



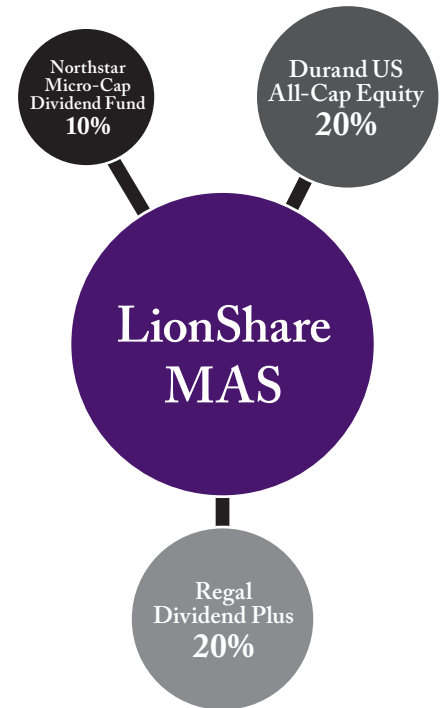
Core-Satellite Investing

Core-satellite investing is a method of portfolio construction designed to minimize volatility while providing an opportunity to outperform the broad stock market as a whole. The core of the portfolio consists of investments that seek to minimize large draw downs and provide acceptable market participation. Additional positions, known as satellites, are added to the portfolio in the form of actively managed investments to access various areas of the market or asset classes in which the investor seeks exposure.

Portfolio Construction

First, look at the core portion of your portfolio. The assets will be allocated to investments that are designed to have relatively lower volatility than the broad market. For example, you could put half of the assets into the risk-appropriate LionShare MAS model to serve as a diversified core holding.

For the actively managed portion, the goal is to select investments where a portfolio manager provides an opportunity to add to those returns generated by the core portfolio. In this example, you could put 10% of the portfolio into the Northstar Micro Cap Dividend Fund and divide the remaining stock portion evenly between Durand US All-Cap Equity and Regal Dividend Plus. The asset allocation might break down as shown in the figure to the right.



The Essence of the Strategy

Regardless of the specific investments chosen to fulfill the asset allocation - portfolio volatility and investment returns are the underlying considerations. A brief review of each area provides additional insight:

Volatility

Volatility is a measure of how much the value of a security or market fluctuates, either up or down in a given time. Volatility is something many investors prefer to avoid. Diversification can help reduce volatility. For example, the Regal Total Return SMA seeks to minimize downside exposure by allocating across multiple asset classes and market sectors. Adding additional market sectors, such as a micro-cap fund, which historically exhibits lower correlations to large-cap stocks, can further help limit overall volatility when the markets are in flux.

Returns

Active managers seek to outperform their benchmarks. By allocating a minority of the portfolio to alpha-seeking management, the opportunity is in place for an active manager to outperform the benchmark, thus adding to the return generated by the overall portfolio and potentially resulting in benchmark-beating returns for the portfolio as a whole.

The Bottom Line

The core-satellite approach provides an opportunity to enhance returns while limiting volatility in a flexible package that can be designed specifically to cater to your needs. A professional at LionShare can assist you and navigate you through the process.

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