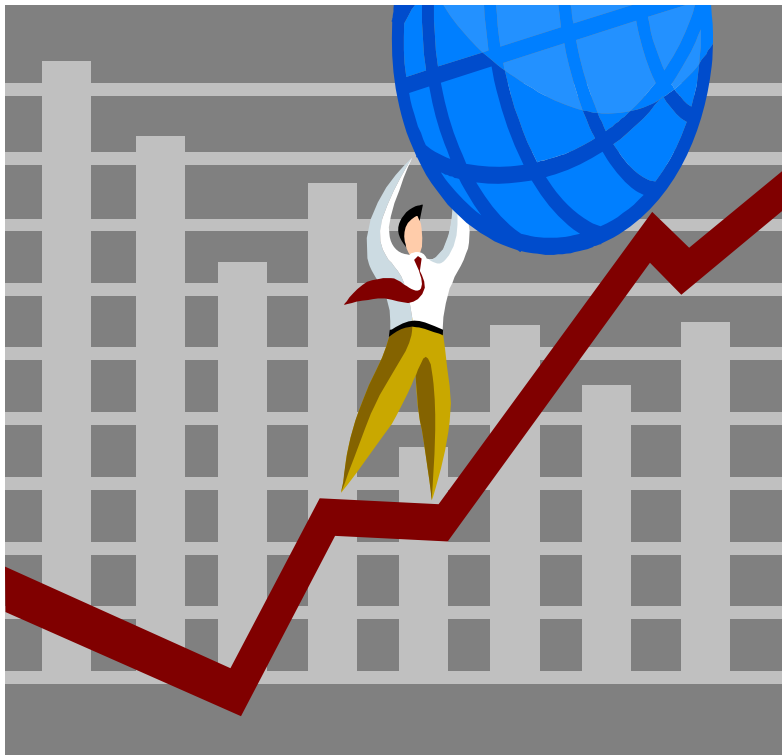


Volatility & Stock Market Returns



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Summary

Weyland Capital Management Research focuses on actionable research to refine our strategic and tactical asset allocation strategies. Our philosophy is that the risk and expected return for broad asset classes are influenced by the economic environment, investor sentiment, market valuations, correlations and volatility. This study should be viewed as contributing to, but not defining, our market viewpoint and strategy.

This particular note studies the effect of volatility on future U.S. Stock Market returns and risk. Our base conclusion is that, all else equal, investors benefit from reducing exposure to stocks when volatility is high (and vice versa). Volatility is synonymous with risk, and as such this study (differently stated) finds that when risk is high, investors benefit from reducing exposure.

Summary Findings:

- Past volatility is a good predictor of future volatility. When volatility is low, future volatility tends to be low. When volatility is high, future volatility tends to be high.
- Market returns tend to be higher in periods of low volatility and lower in periods of high volatility.
- Periods of lower volatility have a better return-to-risk profile.

Vocabulary:

