedge Fund Index, JP Morgan EMBI Global Diversified Index, Dow Jones Credit Suisse Event Driven Hedge Fund Index, Dow Jones UBS Commodity Index^{SM}, Dow Jones Credit Suisse Managed Futures Hedge Fund Index^{SM}, and the FTSE EPRA/NAREIT Developed Index. Indices are unmanaged and are not available for direct investment. Indices do not reflect the deduction of fees and expenses associated with the active management of a portfolio, which would reduce the returns shown.

For more information about the potential benefits of alternative investments, contact me today.

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Source: Curian Capital

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Portfolios that have a greater percentage of alternatives may have greater risks, especially those including arbitrage, currency, leveraging and commodities. This additional risk can offset the benefit of diversification. Although asset allocation among different asset categories generally limits risk and exposure to any one category, the risk remains that management may favor an asset category that performs poorly relative to the other asset categories. Some risks include general economic risk, geopolitical risk, commodity-price volatility, counterparty and settlement risk, currency risk, derivatives risk, emerging markets risk, foreign securities risk, high-yield bond exposure, noninvestment-grade bond exposure, index investing risk, industry concentration risk, leveraging risk, market risk, prepayment risk, liquidity risk, real estate investment risk, sector risk, short sales risk, temporary defensive positions and large cash positions.

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