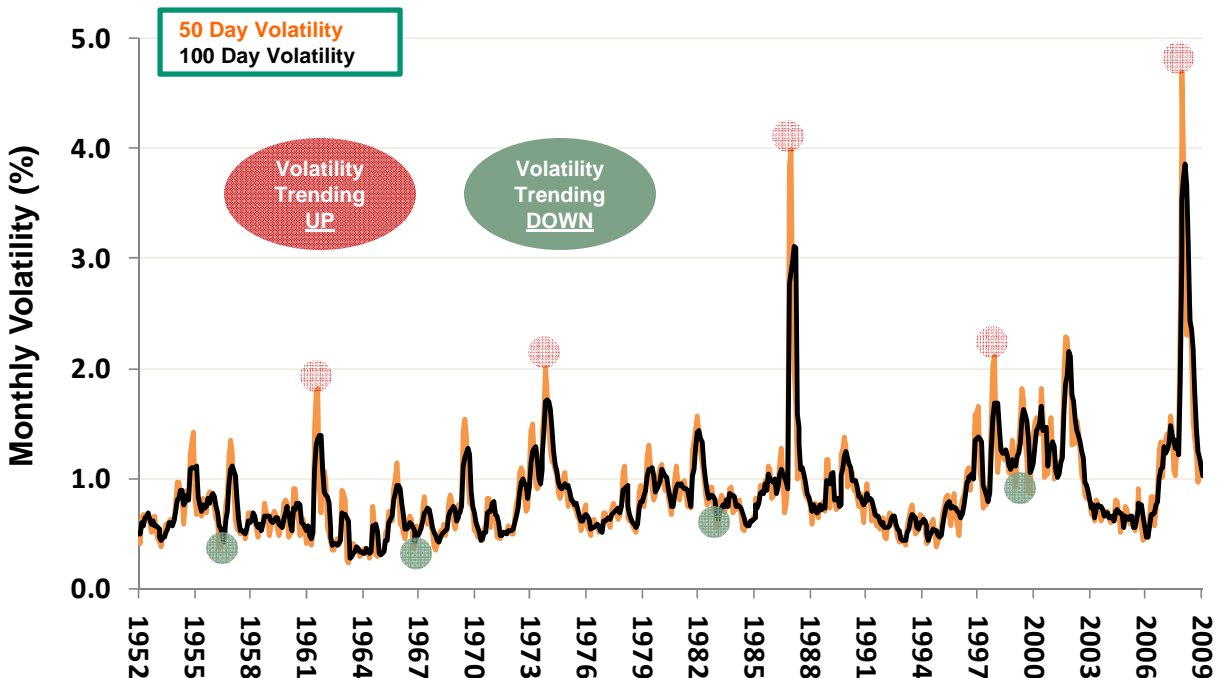
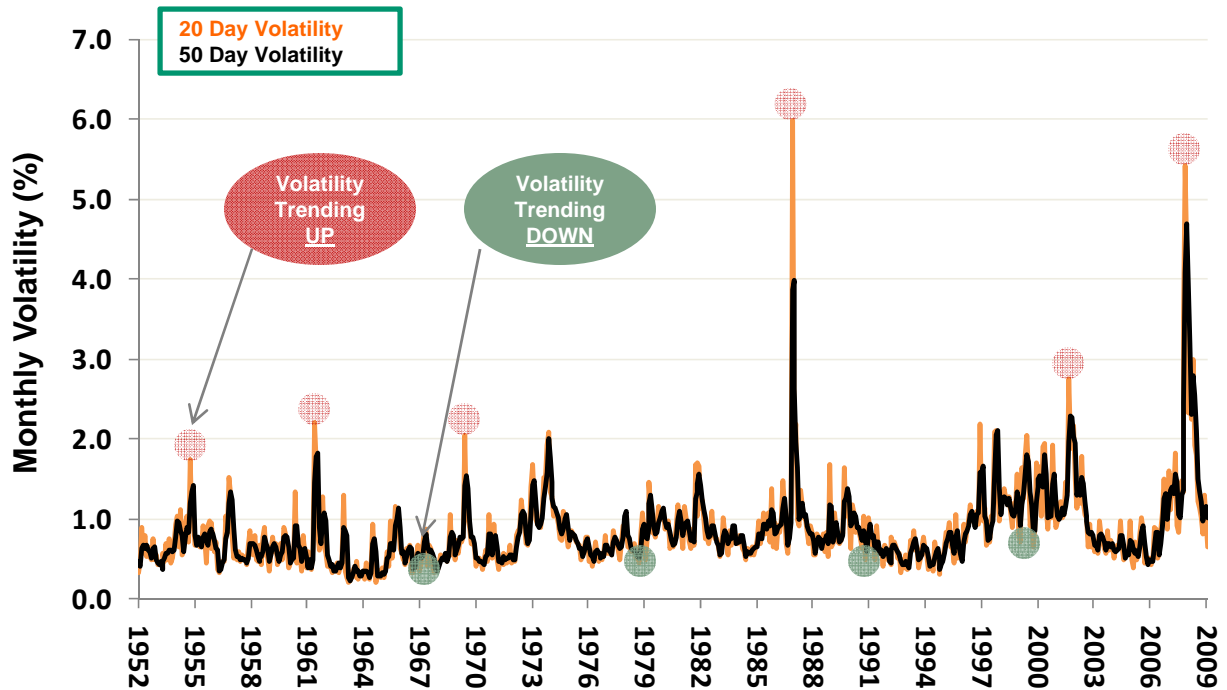
- Volatility is synonymous with risk and standard deviation.
- Our measure of volatility is trailing daily (20, 50, and 100 day) standard deviation. This study concentrated on the relative 20 vs 50 day and 50 vs 100 day trailing volatility on a monthly basis. As such, this measure should be thought of as a trend in volatility. For example, if the 20 day volatility is higher than the 50 day volatility, the volatility trend for the period is up.

Data:

- The primary data set is the S&P 500 Daily Price Return Index from 1953-2009. In total, the analysis covers 67 years of data with a combined 14,349 daily observations. For the monthly strategy back-testing we utilize S&P 500 Monthly Total Return (1953-2009), 5 Year U.S. Government Bond Index (1953-1975), and Barclays Aggregate Bond Total Return (1976-2009).

Historical Volatility and Standard Deviation

We analyzed six decades of volatility measured over different frequencies (20 day, 50 day and 100 day). The primary question is: if volatility is trending up (for example, the 20 day volatility is greater than the 50 day volatility) is that good or bad for future returns?

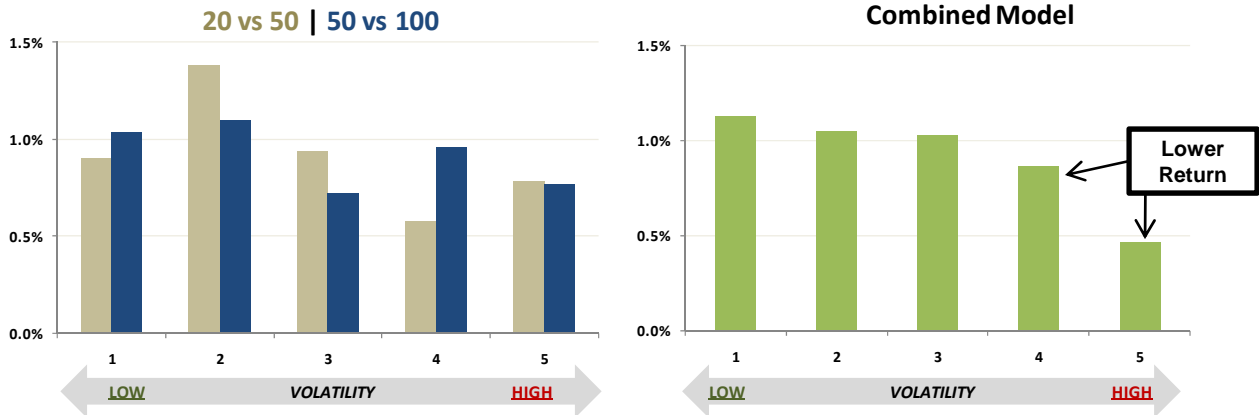


Past Volatility vs Future Returns

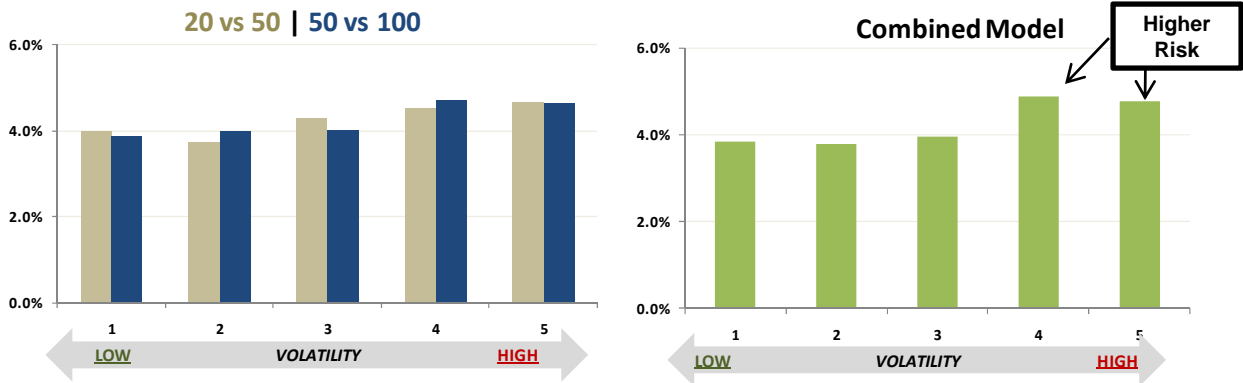
1953-2009

We ranked short and medium term volatility trends, by quintile, from lowest to highest. The charts below show the average return, volatility and return-to-risk for the following month by quintile. The Combined Model is the weighted average of the short term and medium term volatility trends (60% of the 20/50 and 40% of the 50/100). The conclusion is that increasing volatility tends to predict decreasing returns, increasing volatility and decreasing return-to-risk for the next month.

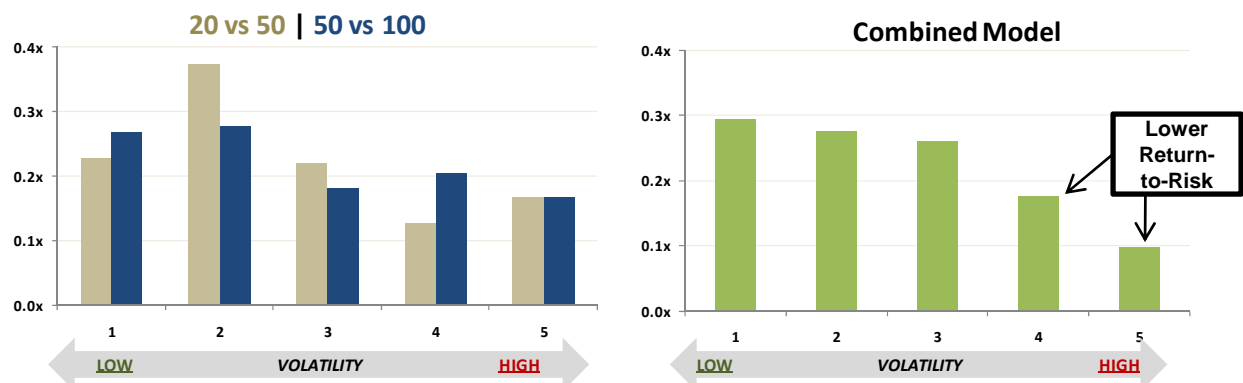
Average Return, %Monthly Based on Lagged Volatility



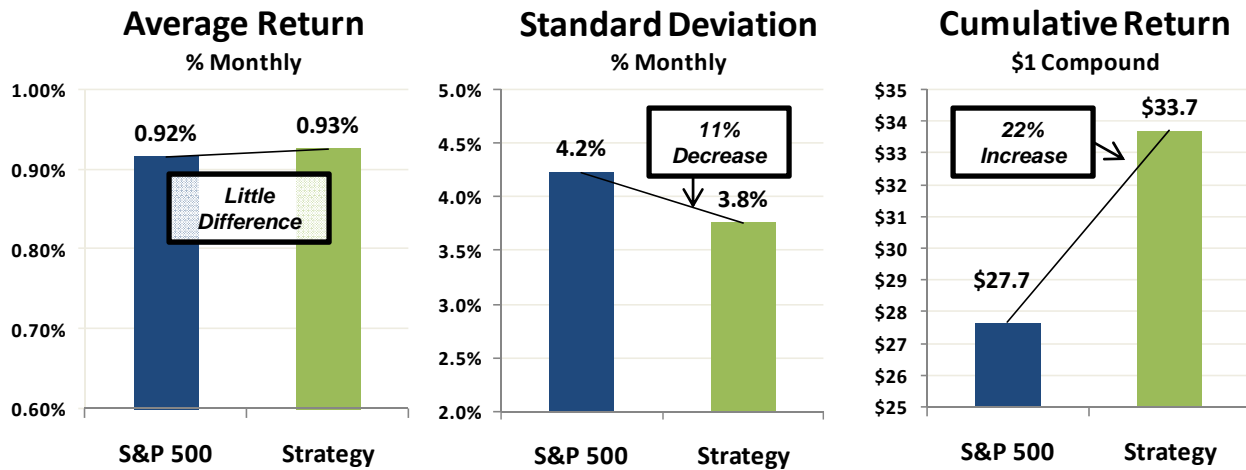
Standard Deviation, Average %Monthly Based on Lagged Volatility



Return-to-Risk, Average %Monthly Based on Lagged Volatility



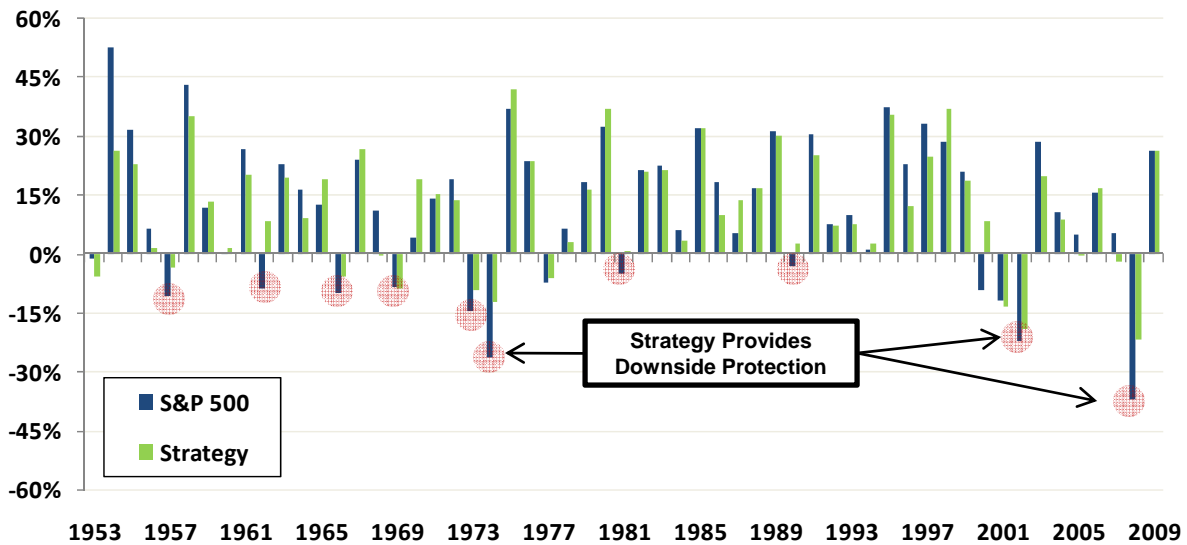
Using the Combined Model, underweighting stocks (and overweighting bonds) as the volatility trend increases has produced the same average monthly returns, but with less volatility than owning 100% stocks. The Portfolio Strategy presented here invests in bonds when the Combined Model is in the highest (quintile 5) volatility range.



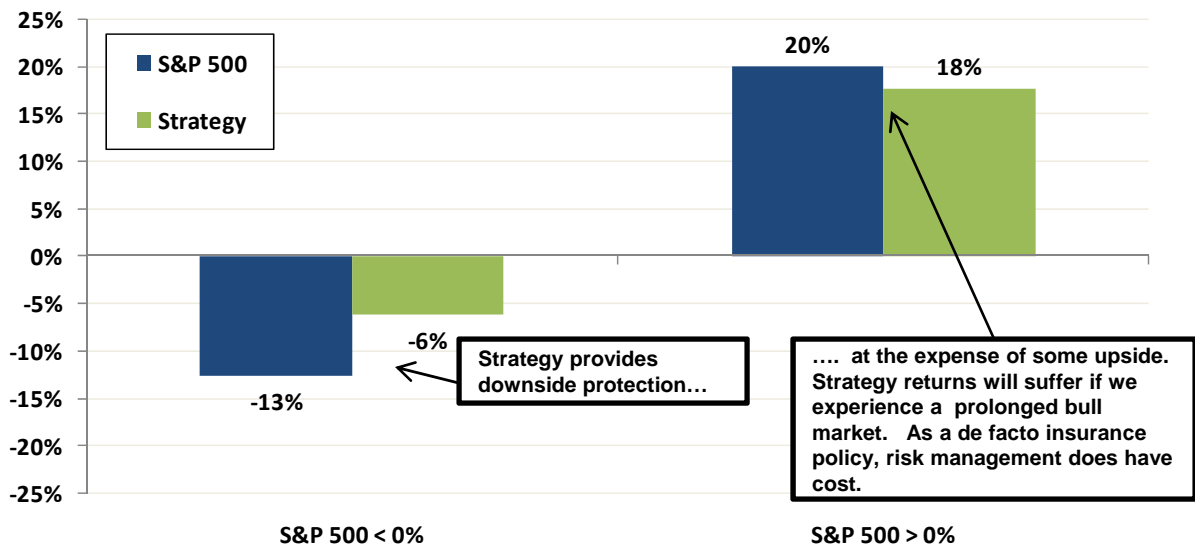
Note: Stock return data - S&P 500 Total Return (with dividends). Bond return data - Barclays Aggregate Bond Index Total Return (1976-2009) and 5 Year US Government Bond Total Return (1953-1975).

The primary benefit of the Portfolio Strategy is that it reduces downside risk.

Annual Return %



Annual Average Returns When S&P 500 is Negative and Positive



Note: Stock return data - S&P 500 Total Return (with dividends). Bond return data - Barclays Aggregate Bond Index Total Return (1976-2009) and 5 Year US Government Bond Total Return (1953-1975).

Disclaimer

Past performance is not a guide to future performance and the value of investments and the income derived from those investments can go down as well as up. Future returns are not guaranteed and a loss of principal may occur.

This material represents the views of Weyland Capital Management LLC (WCM). Certain results shown herein reflect the reinvestment of dividends and other earnings but do not reflect advisory fees, transaction costs and other expenses a client would have paid, which would reduce return. No representation is being made that any client will or is likely to achieve results similar to those shown. Modeled, back tested, simulated and hypothetical results are subject to high levels of uncertainty regarding future economic and market factors that may affect actual future performance. Accordingly, such data should be viewed as merely representative of a broad range of possible returns. The data shown herein should not be construed as providing any assurance or guarantee as to returns that may be realized in the future from investments in any asset or asset class described herein and may not be representative of how we will manage any of our portfolios or allocate funds to such asset classes. WCM makes the assumption that external data and studies are accurate, but can not and has not verified outside sources. WCM does not provide tax advice to its clients and all investors are strongly urged to consult with their tax advisors regarding any possible investment. This document might include performance results. Weyland results are after management fees and all transaction costs have been deducted, and reflect all discretionary client accounts custodied at Charles Schwab & Co (12/98-Present). Weyland results are a composite figure: account performance dispersion has and will occur due to client specific client cash and security holdings. The Average Balanced Fund return is an average of all balanced mutual funds tracked by Morningstar (through December 2009) for each time period, and is before front-end and back-end loads. The Balanced Index "60/40" is a mix of 60% S&P 500 Index and 40% Barclays Capital Aggregate Bond Index. YTD and Total Returns for Average Balanced Fund uses Balanced Index return for current calendar year. The indices presented are for informational purposes only and are not directly investable. The volatility and holdings of the indices shown may be materially different from that of Weyland's composite or single client portfolios. A balanced index is geared towards investors looking for a mixture of principal protection, income, and capital appreciation, and Weyland considers it its primary benchmark. Weyland performance figures are derived by compounding the daily IRR. All Index and Average Balanced Fund Return data is derived by monthly compounding returns, unless otherwise noted. All performance figures include the reinvestment of dividends and income.